

**LEARNING FROM PDP**  
**EVALUATING THE PROVINCIAL DEVELOPMENT PROGRAM**  
**(A Synthesis of PDP Evaluations)**

**By:**  
**Jim Schiller**

**NATIONAL CONFERENCE ON AREA DEVELOPMENT PROGRAM**  
**DITJEN BANGDA DEPDAGI - P3PK UGM - USAID**  
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\*Source: Calculated from PDP project records and financial data base.

\*\*Source: Calculated or cited from the 1986 SRI Beneficiary Household Survey.

## CHAPTER ONE

### INTRODUCTION

This report synthesizes what has been learned from the Provincial Area Development Program (PDP) in Indonesia. It relies heavily on two major evaluation efforts conducted in 1986. The first is a study of PDP's impact on beneficiaries conducted by Survey Research Indonesia (SRI). The second is a study of PDP's institutional impact carried out in six provinces by a multi-disciplinary team. The present study draws upon interim evaluation reports, consultant reports, sub-project budgets, and other project documents. It also extracts the ideas and comments of a number of people -- USAID project staff, GOI project staff and advisors who have worked with PDP over the years. Decisions about what to stress and what to omit are my own and are based upon 10 years Indonesian experience, researching Indonesian development administration and advising in institution-building and training at the local level.

This document recounts and interprets major conclusions about the impact of PDP on beneficiaries and institutions. However, it should be pointed out that PDP's activities and consequences are not easy to aggregate. The project has a long history (10 years) and has been operating in eight very different provinces spread across the world's largest and most populous island nation. Furthermore, PDP includes a vast array of sub-projects, some managed at the provincial level, but most managed at the district level and below. Finally, project priorities shifted over time (especially, after 1982) -- away from experimental, direct, beneficiary-oriented sub-projects which were expected to be taken up by local government agencies-- toward the development of institutional capability and introduction of planning and monitoring systems. Given time and space constraints, this account will have to focus on the principal features, accomplishments, strengths and weaknesses of

PDP. Readers desiring more details about specific provincial or sectoral activities should refer to any of the numerous provincial and national evaluations or other project studies and documents. A final caution --PDP is still in progress. Beneficiary and institutional impact studies conducted in 1986 only examine activity financed under 1984-85 and earlier budgets. Annual and medium-term planning systems (the ROT and RJM) were introduced in 1984-85. Survey data from 1983-84 and 1984-85 sub-projects show considerable improvement over earlier sub-project activities. There is every reason to believe that the learning curve effect would have resulted in continued refinement of beneficiary selection and income-generating techniques. It therefore seems reasonable to conclude that more recent impact data would have shown further progress toward beneficiary and institutional goals.

The reader may wonder how this evaluation can attribute distinct beneficiary income gains or improvement in institutional performance to a diverse and long-term program like PDP rather than to other development programs and changing economic factors that may have affected target groups or institutions. The response is that it is not possible to do so with scientific certainty. For example, it is not possible to tell how much gain in income PDP recipients would have made without PDP assistance or to ascertain how much of their gain was due to PDP and how much was due to, say, a new village road. (At least it is not possible without very costly pre- and post-project studies or extensive use of carefully selected control groups.)

Fortunately, project evaluation does not require that degree of certainty. As a recent World Bank evaluation guide has pointed out<sup>1</sup> -- projects have a modus operandi. Projects are not completely experimental. They are designed because there is a body of opinion suggesting that certain kinds of intervention will achieve certain results. Therefore, it is only necessary to establish the plausibility that a project has achieved the

<sup>1</sup>. D. Casley and D. Lury, Monitoring and Evaluation of Agriculture and Rural Development Projects, Baltimore: Johns Hopkins University Press, 1982. See page 20-21.

desired results.<sup>2</sup> In the case of PDP we have strong inferential evidence to support conclusions about its achievement of project goals. In addition to household surveys of direct beneficiaries, we have interview data from non-beneficiaries, village leaders and project officers which reports their views of project impact, institutional and economic achievements, and beneficiary gains. We also have indirect evidence relying on such indicators as increasing success of PDP provinces and districts in completing GOI planning and monitoring requirements and in meeting USAID reporting and reimbursement guidelines for the project. In short, we have a credible basis for making judgments about PDP and drawing conclusions that might be utilized in future projects.

#### PDP AND ITS INSTITUTIONAL SETTING IN INDONESIA

PDP operates in eight Indonesian provinces. Its main objectives are increasing the income and productivity of the rural poor and increasing the capacity of provincial and local governments to plan, manage, monitor and evaluate development activities that reach the rural poor. Its principal focus in provincial and local (kabupaten) government is BAPPEDA -- the regional planning board. However, PDP also has worked through local dinas (sectoral agencies) which are provincial and kabupaten authorities (and occasionally through local branches of central sectoral departments).

PDP is implemented under the Indonesian Ministry of Home Affairs (with technical support from the National Planning Board [BAPPENAS] and the Ministry of Finance) -- the central government department charged with territorial administration, provincial, and lower level government. Originally, national management of PDP rested with PUOD -- the Directorate General of Regional Autonomy and General Administration. However, in 1981 management was transferred to the newly-created Directorate-General of Regional Development (DANGDA).

PDP I began as a four-year program in Aceh and Central Java

<sup>2</sup>. Ibid., p. 21.

in 1978. PDP IIA (also a four-year program) commenced in 1979. It expanded PDP's operations into Bengkulu, East Java, South Kalimantan, and East Nusa Tenggara. PDP IIB added two provinces: West Java and West Nusa Tenggara. PDP I and PDP II have since been funded to extend until 1988 and 1989, respectively. Table 1-1 (page 9) lists all kabupaten where PDP operated in phase I and in the phase II (post-1984) extension to PDP I and II.

Table 1-2 (page 10) lists the number of PDP beneficiaries of direct impact income-generating projects by province according to project budgets. It does not include recipients of training or credit sub-project assistance. It may also fail to fully show the number of later beneficiaries of "revolving" projects who were recipients of non-budgetary assistance (i.e., a cow provided as repayment by a previous beneficiary).

Table 1-3 (page 11) shows PDP regional sub-project expenditures by province and by administrative category (i.e., Administration or Evaluation, Training, Credit, and Direct Beneficiary Impact sub-projects).

It is important to understand the structure of Indonesian government to comprehend the operating environment in which PDP works and to accurately evaluate the project's impact.

Indonesia is a unitary state. All powers not specifically granted to provincial and local governments by the Constitution or by legislation approved by the President and the National Assembly reside with the central government. At all levels of government the executive branch is much stronger than the legislature. Although there is a process which allows for local nomination (and, in theory, local assembly veto), of chief executives at the provincial and kabupaten level, they are selected by the central government. Most senior state employees at the provincial and local government level are central government employees and may be transferred to any Department of Home Affairs position in Indonesia. Most revenue-raising powers reside with the central government. Local and provincial government are thus legally, administratively and financially dependent upon the center.

Indonesia is divided into 27 provinces (also called First

Level Autonomous Regions). They range in population from well under a million to over 30 million. Each province has a mainly-elected assembly (Dewan Perwakilan Rakyat Daerah) and is administered by a governor. The province has few tax powers but it does exercise control over locally-raised funds.

Below the province is the kabupaten<sup>3</sup> (district) -- a county-sized unit -- which is also called the Second Level Autonomous Region. There are 246 rural districts (and 55 urban second level autonomous regions). On Java most districts have a population between 600,000 and one million. On Indonesia's other islands most districts have between 100,000 and 500,000 people. Districts also have a mainly-elected assembly (also called Dewan Perwakilan Rakyat Daerah) and are managed by a district head (bupati). The district has fewer tax powers than the province, but also allocates locally raised funds.

Districts are divided for administrative convenience into sub-districts. Most districts have between ten and twenty sub-districts. The sub-district officer (camat) manages an office usually with ten to fifteen employees<sup>4</sup> who act as the local agents of district and higher level government.

The lowest level of government in Indonesia is the village (desa or kelurahan). There are approximately 63,000. The desa (usually rural village) has an elected head (kepala desa) and slightly greater autonomy, while the (usually urban) kelurahan has an appointed civil servant as head. At least formally, every village also has a Village Consultative Board (Lembaga Musyawarah Desa) and a Village Community Resilience Board (Lembaga Ketahanan Masyarakat Desa). These institutions sometimes widen the access to village-level decision making.

In addition to these administrative links from the Ministry of Home Affairs in Jakarta down to village government, there is another linkage between center and regions. Most central government departments maintain offices (usually called Kanwil or Kandep) or agents in all provinces, many districts and some sub-

<sup>3</sup>. Sometimes translated as Regencies.

<sup>4</sup>. Some provinces reportedly have as few as two office staff in sub-district offices.

districts. These technical or line agencies are called instansi vertikal (vertical agencies). In any one province the aggregate budgets of these instansi vertikal is usually much larger than that of the provincial government and they are, in fact, only nominally answerable to the governor for their plans or performance.

Closely tied to the instansi vertikal are provincial and sometimes district dinas (technical agencies). Usually the aggregate budgets of all of the provincial dinas and instansi vertikal operating in a district are much larger than the district's own development budget. These agencies -- except for district dinas -- are not part of district government, and local co-ordination (or even knowledge) of their activities was rare before the mid-1970s.

Decentralization and local co-ordination were furthered by Law Number 5/1974, the Regional Government Act. It states that governors and district heads are responsible for all government activity in their regions. This gives the local executive the legal authority but not the financial or institutional capacity to co-ordinate development programs at the local level. The creation of provincial planning boards (BAPPEDA), beginning in 1976, and of district planning boards (also BAPPEDA), beginning in 1980, provided an institutional vehicle through which local government could -- if it had the skills, vision, direction and higher-level support -- begin to plan and integrate local development activity.

PDP provided an opportunity to take newly-formed, partly-staffed and, poorly-trained planning boards -- whose function was not well understood -- and provide them with needed skills and hands-on development planning and management experience. It also provided the BAPPEDAs with the opportunity to demonstrate both to provincial and district executives and to technical agencies, the planning board's skills and the advantages of integrated rural development planning over isolated sectoral activity in meeting the needs of the rural -- mainly poor -- population.

## ORGANIZATION OF THIS REPORT

This chapter includes introductory material and a discussion of PDP in its institutional setting. It also includes some tables with background information on PDP's sub-project location, beneficiary numbers and budget categories.

The following chapter, Chapter Two, examines PDP goals, working assumptions and strategies. Clear understanding of those goals, assumptions and strategies is an essential first step in deciding what an evaluation can tell us. It is important to know whether -- and to what degree -- those goals were achievable and whether they were understood or shared by USAID, GOI (Government Of Indonesia) central, provincial and district institutional actors. It is also useful to ask whether the goals were -- to some extent -- in conflict. Did the achievement of one goal lessen the likelihood of the achievement of others? The chapter also looks at changes in project priorities over time. It makes recommendations about goal clarification and priority setting measures for future USAID projects.

Chapter Three observes the impact of PDP on beneficiaries. Particularly, it tries to show who were recipients, how well the project did at targeting beneficiaries, how much gain beneficiaries recorded, and how likely they were to sustain the income-earning activity introduced or promoted by the project. It explores explanations for sub-project success at various aspects of beneficiary impact. Finally, it makes recommendations about targeting procedures and sub-project activity that might further improve beneficiary impact.

Chapter Four describes the impact of PDP on institutional capacity and performance. Its focus is on provincial and district planning boards and on other local agencies with which the program worked. Project impact on BANGDA as an institution (and BANGDA's impact on regional institutions) is not described in this evaluation synthesis.<sup>2</sup>

<sup>2</sup>. Because there were no recent evaluations which dealt with central level institution building.

This chapter examines the ways in which PDP has influenced regional and local institutional behavior and the ways in which institutions have learned from the PDP experience. It also makes recommendations about institutional assistance methods that might enhance institutional performance. It then describes the impact of PDP on institutional innovation. It looks at how provinces and districts have tried new approaches to deal with the problems addressed by PDP. Finally, it makes several recommendations about steps that might be taken to encourage institutional innovation and sustain successful innovative activity.

Chapter Five examines prospects for sustained gains in institutional performance. First, it looks at the prospects for sustainability of PDP-related gains in institutional performance after donor support is withdrawn. It examines cases where PDP activities are being funded by local institutions or paid for by beneficiaries. Second, it considers the wider institutional impact of PDP. It seeks to determine whether PDP techniques are being replicated by other government projects or agencies. The goal here is to assess the degree to which PDP practices and activities are being institutionalized and supported locally. This should give us some idea of the project's prospects for lasting impact. Finally, it makes recommendations about steps that might encourage further institutionalization and wider spread effect.

Chapter Six briefly summarizes and comments upon PDP's beneficiary impact, institutional impact, and sustainability achievements. It also provides policy recommendations for any future related projects based upon PDP experience. It concludes with a discussion of PDP's cost-effectiveness and potential contribution to Indonesian rural development strategy.

TABLE 1-1  
PDP PROVINCES AND DISTRICTS

<u>Province</u>	<u>District (Kabupaten)</u>	
	<u>Activities Begun During Phase I</u>	<u>Activities Begun During Phase II</u>
Aceh	Aceh Barat Aceh Besar	Aceh Selatan Aceh Tenggara
Bengkulu	Bengkulu Selatan Bengkulu Utara	Rejang Lebong
Jawa Barat (West Java)	Lebak Pandeglang Serang	Cianjur Garut Sukabumi
Jawa Tengah (Central Java)	Demak Kudus Jepara Pati Rembang	Blora Grobogan
Jawa Timur (East Java)	Bangkalan Pamekasan Sampang Sumenep	Blitar Pacitan Trenggalek Tulungagung
Kalimantan Selatan (South Kalimantan)	Hulu Sungai Selatan Hulu Sungai Tengah Hulu Sungai Utara	Banjar Tapin
Nusa Tenggara Barat (West Nusa Tenggara)	Lombok Tengah Lombok Timur Sumbawa	Bima Dompu Lombok Barat
Nusa Tenggara Timur (East Nusa Tenggara)	Alor Belu Timor Tengah Utara	Flores Timur Timor Tengah Sel.

TABLE 1-2  
 PDP DIRECT BENEFICIARIES  
 OF INCOME GENERATING PROJECTS\*  
 1978-9 through 1986-7  
 (By Province)

<u>PROVINCE</u>	<u>NUMBER</u>
ACEH	22,890
RENGKULU	15,352
WEST JAVA	29,888
CENTRAL JAVA	104,266
EAST JAVA	67,221
SOUTH KALIMANTAN	15,730
WEST NUSA TENGGARA	38,337
EAST NUSA TENGGARA	39,938
TOTAL	333,622

Does not include beneficiaries of credit programs.

TABLE 1-3  
PDP SPENDING  
BY TYPE OF PROJECT AND PROVINCE  
(1978/9 - 1986/7)

<u>PROVINCE</u>	<u>ADMIN/ EVAL.</u> (%)	<u>TRAINING</u> (%)	<u>CREDIT</u> (%)	<u>DIRECT BENEF.</u> (%)	<u>TOTAL</u> (000 Rp.)
ACEH	16.0	15.3	12.8	55.9	6,521,551
BENGKULU	17.6	11.7	19.5	51.2	5,917,327
W. JAVA	29.3	8.4	10.7	51.6	5,513,100
C. JAVA	14.0	9.3	4.7	72.0	7,412,500
E. JAVA	14.9	11.1	11.1	62.9	6,868,413
S. KALI- MANTAN	23.0	14.1	21.0	41.9	5,312,577
W. NUSA TENGGARA	12.4	15.9	8.5	63.2	5,712,500
E. NUSA TENGGARA	18.7	9.1	11.7	60.5	5,936,872
<hr/> PROVINCIAL AVERAGE	<hr/> 18.8%	<hr/> 11.9%	<hr/> 12.5%	<hr/> 57.4%	<hr/> 6,149,355

## CHAPTER TWO

### PDP GOALS, WORKING ASSUMPTIONS AND STRATEGIES

A key factor in effective project design is clarity about what constitutes reasonable and achievable standards or measures of success. Clarity about goals, indicators of success, working assumptions, and strategies are equally important for constructive evaluation. If we are not clear, for example, about what PDP was supposed to achieve, what inputs USAID, the GOI and the technical assistance team were supposed to provide, what behavioral outcomes were expected and how PDP was expected to have an impact on Indonesian institutions or individual beneficiaries then it is difficult to make judgments about project success. This chapter attempts to clarify project goals, assumptions and strategies in a way that will enable the reader to assess project achievements and diagnose weaknesses.

#### PDP GOALS

The 1978 PDP project paper suggests three goals for PDP:<sup>1</sup>

1. To improve the capabilities of local government within the six participating provinces<sup>2</sup> to undertake rural development activities which improve the productive capacity of the rural poor.
2. To improve the capabilities of the central government to support local government rural development activities which impact on the incomes of the rural poor.
3. To increase incomes of the rural poor within the project areas.

<sup>1</sup>. This is taken from the project log frame, p. 56.

<sup>2</sup>. The number of provinces was later increased to 8.

A Ministerial Instruction (Number 19, 1980) of the Minister of Home Affairs states that "PDP is directed toward development efforts which directly raise the incomes and welfare of the people of the villages whose productivity is low..." It goes on to further define project goals:

1. To perfect and increase administrative capability at the Provincial and Kabupaten (District) levels, especially that of the regional planning boards (BAPPEDAs); but other PDP-related local offices as well.
2. To supply local level development assistance in the following forms:
  - a. Projects meeting the following criteria.
    - (1) Directly raise the incomes of villagers whose productivity is low.
    - (2) Yield the quickest possible results.
    - (3) Fit with Regional and District development objectives.
    - (4) Small in size and have simplicity.
    - (5) Create and broaden employment opportunities.
    - (6) Supportive of other projects in the local development effort, such as the INPRES programs.
    - (7) Supportive of other local activities.
    - (8) Feasible from the technical, economic, financial, social and environmental point of view.
  - b. Credits, channeled directly to the people via banking and credit institutions in village areas, which meet the following criteria:
    - (1) Supportive of other local activities.
    - (2) Raise incomes (but not consumption) with the following specifications:
      - (a) Small sums.
      - (b) Administratively simple.
      - (c) Simplicity in lending technicalities.
      - (d) Lowest possible rates of interest.
      - (e) Lasting in effect.

The wide array of goals presented suggests a number of questions. Are goals sufficiently well defined? Are there indicators that would tell us whether project goals are being achieved? What are the relationships among goals. Are these goals achievable? Are these goals assumed to be complementary?

Would the pursuit of one goal ever reduce the prospects for the achievement of other goals? If so, how are priorities to be established?

PDP is clearly a project with multiple goals and a number of target groups or proposed beneficiaries. This makes evaluation more complicated and unequivocal statements about implementation and impact less likely. However, ease of evaluation or auditing should not be used as an excuse for donor agencies to pursue single-objective (or single-indicator), usually physical infrastructure projects. Development consists at least as much of increasing institutional and individual capabilities and attitudes as it does of building roads and bridges. The challenge in project design and evaluation is to be clear and realistic about the standards we are using to define and measure project success.

Relating goals to project achievements is further complicated in the PDP case because of changing project priorities. Pre-1982 PDP activities emphasized experimentation while post-1982 endeavors stressed institution- and system-building. Furthermore, early USAID documentation on the project speaks of aiding the "poorest of the poor" and emphasizes sub-project activity designed to raise the income and productivity of this group. It is clear from early GOI documentation that they did not fully accept this phrase or choice of target group. Provincial project officials in Central Java used the phrase "poor but potentially productive"; and this seems to have been closer to the operational definition used throughout the program for target group selection than the more 'idealistic' "poorest of the poor." (Also as we shall see in the chapter on beneficiary impact Central Java's operational definition made project success more likely.) The 1982 USAID project paper for PDP II does not specifically mention the rural poor in its log frame (statement) of project objectives. Instead it states the project purpose to be: "To increase the production and productive capacity of rural

people."<sup>3</sup> It appears that, by 1982, most project managers were assuming that the rural poor were the main target group but that the project was not attempting to target those who were so poor that any sort of assistance would be directly consumed rather than used for productive purposes.

Equally importantly, post-1982 project documentation begins to emphasize the institution-building objective and the use of planning and project information systems to consolidate institutional gains. This increased concern with institutional and system-building objectives reflected concerns that advisors were likely to spend more time ensuring that individual sub-projects succeeded and less time working at long-term institution-building activity.

This means that for evaluation purposes one needs to keep in mind that only beginning with the 1982-83 budget year was PDP focusing on coherent system and institution-building objectives and that only three years of systematic effort to introduce planning and management tools are fully reflected in the materials used for this evaluation.

Given these changes over time what should be taken as the core of PDP goals and how are they related? A 1979 project study summarizes these goals. It suggests that "PDP is an experiment in building a self-sustaining capacity for integrated poverty-focused rural development activity."<sup>4</sup> The author argues that PDP:

- is experimental
- is capacity-building (in institutions and for beneficiaries)
- promotes integrated rural development
- promotes poverty-focused rural development
- aims to promote institutional capacity for integrated, poverty-focused rural development that

<sup>3</sup>. Annex A, Project Paper Indonesia Provincial Area Development Program II, 1983. Other institutional goals were the same as in the earlier Project Paper cited above.

<sup>4</sup>. George Honadle, Institution Building in the PDP Context (April 1979).

is self-sustaining -- that continues beyond the input of project funds and technical assistance.

If we accept this perspective on PDP it becomes clear that FDP has two very different, major target groups: local government (at the provincial and district level) and the rural poor. The project is expected to be experimental: to encourage local government and sub-project beneficiaries to carry out innovative activity. That innovation is expected to make local government better at planning and managing rural development and to make the rural poor more productive and therefore increase their incomes. The project is also expected to provide local government with resources, training, technical assistance, and planning and management information systems that will make provincial and district government more capable of meeting local needs. Sustainability is also a key goal. It is hoped that beneficiaries will be able to sustain gains made due to project inputs and that improvements in institutional performance will not be lost when project resources are withdrawn. Finally, it is anticipated that the project will provide the central government with the skills and resources necessary to support and monitor more decentralized development, and the confidence necessary to promote further decentralization.

Table 2-1 below indicates target groups, goals (desired outcomes), and indicators that could be used to measure or test for the achievement of project goals. Indicators marked with an asterisk \* were available and used as part of this evaluation. Hopefully, future evaluations will build upon and further test these measures.

#### RELATIONSHIPS BETWEEN GOALS

It is important to consider relationships among goals before trying to measure the level of achievement in attaining particular goals. If pursuing one goal retards or delays the achievement of other goals then we should try to balance successes in the achievement of one goal against failures or shortcomings in the pursuit of others. In the opinion of this

author a considerable portion of the criticism of the project has been unrealistic and misleading because it has assumed a harmony of goals.

While there does seem to be a good case for long-term congruence among FDP' goals there is clearly some short-term conflict. Emphasis on designing and implementing sub-projects that reach the rural poor could be expected to delay the consideration of systemic change that might build institutional capacity. Similarly, emphasis by project managers and technical advisors on building local planning skills could be expected-- in the short-term -- to retard efforts to reach the rural poor.

Similar problems arise in the relationships among other goals. The promotion of institutional innovation requires giving local institutions the opportunity to make mistakes. Local government could not be expected to try a wide range of new activities without some failures. Therefore expectations about, say, success at targeting the rural poor or obtaining a high level of beneficiary gains should be weighed against another goal, encouraging institutions to try new approaches and systems. Similarly, the Ministerial Instruction calling for PDP-supported sub-projects to be quick-yielding did not always result in beneficiary gains that were long-lasting. Sustainable activities are not always those that produce the quickest or greatest gains. Sustainable beneficiary gains, rapid results, institutional experimentation and system building are all laudable goals but they cannot always be achieved simultaneously.

TABLE 2-1  
EVALUATING PDP:  
TARGET GROUPS, GOALS AND INDICATORS

<u>TARGET GROUP</u>	<u>GOAL</u>	<u>INDICATOR</u>
RURAL POOR	rural poor chosen as beneficiaries	survey research showing targeting success*
	increased productivity and income	survey results showing increased income*
	sustained increase	survey results*, post-project surveys showing continuation of gains
LOCAL GOVERNMENT	increased planning capability	quality of planning documents: specificity, clarity, logic
	increased rural development management capacity	survey showing sub-project results*: improvement over time*, comparisons with other projects*, project reputation*
	increased administrative capacity	numbers of skilled staff, resources & levels of funding managed*
	sustained and widespread gains in institutional performance	support of successful PDP activities with local funds*, spread of successful practices to other projects and agencies*

ALL LEVELS	decentralization	increasing PDP funds allocated to district and lower levels* Other projects and development activities designed and administered locally*
CENTRAL GOVERNMENT#	capacity to monitor and support local government rural development efforts	numbers of trained personnel, review of policy decisions,

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#Not studied as a part of this evaluation.

\*Used as part of this evaluation.

#### SETTING PRIORITIES

Given the probability of short-term goal conflict, what was done to set priorities? Clearly the 1982 studies and project paper sent a strong signal that additional emphasis was to be given to developing institutional capacity and especially planning and management information systems. Various project studies, papers and conferences also tried to deal with questions about priorities. However, considerable latitude was left for individual provinces to set priorities for beneficiary selection and sub-project mixes that fit the regions' needs and desires. Further priority setting by the center would have run counter to the goal of encouraging decentralization and would have likely led to more consistency but less local innovation. PDP would have benefited -- from the beginning -- from greater effort to encourage provinces and districts to explain and justify their priorities and standards. Priority and standard setting exercises would have reduced waste and encouraged institutional learning while helping provincial and district governments to decide which sub-project activities and operating systems should be retained when project funding ends.

## WORKING ASSUMPTIONS AND STRATEGIES

Were goals achievable and assumptions and strategies reasonable? Table 2-2 suggests the major working assumptions that would need to be valid for PDP to achieve complete success. A number of those assumptions should have been in doubt when the project was designed. One key working assumption that was not initially valid was that local institutions had the absorptive capacity to make efficient use of the resources that PDP made available to them. However, most other assumptions were either initially valid or have been amenable to project intervention. Technical assistance, the development of planning and monitoring systems, training, and the provision of equipment have enabled local institutions to overcome many managerial and technical constraints that had restricted their capacity to efficiently use available resources and to effectively plan and manage rural development in ways that benefit the rural poor.

One working assumption that has clearly not been reasonable has been the optimism about bringing about sustainable institutional change in the normal lifetime of a donor-assisted project. The time frame in which PDP has operated may seem a long one from the point of view of a donor agency wanting to experiment and then move on to new and interesting activities BUT IT IS A VERY SHORT TIME SPAN from the perspective of widespread, sustained institutional change.

In evaluating PDP it should be remembered that the program is trying to influence a complex bureaucratic system part of which has been in place for several hundred years. Changes in the way levels of government relate to each other and in the ways that centralized agencies relate to local governments and to each other do not occur quickly. Furthermore, PDP had two very different target groups -- the rural poor and local governments<sup>3</sup> -- and a bundle of sometimes competing goals. PDP is a very

<sup>3</sup>. There were three, if you count, BANGDA, the Directorate General for Regional Development!

complex program, but it seems to have worked through many of the problems of goal conflict, unfounded working assumptions and alternative target groups that initially beset the project.

Much could have been gained by early and careful consideration of potential goal conflict, persistent efforts at clear and open priority setting, and attention to the working assumptions necessary for PDP to meet its goals.

At its core PDP should be viewed as an experiment in decentralization which provided district governments with the resources and skills to plan and manage rural development activities focused on increasing the income and productivity of the rural poor. Its successes in the field are considerable but they need to be examined and weighed against its weaknesses and the constraints it has yet to overcome. The rest of this report attempts to do that.

TABLE 2-2

## PDP WORKING ASSUMPTIONS

WORKING ASSUMPTIONSVALIDITY

That local institutions would be able and willing to identify an appropriate (poor) target group for assistance.

Considerable pre-project evidence to contrary. Project evaluations suggest high success in later project activities.

That local institutions would be able to identify development activities that would raise the productivity of the rural poor.

Considerable pre-project evidence to contrary. However, project experience, technical assistance and training greatly increased success.

That local institutions would be able to plan and manage development activities that would improve the productivity and income of the rural poor.

Considerable pre-project evidence to contrary. However, project inputs led to considerable success in later project years.

That productive opportunities for the rural poor introduced by PDP would be sustained by individual beneficiaries after project funds (and GOI support) ended.

There is very little evidence in the literature for or against long term sustainability of government introduced productive activities by the rural poor in Indonesia.

That local institutions would be able to efficiently use such project inputs as funds, equipment, training, and technical assistance.

There should have been considerable doubt about the initial absorptive capacity of local institutions. There is good reason to believe that the rush to reach the rural poor in early project years resulted in a number of poorly planned and executed sub-projects. However, there is considerable evidence for moderate to great improvement in most Districts.

WORKING ASSUMPTIONS

That technical assistance, training and development planning and management experience would increase the capacity of local institutions to make efficient use of available resources to raise the incomes of the rural poor.

That the increased capacity of local institutions to identify development opportunities and efficiently plan and manage development programs that benefited the rural poor would become institutionalized and would continue to have an impact after project support was withdrawn.

That the capacity of central government to monitor and support more decentralized planning and management of effective rural development programs would be increased.

That the project would result in greater support by sectoral agencies in Jakarta (and in the provinces) for decentralized, integrated rural development planning and management.

That local institutions would be willing and able to innovate: to attempt new sub-project activities and try new rural development planning and management processes.

VALIDITY

Considerable world-wide evidence. Comparisons of early and later year direct benefit projects suggest this is a valid assumption.

This assumption will need to be tested a year or more after project funding ceases. Local financing of PDP activities and replication of PDP processes for non-project activities by PDP and other agencies would seem to suggest that this assumption is valid.

This assumption was not explicitly studied as part of this evaluation. There is some supporting evidence to suggest that the Rural Development Directorate General's performance has improved. However, demands on institutional resources have grown apace.

This hinges on another assumption: that central and provincial agency executives are more concerned about income-generating activities for the rural poor than they are in institutional, sectoral and commodity concerns. The evidence is not clear.

This assumption seems to have been warranted. Of course the degree of innovation varied between provinces but there was considerable innovation.

### CHAPTER THREE

#### PDP'S IMPACT ON BENEFICIARIES

This chapter examines the impact of PDP on the individuals and families it was intended to help. It tries to answer the following questions about PDP and recipients of project assistance. Who was selected for assistance? Were they the rural poor? Did they have other qualifications or characteristics that made them an appropriate target group? How was selection carried out? How much did PDP beneficiaries gain from project intervention and what are the prospects for beneficiaries retaining or increasing the gains made under PDP? Wherever possible, these impact questions will be related to implementation issues. How could the selection process be improved and how could a higher rate of gain and of sustainable increased productivity be achieved?

The data for this chapter comes largely from a survey of beneficiary households conducted by Survey Research Indonesia in 1986. They interviewed 4517 recipients of direct impact sub-projects in all eight PDP provinces. There were 1449 direct impact sub-projects assisting more than 333,000 families between 1978/9 and 1986/7. The sample was stratified and weighted to reflect the mix of sub-projects across sectors, years and provinces. Only sub-projects which provided physical resources with a direct impact on target group productivity and income were studied. Beneficiaries of training projects were not interviewed unless their sub-project also provided resources or capital. The SRI survey included only beneficiaries of sub-projects funded between budget years 1978-79 and 1984-85.

One key area not studied as part of the household beneficiary survey and therefore not reflected in the following

beneficiary impact data is credit. As of March 31, 1987, PDP had provided nearly Rp 6,000,000,000 for credit programs. Data is not available on the total number of beneficiaries who have received PDP-assisted credit institutions it seems certain that credit has been extended for productive purposes (usually small industry or trade) to well over two hundred thousand households. Fragmentary evidence suggests that PDP's rural credit activities have been extremely effective at reaching rural women. For example, some West Nusa Tenggara credit units report that more than 75% of borrowers are women and units in several provinces report that women constitute approximately half of all borrowers.

Women play a major role in the rural economy of most of Indonesia's regions and are frequently under-represented as beneficiaries of project assistance or government extension programs so the credit program's imputed impact on women is reason enough to justify detailed study of the credit program's beneficiary impact and institutionalization. However, there are other reasons for studying the credit program. It has taken up a substantial share of both project resources and technical assistance and it initially resulted in large numbers of bad debts. Furthermore, the credit program in some provinces has looked sustainable enough to be taken over and expanded by another USAID project. In still other regions a number of healthy credit units have been created but the break-even point, where they could support the provincial administration required to oversee local units and provide the capital for expansion or the bailing out of failing or faltering units, has not been reached.

One study should examine how successful the program has been at reaching women and why. It would also be extremely useful to understand what socio-economic groups make up the bulk of recipients and what impact access to institutionalized credit has had on their income-producing opportunities and on employment and welfare in their home villages. We need case studies of who borrows, what factors determine whether they ask for and are granted a loan, and the impact of state-subsidized (or at least initiated) rural credit on the general availability of credit and

mobilization of rural resources for development. Another study might examine the technical side of credit. How many "healthy" units are needed to support a provincial credit infrastructure? How long must subsidies continue? What are the most effective incentive systems for maximizing good credit management by the credit unit employees?

## TARGETING AREAS

An obvious question about an area-focused rural development program aimed at assisting the rural poor to become more productive is how to determine the areas and individuals who will benefit.

Area selection took place at four levels: province, district, sub-district, and village. (PDP provinces and districts are shown on Table 1-1.) Area selection for PDP seems to have been made upon a basis of poverty, isolation and backwardness on the one hand and contiguity or ease of program management on the other.

PDP's selection of provinces includes three densely populated provinces on the island of Java with relatively well-developed infrastructure but very large numbers of poor people. It also includes two island provinces in eastern Indonesia (Nusa Tenggara Barat and Nusa Tenggara Timur) with poor communications, frequent food shortages and a mainly-poor rural population. The two PDP provinces on the island of Sumatra (Aceh and Bengkulu) and the province of Kalimantan Selatan, on the island of Borneo have comparatively low population densities, poor communications and a slightly higher standard of living than is found in the other five provinces.

One indicator of the suitability of PDP province selection from a poverty criterion is SUSENAS data showing the percentage of the population whose monthly expenditures were below Rp 10,000 (about \$9 in 1984 -- the most recent year for which SUSENAS figures are available). 32.2% of the Indonesian population spent less than this figure in 1984. 73% of these poor people resided in the eight PDP provinces. (There are 27 provinces in Indonesia.) Altogether there are just under 37 million people

living on less than Rp 10,000 per capita per month in the PDP provinces and they make up 37.3% of the population of those provinces. One can conclude that provincial selection was generally within the scope of the poverty indicator. The selection of the three provinces which have a higher than average per capita income (Aceh, Bengkulu and Kalimantan Selatan) is justifiable when one takes into account much higher transport and food costs in those provinces. My own estimate based again upon the 1984 SUSENAS is that per capita monthly receipts of nearly Rp 20,000 are required in those provinces to provide the same disposable income as Rp 10,000 per capita monthly income in the "poorer" provinces.

It appears that district selection was mainly on the basis of poverty, although communications and contiguity frequently played a role. The selection of contiguous districts, as occurred in South Kalimantan, Central and East Java, simplifies implementation and monitoring and reduces overhead costs. It also probably increases prospects for effective delivery of inputs and extension services and therefore for beneficiary gains and, given the wide availability of suitable beneficiaries, does not seem to have adversely affected beneficiary targeting.

Even when districts selected for PDP districts appear to be above average in wealth for their province, PDP tended to operate in poorer and more isolated sub-districts and villages. Sub-district selection seems to reflect poverty criteria but some sub-districts were clearly chosen because the provincial or district government wanted to give every sub-district access to PDP funds.

For most provinces there is not a good data base on which to make a judgement about the village selection process. Nor is the process of village selection very clear. Some provinces tried over several years to reach all villages in a sub-district. This clearly hampered efforts at providing sustained support for new income-generating activities which clearly needed follow-up extension services for several years. However in most cases the village selection process did not significantly weaken the effort by PDP to reach the rural poor.

While criteria for area selection were seldom explicitly stated or publicly discussed the selection of provinces, districts, sub-districts and villages does not seem to have adversely affected individual targeting. However, efforts to cover whole provinces, or to expand rapidly into new districts, sub-districts or villages may have had a negative impact on sustainability and on beneficiary gains.

#### TARGETING INDIVIDUAL BENEFICIARIES

PDP's direct impact sub-projects were aimed at the rural poor. Poverty is relative and two obvious questions in beneficiary selection are how do project managers determine who is poor and what other qualifications should beneficiaries be expected to meet?

Were beneficiaries poor? The SRI household beneficiary survey attempts to answer that question in a number of ways. First of all, it uses a list of possessions and asks how many of them beneficiaries own. Secondly, it asks how much pre-project net profit beneficiaries were earning from sub-project activity before PDP sub-project assistance started. Finally, it asks whether the beneficiaries were involved in the sub-project activity before the sub-project began (e.g. was a farmer raising cattle before a cattle fattening project began or was the family growing rice before a sub-project irrigated their field). Responses to these questions were pulled together in a three-part composite index which SRI used to assess success at targeting the poor.

The SRI measure understates targeting achievement because it counts as mis-targeted or doubtful all recipients who had been carrying out a project activity before the sub-project began. This logic is correct if the sub-project was providing cattle. Someone who owned a cow would not be poor in most of Indonesia. However, a farmer who grew rice on a small un-irrigated plot of land and was a beneficiary of a share in a water-pump or access to a small-scale irrigation project would INCORRECTLY be counted

as too wealthy to be part of PDP's target population because he owned a minuscule rain-fed plot which PDP allowed him to water.

I think the possession indicator alone is a better measure of poverty.<sup>1</sup> It shows that only 12% of beneficiaries owned eleven or more of a list of seventeen consumer goods used by SRI to measure relative wealth. The list starts with low prestige items like toothpaste, mattresses, and wooden chairs and tables and progresses to more prestigious goods like bicycles, cassettes, television sets and motorcycles. 33% of beneficiaries possessed 7-10 of these items and 56% possessed six or less of the seventeen items on the scale. The upper 12% could include some people who do not own a tv, motorcycle, sewing machine, or cassette recorder. Therefore one has to be careful about labelling even this 12% as clearly outside the target group.

My own estimate -- based upon extensive reading of the literature on rural poverty and inequality in Indonesia -- is that the SRI possession index suggests that between 56% and 88% of PDP beneficiaries are from the low-income group (bottom 50%) in their province.<sup>2</sup>

Most social science researchers familiar with rural Indonesia would argue that any government program approaching that rate of success in targeting poor people should be counted as successful.

Were other explicit selection criteria important? The SRI survey asked sub-project managers and village heads that question. More than 50% of project managers and village heads stated that prior beneficiary experience in the sub-project activity and "willingness" to be involved were factors in the selection process. Particularly, in small industry projects (in which villagers were assisted to begin or expand cottage

1. Although, it would have been better still to calculate separate possession indexes for each province taking into account local patterns of wealth and cultural preferences.

2. For example, the SRI survey shows that beneficiaries have an average educational level of 4.1 years and 66% are literate in the national language. These figures do not indicate above-average wealth. In 1980 the national average for educational attainment was approximately 4.8 years and for literacy was 71%.

industry) experience seems to have been a more important selection factor than poverty. Evidence on beneficiary gain and sustainability indicates that this decision to give priority to experience was justified. Gains and sustainability were both greater when beneficiaries had prior experience. Also, a number of PDP sub-projects provided increased employment opportunities and presumably increased incomes to many indirect beneficiaries. Small industry and small scale irrigation project beneficiaries were better off than recipients of assistance in other sectors but their enterprises or increased agricultural production may have improved the welfare of many villagers who were not direct FDP beneficiaries. This indirect impact deserves further study.

#### THE BENEFICIARY SELECTION PROCESS

While success at targeting the rural poor has been high and seems to have improved over time (the percentage of people with eleven or more of the seventeen items on the SRI scale of possessions declined from 12% in early project years to 9% in the last years studied), there are two related weaknesses in the process. The first is lack of clear, explicit -- locally derived -- standards. The second is over-reliance on the village head for selection.

In most provinces there seems to have been no effort to establish verifiable criteria that would determine who was eligible for PDP assistance and who was not. It was deemed sufficient to state that PDP beneficiaries should be poor and-- in most cases -- that they should be potentially productive. (This generally seems to have been taken to mean that they should not be so poor that any assistance would be used to purchase food for consumption.)

In the absence of clear criteria, BAPPEDA or dinas officials responsible for sub-projects usually either selected beneficiaries from a list created by the village head or simply accepted the village head's list.

There is considerable literature on the use of control over allocation of development resources by village heads and other lower level government and village officials to reward family and

friends. It is important therefore to note that we have no data that suggests that opportunities for nepotism seriously interfered with the flow of PDP assistance to the rural poor. It may be that, given a large pool of relatively poor people, village officials selected friends, neighbors and relatives who were also poor. But even this is only conjecture. The interesting point is that even in the absence of clear and precise guidelines, district and village officials largely met poverty-oriented targeting goals.

However, improvement in the beneficiary selection process in FDP or other similar programs should not be difficult. Such a process might be improved in two ways. First of all, provinces and districts should be allowed to draw up simple, verifiable criteria which identify the people they desire to assist. With the assistance of a competent rural sociologist or economic anthropologist, easily-usable target group identification lists could be created in a short time.<sup>3</sup> Local officials should have to defend those criteria to provincial and sometimes central government officials.

Secondly, where sub-projects require special skills or conditions, these should be stated. The decision to carry out "exceptional" sub-projects needs to be openly discussed and justified. Similarly, the selection of beneficiaries who do not meet poverty criteria needs to be weighed against other program goals. For example, beneficiaries of small industry assistance projects are usually comparatively well-off. The selection of small industries as a sub-project activity would need to be defended on the grounds that it would provide employment to other poorer villagers. The important task is to identify clear, rational criteria for beneficiary and sub-project selection.

Thirdly, an effort should be made to reach beyond the village head and his network in the beneficiary selection process. This was done -- to an extent -- in Central Java and Nusa Tenggara Timur by using a village committee of five, in the

<sup>3</sup>. Such a process was developed by LGT-II -- a USAID-supported program to train local government officials in regional planning techniques and has been taught to many district planning officials. However, it has not been used by PDP.

former case, and specially trained village cadre in the latter case. LKMD -- Village Community Resilience Institutes -- are supposed to be involved in beneficiary selection but there is little evidence that they frequently play an independent role or speak for non-elite villagers.

In Indonesia, as elsewhere, the greatest success at motivating villagers to express their needs and desires and to make decisions rather than wait for instructions from above has come through the use of NGOs. Moving beyond bureaucratic decision-making about who is poor, who is an appropriate beneficiary, and -- most importantly -- what form of assistance will be provided, takes time and patient effort. PDP has in many places reached a level of participation where the rural poor do feel that they have an interest in supporting what is ostensibly being done for them. (AND IT SHOULD BE POINTED OUT THAT THIS IS AN IMPORTANT STEP FORWARD) It has not, anywhere, it seems, reached a stage where willing and needy beneficiaries largely select themselves and participate in sub-project design. Beneficiary selection has been successful. This additional effort in the selection process would further increase project benefits and sustainability.

#### BENEFICIARY GAINS

PDP efforts to increase the productivity and income of the rural poor encountered a number of obstacles, environmental, human and institutional. Before discussing the value of those gains and their significance for project beneficiaries it would be useful to quickly review some of those constraints.

PDP operates in provinces, districts, sub-districts and villages with a high level of poverty. Often there are environmental or physical elements which underlie that poverty. Two of PDP's provinces have long dry seasons and frequent drought. Five of the provinces suffer from poor communications which makes it difficult to supply government services, provide project inputs or market products. Some PDP districts were chosen because they are in flood-prone areas. In these areas

project gains can be wiped out by one natural disaster.

Poor villagers often have low skill levels, low levels of literacy, little self-confidence, and little experience at planning and managing the application of agricultural inputs or the allocation of their own labor. In a number of PDP provinces the population density level is high. The opportunities for finding economic activities that yield more than modest rates of return for labor are limited.

Institutionally the local government agencies and provincial and district technical agencies (dinas) began with little program experience and practically no experience at creating or assessing productive opportunities for the poor. Frequently, in poor provinces and districts technical agencies are weak. Because the local economy does not allow much opportunity to raise government revenue they tend to be starved for funds for personnel, travel expenses or equipment. It is also common for them to be staffed by less well-educated and well-connected officials. More highly educated officials are often able to arrange assignments in a more comfortable and less difficult setting. Finally, these institutions are operating at a handicap in poor regions because roads are bad or non-existent and they lack land or sea transport.

Despite those constraints beneficiary gains were surprisingly large, though they varied considerably between provinces and across sectors. The average annual real (controlled for inflation) net gain for all beneficiaries was Rp. 65,000. It varied from Rp 31,000 in East Java to Rp 123,000 in South Kalimantan and from Rp 39,000 in the food crops sector to Rp 178,000 in the small industry sector.<sup>4</sup>

If the assumption is correct that most FDP beneficiaries have household per capita expenses and earnings of 6,000 to 10,000 rupiah per month (and average household size is about five) then this amounts to between 11 and 18% real (not

It should be pointed out that per beneficiary costs were higher in provinces and sectors with higher rates of return. More data would be required for satisfactory provincial and sectoral comparisons of cost-benefit ratios.

inflationary) annual increase in average household income!

We have no comparable data for changes in non-beneficiary income over the same period. However the SRI survey did ask beneficiaries, non-beneficiaries and village heads how they thought beneficiaries' incomes had changed relative to non-beneficiaries. 65% of beneficiaries, 72% of non-beneficiaries and 62% of village heads thought that beneficiaries incomes had improved relative to non-beneficiaries. Only 1% of beneficiaries, 5% of non-beneficiaries and 1% of village heads thought that beneficiary incomes had declined relative to non-beneficiaries. This subjective data would seem to confirm the conclusion that at least moderate and perhaps substantial gains were made by most recipients of PDP assistance.

#### VARIATION IN GAINS

It is important for future efforts in raising the incomes of the rural poor to understand what kinds of activities are successful and what conditions make them successful. This section can only explore some of the more obvious conclusions about sectoral and environmental differences. One recommendation of this evaluation is that provincial and district project leaders and planning officials be asked to estimate beneficiary gains for their projects, to compare those subjective findings with beneficiary statements about their gains as stated in the SRI survey and to state why they think some sub-projects had higher gains for beneficiaries than others. The goal of this exercise would be a list of locally successful projects for possible emulation elsewhere and consideration of whether greater beneficiary gain or some other possible goal (i.e. selection of poorer participants) is more important locally and nationally.

One way to understand variation in net gain by sector is to compare sectors with either very high gains or no gains at all. (See Table 3-1 below) Two sectors -- irrigation and small industry -- had high percentages of beneficiaries reporting gains of more than 60,000 rupiah. Three sectors -- fisheries, livestock and small industry -- reported high percentages of beneficiaries with no gains.

TABLE 3-1

## AVERAGE ANNUAL NET GAIN BY SECTOR

SECTOR	% WITH ZERO EARNINGS	% WITH > 60,000 RUPIAH EARNINGS
FISHERIES	40%	9%
LIVESTOCK	30%	24%
IRRIGATION*	7%	58%
SMALL INDUSTRY	31%	47%
FOOD CROPS	14%	19%
ESTATE CROPS	17%	22%
PROJECT AVE.	23%	24%

\* Small-scale irrigation and water pump projects.

The data suggests that irrigation and small industry were more likely to generate high rather than low or zero profits. Livestock and fisheries projects generated a higher failure rate although fisheries sub-projects were much more prone to generate zero income. Small industry combined a higher than average failure rate with a high percentage of beneficiaries reporting a very high rate of returns.

One way to examine comparative gain is to eliminate from our comparison those who reported no gain and only report the average gain by those who reported a profit from the sub-project. (See Table 3-2 below)

TABLE 3-2  
 AVERAGE ANNUAL NET GAIN  
 (BY THOSE REPORTING A PROFIT)

SECTOR	(RUPIAH)
FOOD CROPS	45,000
ESTATE CROPS	55,000
LIVESTOCK	89,000
FISHERIES	72,000
IRRIGATION	108,000
SMALL INDUSTRY	258,000
PROJECT AVERAGE	84,000

As can be seen in Table 3-2 the small industry sector has an average gain by those reporting a profit nearly three times the project average. Irrigation and livestock both have average gains by those reporting a profit slightly above the project average.

There seems to be good grounds for concluding that small industry was successful at increasing beneficiary gains despite its rather high rate of business failure. Irrigation rendered an above average gain with a relatively low failure rate. Livestock managed a slightly above average rate for those farmers who reported a return. However, it also had an above average failure rate. Fisheries reported below average gains even for the 60% of beneficiaries who managed to make a gain. It also had the highest failure (zero gain) rate (40%) of any project activity. Fisheries is clearly the most dubious sector for project achievement. It combines a low rate of targeting success, with a high failure rate and a low average gain rate even if we exclude

those who made no gain.<sup>1</sup> However, one should note that fish ponds did better than sea fisheries sub-projects, especially in provinces with substantial water resources, like West Java. The food and estate crops sectors reported a relatively low rate of gain by gainers but had a failure (zero gain) rate well below the project average. The estate crops sector may report a greater gain in the long term because almost all tree crops take several years to reach a high yield.

Why did some sectors have higher rate of return to beneficiaries than others? Why did some sectors have high rates of beneficiaries reporting zero gain?

A definitive answer to those questions would require data that is not yet available and analysis that is not possible in this project evaluation report. This evaluation recommends an effort to systematically analyze why some sub-projects had high rates of average gains and why others (and sometimes the same types of sub-projects) had high rates of beneficiaries reporting zero gain.

Some clues about variations in gains are available from existing data and they are interesting in thinking about which project goals should have priority. Both small industries and irrigation -- the two sectors with well above average gains-- had high rates of beneficiaries reported to be as well off or better off than their fellow villagers.<sup>2</sup> Partly, this is because machines and cement -- often the principal inputs in these sectors, do not die before or just after they are delivered, while the high mortality of seedlings, fish and livestock cause a lot of beneficiary failures.

It should also be noted that data from elsewhere in the Third World suggests that it is more difficult to find project activities which raise the incomes of poor people than it is to raise the incomes of somewhat better off people. It may well be that there is a trade-off between targeting success and the

<sup>1</sup>. Only 17% of fisheries project beneficiaries reported no problems with their project activity. 26% reported water supply was a problem and 30% reported that their fish died.

<sup>2</sup>. SRI Survey, page 59. The report was by village heads.

amount of gains generated. Both this sectoral and other data suggests that project activities which targeted poorer people tended to produce lower -- though still substantial -- levels of economic gain. Donor and Indonesian government officials may have to decide whether maximizing economic benefits or maximizing success at reaching the rural poor should take priority.

Another interesting conclusion is that beneficiaries who were given project assistance to continue an activity reported a greater average gain and a lower failure (zero gain) rate than those who were given assistance to initiate a new activity. (See Table 3-3) Both irrigation and small industry had a large percentage of beneficiaries who had experience in the income-earning activity before receiving project assistance. Irrigation or water project beneficiaries had experience growing crops (usually rice) but now had better water control and increased their yields. Small Industry beneficiaries usually had business experience and received additional capital and/or training in production or marketing and frequently reported large increases in income.

TABLE 3-3

## AVERAGE ANNUAL NET GAIN

GAIN	BEGINNING A NEW ACTIVITY	CONTINUING ACTIVITY
ZERO	26%	18%
> 60,000 RUPIAH	22%	25%
AVE. GAIN	56,000 RUPIAH	80,000 RUPIAH
AVE. GAIN BY THOSE REPORTING A PROFIT ONLY	76,000 RUPIAH	98,000 RUPIAH

Provincial variation in gains also reveals some interesting conclusions. Greatest average gains by those reporting a profit were in the three wealthiest PDP provinces: Aceh, Bengkulu and Kalimantan Selatan. (Aceh also had a much higher than average failure rate. 51% of PDP beneficiaries there reported no gain, compared to a 23% average for the project.) It may be that in these better-off, less densely populated provinces it is often easier to find sub-project activities that can greatly increase the incomes of poor people.

Provincial average gain was less in the less well-off provinces although in Nusa Tenggara Barat and Nusa Tenggara Timur it was above the project average. It is important to remember that in the poorer PDP provinces a smaller absolute gain in income provides a greater real gain in buying power for the rural poor than it would in the three better-off provinces. This is so because food, transport and most other costs are higher in the better-off less densely populated islands.

## SUSTAINABLE GAINS

One project goal is sustained increases in the productivity and income of the rural poor. It is hoped that long after the project funding is terminated beneficiaries will go on increasing their income. It is not possible at this early stage to be certain about whether beneficiaries will continue to benefit from income-generating activities supported or introduced by PDP. It is only possible to anticipate sustainability. These assumptions and projections should be tested by field investigations two or three years after project support has ceased.

The SRI survey used a composite of three measures to conservatively estimate the likelihood that beneficiaries will be able to sustain economic activity made possible by PDP sub-projects. One test of sustainability is to ask beneficiaries whether they are continuing to carry out the project activity. When asked this question 24% of beneficiaries reported that they had stopped the activity. 7% of all beneficiaries stopped immediately upon receipt of the assistance and 17% had stopped after some time. 76% were continuing or had recently begun the activity.

A second test of sustainability is net gain. One assumes that those making a high net gain will continue an activity while those making a low gain or no gain at all are likely to stop. The question, of course, is what should be the cut-off points. How much of a net gain is likely to ensure continued beneficiary interest in continuing an activity? SRI concluded that Rp. 100,000 was high and was likely to ensure sustainability and that less than Rp. 30,000 was low and made sustainability doubtful.<sup>3</sup> 64% of beneficiaries reported annual real earnings in excess of Rp. 30,000.

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<sup>3</sup>. A more useful figure would be weighted for the average income and/or cost of living in each province. 30,000 rupiah per year represented a small increase in income in some provinces and a much more substantial one in others.

A third test was to ask beneficiaries if they expected to continue the activity after project assistance stopped. Only 1% of recipients (who had not already stopped) suggested that they planned to stop.

SRI's conclusion using the three tests was that 30% of beneficiaries will not continue the activity and another 24% are of doubtful sustainability. This leaves 46% as very likely sustainable. Conclusive estimates of the percentage of beneficiaries likely to sustain their income-earning activity requires some basis for estimating the percentage of beneficiaries of doubtful sustainability who will continue the project.

There is not enough firm data to make a reliable estimate. However there are some useful pieces of the puzzle. 8% of beneficiaries -- classified as doubtful -- had just started the activity and a large percentage of beneficiaries in the doubtful sustainability category are in the estate crop sector where gains may take several years to occur. It is also important to note that the SRI survey showed a decline in the percentage of beneficiaries who stopped the activity from 17% in the first years of the project, to 10% in the middle years assessed, to 2% in the last years studied. This leads to a very rough estimate that at least half of the doubtfuls will prove sustainable.

These figures yield an estimate of sustainability for sub-project beneficiaries of 1984-85 or earlier budget year sub-projects of 58%. However, the improved figures for the 1983-85 budget years are under-represented and later years are not represented at all. One might project a figure on the order of 70 to 80% for later project years and 65 to 75% for the life of the project.

How should one assess this level of achievement? PDP was meant to be experimental. If it had limited itself to proven activities and "safe" recipients higher gains and greater rates of sustainability would have been likely. Given the experimental nature of the program gains and prospects for sustaining them seem to be significant.

## FACTORS AFFECTING SUSTAINABILITY

It should be noted that immediate cessation of a sub-project activity or cessation after time -- while PDP was still active in the area -- accounts for 80% of anticipated unsustainable beneficiary gains. Immediate cessation accounts for about 22% of anticipated unsustainable beneficiary activity. This would seem to indicate that selection of sub-projects or implementation by government agencies is a greater problem than selection of beneficiaries or willingness of beneficiaries to persevere with the activity.

This conclusion that institutional rather than beneficiary performance is the crucial variable in explaining lack of sustainability is supported by the evidence that the cessation rate fell from 17% in early project activities to 2% in the last years studied. Early institutional problems included budget delays which caused out of season delivery of seedlings and vital inputs as well as the delivery of dead and diseased animals and seedlings. Lack of availability of necessary inputs (hybrid seeds, fertilizers, medicines, etc.) and lack of markets also contributed to beneficiary failures. Over time local dinas and BAPPEDA got better and delivering appropriate packages and services and considering economic and technical constraints. As institutional performance improved the beneficiary cessation rate dramatically declined. More will be said about changing institutional capacity in the following chapter.

CHAPTER FOUR

PDP'S IMPACT ON LOCAL INSTITUTIONS:  
BUILDING INSTITUTIONAL CAPACITY

This chapter examines the impact of PDP on the provincial and district institutions it was intended to assist. It focuses on the forging of local institutional capacity to plan and manage rural development that benefits the rural poor. Its coverage is necessarily broad. After a background discussion of what constitutes institutional capacity, pre-existing constraints to local institutional performance and the resources which PDP could bring to bear on those problems the chapter presents key indicators of increased local rural development planning and management capacity.

These indicators include improved performance (measured by success at project beneficiary goals over time), increased capacity for decentralization (indicated by quantity and quality of organizational resources, organizational reputation and changing local absorption of project resources), institutional learning (demonstrated by changing institutional practices), and institutional innovation (marked by system-building changes designed to overcome institutional weakness or by novel approaches to meeting community needs.)

Discussion of PDP's anticipated sustained institutional impact -- the institutionalization of new activities and improved levels of performance brought about by PDP and of spread effect (the dissemination of PDP practices and programs beyond project boundaries) will be found in chapter five.

**WHAT IS INSTITUTIONAL CAPACITY?**

Despite a considerable literature on the topic -- some of the best done as part of studies of PDP -- institutional capacity

remains a rather nebulous concept<sup>1</sup>. The problem is that institutional capacity consists of three elements: resources, structure and behavior. While it is often possible to measure organizational resources -- to count how many personal computers, vehicles or typists an organization possesses. It is not so easy to quantify or precisely assess skills, structures or behavior. We can inventory how many people have done planning courses or obtained university degrees, but we can not easily count or compare levels of planning skills or local knowledge.

Most experts would agree that an organization's structure-- its personnel system and incentive system -- are key ingredients in determining its "productivity". However, few would agree on what constitutes an ideal structure for attaining a particular set of development goals. And few governments find it easy to drastically modify bureaucratic structures to promote goal achievement. Behavior is perhaps the most curious element of institutional capacity. It is through an institution's behavior (over time) that it demonstrates its real capability. However, more effective organizational behavior is not simply a product of increased resources and improved structure. Organizational behavior is an accumulation of inter-personal relations that may reflect changing self- and organizational-images and changing community attitudes and expectations as much as it does organizational resources or structure. Short term successes or failures in improving organizational performance may also hinge on key individuals who can overcome institutional barriers or who can effectively block goal achievement. The result may be that at any particular time there is a poor correspondence between institutional behavior and capacity.

Still, institutional performance is the best measure we have of capacity and it is fortunate that in the PDP case we have some evidence for assessing the success of PDP institutions in achieving project goals. PDP's intent was to make local planning boards and local government agencies more capable of planning, implementing, monitoring, evaluating and modifying activities that would raise the productivity and incomes of the rural poor.

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<sup>1</sup>. Honadle 1979, 1985; Van Sant et al 1983.

There is data on institutional success at targeting the poor, at implementing sub-projects that provided gains to the local poor and at providing opportunities for sustained gains by rural poor beneficiaries. There is some evidence for change over time in each of those three variables. There is also data comparing direct project costs to direct project benefits. Beneficiary impact data provides some basis for grounding conclusions made from more indirect evidence about growth in institutional capacity.

#### INSTITUTIONAL CONSTRAINTS AND RURAL DEVELOPMENT

It seems useful to begin a discussion of institutional capacity-building by asking, firstly, what was institutional capacity like when PDP was introduced and, secondly, what resources could the project provide to overcome institutional constraints?

These questions should focus on district level planning boards and district government agencies because that is the level at which most of PDP's activity has taken place.<sup>2</sup> Institutional constraints applying to provincial development boards and sectoral agencies and Bangda (the Regional Development Directorate-General of the Home Affairs Department) will be considered only briefly.

It should be noted that regional (provincial and district) planning boards which were assigned a major co-ordinating role in PDP were new institutions. Provincial planning boards were formally established in 1974 and district planning boards in 1980. After that date district governments began recruiting staff,<sup>3</sup> establishing offices, providing equipment and establishing the role of these agencies. The pace of growth--in resources and responsibilities--of these planning boards varied greatly from province to province and from district to

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<sup>2</sup>. Except for Central Java which has organized most project activity at the sub-district level.

<sup>3</sup>. West Java and some other provinces had initiated District Planning Boards in the mid-1970s.

district. It depended on the enthusiasm of the governor or district head for development planning, local funding and the availability of qualified personnel.<sup>4</sup>

PDP placed a heavy administrative burden (meeting GOI and USAID reporting requirements as well as development planning and management responsibilities) on new, under-staffed and under-equipped institutions whose role in co-ordinating local development was usually undefined and often poorly understood. A typical district planning board in the first years of PDP had one or two ancient typewriters, no filing cabinets, cramped office space and inadequate furniture. For travel to project sites or provincial offices it frequently had to ask another section of local government for a vehicle. Furthermore, its staff often lacked the skills needed to complete or evaluate GOI project proposals, conduct planning activities or report findings. Finally, district heads and local heads of sectoral agency offices often did not understand the planning board's function and therefore failed to respond to its request for information, funds or co-operation.

While district planning boards were supposed to oversee and co-ordinate PDP rural development activities, local technical agencies or branches of central and provincial departments were expected to implement PDP sub-projects (in addition to their normal range of sectoral projects) and provide local planning agencies with the technical skills they lacked. Most of these technical agencies had little or no experience in planning and managing rural development projects. They also had few staff with technical expertise and shortages of administrative skills and equipment.

PDP thus began its efforts to bring about rural development that would directly benefit the rural poor under difficult

Across Indonesia district planning boards remain under-staffed, often with half or less of their authorized staffing level and with three or fewer tertiary-trained officials. In PDP and other provinces where integrated rural development programs are operating planning boards have generally acquired more staff and more tertiary educated officials.

conditions. The program relied heavily on relatively new District level institutions with little experience in development or in working with the rural poor and with few resources or technical skills. It was hoped that training, development planning and management experience and technical assistance could overcome those obstacles.

At the provincial level constraints were slightly less severe. Provincial planning boards were established a few years earlier and so had time to develop skills and establish relations with other agencies. They also found it easier to recruit more qualified staff because they were located in provincial capitals. Frequently they came to rely on the provincial university as a source of additional talent and information. Many, but by no means all, provincial technical agencies (dinas) and branches of central government departments (kanwil) controlled considerable financial and human resources. A majority also had some technical capabilities and project management experience. However, few had experience at small-scale projects intended to directly benefit the rural poor.

At the national level PDP was intended to make the central government more capable of promoting and supporting local development. Initially PDP was implemented by PUOD (the Directorate General for Regional Autonomy and Administration) of the Department of Home Affairs.<sup>2</sup> Here too PDP was working with a new institution with little or no project management experience. Home Affairs, the department in which PUOD and BANGDA are located had -- for decades -- been primarily concerned with administration and internal security. The interest in rural development expressed by the establishment of BANGDA was not immediately matched by an understanding of what was best done by the central government and what was best left to the provinces and districts. It would take time to establish a development planning, management and evaluation system.

In 1981 the directorate within PUOD responsible for the administration of PDP became a Directorate-General, BANGDA (the Directorate-General for Regional Development of the Home Affairs Department). Responsibility for implementing PDP was transferred to the new Directorate-General.

At every level co-ordination was likely to be a problem. Planning boards were new institutions responsible to BANGDA and also to the national planning board (BAPPENAS) which is an independent statutory agency. Indonesian sectoral agencies no less (and probably no more) than technical agencies in other countries were inclined to jealously guard control over their work area. They often viewed provincial and district planning boards as trespassers operating outside their area of expertise. In early years the lack of technical skills, especially in district planning agencies, helped to confirm this view.

## PROJECT RESOURCES

Ranged against that formidable array of constraints and institutional problems PDP had a limited arsenal of resources for bringing about institutional change. The project provided funds which could be used to purchase various institutional resources, technical assistance which could be used to transfer ideas and skills to local institutions, and an institutional incentive system (disbursement and reimbursement) which could be used to reward institutional innovation and improved performance.

GOI and USAID funds made experimentation and institutional learning possible. Without those funds and without some trial and error local institutions could not have gained the rural development planning and management experience that was an essential part of building institutional capacity. Project funds also paid for office equipment and vehicles that local planning offices and local dinas needed to achieve project goals. Those funds were also used to provide incentive payments to staff for additional project responsibilities.\* Finally, funds were used for training activities and for co-ordination meetings that allowed project staff to acquire skills and experience expected

The impact of the incentive system on prospects for sustained gains in institutional performance is discussed further in the following chapter.

to lead to increases in institutional capacity.<sup>7</sup>

Technical assistance provided local institutions with ideas for innovative sub-projects and support for acquiring planning and management skills as well as planning, monitoring and system-building techniques. They also provided on-going and intensive practical, on-the-job training. Most importantly, they also functioned as a source of informal communications between regions and between the center and the provinces.<sup>8</sup>

The GOI disbursement and USAID reimbursement system could have been used more effectively as an incentive system to encourage improvement in institutional performance. This was not well done. There was no linkage between reimbursement performance and subsequent funding.<sup>9</sup> Still, the reimbursement monitoring process -- in which a central government team, consultants, and USAID staff visited completed projects -- did provide opportunities for local institutions to consider project goals and evaluate their own institutional performance in pursuit of those goals.

#### IMPROVED INSTITUTIONAL PERFORMANCE

Institutional performance is our surest indicator of institutional capacity. While at any one time an institution's performance may suggest more or less capacity than an institution actually possesses in the long run we expect institutional performance to approximate capacity. Individual achievement or obstruction, local economic or environmental problems, or even the short term application of funds or technical assistance may temporarily affect performance but in the long run individual and special factors are likely to balance each other out. This is especially the case when a project operates with so many discrete and distant local units.

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<sup>7</sup>. The impact of training is also discussed in the following chapter.

<sup>8</sup>. The importance of technical assistance for sustainability will be discussed in the following chapter.

<sup>9</sup>. This is discussed in Chapter 5.

FDP-assisted institutions have a wider range of objectives than the pursuit of project goals. However, the achievement of project goals and improvements in the rate of achievement over time are good indicators that an institution has become more capable. The SRI survey of beneficiary households provides some useful data about changing institutional impact between early project years (1978-81) and recent project years. (1983-85).<sup>10</sup>

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TABLE 4-1  
CHANGES IN INSTITUTIONAL PERFORMANCE  
ACHIEVEMENT OF PROJECT GOALS OVER TIME

<u>GOAL</u>	<u>1978-81</u>	<u>1983-85</u>
SUCCESS AT TARGETING THE RURAL POOR	65%	82%
AVERAGE ANNUAL NET GAIN (BY BENEFICIARIES) <sup>11</sup>		
LOW = less than Rp. 20,000	64%	37%
HIGH = more than Rp. 60,000	16%	30%
BENEFICIARIES ABLE TO SUSTAIN GAINS AFTER PROJECT SUPPORT STOPS <sup>12</sup>	56%	89%

<sup>10</sup>. These are GOI budget years. Actual implementation frequently occurred 12 months or more after the beginning of the budget year. There is the most recent project data available.

<sup>11</sup>. These figures have been deflated for inflation and represent real net gains in income.

<sup>12</sup>. This figure is obtained by excluding all beneficiaries who had stopped project supported activity immediately upon delivery of project assistance or who had ceased at some later time as well as all beneficiaries who expected to stop.

Project success at targeting the rural poor (as measured by three indices of poverty) improved from 65% in early project years to 82% in recent years. Average annual net gain by recipients of project assistance also increased. Those showing a gain of Rp. 20,000 or less<sup>13</sup> declined from 64% to 37%. Beneficiaries reporting a gain of Rp. 60,000 or more increased from 16% to 30%. Projected sustainability of beneficiary gain also improved. 44% of beneficiaries in early project years either had ceased the productive activity made possible by the project or expected to do so. Only 11% of recipients of project assistance in more recent years had stopped their project-related economic activity or expected to stop. Projected sustainability improved from 56% to 89%.

These figures demonstrate growing success by PDP target institutions in achieving project goals. The SRI survey indicated a number of reasons for the cessation of project activity by beneficiaries. Major reasons for failure included crop failure or livestock death, late release of budget, shortages of dinas personnel, unavailability of inputs, delivery of inputs in the wrong season, lack of markets, inadequate beneficiary training, and expropriation of the crop by the technical agency concerned. All of these are areas where increased institutional skills and resources and an improved attitude toward the delivery of public services could be expected to have a positive impact. The decline in the number of beneficiaries who stopped an activity immediately from 83% in the 1978-81 period to 3% in the 1983-85 period is also an indication that PDP institutions were becoming more capable. It seems almost certain that beneficiaries who stopped an activity immediately did so because the institution concerned had delivered inferior or inappropriate stock<sup>14</sup> or chosen the wrong beneficiary.

As I have stated, institutional capacity is difficult to define and harder to measure. Project-related performance

<sup>13</sup>. This includes those who made no gain or reported a loss.

<sup>14</sup>. For example, dead, sick or infertile animals and dead or low yielding seeds or seedlings.

data indicates significant improvement in results. Without that data it would be impossible to make any conclusive statements about changes in institutional capacity.<sup>19</sup> Other more indirect evidence will be needed to determine in what ways institutions have become more capable.

#### INCREASED LOCAL RESOURCES AND RESPONSIBILITIES

If FDP is meant to make local government more capable of rural development planning and management we need to look for signs that funds, resources, skills and responsibilities have flowed to local planning boards, district and sub-district government and dinas. If we can demonstrate that the devolution of resources and authority to local government has occurred without a decline in the rate of achievement of project goals then decentralization has been successful and a case can be made for further steps in that direction.

There are a number of indicators of decentralization of project (and other) resources and responsibilities to local government. Some are objective and some subjective. First, we can discover whether the share of project funds controlled by district (and in one case lower level) governments has increased over time. Secondly, we can ascertain whether project-assisted local governments have gained organizational resources (equipment, personnel, and skills). Thirdly, we can assess changes in institutional and professional attitudes toward project-assisted provincial and local planning boards and government agencies. We want to know whether these local institutions are seen by those they work with both in the region and at higher levels as increasingly competent.

Project management did tend to devolve from provincial to district level. This can be demonstrated in two ways: the rising share of total FDP spending managed at or below the district level and the rising share of direct beneficiary sub-projects administered at the district level. The first indicator includes

<sup>19</sup>. Whether those gains are likely to be sustained is a crucial question. It is discussed in the following chapter.

credit, training, administration and evaluation activities, many of which are more efficiently managed in the provincial capital. As Table 4-2 shows, the share of PDP funds administered at or below the district level increased in five provinces and decreased in three provinces between the first and last periods of project activity measured. However, the average increase in the five provinces was 21%, while the average decline in the other three provinces was 7%. The provincial average in the 1978/9-1982/3 period was 64.2%. In the 1983/4-1986/7 period it was 74.7%.

Table 4-3 shows the share of PDP direct-beneficiary projects administered at or below the district level. Six provinces increased their share of funds managed at the district level while the other two declined less than 1%. The average for the 1978/9-1982/3 period was 78.4%. In the 1983/4-1986/7 period it was 90.1%. In the latter period five provinces had more than 90% of their direct beneficiary sub-projects administered at or below the district level and two West Java and South Kalimantan -- had 100%.

In one province, West Nusa Tenggara, the share of project funding managed by district level agencies increased from 34.7% in 1980-81, to 53.9% in 1983-84 and to 76.0% in 1986-87. This increase in the share of project funds managed at the district level is remarkable because the province allowed district managed funds to grow to 3.5 times its 1980 level by 1986 while provincially administered funds were reduced by almost 50%! This decentralization of management indicates growing confidence in lower level institutional capability.<sup>16</sup>

<sup>16</sup>. Though central and donor pressure for devolution of financial management was also a factor.

TABLE 4-2

PERCENTAGE OF ALL PDP SUB-PROJECTS  
ADMINISTERED AT OR BELOW DISTRICT LEVEL

<u>1978/9 - 1982/3</u>		<u>1983/4 - 1986/7</u>
45.7 %	ACEH	85.4 %
54.7 %	BENGKULU	65.3 %
87.2 %	W. JAVA	84.9 %
62.3 %	C. JAVA	76.5 %
87.7 %	E. JAVA	79.8 %
79.8 %	S. KALIMANTAN	66.4 %
45.7 %	W. NUSA TENGGARA	64.9 %
51.1 %	E. NUSA TENGGARA	75.0 %
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64.2 %	PROVINCIAL AVERAGE	74.7 %

TABLE 4-3

PERCENTAGE OF ALL DIRECT BENEFICIARY  
SUB-PROJECTS ADMINISTERED AT OR BELOW THE DISTRICT LEVEL

<u>1978/9 - 1982/3</u>		<u>1983/4 - 1986/7</u>
79.9 %	ACEH	79.3 %
73.2 %	BENGKULU	91.7 %
98.1 %	W. JAVA	100.0 %
82.4 %	C. JAVA	96.1 %
96.0 %	E. JAVA	95.7 %
88.3 %	S. KALIMANTAN	100.0 %
52.0 %	W. NUSA TENGGARA	77.5 %
57.1 %	E. NUSA TENGGARA	75.0 %
<hr/>	<hr/>	<hr/>
78.4 %	PROVINCIAL AVERAGE	89.4 %

As Table 4-1, earlier in this chapter, indicates this decentralization of management occurred at the same time that targeting success increased from 65% to 82%, beneficiaries with an annual net gain in excess of Rp. 60,000 increased from 16% to 30% and the percentage of beneficiaries with a gain of less than Rp. 20,000 declined from 64% to 37%. In the same period, the number of beneficiaries who seemed likely to sustain their gains after the project ceased, increased from 56% to 89%. Decentralization occurred while project performance improved considerably.

The growth in organizational resources in project-assisted provinces and districts is clear enough. It is more difficult, though, to determine the extent to which PDP provinces and districts gained resources more quickly than other regions not receiving project assistance. Generally local and provincial governments have been acquiring organizational resources since the late 1960s. Equipment, office space, numbers of staff and numbers of specially trained or tertiary educated staff have grown for the last two decades. If one compares 1967 and 1987 levels of provincial and district government funding the differences are considerable. However, if one measures organizational resources (especially office equipment, transport and skilled workers) against the numbers of people or area served they are still quite scarce.

In PDP's case project funding paid for vehicles, typewriters, calculators, computers, office equipment, and office space. It also provided funds for travel, co-ordination meetings, and extensive in-country and US-based training. My own investigation<sup>17</sup> in seven provinces and more than forty districts leads me to believe that PDP provincial and district governments have better trained staff and are endowed with more useful operating equipment and better working conditions than those provinces and districts not involved in foreign donor-supported integrated rural development programs.

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<sup>17</sup>. Most of which was not done as a part of this evaluation.

My intensive study of one district government -- Jepara (Central Java) -- confirms that before PDP local planning and coordination was at best haphazard.<sup>16</sup> PDP's provision of funds for planning meetings, travel to project sites, honoraria for part time staff and extended working hours made more thorough planning and more effective integration possible. Equipment provided through PDP enabled the local planning board to rapidly improve the quality of record keeping and reporting on progress of development activities. Such improvements in local organizational stock and incentives are necessary but not sufficient conditions for increased institutional productivity.

Another rather more subjective factor in increasing local capability for development planning and management is institutional reputation and support. If local government agencies work more closely together as a result of PDP and if central government officials believe that local planning boards and dinas are becoming more effective then prospects for further delegation of resources and responsibilities are brighter.

Evidence for enhanced reputation is mostly indirect. Provincial planning boards in provinces that have local government development programs<sup>17</sup> tend to have more (and more highly trained) staff, better work sites and more influence over provincial budgets. It seems unlikely that they would have obtained such resources if they had not been seen by provincial and national executives as performing an increasingly useful function. It is also worth noting that planning boards have become the first port of call for those seeking information on provincial and district development. The increased share of PDP project funds allocated to district level agencies in recent years is still another sign that higher level officials are aware of improving local institutional capacity.

Increasing national level confidence in local institutions is indicated by the effort of the national planning board (BAPPENAS) to channel donor support through BANGDA to

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<sup>16</sup>. J. Schiller, "State Formation in New Order Indonesia: Building a Powerhouse State in Jepara". See Chapter Four.

<sup>17</sup> Of which PDP was the first.

provincial and district level agencies. Donor-assisted projects operating through BANGDA include: the CIDA supported integrated area development program in Sulawesi, the Netherlands's assisted rural development project in Aceh, West German assisted integrated development programs in West Sumatra and East Kalimantan, World Bank supported integrated development programs in Yogyakarta, West and East Nusa Tenggara and Irian Jaya and the USAID assisted Uplands and kabupaten roads projects operating in Central and East Java, East Nusa Tenggara and South Sulawesi.

Finally, increased local (provincial and district) support for inter-agency co-operation and for information-sharing with planning agencies is demonstrated both by emulation of PDP activities and practices<sup>20</sup> by other government agencies and by survey research findings from the SRI beneficiary impact study. Governors and District Heads have frequently commented favorably on FDP planning and co-ordination procedures and asked other agencies (or sometimes foreign donors) to emulate those systems. In an SRI survey of PDP project managers 67% thought PDP projects were slightly better or much better than other projects while only 3% thought they were worse. Of those who thought PDP projects were better, most mentioned better co-ordination, improved project preparation and greater attention to targeting and project content as reasons for their approval. Increased enthusiasm among project managers from a number of sectoral agencies for cooperation with the district planning agency and for sound planning techniques increased the prospects for further recognition of district-level skills by higher level government.

#### INSTITUTIONAL LEARNING

To this point the argument for institutional impact has been made on the grounds that institutions demonstrated increased success at attaining project goals over time and that local institutions have received more funding and responsibility (because they are seen by higher level institutions as increasingly capable). The argument for PDP success at building

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<sup>20</sup>. Discussed in the following chapter.

local institutional capacity can be further supported if we can point to specific improvements that PDP-supported institutions have made in the way they carry out their task. The following section presents some brief examples of institutional learning and how it occurred in the process of project implementation.<sup>21</sup> It should be noted that it is individuals, not institutions who learn, though some institutions, and some incentive and promotion systems, provide a more favorable climate for learning and retaining new skills and approaches than do others. Institutional learning varied considerably across levels, among provinces and among sectors. The sketches that appear below are only illustrative. One cannot say with precision that x% of personnel in x% of institutions have demonstrated these attitudinal changes and skills. However, the data provided above about changing institutional performance over time and increased decentralization of resources makes the conclusion that institutional learning has been widespread seem very plausible.

One common change in provincial and district level institutions is the way in which staff think, talk and write about project activities. There has been a marked increase in emphasis on project impact as a benchmark for assessing project proposals and evaluating project success. Rather than limiting discussion to the number of meters of irrigation canal or numbers of cattle delivered, much time in meetings and space in written proposals is given to stating expected outputs such as area to be irrigated or increases in rice yield to be expected. Accompanying this increased attention to beneficiary impact (and project output), has been greater attention to detail in project proposals and reporting and, perhaps most importantly, realization that packages of inputs can and should be tailored to the needs of specific areas and groups of people.

Project proposals for more recent project-year activities generally go into far greater detail, specifying location, number

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<sup>21</sup>. Some of these examples were gleaned from consultants' responses to my questions, some from a brief field visit to N.T.T. and some from my Ph.D. research in a PDP district.

of beneficiaries, expected outcome and the nature and cost of inputs than do earlier project documents. In some PDP provinces project proposals vary the inputs for similar activities even in neighboring villages! This is because experience has shown that a different set of inputs (seedlings, livestock etc.) is more successful in each village.

The notion that project inputs for a village can be individually determined and widely varied goes against a strong tendency to prescribe identical packages for all areas. This inclination toward uniformity is justified under the national developmental goal of pemerataan (making even or reducing inequality). Many project staff now display a more sophisticated notion of pemerataan as a goal that can best be achieved by providing local beneficiaries with whatever inputs will work best in raising their productivity and income. This represents an important step forward in promoting rural development.

Another important change visible in many PDP provinces and districts is an increase in information sharing and co-operation between government agencies. Technical agencies are now frequently more willing to share information with planning boards and with other technical agencies. More information sharing is taking place between levels of government and across provincial and sectoral boundaries. For example, consultants report that in provincial meetings project managers for livestock projects from various districts discuss the merits of various methods of project organization. Project managers are thus able to learn from the experiences of other districts without repeating mistakes. Study tours and national conferences provide opportunities for some sharing of information between provinces and so increase the depth of experience that local project managers can draw upon. At the district level I have seen PDP-trained officials meeting at their homes on their own time and without incentive to explain project proposal procedures to village heads. The result was more useful project proposals and more effective communication between district and village government.

These newly acquired skills and attitudes reflect and contribute to improved institutional performance and have a basic

and far-reaching impact on resulting practices in Indonesian rural development. These more general examples of institutional learning are reflected too in specific cases where individual project managers or planning board co-ordinators have learned to make hard decisions to stop or modify sub-project activity. There is room here for only a few examples.

- \* A cattle fattening project in one province was seen to be meeting some resistance because villagers were formed into groups of five and each group received 2 cattle. Farmers correctly feared that their extra work in gathering fodder and looking after the animal would not be rewarded when the animal was sold. The local government's intention had been to distribute cattle as widely as possible as quickly as possible so as to maximize the number of poor people receiving benefits. The program was modified to provide one cow per farmer. This slowed the expansion of the program but ensured greater individual concern for the health and well-being of his animal. In the long run this made for a more viable and successful effort to raise the productivity of poor people.
  
- \* In a number of provinces small industries and fisheries projects were stopped because the provincial planning board found that, at the time of the proposed implementation, the dinas did not have the skills necessary to provide adequate extension services.
  
- \* In some provinces such as Bengkulu and South Kalimantan it has been decided to obtain advance lists of beneficiaries for "revolving" livestock projects at the district level. Prospective beneficiaries have the right to refuse any animal offered, if they feel it is below standard. The project manager is required to find a cow or other animal that does meet the standards. The project requires that each beneficiary on the original list receive an animal.

- \* On the island of Flores the project manager responsible for a project designed to help poor women in a fishing village increase salt production first studied and tried procedures for drying salt using firewood. He provided the village with Leucaena (Iamtoro gung) which doubled as a source of firewood and erosion control. He then studied and introduced methods to add iodine to the salt to increase its economic value. Then he introduced procedures for drying the salt using solar energy. Finally, he introduced techniques for salting fish. The village gained a source of iodine (reducing goiter), a year round supply of fish, a source of firewood, and a method for reducing soil erosion. It also gained increased income from the sale of iodized salt and salted fish.
  
- \* In South Kalimantan two proposals were put forward for fish production. The head of the provincial fishing service proposed a project using fish cages to increase fish production. A district fishing service suggested using "swamp ponds" to raise fish in PDP villages. The provincial planning board ruled in favor of the district proposal for "swamp ponds" because, after careful examination, they found that the yield from "swamp ponds" was several times that from fish cages. The innovation was in the acceptance of lower rather than higher level dinas proposals on grounds of yield.
  
- \* In a number of "outer island" provinces planning board co-ordinators ceased using "imported" seedlings because they found that those seedlings were inappropriate or unavailable when needed or that the supply of inputs necessary for growing them was unreliable. They switched their source of seeds and seedlings to the best locally available varieties relying either on local farmers or provincial agricultural field stations. The result reported was a reduction in crop

losses and, of course, the development of local seed markets and extension services. Similar problems with "imported" animals were overcome by using local animals.

## PROJECT INNOVATIONS

The examples cited above grew out of the FDP experience and indicate progress in the way that individual local institutions plan and manage rural development. In addition to these cases of institutional learning it is important to note a number of major planned interventions intended to make institutions more capable. These innovations can broadly be placed in two categories: structural innovations and innovations in beneficiary services. The first category comprises changes in organizational procedures -- in the ways that local institutions plan, manage, allocate funding for, and monitor their development activities. The second involves new approaches to improving the welfare and productivity of the rural poor.

### Structural Innovations:

The most prominent structural or systemic innovation was the introduction in 1983/84 of a FDP-wide planning system. In 1983 USAID and the Government of Indonesia agreed to improve systems for planning, monitoring and evaluation and to begin with the planning system. The improved planning system was to stress inter-sectoral co-ordination and medium term planning by district and provincial planning agencies in co-operation with technical agencies. A major objective -- in accord with Ministerial Instruction Number 4/1981 -- was to devolve responsibility for planning to the district level and to promote "bottom-up" planning from the village and sub-district levels.

The planning system consisted of three parts: a multi-year plan (RJM), an annual operational plan (ROJ), and regional project or credit budget proposals (DUPDA or DUFDA). The multi-year plan was intended to analyze basic district development

needs and provide a strategy for a four to five year period. It was to be an integral part of the district Five-Year Plan and provide a framework for considering the sequence of and relationships between annual activities across sectors. The Annual Operational Plan was meant to flesh out programs from the RJM and provide information about specific targets, outputs, costs and inputs for individual sub-project activities to be implemented in the coming fiscal year. The project or credit proposals were to include a project statement and/or a log frame which provided further details on location, the nature of beneficiaries and expected outcomes. By 1985 districts in all PDP provinces had prepared both multi-year plans and annual operational plans. Project proposals (DUPDA and DUPKA) had been a part of the previous budgetary system but had been treated more as budgetary than planning documents.

A 1985 study of the planning system by John Taylor notes partial success with the goals of the new planning system. The greatest success was in legitimization of a major role for district government in the planning process. The directive provided by BANGDA for the new planning system was the major administrative breakthrough justifying a key role for the district planning agency. The introduction of multi-year planning strategies was also seen by Taylor as moderately successful. He comments that "annual projects are better related to each other, both within a single year and over a multi-year period through a logical sequencing of activities."<sup>22</sup> He concludes that the new planning system has not [to that date] had much impact on inter-sectoral integration and coordination. Programs remain sectoral rather than area-oriented in approach although the "setting is established for a greater degree of sectoral integration over time."<sup>23</sup>

"Bottom-up" planning made limited but important gains as a result of the new system. Just over half of the provinces seem to have held village and sub-district consultations to elicit

<sup>22</sup>. Taylor, section 3.4

<sup>23</sup>. Ibid.

needs and possible project ideas from potential beneficiaries. Even in these there are grounds for suspicion about the degree to which the rural poor felt able to express their wishes or were able to have them incorporated into changes in policies or practices. While considerable vocal support is given by the government to participation by the populace in the development planning process, institutional and social constraints make it difficult to obtain ideas, comments and proposals from the rural population and especially the rural poor.

Another USAID-assisted program, LGT-II, developed training materials in data gathering and planning skills that might begin to overcome institutional and socio-cultural obstacles to genuine participation. It is unfortunate that the PDP planning system was not better integrated with LGT-II's more complex, but more effective, poverty-oriented planning techniques.

One should note, however, that "bottom-up" planning did achieve one very important success. It brought the views of district level technical agencies and sub-district officers to the center stage of the planning process. In that sense it made planning more decentralized and more focused on local needs than it ever had been. In some provinces efforts were made to consult with potential or actual beneficiaries. More systematic and sensitive efforts to ascertain the needs and desires of the rural poor should be encouraged.

PDP's impact on monitoring, reporting and evaluation has been less dramatic and has occurred only in some provinces rather than system-wide. The main effort has been in the development of reporting forms for monitoring. These have been tried in NTB and Central Java and are being adopted in some other provinces. The goal has been to develop forms that are easy to complete and to read and contain essential information on project progress and most importantly provide timely warning about implementation problems. There are institutional constraints that make it difficult for subordinates to report difficulties and failures to their superiors. At least one province has developed a non-threatening reporting system which allows project managers to report progress and implementation difficulties to district PDP

coordinators. Copies of these forms are forwarded to the province. Most importantly the province does not use the forms as a basis for criticizing the performance of the district project manager but as a tool to overcome bottlenecks.

One other province is testing a village-based monitoring form to obtain information outside the normal *dinas* channel.

As this is being written BANGDA has a team made up of consultants and counterparts working on the development of a strategy for the creation of a management information system that should contribute to its capacity to monitor and support local programs.

Formal, external evaluation of provincial FDP projects has mainly been done by local universities. This has generally been unsatisfactory. University evaluations frequently address "scholarly" questions rather than the "operational" questions that project managers need answered. Also their work tends to overemphasize the use of questionnaires to assess attitudes and gains without sufficient scientific doubt about the reliability or validity of this approach. More attention to the careful use of qualitative methods after consultation with implementing organizations and beneficiaries would lead to more useful results. Frequent use of unsupervised or under-supervised, poorly trained, student researchers also detracts from the value of university evaluations.

At least one province has reportedly used an internal evaluation on its 1986-87 projects and used the findings as a basis for deciding which activities should be continued and which should be stopped.

Another structural innovation tried in several provinces was the block grant system. In Aceh, for example, the provincial government notified district governments approximately how much money would be available for each district in the coming year. Districts were told to prepare proposals for more than the allocated amount. They were also told that all proposals would be examined and that only sound proposals would be accepted. They were also notified that any funds not spent because some districts submitted poor proposals would be re-allocated to other districts. The experience of having a district's project funds

cut when its proposals were not well done led, in most cases, to a rapid improvement in the quality of proposals produced.

Still another structural innovation was the decentralization of planning and management to the sub-district level. This has occurred for 7 years in Central Java.<sup>24</sup> The sub-district officer serves as the project manager and an effort is made to integrate village level programs through the use of the sub-district office (which usually houses all sub-district level representatives of the technical agencies.) These programs called Program Pengembangan Wilayah Kecamatan (Sub-district Area Development Programs) accounted for 56% of PDP activities in the 1983/4-1986/7 period in Central Java. Interestingly, Central Java is one of the few provinces to maintain a high rate of success at targeting the rural poor while improving its average annual net gain per beneficiary.

Another noteworthy institutional innovation occurred in Nusa Tenggara Timur. The provincial planning agency developed a system of village motivators (Penyuluh Desa). They used an Indonesian NGO to train secondary educated village youth in agricultural extension techniques and community development. These village motivators were then assigned to villages and provided with land for their own demonstration plots, tools and seedlings. Their role was to expand the outreach of the technical agency staff located in rather distant district and sub-district towns. They were paid an honorarium from project funds and offered an opportunity to obtain new skills in annual meetings called reunions. The success of village motivators varied depending upon their social and technical skills and the cooperation they received from village heads and technical agency staff. In many villages they seem to have played a significant role in speeding the introduction of new agricultural practices designed to increase farmer productivity and reduce soil erosion. There are frequently sustainability problems when one tries to establish services outside of existing institutional structures. In this case there seems to be some cause for optimism that after PDP these village motivators will continue to play a role as

<sup>24</sup>. It has also been tried more recently in East Flores, NTT.

"leading farmers".<sup>29</sup>

### Innovative Beneficiary Sub-Projects:

There is space here to list only a few of the innovative sub-projects introduced by PDP.

- \* "Revolving" livestock projects have been tried in every PDP province and are now in use in a number of other donor-assisted programs. Basically, they involve providing each member of a group of farmers with a cow, buffalo, or a number of goats or sheep and the provision of a package (In Bengkulu, for example, this package includes fodder planting material, animal pens, medicines, healthy animals, group training, and a reporting system as well as extension services) to the group that make it more likely that the animals will remain healthy. After a specified period of time the farmer must "repay" a number of animals to the project which then provides animals to other poor villagers. This is a relatively simple program, easy to replicate and very popular with recipients and administrators. It has been very successful at meeting project beneficiary selection goals and moderately successful at achieving income gains for beneficiaries.
  
- \* "Revolving" projects are not limited to animals. In South Kalimantan 10 small boats were given to a village at the edge of a large swamp. With boats villagers were able to increase their yields by about 2 kg. per day which netted an additional Rp. 4000. Each boat was required to pay Rp. 5000 per month to a village fund to purchase more boats. Within six months the village had 14 PDP-financed boats all paying Rp. 5000 per month. Villagers decided who would receive boats and what fees would be charged for use of the

<sup>29</sup>. See the following chapter for a discussion of sustainability.

"revolving" boats. Outside intervention was limited to monitoring.

- \* In Garut, West Java, when FDP introduced modern procedures for creating and cultivating brackish water fish-ponds (lambak) to 30 villagers more than 300 others joined of their own accord.
- \* Village Water System projects on the island of Timor have been innovative in their use of village labor rather than contractors for most project construction. The result has been the construction of water systems at a much lower real cost per kilometer of pipe and volume<sup>26</sup> of water than other government projects. District governments also report a much higher success rate at actually delivering water. Villagers have also been trained in maintenance and helped to establish a user fee collection system thus providing a greater chance for the water system's long-term survival.
- \* At least one other province has a 30% non-budget local labor component as part of its PDP activity. The use of voluntary, non-paid labor lowers PDP's costs and increases the local sense of participation. In Banten, West Java, for example, a dam was built, using village labor, to irrigate 30 Ha. of rice land. The dam cost Rp. 12 million while the Public Works department estimated a cost of Rp. 50-100 million if they constructed the dam through their normal tender process.
- \* Another set of projects in Nusa Tenggara Timur deserves mentioning. The integration of cattle projects with other development activities designed to improve farmer productivity and welfare and reduce soil erosion seems

<sup>26</sup>. Allowing for inflation real unit costs for PDP projects would seem to be less than half of other similar local water projects.

to be quite successful. Cattle are highly prized in Timor and many poor farmers have experience minding cattle (for a small fixed fee and at the farmer's risk) for an absentee "cattle-lord". PDP provides poor farmers with their own cow and provides seedlings and grasses to be planted for use as cattle feed. The program encourages tethering the cattle and collecting food rather than letting the animal graze. The result is more rapid fattening and increase in value of the animal and more interest in new crops which reduce soil erosion as tethered animals do not inflict irreparable damage on growing crops. Having obtained the villagers' attention with the cattle project PDP provides other dry-land annual food crops and house garden crops and teaches contour plowing techniques. PDP has also introduced metal tools to reduce the time required for field preparation during the short rainy season when fields can be prepared and planted. This allows farmers to increase the area under cultivation.

- \* PDP in Aceh pioneered the cost effective use of very small sums for the delivery of medicines and veterinary services to reduce mortality among goat herds. The result was considerable growth in the goat population.
- \* In West Nusa Tenggara a ceramics project is attempting to introduce kiln-fired and glazed ceramics to an area that uses centuries-old ceramic techniques. Production has begun and PDP is providing a sales outlet for ceramics and other handicrafts.
- \* A field station constructed and run by PDP in Pandeglang, West Java, has become an important center for training, agricultural extension and community development in a very poor and dry area of the province. A number of villagers seem to view the station as a community center and not simply a government facility.

## CONCLUSIONS

I have argued that despite formidable constraints impressive gains have been made in institutional performance and capacity at the local level. Indicators of enhanced institutional capacity include:

- Increases in the achievement of project goals over time
- Increased share of project developments managed at the local level
- Increased stock of skills (particularly management) and resources at the local level
- Institutional learning through project experience
- Structural changes especially to planning systems
- Innovations in implementation of beneficiary impact projects

What stands out most is the achievement of the PDP project in the field of decentralization. There has been a considerable flow of institutional resources and management responsibility to the district level and it has occurred alongside substantial gains in the achievement of project goals. Further efforts to strengthen local institutions and provide them with further control over their own rural development activities would seem well justified.

While there are considerable grounds for pride in what PDP has accomplished in the development of local institutional capacity, there is much that remains to be done. The following chapter looks at both continuing constraints to institutional development and the fragility of some of these hard-won gains.

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## CHAPTER FIVE:

### PROSPECTS FOR SUSTAINED GAINS IN INSTITUTIONAL PERFORMANCE

#### IMPLEMENTING FOR SUSTAINABILITY

It is too early to be certain what institutional gains will be sustained and what will be lost when PDP ends. Technical assistance has recently been withdrawn from two of the eight provinces but funding will continue for another budget year. The other six provinces will have technical assistance through mid-1988 and project funding until the end of the 1988-89 fiscal year. Still, it is possible and useful to describe what should be sustained and what seems likely to be sustainable and then to note what steps have been taken or might be taken that enhance (or retard) prospects for sustained improvement in institutional performance.

If this chapter seems rather critical after the generally very positive findings of the previous chapters it is because PDP has had a strong positive impact on local institutions (and individual beneficiaries) and it is unfortunate that a considerable portion of that improvement in institutional performance could be lost or at least diffused when the project ceases. While PDP exhibits numerous shortcomings in promoting sustained improvements in institutional performance, there have been some noteworthy successes. It should also be noted that PDP's weaknesses are equalled or exceeded by every other donor-assisted institution-building project I have observed.

Some of the changes in PDP priorities and in implementation practices promoted by USAID/Jakarta and Bangda have increased the prospects for sustaining increases in institutional "productivity". Other changes that promote sustainability have been fostered by provincial and district project staff. Some problems with sustainability are related to deeply rooted constraints in

GOI personal and institutional incentive systems, as well as promotion and work practices. Others are due to very limited local government revenues and resources while some have to do with GOI or USAID policies and project implementation decisions. Still others are outcomes of Indonesia's economic stringency.

Finally, it should be pointed out that not everything PDP did should be sustained. It was meant to be experimental. Some of those experiments do not bear repeating and it would have been wrong -- especially in early project years -- for those concerned with project management to block experimentation by overly stressing prospects for sustainability.

#### "PROJECT EFFECT" AND SUSTAINABILITY

A number of the factors that enable foreign donor-assisted institutions to show signs of improved performance and increased capacity are the result of "project effect". Projects provide funds, technical assistance, training, and outside attention all of which encourage institutions to behave in unusual ways. Indeed the point of project intervention is to make it possible for institutions to carry out new tasks or better perform old ones. Project funds make it possible to supplement salaries, purchase office equipment and vehicles, pay for necessary travel, and develop management and monitoring systems. Technical assistance provides ideas, skills, models for new work methods, constructive criticism and new lines of communication. Training encourages new attitudes and provides new organizational skills. Donor agencies like to know what their funds are helping to create and communicate their interest and concerns to beneficiary institutions.

Sociological experiments have demonstrated that it is common for individuals and institutions to improve their performance when they feel that "outsiders" are interested in what they do. They have been shown to do this even when the "outsiders" do nothing to improve (or even experimentally worsen) the working conditions or skills of those being studied. When the "outsiders" provide a number of inputs designed to make

institutions more capable the probability of "project effect" leading to impressive -- but temporary -- gains in institutional performance is even greater.

The crunch comes when outside attention, technical assistance, and additional funding for salary supplements, equipment, travel, and other operating expenses ceases. Institutional performance may slowly (or rapidly) decline. Sometimes -- when the project has required particularly unsustainable inputs -- the fall will be to, or even below, pre-project levels.

### BRINGING ABOUT SUSTAINED INSTITUTIONAL CHANGE

The problem for any project trying to have long lasting impact on institutional productivity is how to instigate changes that do not rely heavily on inputs that can only be provided through long-term dependence on foreign donors.

Sustained gains in institutional performance may occur in a number of ways. Structural changes (e.g. new incentive systems, personnel practices, operating systems, or information systems) introduced by the project may allow the institution to more efficiently carry out project tasks. Training may have resulted in better individual job performance without any structural change. As a result of training, project experience, or the flow of ideas from consultants individual personnel in project positions may come to see their tasks differently and so perform in a more creative and productive manner. A project's implementing agencies may find ways to independently finance continuation of many of the inputs that made higher levels of achievement possible.

When enough of these incremental changes in beneficiary institutions occur, and if they endure, a project is said to be successful at institutionalizing its organizational goals. A common error in evaluating project success at bringing about institutional change is to focus on dramatic systemic or structural change rather than changes in the way individuals and organizations carry out their institutional tasks.

When someone returns after a few years to examine what sustained institutional impact PDP has had it is important that they focus on how individual local government agencies perform rather than merely asking whether specific PDP innovations in planning systems, management information systems, and sub-projects have persisted. In order to focus on more incremental change they will need to have clear ideas about what sorts of behavioral changes occurred in PDP target institutions and what behavior marks them as different than that found in pre-PDP or non-PDP agencies. They will also need to have some notion of what sorts of institutional practices have been emulated by non-project agencies and institutions.

This latter source of lasting project impact is referred to as spread effect. Spread effect occurs when project-originated practices and programs are studied and imitated by other institutions. This process of diffusion of institutional impact is likely to result in sustainable practices and programs. This is so because the imitators usually borrow ideas without the extra and temporary incentives offered by foreign donors and project funds. Unfortunately, because the process takes place outside the influence of project and donor staff the emulation of project programs may not achieve the objectives that would be possible with a better understanding of project goals and necessary inputs.

Both institutionalization and spread effect are processes which can be made more or less likely by careful, early consideration, by donors and implementing agencies, of project goals, priorities and inputs and by adjustment of project priorities and policies over time. Implementing for sustainability requires careful and constant attention and PDP like other donor-supported projects could have done with more.

#### PDP AT THE LOCAL LEVEL:

##### Institutionalizing PDP Practices and Programs

What PDP structural and program innovations appear likely to be sustained? What changes in the way that institutional actors

perceive and perform their task are likely to be preserved? What PDP practices and programs are being emulated by other agencies? What role has project implementation played in promoting or retarding sustained institutional improvement? What remains to be done to promote sustainable gains in local government performance? Those are not easy questions to answer. Space here is too short and the project too large and diverse, but it is important to suggest in broad terms what seems sustainable, what has been done to promote sustainability and to note what lessons can be learned for further efforts at promoting locally-based rural development.

The following gains in institutional performance which have occurred in most PDP-assisted district level governments seem likely to be sustained:

- Local planning boards are better staffed and equipped and more able to collect and analyze data for, plan and evaluate rural development.<sup>1</sup> The use of a log frame approach to planning is fairly well institutionalized. This is likely to lead to sustainability of some gains in planning capability.
- Local technical agencies are more willing to share information with the planning board and with each other that improves the technical quality and co-ordination of rural planning.
- Local government agencies have for the first time gained experience in implementing small-scale rural development activities and are more able to tailor programs to meet the specific needs of local occupational or socio-economic groups and diverse villages.

The presence of PDP or other donor assisted projects seems to have accelerated this process. Other factors are also partly responsible.

- Local technical agencies are now much more likely to focus discussions of project proposals and project success on project impact rather than physical provision of project inputs. Their project activities tend to be better planned, more detailed and more completely documented.

None of these changes are as dramatic as the adoption of a new planning or management system but they are at least as important for effective rural development. They were mainly brought about by PDP project experience and training and seem likely to expand as PDP project officers are promoted from middle to senior level positions.

The following measures have been taken by provincial and district government agencies (or donor agencies) to sustain PDP-initiated rural development activities:

- Local Financing: Perhaps the most common cause of cessation of successful donor-supported activities is the abrupt termination of funding after the project ends. The transition to local financing can be made less traumatic if local institutions begin to fund project activities well before the project ceases. One province has attempted to assure that some PDP activities will be sustained by providing Rp. 300 million each fiscal year since 1982. Despite their shrinking financial resources, in 1987-88, all provinces began providing funds from the Provincial Inpres Program (a central government subsidy to the provinces). In most cases provincial contributions were between Rp. 50 million and Rp. 100 million. Some Districts are providing funds for PDP activities from their local revenues. Many provinces encourage voluntary local labor participation as a non-budgetary contribution to PDP activity. While these contributions represent real sacrifices and local expressions of interest in sustaining PDP activities they would -- if sustained -- only be enough to fund 1/5 or less of PDP's activities. More will be said about the effect of project funding decisions on prospects for sustainability.

- "Revolving" Livestock Projects: These projects are organized to continue to produce animals for distribution to other beneficiaries after project funding ceases. The principal obstacles to sustaining revolving projects are overhead expenses such as medicine, transport and especially, the cost of making available the necessary extension services. A number of district and provincial project managers have organized the distribution of animals in ways that should make it possible to meet these overhead costs. Many local project staff are confident that funds can be found to meet these relatively small costs. These very popular FDP sub-projects show every indication of continuing and being widely emulated.
  
- Rural Credit Projects (BPK, LKK, LMK or KURK): After an initial rush to dispense rural credit without sufficient attention to the need to establish a regional and local financial management system<sup>2</sup> there has been a concerted effort to build a self-sustaining rural credit system. Some of these provincial rural credit programs (in West Java, Central Java and recently, East Java) have been subsumed by another USAID-assisted program (the Financial Institutions Development project) and seem likely to obtain sufficient technical assistance and capital inputs to become self-sustaining.<sup>3</sup> While there are signs that a number of credit units in four other provinces are nearing self-sufficiency it seems unlikely that enough units will become self-sufficient in the time remaining to meet provincial overhead

<sup>2</sup>. Nor was adequate attention paid to such practical questions as these: How do you assure a low level of arrears? How do you determine how much capital a credit unit can "safely" hold? How do you determine when a credit unit should be closed down? How many viable credit units do you need to underwrite one failure?

<sup>3</sup>. Some individual units have become self-sustaining after very brief periods of support. One unit in Pandeglang, West Java, reportedly made a Rp. 55,000,000 "profit" from loans after only two years of FDP capital inflows.

costs. Serious consideration should be given to providing some of the technical expertise and capital available in FID to ensure the sustainability of the credit program in at least some of those provinces. If this or some other solution is not found, it seems likely that more than U.S. \$1,000,000 in USAID and GOI funds will be lost even though it appears that effective procedures for building a sustainable rural credit system have been found.

### Spread Effect

A number of innovative PDP sub-project activities and practices have been emulated by other agencies or by donor-assisted projects using their own funding:

- The multi-sector sub-district (PPWK) program in Central Java has been emulated by the province-wide (PPWKT) program which also uses a sub-district officer (camat) as project manager but which tends to use much lower levels of funding and emphasizes infra-structure rather than assistance to the rural poor. The important point to note here is that there is a continuing effort to decentralize project management down to the sub-district level. This seems to be a follow up to a PDP initiative which the SRI beneficiary impact survey suggests is very successful in both targeting the rural poor and producing sustainable beneficiary gains.
- "Revolving" livestock programs have been used by CIDA in their integrated rural development programs in South and Southeast Sulawesi, by the UNDP in their West Nusa Tenggara projects and, more widely, by the GOI's Livestock Agencies (Dinas Peternakan).
- Village Motivator and New Cultivation Pattern (Pola Tanam) programs have been emulated by the provincial government (through its Program Benah Desa [Village Improvement Program]) in Nusa Tenggara Timur.

- PDP planning procedures have been used to help prepare project proposals and annual plans for World Bank and Australian Development Assistance Bureau projects in Nusa Tenggara Timur.
- A number of other PDP-initiated activities have attracted foreign donor support or are being supplemented or expanded with assistance from other donors. These include the LP3T -- an institution supporting the development of new cultivation patterns, appropriate agricultural implements, and extension services in Timor, agricultural field stations providing extension services and applied agricultural research in West Java, and the seaweed harvesting and marketing project in West Nusa Tenggara.

#### PDP at the National and Provincial Level

PDP's aim at the national and provincial level was to strengthen administrative and technical support for local level development planning and management. Broadly it is possible to speak of two ways in which this might be done. The first is system-building -- the creation of planning, management and evaluation systems that might survive the project. The second, is the use of project experience and training to promote central and local skills and to encourage central government confidence in, and support for, decentralized planning and management. For reasons which will be discussed in the following section, achievement of sustained gains in system building are clearly in doubt. Incremental gains -- by BANGDA and by provincial development boards -- in technical skills and in more positive attitudes toward locally planned and managed rural development may prove sustainable and are worth noting. First, a word about system-building:

- PDP's effort to institutionalize a new provincial and district planning system will -- at best -- be only partly

successful.<sup>4</sup> Medium-term planning -- the RJM -- will be completed only once in most provinces and district.<sup>5</sup> A second plan (RJM) will not be produced to extend beyond the final project years, because without project funding the plan's expense and its concentration on sub-districts where FDP operates cannot be justified. The annual plan and project proposal process -- ROT and improved DUP -- seem more likely to survive in some form as similar procedures are required for other GOI development projects. A national rural planning system for use by all of Indonesia's districts could be created by merging PDP's RJM with the Strategic Development Framework\* (KPS) and making the "new" plan the basis for improvements to the presently required but not very action-oriented Repelitada (District Five Year Plan). Similar work could be done with the annual plan. A Ministerial Decree would be necessary to create a sustainable and useful planning system.

Although a sustainable, formal planning system has not been established, FDP seems to have had an important impact on the way that such central government agencies as BANGDA and BAPPENAS (National Planning Board) perceive decentralized development planning and management process. Decentralization of project management to district and even sub-district levels has become a frequently used indicator of project success. Also it should be noted that a number of donor project activities that might have been channeled through sectoral agencies have instead been steered by

4. Though FDP can claim some influence on the formulation of Ministerial Regulation Number 9/1982 which elaborates the bottom-up planning process for local BAPPEDA.

5. Except for South Kalimantan where it has been repeated.

6. This is a more general but in some ways more rigorous and useful areal planning process that was developed as part of the USAID-assisted, Local Government-II Program. The planning methodology was taught to many Indonesian district planners and this method of planning training continues to be assisted by a number of foreign agencies.

BAPPENAS toward BANGDA and toward local government control. This support for local planning and development management is likely to be more important than the development of a formal planning system.

- As this report is being produced a team made up of consultants and their counterparts in BANGDA is working on developing an action plan for the creation of an appropriate Management Information System. If this system is well thought out, established, tested and modified during the remaining months of PDP it could leave behind a valuable tool for tracking progress on rural development activities and responding early to potential problems. Project funds and technical assistance should be used to support the development of a Management Information System.
- Some of the Monitoring and Evaluation procedures developed by PDP appear likely to be continued by BANGDA for use with other areal development programs. The development of a satisfactory system-wide monitoring and evaluation process does not seem likely to occur. More would probably be gained by emphasizing provincial development of locally appropriate systems able to deal with Indonesia's diversity. The use of locally developed forms to monitor progress in project completion in East Nusa Tenggara provides a good example of what can be accomplished.
- At the provincial level PDP will leave behind substantial experience in project co-ordination and in monitoring district development activity. These skills will be diffused as project units close down and former project staff take up additional duties elsewhere in the planning agency.<sup>7</sup> It seems unlikely that provincial co-ordination and management skills will return to pre-project levels.

<sup>7</sup>. In most cases they have had multiple duties all along. Presumably, there other responsibilities will be increased when PDP is completed.

## IMPLEMENTING FOR SUSTAINABILITY: SOME LESSONS FROM PDP

While much that PDP has achieved in institutional development will be sustained more could have been if implementation had focused more clearly and earlier on the issue of sustainability. This section notes some of the project implementation decisions that seem to have negatively affected prospects for sustainability.

1. **Funding:** Initially, there was too much pressure to push money down the pipeline. This discouraged sound administrative practices. The clearest example of this was in the early credit programs where funds were made available before credit institutions were capable of collecting payments on outstanding loans. There seems to be widespread agreement that initially high levels of project funding over-strained the absorptive capacity of local institutions and that the decline in real terms of project funding encouraged the more judicious use of funds. Also the provision of "on-top" funds (additional funds out of the central government budget) to meet the local share of PDP expenses was a mistake. It allowed the project to continue, cut off from provincial decision-making about how much money would be made available. If a province had been forced to allocate its own funds it is more likely that it would have been in a position when PDP ended to decide what was worth continuing with its own contributions, what required central government support if it was to continue, and what should be discontinued.
2. The early emphasis on successful direct beneficiary impact sub-projects probably delayed efforts to grapple with the problem of building institutional capability. Early attention to institutional training needs analysis, and appropriate training and institution-building activity coupled with gradually increasing project financial flows

would probably have resulted in greater sustainability. Institutional capability of local dinas and planning boards has improved but the early cost of the trial and error method through which local and higher level project management learned rural development planning and management skill has been high.

3. The timing of PDP financial flows has done little to promote sustainability. It would have been best to begin with low levels of financing, gradually increase funding and then gradually decrease it in the final two years of the project. Instead funding started large, declined in real terms and then grew (for provinces completing PDP in the 1986/7 fiscal year). The result is that there will be a traumatic decline in revenues available for locally-managed rural development activities. A gradual build up and wind down would have encouraged institutions to be selective about which projects to attempt and which to maintain. It would also have given local governments more time to find local funds to support activities they thought should be sustained. It still could prove useful for the central government to commit a portion of its current project funding for a 2-3 year period to ease the transition from donor and national to provincial and district funding of PDP-initiated activities.
4. PDP's training program has not supported sustained institution building as well as it might have. The project should have made more use of technical assistance, instructors and training materials available through LGT-II (a USAID-assisted program to train local planning agencies). The in-country training program taught some crucial skills and influenced attitudes toward rural development planning. A clear training strategy based upon an assessment of varying provincial and district institutional needs and how those needs might be met was never developed. The short and long-term training of project personnel in America also seems to have had some successes but no clear strategy. It could be argued that overseas training actually detracted

from sustainable institution-building by removing key actors from project roles for extended periods precisely when they needed to be present to maximize the project's institutional impact. PDP has conducted numerous useful training programs. However, future institution-building projects should try harder to link training inputs to project scheduling and to evolving project needs.

5. In some provinces PDP reportedly expanded into new districts too quickly. This diminished the institutional impact. It takes time to train staff in new planning and management procedures and to institutionalize patterns of co-operation between the planning board and technical agencies. A similar point may be made about East Java where the attempt to cover every village in a sub-district over the course of the project required PDP to drop extension services to old villages too quickly. This appears to have been harmful for the development of extension services and for beneficiary sustainability of the sub-project activity.
6. PDP's most obvious successes in institution-building have been at the district and provincial levels. Attention was given relatively late to the question of building institutional capacity in BANGDA. (The first advisors serving as Chief-of-Party were offered the choice of working in Jakarta or in one of the provinces and their main task was seen as management of a technical assistance team rather than the transfer of technology and management skills to BANGDA.) Both the scope and complexity of BANGDA's oversight role in rural development have expanded rapidly in the last decade. It is understandably lagging in determining what its administrative role should be and in establishing systems that allow it to provide support for locally-based rural development. USAID should give serious consideration to seeing how it might further promote national supervisory capacity and willingness to support decentralized rural development.

7. USAID reimbursement policies for small scale rural development projects like those initiated by PDP require intensive administrative inputs (staff time, travel expenses, paperwork etc.) from both USAID and the GOI. It is ironic that PDP became a rather heavy administrative burden on the institutions whose administrative capacity it was intended to improve. Furthermore, reimbursement did not in any way affect the level of funding of the local institutions whose projects were being evaluated for reimbursement. Nor does there seem to be a significant linkage between reimbursement and the quality of projects. A frequent cause of failure to reimburse is inadequate or non-existent reporting by the project manager. If there were financial incentives and sanctions related to local performance reimbursement could be a powerful tool. Future donor efforts in institution building for rural development should either try to place a lighter reporting and evaluation burden on local institutions or link performance including reporting to funding levels, or perhaps, both. Some combination of spot checks on projects by the center and more rigorous provincial level monitoring and reporting would be optimal.
  
8. Sustainable activities are affordable. They have a high benefit-cost ratio or they assist a large number of beneficiaries with a relatively low input cost. PDP has not done enough to analyze and report sub-project costs and benefits. PDP could have done more to sharpen the analytical skills of district and provincial planning agencies (and to a lesser extent BANGDA) by encouraging simple, but well-grounded, investigations and discussions of projects costs and returns. Some information for this kind of analysis should become available over the next few months based upon the SRI beneficiary surveys and sub-project

accounting data.<sup>9</sup> As PDP approaches its conclusion the discussion of which cost-effective activities are locally affordable, and which activities should be continued, even though they cannot be locally funded, should be a high priority.

9. In almost every case assumptions about how long it would take to achieve PDP's institutional goals have been underestimated. Institution-building is a long-term process with sometimes lengthy periods of only modest gains. The historical conditions which created bureaucracies charged with rural development in the Third World are unique in human history as are the problems they face and the tools potentially at their disposal.

It is important for a project trying to promote institutional development to have clear, achievable goals, to frequently assess progress toward those goals and to recognize that institutional development is not subject to quick fixes. PDP has achieved some important sustainable gains but the institutionalization of more appropriate rural development planning and management practices will require further long-term donor and GOI commitment and careful identification of and attention to achievable goals.

## PROSPECTS FOR SUSTAINABILITY

PDP has initiated a number of changes in institutional behavior intended to improve organizational performance. Many of those changes -- especially at the district and provincial level -- appear to be sustainable. The greatest threat to sustainability has to do with the nature of the PDP program, the limited fiscal powers of local government and the Indonesian (and world) economy.

<sup>9</sup>. The cost benefit analysis done for veterinary services in Aceh is a good example of what can be done. The SRI cost-benefit information is summarized in chapter six.

PDP's beneficiary goal has been to raise the incomes and productivity of the rural poor. It has found a number of highly effective ways to do that. However, its emphasis has been on small scale activities which involve the transfer of skills, small sums of capital, a few head of livestock, or a few seedlings to villagers scattered across its eight provinces. PDP lacks the kind of eye-catching physical infrastructure sites for what some critics have called "developmental tourism". The brutal fact is that it is difficult for a project which provides inexpensive inputs to poor people to attract the attention of senior officials away from projects which build dams, bridges, roads or factories.

PDP is clearly a popular program at the district, and to a lesser extent, the provincial government level. It shows results in a way matched by few other development projects and links local government to society in a manner that is good for future state-society relations. However, careful attention needs to be given to how to make the program's achievements comprehensible to senior -- especially provincial and central -- government officials. Without their support and understanding further efforts to sustain the gains made by PDP cannot be assured.

Provincial and district level government have demonstrated considerable enthusiasm for PDP's aims and methods. However, their financial capacity to sustain effective PDP sub-projects is limited. They have few revenue sources and measures being proposed to the Ministry of Finance by USAID and other donor agencies for other projects would actually reduce rural District revenues. Serious consideration needs to be given to how provincial, and even more importantly, district level governments can be made more financially self reliant. This could be done either through allowing more local revenue raising powers or increasing the amount of money made available for locally-determined and managed development activity to local governments by the central government. Sustained advances in decentralization and local based rural development will depend upon well thought out and tested policy initiatives in local government funding.

The current economic downturn has, not surprisingly, had a

negative impact on the prospects for sustaining PDP's institutional gains. Central and local government revenues have been reduced and prospects are for still further cuts "in real terms". Few highly centralized bureaucracies faced with economic difficulties are likely to increase the share of funding allocated to regional and local bureaucracies. In the short term therefore, further advances in local development may be highly dependent upon foreign donors' willingness to "sweeten the pot" by using their funds to promote the sorts of beneficiary impact and decentralized institution-building programs that PDP has pioneered. If such donor funding could be linked to small but growing -- and LONG-TERM -- commitment of GOI central funds to district-managed rural development then prospects are good that much of what PDP has initiated will be improved upon and sustained.

## CHAPTER SIX

### CONCLUSIONS AND RECOMMENDATIONS

What have we learned about PDP? What parts of the project were done well and what could have been done better? What were or are the major obstacles to the achievement of project goals? What can and should be done about those obstacles? From the possibly varying perspective of individual beneficiaries, assisted institutions, Indonesia and USAID was PDP worth doing? What features or outcomes of the project require further study? What should be done in the remaining months of the project's life to maximize and sustain institutional and beneficiary gains? Does PDP provide some elements of a successful model for decentralized rural development that reaches segments of the population who have not fully shared in the benefits of Indonesia's economic development. What PDP lessons and solutions can be applied to other development activities and other institutional problems? What should BANGDA and/or USAID do, after PDP, to promote a decentralized, area approach to rural development?

These are the sorts of questions that this concluding chapter will try to grapple with. They are not always easy questions to answer, especially for a pioneering project that will have had a direct economic impact on something on the order of 600,000 families<sup>1</sup> in eight provinces over ten years and an

This is a very rough -- and probably low -- estimate. By the project termination date in 1987/88 fiscal year direct impact sub-projects will have reached approximately 400,000 families. It seems likely that well in excess of 200,000 borrowers will have benefited from credit sub-projects. The 600,000 figure does not count beneficiaries of training programs,

institutional impact on more than 200 national, provincial and district agencies and organizations in eight provinces and 44 Districts. The findings and recommendations presented here are meant to stimulate discussion about what was achieved, what might still be achieved and how GOI or USAID might build upon what was achieved. They should not be thought of as the final word on PDP.

### PROJECT GOALS AND PROJECT ACHIEVEMENTS

I. PDP had three goals: (1) increasing opportunities for the rural poor to increase their productivity and income; (2) increasing the capacity of local government to plan and manage rural development activities which would increase the productivity and income of the rural poor and; (3) increasing the capacity of BANGDA to monitor and support decentralized rural development.

II. As chapter Two indicates, while in the long run those goals are mutually re-enforcing in the short run they can be in conflict. Attention to sub-projects aimed at directly increasing the incomes and productivity of the rural poor sometimes competed for funds and technical assistance time with efforts to build district and provincial institutional capabilities. More careful attention in project design and early project management to project goals and working assumptions would probably have resulted in an earlier focus on institution building and less of a rush to channel funds to provincial and district planning agencies and dinas or instansi vertikal that could not effectively absorb those funds. There is fairly widespread agreement that too many rupiah were dispersed -- especially in credit sub-projects -- in the early years of PDP.

indirect beneficiaries who may have found employment because of PDP small industries or irrigation projects. Nor does it take into account the consequences of spread effect: The emulation of PDP activities by non-beneficiary neighbors. Finally it omits the consequences of the multiplier effect of village level spending by the project and by beneficiaries on other residents of PDP villages and districts.

As USAID/Jakarta and BANGDA became aware of and responded to the need for greater emphasis on institution building--training, the testing and initiation of planning, reporting and monitoring systems, institutional performance (as measured by beneficiary results) improved. What happened though, appears to have been more of an evolution of project thinking toward a more realistic appraisal of local institutional capabilities and needs than a far-sighted effort to think through which goals should have priority at which stages in life of the project.

#### PDP'S BENEFICIARY IMPACT

To be successful PDP had to reach the rural poor, raise their incomes and provide reasonable prospects for sustaining many of those gains after project assistance had stopped. Improvement in institutional capability would be meaningless if it did not translate into rural development gains. As I suggested in Chapter Three PDP seems to have had a significant beneficiary impact.

There are three areas of achievement that contribute toward a strong positive impact: (A) maximizing success at targeting poor people; (B) maximizing gains by beneficiaries and; (C) maximizing prospects for beneficiaries to sustain economic gains made under the project. There are difficulties with precise measurement of all three of these factors. However, we do have considerable evidence from the SRI Beneficiary Household Survey<sup>2</sup> -- of beneficiaries of direct impact sub-projects from fiscal year 1978/79 through fiscal year 1984/85 -- showing:

#### Targeting of Poor Beneficiaries: achievements

Between 1978/79 and 1986/87 there were just over 333,000 beneficiary families. It seems likely that between 56% and

<sup>2</sup>. Unless otherwise stated all statistical data presented here is from the SRI Household Survey and applies only to direct beneficiary impact sub-projects from 1978/79 through 1984/85.

88% of recipients of PDP assistance were in the bottom 50% wealth and income group in their province. Beneficiary targeting achievement may have been closer to 88% in most provinces but the SRI survey did not establish ownership norms for individual provinces so we can not be certain. It seems likely that compared to other rural development programs in Indonesia, or elsewhere, the targeting success has been quite high.

#### comments

The beneficiary selection process was much more successful at targeting poor people in some sectors than it was in others. Livestock, Food Crops and Estate Crops sub-projects were most successful. It seems likely that 85-90% of their beneficiaries were from low-income groups. Up to 40% of Small Industries and Small Scale Irrigation beneficiaries may have been relatively well-off.

#### recommendations

The beneficiary and sub-project selection process in future rural development programs should be made more rigorous and more explicit. Provincial and District planning boards (working with rural sociologists or anthropologists) should prepare clear criteria for inclusion or exclusion of possible recipients and for selection or rejection of possible projects that aim to assist the rural poor. When exceptions are made to the project or beneficiary selection process BANGDA and Provincial Bappedas should require clear and reasoned explanations justifying the variation. The beneficiary selection process should be monitored on a spot check basis without advance warning.

PVOs are often good, independent sources of information about community needs and desires. The use of PVOs to assist in such activities as beneficiary selection, motivational and skill training for participants and for project officials should be encouraged. Funds for PVO

involvement should be built into project agreements.

Economic Gains by Beneficiaries:  
achievements

The average real annual net gain for recipients of PDF direct beneficiary assistance was Rp. 65,000. It seems likely that this represents between 11% and 18% real, not inflationary, increase in average annual beneficiary household income. 23% of those surveyed reported zero earnings from their sub-project activity, while 24% reported increased earnings of more than Rp. 60,000. The average gain by those reporting a gain was Rp. 84,000. This figure represents substantial real gains by the 77% of recipients reporting a gain. It probably also slightly underestimates actual project net gain achievements because of the time delay before estate crops come into full production and because the survey ends with fiscal year 1984/85.

comments

There was considerable variation in net gain achievement between sectors, between provinces, and between recipients who were continuing an activity and starting a new activity. Small Industries and Small Scale Irrigation projects yielded better average results than did the other sectors. Small Industries gains were more than four and 1/2 times average gains in the food crops sector. Wealthier, less densely populated provinces tended to generate greater average gains than poorer or less densely populated ones. South Kalimantan's average gains were four times those of East Java. The number of beneficiaries whose project assistance allowed them to continue an existing activity reporting no gain was nearly 50% lower than the number who started a new activity.

One clear trend in the survey data is that sectors and provinces which reported the best results in net average gain tended to do less well at targeting poor people. And,

except for Central Java, improvements over time in targeting the poor were accompanied by declines in average net gain. It may be that activities which benefit poor people will generally yield lower rates of economic return. It also could be the case that some more ecologically and economically sustainable activities -- e.g. in estate crops -- will yield lower average net gains over the first years, but better results in the long run. We need to know.

### recommendations

Much more needs to be learned about which sectors, kinds of activities and planning and management approaches worked in each of the provinces and districts. Local project officers and planning officials should be asked to rate PDP projects in their area for targeting success, economic yield to participants and cost effectiveness. These subjective findings should be compared with SRI findings and the conclusions should be shared across districts and provinces, inside PDP and outside. The goal would be a list of proven locally successful projects and techniques for emulation or modification and use elsewhere. An additional gain would be more competence in local planning agencies in assessing project plans.

### Prospects for Sustained Beneficiary Gains: achievements

Data for estimating whether beneficiaries will sustain gains into the future is especially soft. Analysis of SRI survey data, based upon results up to the 1984/85 fiscal year, suggest a sustainability rate of roughly 58%. They also suggest that the sustainability rate was improving during the years studied. If that improvement continued after 1985 one could expect that 65-75% of all beneficiaries might be able to sustain their economic gains from PDP-initiated activities.

### comments

This data needs to be interpreted realistically. 100% sustainability rates are never possible. Demographic, climatic and economic changes affect the prospects for sustaining project-introduced activities. Some beneficiaries become ill or die. Others, for many reasons, cease a project-initiated activity. They may stop because they made enough profit from an activity to try something new that is even more profitable. More importantly, PDP was intended to be experimental. If the project had limited itself to "safe" activities it might have attained a greater sustainability rate but been less innovative.

One other key point should be mentioned. SRI data suggests that institutional performance was probably more important than the behavior of individual beneficiaries (or their willingness to persevere with a new activity) in determining whether an activity would be sustained. Immediate cessation of a PDP-initiated activity or cessation after time accounted for 80% of all projected sustainability failures. 22% of projected failures to sustain an economic activity were due to immediate failure of the project. In most cases either the animal or plant was dead on arrival or the necessary inputs to commence the project were not available. As Bappeda and dinas improved their performance the immediate cessation rate fell from 17% in early project years to 2% in the 1983-85 period.

### recommendations

Much could be gained from a well-planned small-scale, longitudinal study of a cross-section of beneficiaries from 2-3 provinces and all 6 sectors. The study might examine people selected from SRI's category of marginal beneficiaries to see whether their project gains are sustained and whether project gains encourage their productivity in other areas. The first study should take place in 1983 and a

second 3-5 years later.

### PDP'S IMPACT ON LOCAL INSTITUTIONS: BUILDING CAPACITY

There were four elements in PDP's efforts to build local institutional capacity: (1) improving institutional performance; (2) increasing local management of resources; (3) promoting institutional learning and; (4) encouraging institutional innovation. Chapter Four describes PDP's institutional achievements. The overall picture is one of substantial, though fragile, progress over the life of the project.

#### Improving Institutional Performance achievements

Institutional performance is the best indicator of institutional capacity. In PDP's case, the question is did local institutions improve at the achievement of project goals. The evidence suggests that they did. The success rate at targeting the rural poor climbed from 65% in 1978-81 to 82% in 1983-85. The percentage of beneficiaries with a low (less than Rp. 20,000) average annual net gain fell by nearly 50% from the early to later project period. Similarly, the percentage with a high (greater than Rp. 20,000) average gain increased by nearly 50% over the same period. Finally, the estimated number of beneficiaries able to sustain gains rose from 56% in the 1978-81 period to 89% in the 1983-85 period.

#### comments

Institutional capacity is difficult to define and still harder to measure. The trend in the performance data is encouraging. We know that project funds made it possible for local planning boards and dinas to acquire office equipment and transport. We also know that FDP provided

training, opportunities for observation of how projects were managed in other provinces, and the funds for experimentation and hands-on experience with development planning and management. It also provided Technical Assistance with management and operational skills that could contribute to enhanced institutional productivity. This makes the argument that improved performance represents increased institutional capacity all the more persuasive.

#### Decentralization of Project Management achievements

PDP was supposed to encourage local capacity to plan and manage rural development. If we can show that the control of project activities and funds was decentralized over the project then progress has been made in this area of local capacity building. The share of total project funds administered at or below the district level increased from 64% in the 1978/79-1982/83 period to 75% in the 1983/84-1986/87 period. The share of PDP direct beneficiary impact sub-projects managed at the district level or below grew from 78% in the first five project years to 90% in the last four years. This is a substantial devolution of project responsibility.

#### comments

It would be interesting to know more about the source of pressure for devolution of project management. Did the provinces come to recognize the value of decentralizing control of project activity to the District level and below or did it require a major push by USAID and/or RONGDA to make it happen?

It should be noted that the devolution of project management accompanied a significant improvement in achievement of all project beneficiary impact goals. This indicates that local governments have acquired many of the skills and resources necessary to effectively absorb increased management

responsibility for rural development. Of course, that responsibility would have to include control of adequate financial resources as well as central and provincial monitoring and other support.

### Institutional Learning achievements and comments

The evaluation also pointed to numerous examples of institutional learning. Case studies of actions taken by individual project managers or PDP staff illustrate what they and their institutions have learned about project planning and management. These subjective accounts of changes in institutional performance would not be terribly meaningful if they did not correlate well with improvements in the project's beneficiary impact and with the devolution of a growing share of project management to the district level.

### recommendations

Institutional learning is crucial to building institutional capacity. However, skills and understanding gained can be unlearned. Institutional memory is vital to sustaining gains. As people move out of local planning agencies and dinas the skills and working relationships learned in PDP could be lost. Efforts should be made to ensure that skills, techniques and approaches learned in PDP are disseminated as widely as possible at every level of government. One way to do this would be through report writing, presentations and discussions between PDP staff, and advisors, and key district and provincial government personnel in every province. The exact format might vary from place to place but steps need to be taken maximize what can be learned from PDP successes and failures and these need to be shared as widely as possible.

### Institutional Innovation achievements

PDP was intended to encourage two kinds of innovations: structural or systemic experiments that would increase the capacity of institutions to plan and manage rural development and sub-project innovations that improved beneficiary targeting or increased beneficiary gains or prospects for sustained gains. Structural innovations include the creation of a system-wide planning system and regional experiments in monitoring and evaluation. Innovative beneficiary impact sub-projects are too numerous to mention.

### comments

PDP did encourage innovation, but the response to opportunities for innovation varied considerably from province to province. It is interesting that different provincial Bappedas came away from national consultations with very different ideas about how much freedom there was, for example, to try new monitoring and reporting procedures. Some observers have noted a decline in innovation in PDP over time. This seems a reasonable course for a project to take, with more innovation in the early and middle years, and with greater attention to institutionalizing successful practices during the later years of the project cycle.

### SUSTAINING INSTITUTIONAL GAINS

It is still rather early to make judgements about which elements of PDP's impact on institutional performance will be sustained. It is possible though to note what PDP practices have become institutionalized in PDP-assisted agencies, what has been adopted by other institutions, and what seems to have been done

to promote or reduce prospects for sustaining institutional gains. Generally, there is less cause for optimism about prospects for sustained gains in institutional performance than there is about any other aspect of the project.<sup>3</sup>

#### Institutionalizing PDP Practices and Programs

PDP can expect to leave behind planning boards that are better staffed and equipped and whose role is better understood by provincial and district executives and by local dinas. Many local planning board will remain more willing and more able to tailor programs to meet the specific needs of diverse villages and socio-economic groups. It seems likely that technical agencies that have cooperated with Bappeda in planning PDP activities will continue some sharing of information and coordination of development activity. Local and provincial discussions of project proposals and progress will probably continue to focus more on project impact and less on the physical provision of project inputs than they did before PDP. These incremental changes in practices are hard to document and easy for observers to overlook but they are at least as important as dramatic changes in policies or regulations.

PDP's impact on planning, monitoring, and evaluation systems seems less likely to be sustained. It seems unlikely that a system-wide, operational, multi-year planning process or a monitoring and reporting system will come out of PDP. However, other donors and other project activities may benefit from, such PDP initiatives as, annual planning processes and from log frames attached to project proposals that improve project planning and management.

A number of beneficiary impact sub-projects seem likely to persist because local agencies have found them easy to operate,

<sup>3</sup>. The downturn in the Indonesian economy and government's declining oil revenues dampen prospects that the GOI will focus on how to sustain gains made by PDP or how to move on with properly funded, decentralized rural development.

popular and cost-effective. Some provinces and district governments or dinas have begun to contribute financially to PDP activities and to take steps to ensure their financial capacity to meet some sub-project costs. Details are described in Chapter Five.

### Spread Effect

A number of PDP-initiated sub-project activities or PDP-supported institutions have been adopted by other agencies or gained support from and been expanded by foreign donors and seem likely to persist. (See Chapter Five for details.) It would be useful to know more than we do about patterns and successes of institutional emulation of PDP.

### Implementation Lessons

Much can be learned from PDP implementation history about what does and does not promote sustainability. It might be useful to review these in point form. (See Chapter Five, pages 83-87 for details.)

**Funding:** Early funding levels were probably higher than local institutions could effectively absorb. The decision to use "on top" financing and not to require local funding from either Inpres or local revenues probably makes the transition to life without project funding more stressful and PDP institutional gains less sustainable. The decision not to reduce annual project funding as the project nears completion as part of a transition strategy has also harmed prospects for sustainability. Also it should be noted that USAID's reimbursement process would have been a better tool for local institution building if the reimbursement reporting requirements and monitoring results could have been tied to future levels of local project funding.

- \* **Training:** Training has contributed considerably to PDP's institutional gains but the lack of a clear overall training strategy -- a notion of how training content and scheduling fit with project goals and fit into the project timetable-- probably lessened PDP's institutional impact.
- \* **Cost-benefit analysis:** Sustainable activities are affordable ones. It is ironic how little information was gathered on the cost-effectiveness and economic rate of return of project activities. Also it seems that few skills in estimation of project costs and benefits were provided as part of PDP. Inexpensive techniques for analyzing and comparing project costs and benefits will be essential for further gains in decentralized rural development. Later in this Chapter I present some simple cost-benefit ratios for PDP's direct beneficiary impact activities.
- \* **PDP expansion and coverage:** In some provinces PDP may have spread into new areas too quickly and diluted its capacity to train staff and support institution building. In at least one province, PDP's effort to "cover" every village in a sub-district meant that extension services were withdrawn from old areas too quickly.
- \* **Technical Assistance Support for BANGDA:** Ideally, this should have begun earlier and been done more intensively than it has been. BANGDA's oversight role has grown dramatically over the last decade and the need to develop management information systems and operating procedures that allow it to keep on top of its rural development role has grown apace.
- \* **Time Assumptions:** Institution building is not a quick process. PDP, like other such projects, has generally been over-optimistic about how quickly it could promote institutional change. The unresolved stress between the need for donors and central governments for quick results in

aid projects and the reality that complex changes in bureaucracies dealing with rural development occur gradually and incrementally is a major dilemma for programs like PDP.

### Recommendations for Promoting Sustainability

The following actions should be considered to promote the sustainability of gains in institutional performance:

- \* A study of the credit program aimed particularly at the institutional questions: How close are we to an effective operating procedure for establishing self-reliant rural credit units? How much financial, technical assistance, and other institutional support is needed to keep credit units viable? Which provincial and local units may be viable? What needs to be done to "save" those that are marginal? Attention to more basic sociological questions would also be useful: Who benefits from the kind of rural credit units supported by PDP? Who should be benefiting? What are the social and economic goals of the rural credit program?
- \* Careful attention should be given to how the multi-year planning systems developed by PDP and LGT-II might be combined to provide a useful tool for planning locally-funded and external project funds at the district level. If, somehow, they could be used as a basis for new Regional Five-Year Plans (Repelitada) then the new planning process might actually reduce the work load of local Bappeda while increasing their effectiveness.
- \* If Bappenas were willing to commit a portion of current GOI PDP funding to PDP provinces for a transition period of 2-3 years then it might be easier to sustain some PDP-initiated programs at the district level.
- \* A key element in sustaining PDP gains will be efforts to encourage local analysis of the costs and benefits of various PDP activities. A short list of cost-effective

activities in each district and province would provide a basis for determining priorities for continuing sub-projects and searching for funding.

- \* Efforts should be made in the remaining months of PDP to analyze, discuss, and publicize its achievements and weaknesses. Like all decentralized, people-oriented rural development programs, PDP does not easily attract the attention of senior policy makers.

#### WAS PDP WORTH DOING?

That question can approached in a number of ways. Did beneficiaries profit from the program? Did local institutions gain and retain skills and resources needed for effective rural development? Did BANGDA acquire technology and resources that will allow it to better perform its oversight role? Was USAID's and the GOI's money spent in ways that maximized achievement of the project's social, economic, and institutional goals?

To the extent that this reviewer is able to answer that question from those various perspectives the answer would seem to be clear: PDP has been worth doing.

From an individual beneficiary perspective, a high (77%) percentage of relatively poor people increased their incomes. On average -- including those who made no gain -- beneficiaries' real net income grew approximately 11-18% per year. The percentage reporting a gain increased over time. Non-beneficiaries generally thought that beneficiary incomes had improved relative to their own as a result of PDP. Finally, many cases were reported of spread effect: of non-beneficiaries adopting income and employment generation or conservation techniques initiated by PDP.

From the perspective of local planning boards and local technical agencies much was gained. Training and study-travel opportunities allowed their staff to gain much-needed skills and to observe successful programs and practices in other areas.

They benefited from technical assistance which encouraged innovation in work practices. They added office equipment and transport which provided them with the tools they needed to improve their performance. Most importantly, they gained opportunities to plan and manage locally-sensitive rural development, to learn from rural development experience.

The major cloud on this picture of local institutional development is that after the flow of project funds ceases provincial and district governments may not have the financial resources to continue rural development activities and retain institutional capabilities.

This evaluation did not explicitly look at BANGDA. However, it is clear that BANGDA acquired training and new skills for its staff, increased opportunities to travel to the regions for consultation and monitoring, access to technical assistance, office equipment, and an opportunity to learn from project experience. It also acquired a range of new responsibilities which may, at times, have caused headaches.

From the perspective of the donor and the GOI the important questions about PDP have to do with achieving goals and doing them in the most cost-effective way. If beneficiary targeting and economic gain achievements were significant, we still need to know whether PDP was a cost-effective way to achieve those gains.

That question can only be answered by analyzing PDP's costs and benefits. The SRI Household Survey attempted to do this for direct beneficiary impact sub-projects in the 1978/9-1984/5 period. Their estimate was, that for this period, for every Rp. 100 budgeted and spent on direct beneficiary sub-projects, PDP beneficiaries gained Rp. 69 in average, annual net gain. In other words, PDP's direct beneficiary sub-projects yielded a rate of return of 69% per year. Average rates of return varied from a low of 50% p.a. in the fisheries sector to a high of 165% p.a. in the small industries sector. These estimates weigh direct input costs of beneficiary impact projects against beneficiary gains. They exclude overhead costs such as routine salaries or expenses incurred in training, management, and evaluation sub-projects that are aimed at enhancing institutional performance. However,

they indicate a very favorable rate of return that is all the more remarkable because much of it occurred in the early years of PDP, and presumably, under-reflects improving institutional performance.

A calculation of cost-benefit ratios based upon total regional (provincial and local) PDP spending, rather than just direct benefit sub-projects yields a .31 ratio. For every Rp. 100 spent, through the 1984-85 budget year on training, credit, evaluation, monitoring, institution-building activities and direct income-generation sub-projects, PDP direct-impact sub-project beneficiaries gained Rp. 31 in annual net real income. If those sorts of rates of return are even close to reality then PDP has been a cost-effective means of creating rural employment and generating income.

PDP's costs per beneficiary have also been very low. More importantly they have declined over the life of the project. Total local (provincial and kabupaten budget) project costs per beneficiary averaged Rp. 144,000 for the 1978/9-1986/7 period and direct beneficiary sub-project costs averaged just Rp. 75,000 per beneficiary for the same period. It should also be noted that per beneficiary costs of direct impact sub-projects fell from Rp. 83,000 in the 1978/9-1982/3 period to Rp. 75,000 in the 1983/4-1986/7 period.

Even when we include total project GŌI and USAID expenditures for central administration, technical assistance, equipment, training, monitoring, evaluation, and direct beneficiary sub-projects, per beneficiary costs average less than Rp. 250,000.

Between 1978 and 1967 salaries and most other government costs more than doubled. This makes PDP's success in reducing the cost of reaching poor beneficiaries all the more impressive.

Gains in income and productive employment similar to those reported by PDP are often much more expensive. Prosterman and Riedinger report that recent World Bank estimates for an industrial sector employment project in Indonesia are that it will cost \$10,000, more than 16 million rupiah, to create one

job. World Bank transmigration project costs averaged more than Rp. 8 million per family in 1979 and produced income gains not dramatically higher than PDP.<sup>2</sup> As an income or employment generation project PDP would seem to be many times more cost-effective than these other programs. This is not a bad result for a rural development program with central and local institution-building responsibilities as well as productive employment generation goals!

#### PDP AND INDONESIAN RURAL DEVELOPMENT

If this evaluation is correct then PDP has made a significant contribution to Indonesian rural development in the eight provinces and 44 Districts where it has been operating. Through beneficiary and institutional spread effect it may have had positive impact far beyond its operating areas and associated institutions. It seems to provide a cost effective model of rural development that touches at least relatively poor segments of the populace. It does that at a time when governments everywhere are looking for ways to cut costs and yet deliver useful services.

The critical question is will PDP's achievements, innovations, methods, and approaches be noticed by key decision makers in the Indonesian government and donor agencies? And if they are noticed will they be studied and used as part of an effort to forge an Indonesian model of decentralized rural development that reaches many of the poor?

Despite its institutional and administrative complexity and its problems with prioritizing goals, PDP has been -- in many ways -- a successful experiment in decentralizing responsibility for planning and managing rural development and productive employment generation for the rural poor. Its lessons deserve further attention. They may provide clues, not just for dealing

Roy L. Prosterman and Jeffrey M. Riedinger, "Indonesian Development and U.S. Aid", Rural Development Institute Monographs on Foreign Aid and Development, (No. 3, Jan. 1987): p. 35.

*Ibid.*, p.45. And more recent costs are much higher.

with the problem of rural poverty, but also, for coming to grips with problems of the delivery of a whole range of public services to rural, sometimes isolated, communities. Infrastructure projects, environmental protection activities, the delivery of agricultural extension services, and many other government programs may benefit by emulating PDP's efforts to promote the decentralization of management and a focus on project and beneficiary impact. PDP has been a useful experiment. If attention can be focused on the practical, operational lessons from PDP then it can be a launching pad for something much more valuable.

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\*A large number of consultants' quarterly and final reports were also consulted as well as project correspondence, minutes of meetings, local government PDP reports, provincial evaluations, sub-project budgets and the project data base. A partial listing of these materials is available at the USAID Jakarta office.