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IMPLEMENTATION COMPLETION REPORT
(CPL-39840 SCL-3984A SCPD-3984S)

ON A

LOAN

IN THE AMOUNT OF US$27.0 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR THE

NUSA TENGGARA AGRICULTURAL AREA DEVELOPMENT PROJECT

March 31, 2004

Rural Development and Natural Resources Sector Unit
Indonesia Country Unit
East Asia and Pacific Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 29, 2004)

Currency Unit	=	Rupiah (Rp.)
Rp. 1,000	=	US$ 0.1146
US$ 1	=	Rp. 8,725.8

FISCAL YEAR

April 1 - March 31 (up to 2000)
January 1 - December 31 (from 2001)

ABBREVIATIONS AND ACRONYMS

AARD	-	Agency for Agricultural Research and Development
AIAT	-	Assessment Institute for Agricultural Technology
ARM II Project	-	Second Agricultural Research Management Project
BANGDA	-	Department of Regional Development (*Pembangunan Daerah*)
BAPPEDA	-	Regional Development Planning Agency (*Badan Perencanaan Pembangunan Daerah*)
BAPPENAS	-	National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*)
BP	-	Board of Internal Control (*Badan Pengawas*)
BRI	-	People's Bank of Indonesia (*Bank Rakyat Indonesia*)
CAS	-	Country Assistance Strategy
CDF	-	Community Development Facilitator
DAFEP	-	Decentralized Forestry and Agricultural Extension Project
GTZ	-	*Deutsche Gesellschaft fur Technische Zusammenarbeit*
IADP	-	Integrated Area Development Project
ICR	-	Implementation Completion Report
M&E	-	Monitoring and Evaluation
MFI	-	Micro-finance Institutions
MOA	-	Ministry of Agriculture
MTR	-	Mid-Term Review
NAIAT	-	Naibonat Assessment Institute for Agricultural Technology
NGO	-	Non-governmental Organization
NTAADP	-	Nusa Tenggara Agricultural Area Development Project
NTASP	-	Nusa Tenggara Agricultural Support Project
NTB	-	West Nusa Tenggara (*Nusa Tenggara Barat*)
NTT	-	East Nusa Tenggara (*Nusa Tenggara Timur*)
PIP	-	Project Implementation Plan
PIU	-	Project Implementation Unit
PSR	-	Project Status Report
QAG	-	Quality Assurance Group
R&D	-	Research and Development
SAR	-	Staff Appraisal Report
SMFP	-	Sustaining Micro-finance Project
TA	-	Technical Assistance
UPKD	-	Community-managed Micro-finance Unit (*Unit Pengelola Keuangan Desa*)

Vice President:	Jemal-ud-din Kassum, EAPVP
Country Director	Andrew D. Steer, EACIF
Sector Director	Mark D. Wilson, EASRD
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INDONESIA
NUSA TENGGARA AGRICULTURAL AREA DEVELOPMENT PROJECT

CONTENTS

Project ID: P004008	*Project Name:* Nusa Tenggara Agricultural Area Development Project
Team Leader: Maria Triyani	*TL Unit:* EASRD
ICR Type: Core ICR	*Report Date: March 31, 2004*

1. Project Data

Name:	Nusa Tenggara Agricultural Area Development Project	*L/C/TF Number:*	CPL-39840; SCL-3984A; SCPD-3984S
Country/Department:	INDONESIA	*Region:*	East Asia and Pacific Region

Sector/subsector: Agricultural extension and research (40%); Irrigation and drainage (20%); Roads and highways (20%); Sub-national government administration (14%); Animal production (6%)

Theme: Other rural development (P); Decentralization (S); Civic engagement, participation and community driven development (S); Technology diffusion (S)

KEY DATES			*Original*	*Revised/Actual*
PCD:	09/27/1994	*Effective:*	06/27/1996	06/27/1996
Appraisal:	05/22/1995	*MTR:*	09/09/1998	01/28/1999
Approval:	03/05/1996	*Closing:*	09/30/2002	09/30/2003

Borrower/Implementing Agency: Government of Indonesia/Department of Regional Development
Other Partners: Local Government

STAFF	Current	At Appraisal
Vice President:	Jemal-ud-din Kassum	Russell Cheetham
Country Director:	Andrew D. Steer	Marianne Haug
Sector Director:	Mark D. Wilson	Gershon Feder
Team Leader at ICR:	Maria Triyani	Chita Jarvis
ICR Primary Author:	William L. Cuddihy	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: U

Sustainability: UN

Institutional Development Impact: M

Bank Performance: S

Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:		U
Project at Risk at Any Time:	Yes	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

3.1.1 The objectives of the Nusa Tenggara Agricultural Area Development Project (NTAADP) were to raise smallholder incomes, to strengthen local-level institutions and to foster broad-based participation at the grassroots level. At the start of the project, the rural sector continued to be characterized by low productivity and investment resulting in entrenched poverty. The government sector strategy which the project supported was to improve the quality of research and extension services and to provide credit to smallholders, while improving the village-to-market roads and related infrastructure. The Bank supported these efforts through a series of projects addressing these objectives and using the same general strategy. The provinces of West Nusa Tenggara (NTB) and East Nusa Tenggara (NTT) were chosen because of their high incidence of poverty that ranks them among the poorest provinces in Indonesia. The project's objectives and expected outcomes were clearly stated and were consistent both with the government's policies of regional development with equity and with the Bank's Country Assistance Strategy (CAS) that placed emphasis on poverty reduction and decentralization of development activities.

3.2 Revised Objective:

3.2.1 The original objectives remained unchanged throughout the project's life. However, the project was restructured in February 1999 at the Mid-term Review (MTR) and the scope of the project was reduced in May 2000, when implementation progress was unsatisfactory and it became clear that the project as originally designed was unlikely to result in the expected outcomes. At the MTR, project objectives were kept unchanged but to realize those objectives, and after taking into account the learning from other projects in Indonesia, greater emphasis was placed on institutional strengthening and community-managed rural credit.

3.3 Original Components:

3.3.1 The project had three components. The Staff Appraisal Report (SAR) presents an unclear description of the structure of each component and a confusing treatment of sub-components and activities. The costs shown here include both price and physical contingencies.

Component A: Establishment of the Naibonat Assessment Institute for Agricultural Technology (NAIAT)
[Estimated cost at appraisal US$5.374 million; actual expenditures US$2.286 million, of which US$1.754 million from the Bank.]

3.3.2 This component was designed to up-grade agricultural research and facilitate technology transfer to farmers at the two research campuses of the national Assessment Institutes for Agricultural Technology (AIAT) - at Naibonat AIAT (NTT) and at Mataram AIAT (NTB). The NAIAT was part of the decentralized research system of the Agency for Agricultural Research and Development (AARD). The main activities were: (a) the development of a master plan for research and development (R&D) and human resources development to improve the quality and relevance of research; (b) the construction of offices, laboratories and other buildings to accommodate an expanded research program; (c) the provision of vehicles and equipment; (d) technical assistance (TA) and training for research and associated staff; and (e) the provision of part of the operating costs of location-specific agriculture and livestock research and technology development, and the dissemination of the results. This component also included a study of the impact of restrictions on inter-island trading of cattle and studies of agro-ecological zones for development planning purposes.

Component B: Agriculture-Based Area Development
[Estimated cost at appraisal US$30.734 million; actual expenditures US$19.010 million, of which US$16.164 million from the Bank.]

3.3.3 This component concentrated development efforts in fourteen participating *kabupatens* (districts). It expanded activities that had been piloted under the Nusa Tenggara Agricultural Support Project (NTASP). The main activities were: (a) the establishment of on-farm demonstrations of applied research results from Component A; (b) the distribution of farm inputs (on a grant basis) and of cattle (with repayment in kind) to enable poor farmers to adopt the research results; (c) technical training of extension workers and community leaders; (d) the improvement of farm-to-market access roads; and (e) the establishment of a competitive grant fund to finance local community-identified initiatives (such as revolving funds for farm credit, post-harvest processing, village water supply, and small-animal distribution schemes). This component also included financing for non-governmental organizations (NGOs), which were local community organizations, to provide Community Development Facilitators (CDFs) to motivate and assist beneficiaries to participate actively in the project.

Component C: Strengthening Agricultural Support Services and Project Administration
[Estimated cost at appraisal US$4.969 million; actual expenditures US$6.484 million, of which US$4.194 million from the Bank.]

3.3.4 This component strengthened local government extension facilities and animal health centers, trained extension workers and village leaders, provided TA for project implementation and monitoring, and helped overcome budget constraints on recurrent costs that would have hindered implementation. The main activities were: (a) the construction or rehabilitation of regional extension centers, animal health posts and seed farms, and the provision of associated equipment and vehicles; and (b) the provision of TA, training and workshops in project management, monitoring and evaluation (M&E), community-based development planning and implementation.

3.4 Revised Components:

3.4.1. The pace of project implementation was very slow during the first two years. The project design proved too complex and disbursements were less than half the level expected. Following the MTR, the project was restructured giving relatively more emphasis to community-managed credit and NGO provision of technical services and facilitation. Altogether, the major revisions made to the three components were as follows:

Table 1 Summary of Components

Original	Revised
A. Establishment of the Naibonat Assessment Institute for Agricultural Technology	Transferred to specialized research project.
B. Agricultural-Based Area Development	
1. Agricultural development, including intensification, demonstration plots, livestock, house plot cultivation, through direct provision of farm inputs and distribution of cattle/buffalo by line agencies	Provision of grants of seed capital for village-managed credit program.
2. Construction of village infrastructure	Phased out because of competing to specialized infrastructure projects.
3. Carrying out Local Community Initiatives	Linked to village-managed credit program.
C. Strengthening Agricultural Support Services, with part-time management and services by line agencies, including training to farmers.	Full-time management by agencies and services by contracted specialized NGOs to support village-managed credit program, including training on financial/credit management.

Details of the MTR revision are as follows:

(a) the component for supporting the NAIAT was transferred to the ARM II project because it was able: (i) to bring specialized R&D expertise; and (ii) to integrate research policy and planning at NAIAT into the comprehensive research system involving twelve other provincial AIATs under the ARM II project. Supervision of Component A had proved difficult for the NTAADP team, particularly in evaluating and monitoring research quality and relevance. The savings realized were reallocated to Component B;

(b) the focus of Component B was changed from one of supply-led distribution of agricultural goods and services through the agricultural and livestock line agencies, to one of increased support for community-managed initiatives assisted by NGO-contracted CDFs. This was done because of community dissatisfaction with the quality, appropriateness and timing of delivery of goods and services, aggravated by chronic budget problems with the agencies, irregularities in procurement, and inefficiency in distribution of goods. The distribution of inputs and cattle to individuals was replaced by a component to support community-managed credit for economic activities;

(c) work in progress on labor-intensive village infrastructure works was completed, and the sub-component was phased out because competing projects in the same area for the same purpose were specialized in implementation and supervision of these activities;

(d) the basis of project management was changed, from a part-time approach diffused through several agencies and levels, to a full-time responsibility of local government (BAPPEDA *kabupaten*); and

(e) international consultants in general agricultural development were replaced by national consultants in rural credit and community development, more appropriate for the changed approach.

3.5 Quality at Entry:

3.5.1 The quality of the project at entry is considered to have been unsatisfactory. While the SAR correctly states that the design was based on experiences with the prior NTASP activities in the same provinces, there is a clear disconnect with the Implementation Completion Report (ICR) for the NTASP which drew attention to " *... the doubtful rationale for the two experimental district-based IADPs ...* " (ICR paragraph 7) which formed the basis for the NTAADP. The problems highlighted in the ICR proved to be the same as those later encountered in the NTAADP.

3.5.2 Three points are of particular concern. First, while the NTASP indicated the need for upgraded R&D, it is not clear why the NAIAT was included as a major component since the ARM II project was already in the early stages of implementation during the preparation of the NTAADP. The ARM II project was the natural home for research institution support, and a simple amendment of that project could have included the NAIAT (as was done later). Second, it is not clear why the SAR made such a strong case for limiting support only to agricultural development and to concentrating on the line agencies for implementation when the same report discussed a broader approach and emphasized the need for a focus on developing economic potential at the village level. Third, while the emphasis on labor-intensive construction/repair of village roads, water supply, foot-bridges and other small infrastructure was a correct approach to improving the quality of life and providing better access to markets, the design of arrangements for technical supervision of works, local procurement, audit of works and financial control were not given the attention they deserved. For a relatively small project, there were too many sub-components/activities to be supported and responsibilities were too dispersed among agencies and levels of government.

3.5.3 The project was one of a series of rural development projects in Indonesia of similar design that were all either restructured (the Sulawesi Agricultural Area Development Project (Loan No. 4007-IND), the NTAADP, and the Bengkulu Regional Development Project (Loan No. 4290-IND) or dropped before detailed preparation (the Jambi Rural Development Project, the Riau Rural Development Project and the Irian Jaya AADP). A further project of similar design, the Maluku Regional Development Project (Loan No. 4306-IND) was cancelled soon after loan approval because of civil unrest. The conclusion may be that the "top down" sectoral development model no longer worked under the changed circumstances in Indonesia.

3.5.4 No Quality Assurance Group (QAG) review was carried out for this project at entry, although a QAG review was held after restructuring. The results of the QAG review were satisfactory. Monitoring and evaluation was strengthened as recommended by the QAG.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

4.1.1 After restructuring, implementation improved substantially and the project achieved much in terms of the original objectives of raising smallholder incomes, strengthening local institutions, and fostering broad participation at the grassroots level. However, the restructured project continued to be hampered by the legacy of the old design in terms of confusion over the project activities, resistance to moving from in-kind cattle grants to credit, inappropriate selection of participating villages, and other factors. Because of this, the project did not achieve its objectives to the extent expected. In addition, there was considerable expenditure of time and funds on activities (such as under-utilized animal health centers) which could have been better used towards the end of the project to support sustainability. Adhering to the original design would not have achieved the objective. In fact, by the time of the MTR and restructuring in March 1999 the alternative action was to have been cancellation of the loan because of the poor implementation performance (see the Sector Manager's memorandum of March 31, 1998, and comments in the Project Status Report (PSR) of March 2, 1999). This is not surprising, since the supervision mission of August 1997 pointed out that there were still no operating guidelines for the project even though the Loan had become effective in June 1996. Although a Project Implementation Plan (PIP) was prepared in June 1995, the first detailed project guidelines (operating manual) were not produced until after the MTR, three years after project start-up and four years after the preparation of the PIP. This appears not to have been a major problem for Component A (which consisted mostly of building and equipping a government facility) or for Component C (which consisted mostly of incremental funding of government agency activities using established procedures). For Component B, however, which involved the distribution of private goods (cattle, fertilizer and other farm inputs) and grants for community-managed works and other activities, this was an omission with adverse consequences for implementation progress.

4.2 Outputs by components:

4.2.1 **Component A: Establishment of the NAIAT.** The outputs of this component are rated as satisfactory. Prior to the transfer of the component to the ARM II project, many of the research facilities had already been built and equipped under the project and those works or procurement still in process were supported through to completion. Similarly, substantial progress on support to research operations was well under way. These outputs were evaluated by the ARM II project team and were considered satisfactory. Administration, laboratory, and staff accommodation buildings were constructed at the two campuses of the NAIAT. These were satisfactorily equipped with computers, laboratory apparatus, and other items. Post-graduate studies were supported and the technical library was supplied with books and journals. National and international consultants assisted in up-grading the research and technology transfer programs in farming systems, soil and water conservation, irrigation, cattle feeding, forage seed production, coastal marine culture and other topics. On-farm demonstrations and pilot trials of research results were sponsored, and collaborative links were established with universities and extension agencies. The component also made a major contribution to technology transfer through supporting studies into the sociology of innovation in rural communities. The establishment of the network of a total of thirteen AIATs throughout Indonesia was part of a strategy for regionalization of agricultural research and development, in order to take into account the large variations in local conditions. In Nusa Tenggara, especially in NTT, rainfall is relatively low and unreliable, soil conditions are less favorable, and technology transfer is more difficult than in much of the rest of Indonesia, and this is reflected in the high incidence of poverty in a sparsely-populated region. Up-grading and otherwise supporting the decentralized Institute at Naibonat and its Lombok campus was a key step in addressing local needs. Transferring this component to the ARM II project was clearly the right decision in view of the specialized nature of management of research institutes. Under the ARM II project, comprehensive research polices were developed, Regional Advisory Committees and Technical Working Groups were established for oversight of the Assessment Institutes, and other common support provided to the network.

4.2.2 **Component B: Agriculture-Based Area Development.** The outputs of this component as originally designed are rated as unsatisfactory, mainly because there were too many sub-components or activities with unclear procedures for implementation and for managing separate agency agendas and budgets. While inputs in terms of expenditures and goods distributed were easily identifiable, outputs in terms of improved production and productivity were not. The outputs of the restructured design are discernible and are rated satisfactory. The turnaround was mainly because: (a) the number of sub-components/activities and agencies was reduced, leading to reduced institutional complexity; (b) implementation responsibilities and procedures were made clear; (c) the relative shift to community management was supported by NGO facilitators; and (d) whole-hearted support was given by national and local government to the re-design.

4.2.3 <u>Demonstration plots</u> visited by the MTR mission were generally poorly designed, located, and supervised. This confirmed the observations of earlier supervision missions (e.g., as expressed in the Aide-memoire of August 1997). The linkages from research to extension to farmers were weak, and responsibility for the demonstration plots seems to have been left to junior staff often without access to vehicles that had been expressly provided for the purpose. Supervision reports noted the poor up-take of demonstration recommendations by farmers because of economic or social constraints. This activity, rated as unsatisfactory, was phased out of the project and left to the ARM II project and the Decentralized Forestry and Agriculture Extension Project (DAFEP) that had the necessary capacity.

4.2.4 <u>Distribution of free seeds</u>, seedlings, fertilizers and other inputs to motivate technology up-take was often characterized by waste and inefficiency. The inputs were combined as location-specific packages and were to be delivered to the farm gate at an appropriate seasonal timing. The main problems (and these were serious issues) were: delivery of inputs too late for the planting dates; absentee recipients; recipients not made aware of changed delivery dates; packages being too general; acceptance by farmers of the whole package in order to get one item only; high procurement costs; and low quality of inputs. These problems were not specific to this project and had been noted earlier in the ICR for the NTASP and in other projects using this approach. This activity was rated as unsatisfactory and was dropped, in favor of the provision of credit to qualifying individuals for purchase of inputs in the market.

4.2.5 <u>Distribution of cattle</u> was the most problematic because of procurement irregularities and delays, poor reproductive performance, high mortality, and mixed equity impact. Some 14,800 cattle and 1,000 buffaloes were to be procured by the Provincial Livestock Departments in large lots. A total of 2,335 cattle and 300 buffaloes were purchased under six contracts and distributed to 2,635 beneficiaries. Of these contracts, one encountered serious procurement problems (resulting in incarceration). Part of the difficulty was said to be the unfamiliarity of project management with Bank procurement practices which required National Competitive Bidding with prior review by the Bank. For example, the Bank was first notified of one intended purchase by receipt of a signed contract for that purchase (which the Bank then declined to finance). In other cases, contracted suppliers had difficulty in assembling the large quantity for which they had received the initial payment, resulting in long delays and often poor animal quality. The procurement problems are difficult to understand since the predecessor NTASP purchased 18,500 head of cattle without mention of procurement problems either in the ICR or in the supervision reports. The monitoring report at the time of the MTR noted that of one batch of 62 cattle distributed in NTB, 37 died of disease soon after delivery. The overall calving rate of project cows was expected to be 65 percent (compared to 55 percent for non-project cows). A review of the herd records by the MTR veterinarian indicated that for both NTB and NTT the with-project calving rate was not significantly different from the without-project rate. In terms of equity, the 15,800 head were to be distributed among 405,000 households by a working group comprising village and Livestock Department representatives and according to a few broad beneficiary selection criteria. Regardless of how well this was done, the choice of beneficiaries endowed them with an asset and status of considerable value and, understandably, this caused jealousies particularly when few calves were returned to the project for redistribution to further beneficiaries. The same problems with low calving rates and reluctance to return calves for further distribution had been encountered in the NTASP (ICR paragraph 37). This component was rated as unsatisfactory and was phased out following the MTR. The project then financed cattle through the community-managed credit component with farmers assuming the risks associated with cattle. No problems have been encountered in buying and selling cattle in local markets other than the usual seasonal price fluctuations.

4.2.6 For farm-to-market access roads, 48 km were rehabilitated or constructed out of 83 km estimated at appraisal. The average cost of these roads was approximately Rp.39 million/km which compares favorably with an average cost of approximately Rp.50 million/km used as the standard rate for Public Works in those years for similar roads. These were rated satisfactory at the time of construction but the maintenance standards of such infrastructure has been unsatisfactory. The main problem is the difficulty in properly managing and supervising a widely-dispersed small infrastructure program as a component of an agricultural project. While the roads component was the largest in terms of cost, it was not large enough to carry the overhead costs needed to develop an adequate system for low-cost design and supervision. Use of unskilled village labor and small contractors had the advantage of creating local employment but required intensive supervision. Although some consultant engineers were employed to assist the District Engineers, the quality of road work was often only marginally satisfactory, and in NTT some contractor performance was unacceptable. Responsibility for maintenance was also a problem as budgets and capacity for routine maintenance were already over-committed before the project works were added. While the SAR required that only local governments undertaking to carry out the maintenance of project-financed roads would be selected, disagreements arose over the acceptability of some of the works by the *kabupaten* engineers, with the result that the maintenance of project roads is the same as that of other local roads (which is generally inadequate). Financial control was also a problem, with large numbers of small payments being made for village labor.

4.2.7 Revolving Funds for Local Community Initiatives. The outputs of this sub-component, which became the focus of project activities since the MTR in 1999, were satisfactory after the modification of the original design at the MTR, from a mix of grants and loosely-defined revolving funds for community-identified economic activities to revolving funds (credit) only with very clear operating rules. This was in response to the lessons of experience with implementation up to then, and community preferences which recognized that full cost-recovery would enable a larger distribution of beneficiaries to be reached, permit greater transparency in fund management and end the confusion created by multiple cost recovery requirements. The second major modification in design of this sub-component was the expansion of the role and number of the NGO-supplied CDFs and the contracting of rural finance consultants. The third major modification was to put the management of the revolving funds into the village-level communities.

4.2.8 During the final three years of implementation, this component became the focus of the project and evolved many of the characteristics of community-managed micro-finance models, such as credit unions and cooperatives. The key features of this component, as redesigned, were the following: A village selected to participate in the component underwent a period of intensive training and preparation during which the objectives, processes and rules were explained by a project team including a CDF who lived in a cluster of 3 - 5 villages and provided support and a focus for TA. Following an appraisal of the village characteristics and potential, the CDF assisted interested members of that village in drawing up proposals for investments or for the use of working capital. The community elected a credit committee (UPKD) and a Board of Internal Control (BP). The UPKD members (head, secretary, and treasurer) were given training in book-keeping and credit management while the BP members were given training in financial supervision. Upon certification that the training had been completed and other conditions met, a grant of seed capital was disbursed from the Ministry of Finance to the village account. The loan proposals were evaluated by a technical committee from relevant agencies to establish quality control standards. The UPKD would then approve loans based on evaluation of the proposal, the family cash-flow position, relative poverty, amount of funds available, and other criteria set out in the credit manual. Loans were made to individuals at interest rates and on terms and conditions similar to those of the People's Bank of Indonesia (BRI) for similar clients and purposes. Groups were formed to assist in the preparation of proposals and in the administration of loans and payment collection, and for joint guarantee in cases where this was compatible with custom. All transactions were recorded, balance sheets and profit & loss statements prepared and analyzed, and accounts audited.

4.2.9 A total of 166,000 beneficiary families in 477 villages received credit for an amount of Rp.134,699 million (US$15.8 million) as of August 31, 2003, including new loans made from repayments (Table 2). Interest rates varied from 1.5 to 4 percent per month, on a flat principal, as decided by the community policy within the guidelines. The BRI reference rate for the period was 1.5 to 2 percent per month. Some 70 percent of loans went to families headed by men (with both spouses signing the loan agreement), while 30 percent of loans went to women without cosigning. The largest loan purpose, 52 percent of loans, was for diversified, nonfarm activities. These included petty trading, kiosks, weaving, fishing, horse taxis, processing farm products, pottery, brick and tile making, and motor cycle repair workshop equipment. The average loan size was Rp.800,000 (about US$94) per beneficiary. Loan sizes varied from about Rp.200,000 (for trading) up to Rp.2.5 million (for cattle purchase). Accounts were routinely audited by the *kabupaten* auditors and sometimes by provincial auditors. In addition to regular Bank/government supervision, special audits, loan management and due diligence reviews were made by firms, micro-finance NGOs, and Bank financial accountability specialists.

Table 2   Credit Disbursed and Purpose by Province

Province	Beneficiaries	Beneficiaries	Beneficiaries	Credit Disbursed (cumulative)	Crops	Livestock	Non- Farm
	Total (no.)	Male (no.)	Female (no.)	(Rupiah million)	(% of loans)	(% of loans)	(% of loans)
NTB	118,000	79,000	39,000	91,123	33	12	55
NTT	48,000	38,000	10,000	43,576	25	30	45
TOTAL	166,000	117,000	49,000	134,699	31	17	52

Source: Project Monitoring Report, August 2003.

4.2.10 Credit Performance - NTB. An amount of Rp.43.9 billion of seed capital was disbursed to the village accounts managed by the UPKDs over a period of three years. At closing, an amount of Rp.47.1 billion had been re-lent to communities and Rp.1.9 billion was available as cash in hand or the bank. Savings mobilized from the communities amounted to Rp.1.7 billion and loan loss provisioning was Rp.284 million. Total interest income was some Rp.18 billion and profit on operations net of costs was Rp.4.2 billion. The on-time loan repayment rate as a first approximation of credit performance (defined as payments collected as a percentage of payments due) at Loan closing was 88 percent. For five of the six *kabupatens* in NTB, the repayment rate was at or close to 90 percent which soon could be expected to reach acceptable levels of debt service with continued training and experience with credit management. The exception was Dompu *kabupaten* where repayment was only 50 percent of amounts due, even though about 90 percent of the loans were being serviced, as a result of recurrent drought and failure to diversify the portfolios. The acceptable performance in the rest of the Province was the result largely of the diversified portfolio reflecting relatively favorable business conditions. Some 55 percent of credit was invested in nonfarm activities, 33 percent in cropping and 12 percent in livestock. Analytical work to prepare standard credit performance indicators (loan:asset ratios, return on equity/loans, capital adequacy, aging of over-due payments) has begun but requires further TA.

4.2.11 Credit Performance - NTT. Social and business conditions in NTT are among the most difficult in Indonesia and this is reflected in the credit performance. The repayment rate was highest, at 70 percent, for Timor Tengah Utara and the lowest was 33 percent for Sumba Barat; the overall rate was 52 percent. These non-sustainable recovery levels are the result of limited opportunities to diversify the loan portfolio and poor credit management compounded by difficult climatic and social conditions. The quality of the loan portfolio is lower than that at NTB; however, it should be noted that little re-scheduling has been done and application of standard re-scheduling would improve these rates. Also depressing these indicators is the inclusion of the pre-restructuring cattle grants which were re-negotiated as loans though most of the beneficiaries felt unfairly treated and have been reluctant to repay. The micro-finance consultants worked with the UPKDs to improve credit management over the three years but the problems with the early loans continued to affect portfolio quality in the absence of a suitable write-off and re-scheduling policy.

4.2.12 **Component C: Strengthening Agricultural Support Services and Project Administration** This outputs of this component are rated as unsatisfactory, on balance. Training and some TA were successful while support to extension facilities, provision of vehicles, and contribution to incremental operating costs produced mixed results. A total of 38 rural extension centers and 20 animal health centers were rehabilitated or constructed, and improvements were made on 11 government seed farms. The SAR drew attention to the inadequate pre-project maintenance and utilization of these facilities and the Bank received an assurance that a management plan would be prepared and implemented for each facility benefiting from the project. During supervision missions, the project-supported facilities were found still to be inadequately staffed, utilized and maintained, mainly because this was a systemic budgetary issue that could not be properly addressed by the project. The animal health centers were of particular concern because these were to have provided the technical support to the cattle distribution program. Typical problems encountered to varying degrees in different locations were: qualified staff were not available on regular basis, a shortage of medicines, no water supply, and no electrical connection for refrigerated vaccine storage.

4.2.13 In total, 32 vehicles and 162 motor cycles were provided for field services to implement the project (these were not financed by the Bank). Following restructuring, these should have been re-assigned to match the changed institutional transport needs for implementation and supervision. This was only partly done and transport remained a constraint on management through to the end of the project despite Bank and government repeatedly bringing this to the attention of provincial and local governments.

4.2.14. Project orientation training, workshops and seminars were central to the eventual success of the project because the community-management approach was novel and subject to misinterpretation**.** Training of UPKD personnel in book-keeping, loan administration and financial management was essential and successful. Workshops on rural finance and practical management problems were greatly appreciated by UPKDs which formed forums or groups as the first stage of second-tier association. However, much of the early training was not well focused because of the unclear direction of the project and absence of functional directions. Once this was resolved and operational guidelines and manuals were produced, training quality was generally satisfactory.

4.2.15 TA provided by consultants and CDFs was only partly successful. First, the firms and personnel contracted in response to the original project design were retained for too long after the restructuring. The change in focus from general agricultural development to community-managed rural credit required firms and individuals with different specializations. The poor fit between services provided and services needed was a continuous issue. Second, procurement of firms to supply CDFs was hampered by poor procurement management on the part of the provincial agencies responsible, particularly in NTT where CDFs were left unpaid for more than six months on one occasion because of avoidable procurement delays. Third, selection, supervision and management of CDFs and financial consultants by the firms was often unsatisfactory. There were, though, some outstanding exceptions of both firms and individuals carrying out their work despite difficult circumstances. For example, bridging finance was used by one firm to pay CDFs during delays in budget release, and many CDFs remained active at their posts despite uncertainty about getting paid.

4.2.16 Support to recurrent costs was unable to overcome persistent budget approval and release problems because all funding had to come through the government budget system. In addition, (a) approval and release dates for the central government, provincial and *kabupaten* shares of project budgets came at different times, and (b) rollover rules for the Bank-reimbursed share were different from those of the non-reimbursable share. Budget rules changed several times during the project. At time of Loan closing on September 30, 2003, the provincial portion of the NTB budget for project supervision had not yet been released for the budget year starting January 1, 2003. These delays had an adverse impact on project performance and contributed to the unreasonable delays in hiring and paying CDFs.

4.2.17 M&E was satisfactory in that the relevant data were collected. However, the data were not utilized to contribute to timely improvements in management. This was initially caused by the unclear and diffused management responsibilities and subsequently by the project implementation unit not possessing the necessary analytical and management skills.

4.3 Net Present Value/Economic rate of return:

4.3.1 For Component A, it is assumed that the rate of return for the NAIAT is the same (14.5 percent) as that calculated for the group of AIATs made in the ICR of the ARM II project. For the micro-finance activities of Component B, financial benefit:cost ratios were calculated. For the village works activities of Component B, use of village labor and materials is assumed to be a social least-cost solution. For Component C, no rate of return was calculated since benefits are already captured in the benefits of other components (Annex 3).

4.4 Financial rate of return:

4.4.1 A beneficiary impact survey was carried out at the time of project closing. The survey, contracted by BANGDA, took a sample of 56 villages involving 168 community groups with 338 project households and 72 non-project households. The result of the survey reflect the outcome from the implementation of the revolving fund component which has been the focus of implementation over the project's last 4 years. According to the survey findings, investment financed by project household credit resulted in an increase in family income of between 14 and 91 percent compared to the control group (Table 3). Incomes rose by between 28 to 91 percent for investments in agricultural activities, 14 to 50 percent for livestock investments, and 57 to 70 percent for investments in nonfarm activities. In dollar terms, incomes rose on average from US$1.3/day to US$1.9/day, or an increase of US$0.6/day, also reflecting the fact that this majority of project beneficiaries came from poorer groups, with pre-project incomes of around $1/day. Households from 168 groups were surveyed in 56 UPKDs. The UPKDs were selected to represent a cross-section of performance ratings. Of the UPKDs sampled, 14 were categorized as good, 28 as satisfactory and 14 as unsatisfactory. The results indicated that UPKD performance ratings were not strongly correlated to the size of the increase in beneficiaries' income levels. Project guidelines required that only those activities should be financed that demonstrated a benefit:cost ratio greater than one and for which the expected increase in family income could service the loan payments. In general, this was followed and resulted in a high demand for repeat loans.

Table 3 Increase in Beneficiaries' Household Income compared with Control Group.
(% increase in income)

Loan Use	**NTT**	**NTB**
Agriculture	28	91
Livestock	14	50
Other	57	70

The beneficiaries impact study conducted interviews with various stakeholders, including beneficiaries, UPKD management, project management, consultants, and CDFs. They generally agreed that the extension of credit had boosted economic activity and the incomes of the beneficiaries.

4.4.2 **Financial Performance of UPKDs**. The UPKDs were rated by the micro-finance consultants based on repayment rates, management quality, portfolio quality and other indicators. Problems with data quality and inconsistency in classifying over-due payments prevented the standard CAMEL (capital, asset quality, management, earnings, liquidity) calculations, and the results shown in Table 4 are only indicative at best. For the project as a whole, about 26 percent of UPKDs were rated as unsatisfactory, 50 percent as satisfactory, and 24 percent as good (highest level). In NTB, 15 percent were rated unsatisfactory while in NTT about 35 percent were unsatisfactory. If further support to the UPKDs is forthcoming, those classified as good and most of those classified as satisfactory would probably reach sustainability while most of those rated unsatisfactory would not, because of the prevailing weak cash economy and the resulting lack of opportunities to diversify away from subsistence farming or because of unwillingness of the communities to participate. Without training, supervision and auditing, relatively few UPKDs would survive. While the participating *kabupatens* have budgeted for post-project support, this would be less than the level provided under the project.

Table 4 UPKD Performance

(Number of UPKDs)

Provinces	Good	Satisfactory	Unsatisfactory	Total
NTB	86	96	32	214
NTT	26	144	93	263
NTAADP	112	240	125	477

4.5 Institutional development impact:

4.5.1 At the level of the villages, the project had a substantial institutional development impact in promoting social change concurrent with political liberalization. The project interventions helped restore the community decision-making, transparency and accountability of leaders that were lost during the time of authoritarian government directed from the center. One measure of the change was the strong community ownership of the restructured project in comparison with the original top-down design. The project created non-formal financial structures in the communities that provide a rich institutional basis for the introduction of community-managed micro-finance. The institutional challenge now is to sustain and further develop these achievements. Had the project been better managed and budgets released on time, the repayment rates and portfolio quality would probably have improved markedly. The project clearly demonstrated to the banks and other financial institutions in Indonesia that the rural poor and near-poor are bankable. It is important to note that despite Indonesia's reputation as a world leader in micro-finance, most rural people in fact have no access to micro-credit services. The project attempted to demonstrate to government that the poor do not need subsidized credit but sustained access to credit on the same terms as everyone else. Parts of the government directly involved in the project seem to have been influenced by this approach, but the project size was simply too small and the policy linkages too weak to have a wider policy impact. At the village level, while the UPKD institutions evolved towards community-managed smallholder credit entities, the necessary upward linkages with financial institutions were not made.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

5.1.1 The Asian economic crisis began in January 1997, six months after the loan was declared effective. The crisis had a major adverse impact on the project resulting from the devaluation (from Rp.2,200 to a low of Rp.15,700 per US$ in August 1998). This resulted in the government request to cancel US$4.9 million of the US$27.0 million loan in order to reduce its foreign debt. It also affected the ability of the government and local government to provide adequate counterpart funding, particularly for recurrent costs. It aggravated the already-chronic problem of late approval and release of the budget because of the uncertainty about domestic costs and prices. In general, the late release of funds was a more important constraint than the level of funding.

5.2 Factors generally subject to government control:

5.2.1 The Decentralization Law (No.22 of 1999) and the Fiscal Autonomy Law (No. 25 of 1999) had a mixed impact on the project, strengthening the role of the *kabupaten* governments and weakening that of the Provincial governments. Since the former had the main responsibility for project implementation, this change improved implementation performance. The change also simplified the planning and budget preparation process. Nevertheless, the development budget system and the political processes involved remained the single most powerful forces working against the project. The annual budget was based on the expected full year of implementation. In 2001, for example, the budget was released only in October for the financial year that began in January, leaving only two months to implement the year's work program before unspent counterpart funds were cancelled. Each year, this problem occurred to some degree indicating the need for reform. The result of this was seen in the field, where project staff were chronically unable to carry out the intensity of local supervision. This also affected the timely contracting of NGO-supplied CDFs, often leaving workers unpaid for months and with an adverse impact on their morale and ability to assist the communities. Procurement delays were common and aggravated the CDF contracting problems. Procurement of the NGOs was managed by the two provincial governments rather than by the fourteen *kabupaten* governments involved for efficiency reasons. However, the separation of contracting from implementation often decreased efficiency as provincial authorities had a different appreciation of circumstances in the field and were generally slow to respond to contractor problems and to supervise adequately. On occasion, provincial authorities sought to avoid complying with agreed procurement rules, resulting in lengthy gaps in the provision of CDFs, the main change agents in the project.

5.2.2 The Policy Context. At the time that the project was prepared and during much of the implementation period, the government did not have a defined micro-finance policy to provide sustainable, savings-led financial services to the rural poor. The BRI generally mobilized rural savings for lending to other sectors and to rural entrepreneurs fitting the narrow definition of creditworthy, leaving most smallholders without formal credit services. The policy for meeting smallholder credit needs was through large subsidized smallholder programs mainly provided *via* the government-sponsored cooperatives for agriculture (Kredit Usaha Tani). These were characterized by negative real interest rates with poor credit supervision and discipline. The project as originally designed had no policy reform content. At project restructuring, many features of community-managed micro-finance were introduced at the project level. However, these were not part of a general policy reform initiative and the government programs continued. The poor fit between the government's general policy and the project caused many difficulties for implementation, especially where the subsidized programs continued in the same or adjacent villages, and frequently resulted in confusion and exploitation of differences. In the latter years of the project, a micro-finance reform dialogue did begin between the government and the donor community but remained ineffectual at the project level. Subsidized program credits remain the predominant policy and resource commitment.

5.3 Factors generally subject to implementing agency control:

5.3.1 The Loan Agreement names the NTT and NTB Provincial Development Planning Agencies (BAPPEDA Province) as the implementing agencies. Upon the passage of the Decentralization and Fiscal Autonomy Laws, the responsibility for implementation effectively shifted to the *kabupatens*. In general, the District BAPPEDAs gave full support to the project but were constrained by budgetary problems and those arising from the mismatch between their skills and those needed to implement what increasingly became a smallholder credit operation.

5.4 Costs and financing:

5.4.1 At appraisal, the total cost of the project was estimated at US$41.1 million of which the Bank Loan was intended to finance US$27.0 million, the government contribution was to be US$12.4 million and the beneficiary contribution was to be US$1.7 million. At Loan Closing, the total disbursement by the Bank was US$22.06 million and the government counterpart contribution was US$5.19 million. The contribution by the beneficiaries is not known as much of this was in kind (e.g., labor). All regular audits of the project accounts were on time and follow-up actions on findings were responsive. In addition to the annual audit of accounts, the Bank contracted three independent audits and financial reviews were carried by the Bank's financial staff. All the reviewers found that financial management was satisfactory.

5.4.2. In terms of productive resource transfer to the poor, the project was considered satisfactory. At appraisal, the value of provision of goods in kind and of grants to community initiatives was expected to be approximately US$15 million out of a total project cost of about US$41 million. At Loan closing, the value of resources transferred to the poor was US$10.88 million out of the total actual project costs of US$27.78 million. It would have been difficult to increase substantially the level of resource transfer because of constraints on the absorptive capacity of beneficiaries and the increased Rupiah value of the transfer (which increased from the expected value of about Rp. 30 billion to the actual value of about Rp. 94 billion following devaluation).

Table 5. Resource Transfer

Item	Appraisal Estimate (US $ million)	Actual (US$ million)
Farm Inputs	1.75	0.76
Fertilizer	0.26	0.06
Breeding animals	5.50	0.27
Community initiatives	7.40	9.79
Total	14.91	10.88
Total (in Rp. Billion)	30.00	94.00

Source: SAR Annex 5, Table 1, and Project Accounts

5.4.3 Procurement Post Review and Financial Audit. Between April and June 2003, a special external review and audit was made of the procurement and financial management by the project implementation units (PIUs) and the financial management by the UPKDs. The objectives of the review were to verify whether the funds disbursed to finance project activities were: (a) used for the purposes intended; (b) eligible for financing; (c) correctly authorized under the agreed procurement procedures; and (d) used in ways which minimized chances of wastage and misuse. The review also verified the adequacy of internal control procedures. A total of six PIUs at province and *kabupaten* levels and 45 UPKDs were examined, out of a total of sixteen PIUs and 477 UPKDs in NTB and NTT.

5.4.4 The findings on PIU performance were that:

- the PIUs had satisfactory procurement and financial management controls;
- the performance of financial management practice was acceptable; and
- irregularities occurred in financial management by NGOs resulting in under-payment of CDFs with adverse impact on project performance. The auditors recommended that individual work agreements should be signed by the NGOs with each CDF and that money owed to CDFs under the terms of the consultancy contract with the project should be paid by the NGOs.

5.4.5 The review of UPKD performance found that there was evidence of some irregularities and/or weak institutional performance in all 45 UPKDs examined. These included:

- loan repayment performance was lower than that required by individual loan agreements between the UPKDs and the sub-borrowers;
- weak support to UPKD by village officials;
- noncompliance with operational guidelines on cash management and loan documentation; and
- misuse of funds by UPKD management and facilitators.

Not all of the above were found in all UPKDs. Of twenty-four UPKDs examined in Lombok, only one was found to show a difference between amounts recorded as disbursed and amounts actually disbursed. Similarly, of fifteen UPKDs examined in Ende two were found to be essentially managed by a single individual rather than by the elected secretariat. Of twenty-four UPKDs examined, two showed disbursement to CDFs (ineligible payments). Of forty-five UPKDs reviewed in Ende, Lombok, and Sumbawa, the management of seventeen used some funds without the required community agreements. The auditors recommended closer and more frequent supervision and the restitution of misused funds.

5.4.6 Outcome Summary The outcome of the project was substantially different from that expected at appraisal, and as noted earlier, there are two clear phases of project implementation. Up to the MTR, implementation was guided by the project design as appraised and outcome was unsatisfactory; however, since the MTR, the focus of the project was on developing a community-managed credit program where the outcome was clearly satisfactory. The development of an up-graded regional research and technology capacity was satisfactory but this was only partly the result of the project. The on-farm demonstrations accompanied by grants of inputs and the provision of cattle (effectively on a grant basis) had little impact on productivity; the village infrastructure program was unlikely to lead to measurable increase in market access, except in a few cases, and must also be rated unsatisfactory. The community-managed credit program had mixed results, partly because the participating villages had been preselected by a process not related to their economic potential and willingness to cooperate and partly because of the adverse smallholder credit policy environment. Where communities were properly prepared and where investment opportunities existed, the outcome of this component was highly satisfactory. The TA and training program, particularly the acceptance of a larger role for NGOs in project implementation, was generally satisfactory but initially not well focused. While there was generally satisfactory performance of the community-based credit component, covering the last four years of the project, the outcome of the project as a whole is rated as unsatisfactory. This rating is based on the outcome of the total project, and includes the less than satisfactory performance of various components prior to the MTR. It should be pointed out that this leads to a disconnect with the final PSR rating of satisfactory, which was based only on the implementation performance over the past four years since restructuring (when it became essentially a community-managed smallholder credit project). The project prepared many communities for micro-finance and demonstrated to stakeholders that under the proper conditions the rural poor of Indonesia are creditworthy.

6. Sustainability

6.1 Rationale for sustainability rating:

6.1.1 The sustainability of the achievements of the project is uncertain, with the exception of the research center, and must consequently be rated as unlikely. The village infrastructure, animal health and extension centers, and other facilities are already suffering from poor maintenance. The cattle distribution program has received very little in-kind repayment and is effectively stopped. The performance of the UPKDs has been promising, and some are already operating sustainability. However, the maximum of four years (and, in the case of newer UPKDs, one year) of technical support, training and supervision which has so far been possible since the MTR, is clearly insufficient to secure full sustainability of these village-based institutions. This will require further support, as will the need to protect the UPKDs from outside interference. It is important to point out that, while sustainability is presently rated as "unlikely", important follow-up actions are in process that should ensure that the institutional developments realized so far with UPKDs under the project are indeed sustained. These include the following: (a) Central and District Governments have allocated budget for monitoring, supervision, facilitation, and audit of the UPKDs; (b) German TA (GTZ) has already begun a project activity (in response to the Bank partnership with GTZ) around the new Sustaining Micro-finance Project (SMFP) which will support the revolving funds established under the project in NTB; and (c) the proposed SMFP which should be approved in FY05 specifically targets the provinces covered by the three Area Development Projects, including the NTAADP, and will provide continuing support to secure sustainability of qualifying UPKDs.

6.2 Transition arrangement to regular operations:

6.2.1 Following the recommendation of a workshop held in July 2003, which addressed the issue of post-project closure sustainability (involving central and local governments, and the UPKDs), the government and the involved local governments have budgeted to continue this support for FY 2004. In some cases, the local governments are expanding the coverage of UPKDs with their own resources and intend to adopt the approach as a regular part of their development activities. Most UPKDs have informally associated into forums, and in many cases advisory relationships with the rural banking system are being developed. The main concern is that the UPKDs do not fit into the regular operations of local government, NGOs or the banking system and there has not been sufficient time to develop the mutual interest needed to foster institutional linkages. Options for rural bank linkages as well as a viable supervising framework, are being explored by the Bank and the government, and will be a central feature of the preparation work ongoing for the SMFP.

7. Bank and Borrower Performance

Bank

7.1 Lending:

7.1.1 The Bank's performance in the lending process was unsatisfactory. Although the project was designed on the basis of lessons learned from an earlier Bank-supported project (the NTASP) which covered the same two provinces and consisted of support to extension, credit in kind for inputs, small infrastructure and community involvement, there were clear signs from the NTASP that the model being used would encounter similar difficulties. The ICR of that project was quite clear that there was " ... *doubtful rationale for district-based IADPs ...* " because of the multiple activities involved leading to institutional complexity, yet the project was designed on precisely this basis. The major shortcoming in preparation was that insufficient attention was paid to implementation details, with the result that the PIP was not sufficiently well-developed to enable operational guidelines to be prepared in time. The first set of operational guidelines for the project was issued after the MTR; this was the result of incomplete preparation.

7.2 Supervision:

7.2.1 Early supervision missions reported on the project management problems arising from the absence of detailed operational guidelines. The supervision mission of August 1997, a year after loan effectiveness, reported that some parts of the guidelines needed to be finalized while others needed to be redrafted. The Bank team was proactive in restructuring the project, ones implementation became unsatisfactory. The Bank's supervision performance following restructuring was highly satisfactory and the supervision team played a key role in project restructuring. Without the assistance of the supervision team at the MTR, it is unlikely that implementation performance would have improved and the only option would probably have been loan cancellation. The team did not hesitate to rate performance as unsatisfactory and was pro-active in helping to resolve the issues. In particular, the in-country Bank team worked closely with BANGDA and local government on a continuing basis. Specialist supervision inputs were made to assist with financial management, procurement and disbursements, giving assistance in project management and evaluation of performance. Supervision teams met frequently with rural banks at local and headquarters levels to foster relations between micro-finance institutions (MFIs) and the village credit units established by the project. These often resulted in the provision of *ad hoc* technical advice but, in the absence of a policy for lending to this target group long regarded as unbankable, this support did not become institutionalized. During implementation, the Bank responded promptly to government's requests for amendments to cancel part of the Loan amount, to reallocate funds among categories, and to increase the financing percentages of key items to ensure that counterpart funding delays for these items did not block implementation progress.

7.3 Overall Bank performance:

7.3.1 The overall performance of the Bank is rated as satisfactory despite the unsatisfactory rating for lending. The top-down design of the project was essentially the same as that used by preceding projects, which had been considered satisfactory. The major upheavals resulting from the financial crisis, decentralization, and political change could not have been anticipated. Once the Bank realized the need for restructuring, full support was given to supervision teams and the Bank responded quickly and fully to government requests. The Bank readily sponsored outside reviews of the credit program.

Borrower
7.4 Preparation:

7.4.1 The government's performance in project preparation was unsatisfactory. On the positive side, a full-time preparation team worked closely with the Bank team and consultants. The major shortcoming was the long delay in producing the operational guidelines. At least part of the problem seems to have been that there were too many agencies involved, each with its own operating procedures that continued to apply for its part of the project. BANGDA's ability to bring the sector agencies together to produce an integrated operational manual was limited until the strong sectoral design of the project was modified after the restructuring. This foreshadowed the difficulties in bringing the agencies together during implementation and was an indicator of the need for a reduction in complexity. Operational guidelines should be produced as early as possible in the project cycle to avoid long delays in implementation.

7.5 Government implementation performance:

7.5.1 The main government agencies involved were the Ministry of Finance, BAPPENAS and BANGDA at the central level, and BAPPEDAS at the regional level. Overall, their performance was satisfactory. The government responded promptly to the recommendations of the joint government/Bank MTR and supervision missions. Despite the financial crisis, the government continued to supply counterpart funding. The issue of late release of funds was the result, in large part, of the political process for budget approval which was outside the government's control.

7.6 Implementing Agency:

7.6.1 Assessment of the performance of the implementing agencies is difficult because of the complexity of matching agencies and responsibilities. The SAR named the Ministry of Home Affairs (BANGDA), the Ministry of Agriculture (MoA) and the District Governments of the Provinces of NTB and NTT. The Loan Agreement identifies AARD (within MoA) and the Provincial Governments of NTB and NTT. The SAR provided for coordination through two committees, at national and provincial levels, with secretariats. Project Management Units were established at provincial and *kabupaten* levels and PIUs were established in the technical agencies. This arrangement proved only partly suitable. There were too many project units, and the respective heads and most of the staff were only able to work part-time on the project. By the time of the MTR, this had become unworkable. Following the MTR, BANGDA became the main implementing agency at the national level and the *kabupaten* governments's BAPPEDAS became the main agencies for field implementation. Key project staff then worked full-time on the project. This was consistent with the eventual regional autonomy law. The performance of both BANGDA and BAPPEDAS was satisfactory within the limits imposed by the budgetary and other constraints, including the delayed preparation of detailed operational guidelines. The performance of the provincial governments was satisfactory in the case of NTB but unsatisfactory in the case of NTT where provincial procurement of NGOs for supply and supervision of CDFs was chronically delayed. This had a major adverse impact on the performance of the project in NTT where the need for CDFs was greatest.

7.7 Overall Borrower performance:

7.7.1 The overall Borrower's performance is rated as satisfactory. The unsatisfactory performance during the first two years was the result of management weakness, unclear project guidelines, and the complexity of the project design. However, there was satisfactory performance in the latter years, especially in promoting local community initiatives.

8. Lessons Learned

8.1 Project design should be simple and focused. In this case, the relatively modest incremental resources brought by the project were unable to resolve systemic institutional issues in research, extension, supervision and maintenance of rural works, farm credit, livestock marketing, and local government finance, among others.

8.2 More attention should have been paid to the broader policy context and the specific linkages of the project to policy reform. In this case, the free inputs and subsidized cattle were meant to motivate technology change to further the poverty alleviation policy goal but ran counter to the rural credit policy reform goal. In addition, some minimum sub-sector policy consistency is necessary. In this project, the poorly supervised and subsidized government program credits through the cooperatives sector caused many problems for the UPKDs in trying to maintain credit discipline.

8.3 Operational manuals setting out details of how a project is to be implemented at all levels should be prepared prior to Loan approval, to ensure that preparation is adequate and that all involved partners have a clear and common understanding of the project and its resource implications. Detailed preparation of an operational manual would have highlighted the need for design modification prior to start-up.

8.4 Revolving funds in nonfinancial sector projects are unlikely to succeed without institutional and policy support from the financial sector. Line agencies of governments generally do not have the requisite mandate and skills.

8.5 There is a role for community-managed micro-finance in Indonesia, but this should be savings-led and integrated with the rural banking system.

9. Partner Comments

(a) Borrower/implementing agency:

9.1 In general, the performance of the IMS-Program in the Nusa Tenggara Agriculture Area Development Project (NTAADP, IBRD Loan No. 3984-IND) is satisfactory and considered successful in improving local government support and community participatory for development of economic activities among poor people in West Nusa Tenggara and East Nusa Tenggara Provinces. However, we should still pay attention to the following weaknesses: (a) socialization of IMS Program in the NTAADP; and (b) appropriateness of facilitator availability and capability as people counterpart.

9.2 Experiences show that the support of local government in any level (Sub-district, District and Province) is still required by local community, as well as technical assistance concerning credit management and capital adequacy from formal banking entities.

9.3 IMS Program in the NTAADP through micro-finance provides plentiful assistance to local community in developing community-owned economic business in areas of business capital supply.

(b) Cofinanciers:

None

(c) Other partners (NGOs/private sector):

None

10. Additional Information

None

Annex 1. Key Performance Indicators/Log Frame Matrix

INDICATOR	APPRAISAL ESTIMATE	MTR ESTIMATE	ACTUAL AT PROJECT CLOSING
OUTCOME/IMPACT INDICATORS			
Component A:			
Establishment of NAIAT • Research quality at international standard and relevant to regional conditions.	• Number and skill mix of staff appropriate to NAIAT mandate.	• Good progress on research but poor standard of field demonstrations and technology transfer. Transferred to ARM II Project.	• Basic skills upgraded and augmented with post-graduate degrees and field trial techniques. Socioeconomic analysis introduced.
Component B:			
Area Development • Increased incomes of adopters.	• Incremental benefit/cost ratios > 2.	• Little impact on outcomes.	• Beneficiary survey indicates household incomes about 16%-90% higher for adopters.
• Sustainable development of local institutions.	• *Kabupaten* and *kecamatan* government takes stronger role in development.	• Weak impact on agencies.	• Project supports decentralization following Laws No. 22 and 25 on regional autonomy.
• Communities actively involved in development planning and implementation.	• Village-level choice from menu of activities implemented mainly by local government.	• Impact on communities often adverse because of unequal and obscure distribution of benefits. Infrastructure program poor quality and transferred to specialized project.	• Villagers fully in charge of their own economic development through UPKD credit program.
Component C:			
Support Services • Extension services able to deliver relevant and high quality advice.	• Livestock and cropping extension services able to offer improved technology and animal health services.	• Construction and rehabilitation of extension and animal health centers under way but operations unsatisfactory because of budget and staffing problems.	• Extension services integrated into CDD program based on community demand. Still constrained by operating budget problems.

OUTPUT INDICATORS			
Component A:			
Establishment of NAIAT • Expansion and rehabilitation of regional R&D facilities.	• New facilities at Naibonat and Mataram.	• Facilities at Naibonat and Mataram substantially complete.	• Laboratories, offices, and equipment completed and operational.
• Establish long-run direction and focus for location-specific agricultural and livestock research.	• Development of human resources policy and research master plan.	• HR policy and plan not integrated into the national system.	• HR policy and master plan in place as part of national autonomous R&D system
• Upgrading the standard of regional R&D.	• Foreign and local TA and training, collaboration with international research centers.	• International collaboration begun.	• Twining and collaboration with international centers established.
• R&D programs location-specific.	• R&D targeted to local resource and socioeconomic conditions.	• R & D unevenly targeted to local conditions.	• Strategic Plan completed and updated to respond to decentralization and new emphasis on agribusiness.
• Improved capacity of NAIAT to respond to regional needs.	• Agro-ecological zones defined and research programs adjusted.	• Agro-ecological studies under way.	• Agro-ecological studies completed and regional programs in place.
• Increased adoption rate of improved technology.	• Farmers' uptake of productivity improvements increased, about 40,000 beneficiaries.	• Farmers' uptake of technology recommendations limited by credit shortage and relevance.	• About 80,000 beneficiaries of improved agricultural technologies.
Component B:			
Area Development • Demonstration plots.	• 265 schemes, each of 5 ha.	• 159 schemes, each of 5 ha.	• Transferred to ARM II project.
• Distribution of free inputs.	• 16,800 farmers receiving seeds, seedlings, fertilizer, and tools, one time only.	• 8,000 farmers receiving inputs.	• Converted to credit, about 50,000 farm families benefiting on revolving basis.

• Distribution of cattle.	• 17,000 head of cattle and buffalos distributed.	• 2,635 head of cattle and buffalos distributed.	• Converted to credit, about 28,000 farm families benefiting on revolving basis.
• Roads, culverts, bridges.	• 83 km constructed.	• 30 km constructed	• 48 km constructed, sub-component transferred to competing small infrastructure programs.
• Revolving Funds for Community Initiatives.	• 25,000 families benefiting from mix of grants and credit.	• 10,000 families benefiting from mix of grants and credit.	• 166,000 families benefiting on continuing basis from credit with full cost-recovery and market interest rates.
Component C:			
Support Services			
• Extension facilities.	• 11 new and 11 rehabilitated government animal health posts; 2 new and 17 rehabilitated government extension centers; 14 government seed farms upgraded.	• 7 new and 7 rehabilitated animal health posts; 2 new and 15 rehabilitated extension centers; and 11 seed farms upgraded.	• 20 animal health centers, 38 extension centers, and 11 seed farms rehabilitated or constructed.
• Training and workshops.	• Training, workshops, and seminars for about 3,100 people.	• Training, workshops, and seminars for about 1,000 people.	• Training given to 1,500 community credit staff, 500 facilitators and project staff as well as project orientation to about 150,000 beneficiaries.
• TA.	• 70 months of community facilitation provided by local NGOs.	• 30 months of community facilitation provided by local NGOs.	• 82 months of community facilitation provided by NGOs.
• Incremental operating costs.	• Local government able to provide full operating costs.	• Local governments not able to provide operating funds for adequate supervision and support.	• Local governments not able to provide operating funds for adequate supervision and support.

Annex 2. Project Costs and Financing

Project Costs by Component
(including contingencies, in US$ million equivalent)

Component	Appraisal Estimate (US$ million)	Actual/Latest Estimate (US$ million)	% of Appraisal Estimate
Assessment Institute for Agricultural Technology (AIAT)	5.37	2.29	42.6
Area Development	30.73	19.01	61.9
Support Services	4.97	6.48	130.4
Total	41.07	27.78	67.6

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	0.00 (0.00)	1.30 (0.80)	8.00 (5.20)	0.00 (0.00)	9.30 (6.00)
2. Goods	0.00 (0.00)	0.60 (0.60)	2.80 (2.50)	2.10 (0.00)	5.50 (3.10)
3. Services **Consultant Services, Training, Research, Mapping, Survey & Design**	0.91 (0.91)	0.89 (0.89)	2.80 (2.70)	0.00 (0.00)	4.60 (4.50)
4. Breeding animals	0.00 (0.00)	5.50 (5.00)	0.00 (0.00)	0.00 (0.00)	5.50 (5.00)
5. Goods and Works for Local Community Initiatives	0.00 (0.00)	0.00 (0.00)	7.40 (5.20)	0.00 (0.00)	7.40 (5.20)
6. Recurrent Costs, Labor Demonstrations, replications	0.00 (0.00)	0.00 (0.00)	7.07 (3.30)	1.70 (0.00)	8.77 (3.30)
Total	0.91 (0.91)	8.29 (7.29)	28.07 (18.90)	3.80 (0.00)	41.07 (27.10)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.48 (0.31)	0.00 (0.00)	0.48 (0.31)
2. Goods	0.00 (0.00)	0.00 (0.00)	1.25 (1.01)	0.08 (0.00)	1.33 (1.01)
3. Services **Consultant Services, Training, Research, Mapping, Survey & Design**	0.70 (0.63)	5.14 (4.41)	0.28 (0.28)	0.00 (0.00)	6.12 (5.32)
4. Breeding animals	0.00 (0.00)	0.27 (0.23)	0.00 (0.00)	0.00 (0.00)	0.27 (0.23)
5. Goods and Works for Local Community Initiatives	0.00 (0.00)	0.00 (0.00)	15.29 (13.59)	0.00 (0.00)	15.29 (13.59)
6. Recurrent Costs, Labor Demonstrations, replications	0.00 (0.00)	0.00 (0.00)	4.29 (1.64)	0.00 (0.00)	4.29 (1.64)
Total	0.70 (0.63)	5.41 (4.64)	21.59 (16.83)	0.08 (0.00)	27.78 (22.10)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**
Component A	3.85	1.52		1.75	0.53		45.5	34.9	
Component B	19.17	11.56		16.16	2.85		84.3	24.7	
Component C	4.08	0.89		4.19	2.30		102.7	258.4	
Total	27.10	13.97		22.10	5.68		81.5	40.7	

Annex 3. Economic Costs and Benefits

A.3.1 The economic rate of return (ERR) calculated during appraisal was 17 percent for the whole project with the benefits of R&D (Component A) and institutional support (Component C) being captured in the value of increased agricultural production (Component B) resulting from the adoption of improved technology. Similarly, the benefits from the roads and other infrastructure were assumed to be captured by the production increases. No rate of return was calculated for the community initiatives sub-component. For this ICR, an ERR of 14.5 percent is assumed for Component A based on the calculation of the ERR for the whole group of AIATs financed under the ARM II project (since Component A became one of the Institutes supported by that project). This rate of return assesses benefits from increased production resulting from the adoption of new technologies developed by the AIATs. The analysis of road and other infrastructure sub-components use cost-effectiveness criteria to measure benefits by the analysis of cost per unit of input. For roads, the use of village labor-intensive technology resulted not only in a pro-poor benefit from the employment generated but also in a lower cost per km of road in comparison with contractor road construction. The average cost per km for the project roads was Rp.39 million compared with Rp.50 million standard cost for Public Works roads in the same period. Similarly, the unit cost of suspension footbridges was lower for the project than standard costs.

A.3.2 After restructuring, the main project activity became the credit for the economic community initiatives. The project guidelines required loan applicants to prepare (with the assistance of CDFs) activity budgets for the investment to be financed and a simple cash-flow analysis showing how the payments would be met from the incremental income. Field inspections of loan documentation showed that this was done and loan agreements were accompanied by the required economic and financial analysis. Only those activities were financed that showed a benefit::cost ratio greater than one and had a positive incremental cash-flow after debt service were financed. *Ex post* returns were generally greater than two, and credit enabled diversification as well as technology change. A final field survey of beneficiary impact concluded that beneficiary incomes were between 14 and 91 percent higher than those of the control group which had similar characteristics to the beneficiaries.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
1994	*4*	TASK TEAM LEADER; AGRICULTURIST (2) , ECONOMIST		
Appraisal/Negotiation				
1995	*8*	TASK TEAM LEADER ; AGRICULTURIST (2); ECONOMIST; LIVESTOCK SPECIALIST; LAWYER; FINANCIAL ANALYST; DISBURSEMENT OFFICER		
Supervision				
06/04/1996	*4*	AGRICULTURAL ECONOMIST; PROCUREMENT OFFICER; AGRICULTURIST; DISBURSEMENT OFFICER	S	S
11/21/1996	*2*	AGRICULTURAL ECONOMIST; AGRICULTURIST	S	S
10/17/1997	*5*	TASK MANAGER; AGRICULTURIST; LIVESTOCK SPECIALIST; AGR/INSTIT. SPECIALIST; COMMUNITY DEVELOPMENT	U	U
07/18/1998	*5*	AGRICULTURAL ECONOMIST; AGRICULTURIST; PARTICIPATORY DEV. SPECIALIST; INSTITUTIONAL DEV. SPECIALIST; INSTITUTIONAL DEV. SPECIALIST	U	U
11/12/1998	*3*	SECTOR LEADER; SR. LIVESTOCK SPECIALIST; OPERATIONS OFFICER	U	U
08/27/1999	*3*	AGRICULTURIST; LIVESTOCK SPECIALIS; AGRICULTURAL ECONOMIST	U	U

	03/13/2000	*3*	AGRONOMIST; LIVESTOCK; ECONOMIST	S	S
	03/13/2000	*3*	AGRONOMIST; AGRICULTURAL ECONOMIST; LIVESTOCK/M&E SPECIALIST	S	S
	09/15/2000	*3*	AGRONOMIST; AGRICULTURAL ECONOMIST; VETERINARIAN	S	S
	06/08/2001	*2*	TTL/MICROFINANCE; AGRICULTURAL ECONOMIST	S	S
	11/09/2001	*2*	TTL - MICROFINANCE SPECIALIST; AGRICULTURAL ECONOMIST	S	S
	03/14/2002	*5*	GENDER/PARTICIPATION SPECIALIST; MICROFINANCE; FINANCIAL MANAGEMENT; DISBURSEMENT; PROCUREMENT/SOE	S	S
	03/14/2002	*7*	PROJECT MANAGEMENT SPECIALIST; TTL/ ECONOMIST; FINANCIAL MANAGEMENT; OPERATIONS SUPPORT; MICROFINANCE SPECIALIST; IMPLEMENTATION; MICROFINANCE	S	S
	06/03/2003	*2*	TASK TEAM LEADER; AGRICULTURAL ECONOMIST	S	S
ICR	09/26/2003	*4*	TASK TEAM LEADER; AGRICULTURAL ECONOMIST; MICROFINANCE SPECIALIST; PROCUREMENT/SOE	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	84.8	240.9
Appraisal/Negotiation	27.0	83.2
Supervision	169.2	669.8
ICR	21.2 *	57.6
Total	302.2	1,051.5

* Estimated
According to Bank's accounting system, consultant weeks were recorded only until Fiscal Year 1999.
Input values include all expenses, including consultant staff-weeks (fees).

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating				
☒ *Macro policies*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Sector Policies*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☒ *Physical*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☒ *Financial*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☒ *Institutional Development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☒ *Environmental*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
Social					
☒ *Poverty Reduction*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☒ *Gender*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	○ *NA*
☒ *Private sector development*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Public sector management*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Other (Please specify)* *Community driven development*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☐ *Lending*	○ *HS* ○ *S* ● *U* ○ *HU*
☐ *Supervision*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

6.2 Borrower performance	*Rating*
☐ *Preparation*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Government implementation performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Implementation agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

1. Final Supervision Mission Aide-Memoire, September 2003

2. Beneficiary Impact Survey Report, D.G. BANGDA, Ministry of Home Affairs, September 2003.

3. Consultant Services for Procurement Post Audit and Financial Audit Report, Nusa Tenggara Agricultural Area Development Project
   Moores Rowland, submitted to the World Bank, Jakarta Office, September 2003

4. Technical Assistance for the Implementation of NTAADP, Component B & C, Final Report
   D.G. BANGDA, Ministry of Home Affairs, September 2003.

5. Project Monitoring & Evaluation - Monthly Cluster Report on UPKDs and Credit Performance
   Project Secretariat, BAPPEDA Provinces NTB and NTT, August 2003, and various editions.

6. Project Monitoring & Evaluation - Yearly Report, Project Secretariat, BAPPEDA Provinces NTB and NTT.

7. Due Diligence and Performance Audit of Village Financial Management Unit (UPKDs) Report, Nusa Tenggara Agricultural Area Development Project, Bina Swadaya, Self-Reliance Development Foundation, August 2002.

8. Yearly Financial Audit Report, State Auditor (Badan Pengawas Keuangan Pembangunan - BPKP), various years.

9. Technical Assistance Final Report, Component A of NTAADP, D.G. Bangda, Ministry of Home Affairs, May 2000.

10. Borrower Implementation Completion Report (ICR), Nusa Tenggara Agricultural Area Development Project, IBRD Loan 3984-IND, D.G. Bangda, Ministry of Home Affairs, Government of Indonesia, February 20, 2004.

Additional Annex 8: Borrower's Implementation Completion Report - SUMMARY

1. <u>Background</u>

Nusa Tenggara Agricultural Area Development Project (NTAADP) continuing for seven fiscal years, that is, since FY1996/1997 has been one of the manifestations of the Government's attention and concern in the scheme of achieving equal development distribution and speeding up the economic growth in the Eastern Area of Indonesia, particularly the East and West Nusa Tenggara Provinces, the poorest provinces of the Area. Originally, the activity was focused on optimizing the village's potential (resource base) by using the in-kind distribution pattern (seedlings, livestock) aimed at target groups, through the technical agencies (Dinas). Such pattern was inefficient and of little benefit to the project participants that the design was changed, by focusing the activity on the Local Community Initiative (IMS) and adopting a micro-financial approach.

2. <u>The Achieved Objective and Result of the Project</u>

The implementation of Local Community Initiatives (IMS) program has provided benefit for the program's beneficiaries through the approach that gives priority to the basic needs (demand driven). Several main principles applied to the IMS program comprise (a) Quick Disbursement, (b) Accountability, and (c) Transparency. While considered satisfactory, the IMS program still has constraints as embodied in the World Bank's Aide Memoire. In general, the result of the Impact survey conducted on 338 families in the West Nusa Tenggara and East Nusa Tenggara Provinces shows an increase in the income of the families participating in the Community Group (Pokmas) IMS-Agriculture (SUTA), IMS-Livestock, and IMS-Non-farm economic activities (UEP). The IMS Project has also increased the employment opportunity of the families participating in the Pokmas IMS, and has changed the village communities' system for making decision on business planning. Meanwhile, institutionally, the IMS program still faces constraints on technical aspects of business, finance, management, funding and institutional proposals.

3. <u>Continuity</u>

To maintain the continuity of the IMS-NTAADP, the Central Government, in this case, the Directorate General of BANGDA and the Local Government, namely the East Nusa Tenggara and West Nusa Tenggara Provinces have prepared the funds for the monitoring and evaluation, the continuity of assistance (facilitator), and the UPKD Audit. In addition, there is still a need to improve the management of UPKD and credit management through a more intensive and higher quality training, by involving local formal financial institutions (BRI, BPD, etc.)

4. <u>The Borrower's Performance</u>

The performance of the borrower was rated "satisfactory". In spite of the financial crisis since 1997, however, the GOI was able to provide the required counterpart budget as committed in the Loan Agreement. In improving loan efficiency, the GOI agreed to cancel US$4.9 million. Several internal problems are mostly caused by the weak coordination among Government agencies and with the Project Implementation Units, in terms of: (i) the time-consuming budget documents validation, leading to the delay funding provision every year; (ii) the function of the coordinating team at the provincial and kabupaten levels is not quite optimal, particularly in following up and addressing problems; and (iii) constant replacement of the project leader that results in the project management continuity's being interrupted.

5. <u>The World Bank's Performance</u>

The World Bank as a financial institution that provides loans to the government through IBRD Loan No. 3984-IND is largely responsive for the success of the project that the constructive suggestions and opinions embodied in the Aide Memoire, about the performance and progress of the project, serves as the basis for improving the project's performance. The supervision team is very good in supporting and monitoring project implementation, and ensuring that is consistence with the rules and regulations. The focus on Local Community Initiatives (IMS) and community-managed microfinance with consultant/NGOs facilitation is very good, but support for sustainability needs to be intensified.

6. <u>Lesson Learned</u>

During the NTAADP, many lessons have been learned about the development and implementation of participatory community empowerment. The most important lesson is the villagers' participation in planning, managing, and benefiting from the project's assistance to optimize their resources, and give them the power to apply the rule they have agreed on. Some useful lessons from the NTAADP's participatory approach to the facilitation of villagers include:

(i) Involving villagers in the process of planning and implementation from the outset of the project to raise awareness that common interest is the most important thing.
(ii) The community's participation and empowerment is a time-consuming process. Without an adequate time investment, the community will become a mere passive and inactive observer in the cooperation.
(iii) A process must be developed to identify the core of the problem. A problem will constantly develop along with changes. This process should involve participation; develop community's involvement and ownership of all decisions.
(iv) A process must be developed to spell out all the regulations related to the financial management and institutional development. This should be distributed in a more simple language to guide peoples' responsibilities to plan and implement as well as to organize.