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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

INDONESIA

SECONDARY FOOD CROPS DEVELOPMENT

PROJECT PAPER AMENDMENT NO. 1

(497-0304)

AUGUST 1985

USAID/INDONESIA

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Secondary Food Crops Development Project
497-0304

Project Paper Amendment Number One

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PROJECT AUTHORIZATION AMENDMENT

INDONESIA

SECONDARY FOOD CROPS
DEVELOPMENT PROJECT
PROJECT NO. 497-0304
LOAN NO. 497-T-075

1. The Secondary Food Crops project was authorized on April 14, 1983. Pursuant to Section 104 of the Foreign Assistance Act of 1961, as amended, I hereby amend that authorization as follows:
 - a. The total planned obligations for the project are authorized in an amount not to exceed Seven Million, Four Hundred Thousand U.S. Dollars (\$7,400,000), with Six Million, Four Hundred Thousand U.S. Dollars (\$6,400,000) in loan funds authorized, and One Million U.S. Dollars (\$1,000,000) in grant funds authorized. The additional funding provided herein is authorized for obligation over a two-year period from the date of this authorization amendment, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to assist in financing the foreign exchange and local currency costs of the project.
2. The authorization cited above remains in force except as hereby amended.

Signature: William P. Fuller
William P. Fuller
Director

Date: 13/6/85

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Drafted:LA:LCniles:07/25/85, mai

Rationale and Project Description

I. Rationale

A. Background

The staple food system in Indonesia is presently undergoing a major transition. Rice, representing the most important food commodity, has been the primary focus of resource commitments for research, extension and government subsidies. With recent rice surpluses, Indonesia's rice policy is undergoing intense debate as producer's prices have plummeted at a time when there is increasing pressure to lessen agricultural subsidies.

The historical emphasis on rice has meant that non-rice (secondary) food crops, which constitute a major component of farming systems in upland areas and the outer islands, have not received adequate attention by researchers or the extension service. Production costs for these crops, despite subsidies, remain well above levels that would attract intensive investment by producers or would make them competitive in regional or world markets.

The Secondary Food Crops Development project was authorized on April 14, 1983 as an effort to test appropriate cropping systems and post-harvest technologies which can significantly increase secondary crop production and profitability. It is an experimental, demonstration and intensification project which combines agronomic and economic analysis to identify field-level constraints which hinder secondary crop production in three major agro-climatic zones in Indonesia, to develop and test potential solutions to these diverse sets of constraints, to improve post-harvest operations and to assist in developing local and regional secondary crop markets.

The project also assists to develop a planning system which allocates increasing responsibilities to Province and Kabupaten Ministry of Agriculture (MOA) staff to identify and prioritize location specific problems constraining production, to plan research activities to test technological solutions to these problems, and to establish demonstration plots to determine farm level acceptance of these new technologies. This requires improved coordination between provincial extension services and regional research institutes in the design, implementation and analysis of project supported on-farm trials, demonstration farms and the subsequent transfer of new technology to the intended beneficiaries. It also requires that the central Ministry of Agriculture offices in Jakarta grant increasing authority and responsibility for the design, implementation and evaluation of the project's activities to their provincial counterparts.

B. Implementation Status

Progress under each of the primary activities of the project is summarized below:

1. **Manpower Development:** The first participants for overseas training departed in June, 1985 for short-term non-degree training in project planning and implementation and grain storage and marketing techniques. Short duration training for contact farmers and farm groups continues. Also, a particularly effective informal training program has been developed which focuses on the implementation and analysis of the project's on-farm trials, through the participation and cooperation of Ministry line agency (Dinas) personnel and staff from regional agricultural research institutes. In one of the three project provinces, South Sulawesi, the training has resulted in the development of an excellent working relationship between the Cropping Systems Department at the Maros Research Institute and MOA extension staff. Representatives from each agency have been actively involved in the implementation of a farm level cropping systems research and demonstration program in Kabupaten

(district) Bone. During the coming year this cooperation will be further strengthened with an increased number of trial sites and more formal training of extension staff at the Research Institute. Other in-country training programs are being developed for cropping systems and post-harvest operations.

2. **Field Trials and Demonstrations:** This component tests and demonstrates improved seeds, integrated pest management techniques and more productive cropping rotations. To date, ninety trials and demonstrations have been carried out in the three project areas. The quality of implementation and relevance of results has improved markedly with the arrival of two agronomist/cropping systems consultants at the beginning of 1985. Improvements still need to be made in integrating farmers' concerns and interests with those of research and extension staff in determining the composition of these trials and demonstrations.
3. **Marketing Assessments:** A four phase marketing study is underway in each of three provinces. The objective is to determine the primary constraints to more efficient marketing which will provide better incentives to producers and a more stable, higher quality supply of commodities to consumers. It is projected that the major analysis and written recommendations will be completed in early 1986. The last phase will include the field testing of recommended interventions and the promotion of policy changes based on the analyses.
4. **Post Harvest Activities:** Few activities have yet taken place in this area since it is a dependent component of the marketing assessment described above. However, with the planned arrival of a long term consultant for post harvest operations, it is expected that activities under this element of the project will increase.

Despite progress in most of the project components, disbursements during the first two years have been slow. A major factor contributing to these delays has been the 100% loan composition of the project. Complete reliance on loan funds has resulted in unanticipated delays in securing well-qualified technical consultants and arranging support for some short-term overseas training of participants.

The ability of the Ministry of Agriculture to recruit suitable long and short-term technical consultants has been constrained by GOI ceilings on loan-funded consultant salaries and benefits and by changes in tax regulations which affect expatriate consultants. It is expected that two key long-term consultant positions under the project, an agricultural economist cum marketing consultant and a post harvest specialist, will be filled by September, 1985. However, to secure the most qualified candidates, who have been competitively selected, partial grant funding of contracts is required.

One hundred percent loan funding has also delayed the project training component. BAPPENAS approval of all short term loan-funded training is required. For training needs anticipated sufficiently in advance for inclusion in annual GOI budget submissions approval has not been a problem. However, the long lead times required by the GOI's budget cycle occasionally result in valuable but unanticipated short term training requests being rejected or delayed. A small amount of grant funds to respond to these latter requests would provide the needed budget flexibility in specific cases where such training would enhance attainment of project objectives.

Finally, growing awareness of the technical complexity of many of the economic policy issues relating to secondary food crop promotion has led to the conclusion that in-depth policy research is required to clarify these issues and to prompt policy changes accordingly.

II. Project Amendment Description

The amendment adds \$1.0 million in grant funds for policy research, technical assistance, and short-term training. With this addition, life of project funding levels will increase from \$6.4 million (loan) to \$7.4 million (\$6.4 million loan, \$1.0 million grant). In addition, \$200,000 of AID loan contingency funds will be utilized for limited commodities.

A. Policy Research

Effective programs to increase the productivity and returns to the Indonesia's complex food system require knowledge of the production and consumption relationships between different commodities. In the past, policy and research studies have concentrated on single commodities with little emphasis on the linkages between them. Such a limited policy perspective is no longer adequate. For example, price support policies which change maize prices not only affect the demand for maize for human consumption but also affect demand for rice and cassava, substitutes for maize in the Indonesian diet. The single change in policy would

influence the use of cassava (a calorie substitute for maize in animal feed rations), the demand for foreign and domestically produced soybeans (a protein substitute for maize in animal rations), investments in maize versus soybean oil extraction facilities, and Indonesia's competitive position in the international maize export market. Similarly, changes in exchange rate policies, which typically are perceived as far removed from agriculture, alter the comparative advantage of secondary crops and effect farm level incentives, acreage and input use as well as the volume of domestic and international sales and purchases.

In order to link the project's ongoing field activities to macro level price and monetary policy, \$500,000 in grant funds will be made available for policy research. It is anticipated that the research will explore and quantify the production and consumption relationships between rice, maize, casava, soybeans and peanuts; identify the regional comparative advantage associated with each commodity; determine the changes in production, consumption (both animal and human), employment and domestic processing to given changes in exchange rate policies, subsidies and price supports; and explore the impact of these changes on regional and international marketing and trade.

It is expected that the policy research activities will result in a number of policy papers and a book which will be circulated amongst GOI agencies responsible for policy to encourage growth in secondary crop production and consumption. It is anticipated that the systemic focus of the research and its dual concern with farm level incentives and national macro-economic policies will fill a knowledge gap that presently exists in Indonesia and will assist senior Indonesian policy makers in articulating more comprehensive secondary crop policy options. The research activity will promote AID objectives to foster improved policy dialogue within Indonesia, will support the Mission strategy of increased sustainable food and agricultural production capability, and will strengthen resource management capabilities within the agricultural sector.

This policy research will be a new element to the project. The research agenda and its implementation will be coordinated by a national food policy committee, chaired by the senior policy analyst in the National Development Planning Board (BAPPENAS) with participation by representatives of the Ministry of Agriculture, Ministry of Finance, the Ministry of Trade and the National Logistics Bureau (BULOG). Senior U.S. policy analysts are expected to assist in agenda development and implementation. The growing number of highly competent Indonesian economists and analysts will participate in substantial parts of this work. It is anticipated the detailed terms of reference for the technical assistance will be prepared by late 1985.

B. Technical Assistance

\$350,000 of the additional grant funds will be allocated for technical assistance. The funds will be used to supplement loan funded long term TA contracts in order to secure the services of two consultants who have been competitively selected under approved Host Country procedures. The grant funds will also be used to finance selected short-term consultants - most likely in the areas of post-harvest technology and/or curriculum development.

C. Short-Term Training

A small amount of grant funds, \$30,000, will be used to finance short-term training for which sufficient notice is not available to avoid delays or rejection in the GOI's approval process. It is anticipated the majority of these training courses will be in the ASEAN region.

D. Commodities

In addition to commodities currently being procured with GOI project funds, AID loan funds will be utilized to procure 12 vehicles, 20 motorcycles and 2 microcomputers. The estimated cost of this procurement, \$200,000 will be funded from current loan contingency funds.

E. Contingency

Approximately \$120,000 of the additional grant funds will be reserved for contingencies and drawn upon for the three grant-funded activities listed above as needed.

III. Cost Estimates and Financial Plan

The project budget will be amended as shown in the attached table. A new grant-funded line item is created for policy research (\$500,000). Grant funds raise project funding levels for technical services (both long and short-term) by \$350,000, training by \$30,000 and contingencies by \$120,000. Since GOI counterpart budgets for the project will remain unchanged, the GOI share of total project costs will drop from 50% to 46%.

IV. Implementation Plan

A. Annual Plans and Budgets

Existing planning and budgeting procedures of the project will be utilized for the additional grant funding. The project will continue to be administered by the Directorate of Production within the Directorate General for Food Crops of the Department of Agriculture. The Palawija Project Office (PPO) will continue to coordinate activities. Each provincial PPO will continue to prepare annual implementation plans and budget proposals for AID and GOI funding.

B. Contracting

Host country contracts with partial or all grant-funding will be used to provide the remaining long and short-term consulting services and policy research assistance. It is expected that a long term agricultural economist-cum-marketing specialist and a post-harvest specialist, who have already been competitively selected, will be contracted before the end of 1985. Short-term consultants will be sought from both Indonesia and the U.S. for specific project needs as needs are identified. Policy research will likely be carried out with assistance from a U.S. university through a host country contract with BULOG under the direction of the Directorate General of Food Crops, Ministry of Agriculture.

C. Method of Implementation and Financing (New Funding)

Method of Implementation	Method of Financing	Approximate Amount (Grant) (US\$ 000)
Technical Assistance	Direct Payment to Suppliers	350
Training	Direct Reimbursement to Suppliers/ Participants	30
Policy Research	Direct Payment to Suppliers	500
Contingencies	Direct Payment or Reimbursement to Suppliers	120
	Total	1000

Long and short term technical assistance and policy research activities will be implemented by consultants using the Host Country contracting mechanism. Project Implementation Letters will be used to approve and commit funds after review of the terms of the contract. It is anticipated that issuance of Letters of Commitment will not be required.

Most training will take place in neighbouring countries using Project Implementation Orders for Participants (PIO/P's) with direct payment to training institutions. Payment of allowance and travel and transportation expenses will be paid directly to suppliers and participants following AID procedures. Other required training will be approved and committed by project Implementation Letters, and expenditures reimbursed directly to the GOI using procedures agreed upon by the USAID and the GOI. If necessary, advances of funds, based on projected cash needs, will be made to the GOI to allow for more timely and efficient implementation of these activities.

No direct AID contracting is anticipated. Because most or all Host Country contracting will be with individuals, audit coverage by CPA firms is not anticipated. The Mission Controller, as part of the voucher verification program, will conduct periodic examinations of records and review GOI accounting procedures and documentation in support of claims, in order to minimize vulnerability.

