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Project Assistance Completion Report

## THE PROVINCIAL AREA DEVELOPMENT PROGRAM ( PDP ) I

Project No. 497 - 0264

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United States Agency for International Development

Jakarta, Indonesia

February 1989

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## PROJECT ASSISTANCE COMPLETION REPORT THE PROVINCIAL AREA DEVELOPMENT PROGRAM (PDP) I

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## GLOSSARY OF ACRONYMS AND ABBREVIATIONS

APBD	'Anggaran Pendapatan dan Belanja Daerah' or regional budget.
APBN	'Anggaran Pendapatan dan Belanja Nasional' or national budget.
BANGDA	'Pembangunan Daerah' or regional development. This acronym stands for the Directorate General for Regional Development of the Ministry of Home Affairs (MOH).
BAPPEDA	'Badan Perencanaan Pembangunan Daerah' or Regional Development Planning Board which exists at the provincial and kabupaten (district) levels.
BAPPENAS	'Badan Perencanaan Pembangunan Nasional' or National Development Planning Agency.
BKK	'Badan Kredit Kecamatan' or subdistrict credit body. It is the name of the rural credit system under the PDP I in Central Java.
Dinas	Technical Service Agencies at the provincial and district levels.
GOI	Government of Indonesia.
IFY	Indonesian Fiscal Year.
Inpres	'Instruksi Presiden' or presidential instruction. This acronym stands for a type of central government grant to local governments channeled through the Ministry of Home Affairs. The aim of the grant is to promote more equitable development among regions in the country.
Kabupaten	A district, the primary subdivision of a province, comparable to a county or shire; headed by a Bupati.
Kecamatan	A subdistrict, the primary subdivision of a kabupaten, headed by a Camat.
MOF	Ministry of Finance.
MOH	Ministry of Home Affairs.
PAD	'Pendapatan Asli Daerah', provincial or district government's income.
Pimpro	'Pimpinan Proyek' or project officer.
PPWK	'Program Pengembangan Wilayah Kecamatan' or subdistrict area development program. It is a multi-sectoral subproject at subdistrict level in Central Java; headed by the Camat (Pimpro).
PUOD	'Pemerintahan Umum dan Otonomi Daerah'. It is a directorate general within MOH.

THE PROVINCIAL AREA DEVELOPMENT PROGRAM (PDP) I  
PROJECT ASSISTANCE COMPLETION REPORT

INTRODUCTION

This Project Assistance Completion Report on the Provincial Area Development Program (PDP) I summarizes briefly the performance of the project including the provision of inputs, achievement of outputs and purposes, and also addresses the issues which still need to be tackled after completion of the project. This report makes liberal use of a report entitled LEARNING FROM PDP - EVALUATING THE PROVINCIAL AREA DEVELOPMENT PROGRAM which was written by Dr. James Schiller. A synoptic paper entitled "Rural Development Strategy: Learning from the Provincial Development Program" based on his report was presented at the PDP National Conference conducted at Gajah Mada University in April 1988 and appeared in PRISMA magazine in December 1988. This paper is found in Attachment III to this report.

This report also utilizes a number of other reports and documents produced under the project, including evaluations conducted by Local Governments and other institutions, consultants' reports, AID documents, etc. A list of these publications is provided in Attachment I. All of these documents are available at the USAID/ARD Office, and some of the more important documents are also available at the USAID Information Center. DAI consultants' reports are also available at the DAI Office in Jakarta. In addition, a list of consultants contracted under PDP I is presented in Attachment II.

I. OVERVIEW OF THE PROJECT

BACKGROUND. In the 1970's a number of Inpres and other programs were launched by the Central Government of Indonesia (GOI) in order to promote more equal development between regions. However, those centrally

planned development programs frequently failed to achieve their intended objectives. As a result, a great proportion of the poor rural people were left untouched by government-sponsored development programs. The PDP was initiated in 1976 in order to overcome this problem by promoting equity and decentralization of development administration to lower levels of governments. PDP was viewed as an experimental and innovative program by the GOI to search for a workable means of reaching and assisting the majority of the rural poor. The project was implemented in two phases; Phase I from FY 78 to FY 81, and Phase II from FY 83 to FY 87.

PURPOSE. The three inter-related purposes of the PDP I as stated in ANNEX 3 of the PDP Project Paper Amendment were:

1. to increase the production and productive capacity of rural poor;
2. to increase the capacity of local government agencies (BAPPEDAs and Dinases) in target areas to undertake annual planning and to plan, implement, monitor, and evaluate rural development activities which increase the productive capacity and income of the rural poor; and
3. to increase the capacity of central government agencies (BANG-DA) to support local government agencies in target areas to undertake the above activities.

TARGET GROUP. The target group of the project was comprised of the poor rural people in the districts selected for project implementation and selected government entities responsible for local development programs targeted on the rural poor. The rural poor in Central Java specifically identified by the Planning Board were the landless, near landless, and those with more moderate holdings, but situated on unproductive lands. In Aceh, the poor were defined as those with sufficient land holdings, but whose production level was very low due to inadequate or poor agricultural technology.

TARGET AREA. In Phase I, the target area included six districts in Central Java; namely Demak, Kudus, Pati, Jepara, and Rembang and two districts in Aceh namely Aceh Besar and Aceh Barat. Phase II added two more districts in Central Java namely Blora and Grobogan and two districts in Aceh namely Aceh Selatan and Aceh Tenggara. Within each district a number of subdistricts and only selected villages receive project assistance.

PROJECT INPUT. The project inputs included funding for technical assistance, training, purchase of commodities, and subprojects which were planned and implemented at the local level. Total AID funds actually committed for these activities during the project was \$14.2 million.

ADMINISTRATION. At the central level, the major USAID counterpart was the Directorate General for Regional Development (BANGDA) within the Ministry of Home Affairs (MOH), assisted by the National Development Planning Board (BAPPENAS) and the Ministry of Finance (MOF). In the earlier years of the project BANGDA was only a directorate under the Directorate General for General Administration and Regional Autonomy (PUOD) and was separated and elevated in status, due particularly to its performance in managing PDP, in 1982. At the local level, AID worked closely with the Provincial and District Governments, particularly the Regional Development Planning Boards (BAPPEDA) and the relevant technical services (Dinases) at both levels.

## II. CURRENT STATUS

The PDP Grant and Loan Agreements were signed on September 29, 1977 and on April 12, 1978 respectively. The project assistance completion date (PACD) was April 12, 1988 and the terminal disbursement date (TDD) was January 12, 1989.

A technical assistance contract with Development Alternatives, Inc. (DAI) was signed on June 23, 1978. The last voucher was submitted to AID on April 20, 1988. A completed contractor release has not yet been received, but it is not anticipated that there will be any additional claims.

All participants completed their training courses and returned to the original positions in their institutions. A great proportion of these participants are still occupying the same positions and others have been moved to new or higher positions within or outside of their original institutions.

Nine jeeps were procured under the project; eight for utilization at the provincial level and one at the central level. Five of these vehicles are still being used for project-related activities.

A total of 1,119 subprojects were completed in two provinces at a value of 15.92 billion rupiahs. Eleven subprojects in Aceh were rejected for reimbursement because they were not completed as agreed upon.

Since PDP was viewed as innovative and experimental in nature, evaluations and reviews were conducted relatively frequently. The following evaluations were managed at the central level. In addition, several evaluations were conducted locally, in Central Java and Aceh.

A RIG/A/M audit was conducted in 1987. The report made three recommendations for developing measurable indicators towards the achievement of project purpose, financial accountability, and for developing an orderly transfer of the project to the GOI. These audit recommendations have all been closed.

<u>Date of Evaluation</u>	<u>Evaluator/Evaluation Team</u>	
1979	Institution building component of PDP	Amrah Muslimin, Mochtar Buchori, and George Honadle.
1980	Institution building capacities in PDP	Jerry Vant Sant, Gary Hanson, Sofyan Effendi, Mochtar Buchori, and George Honadle.
1981	Overall performance of PDP Phase I	Jerome French, Loekman Soetrisno, Dwight King, Jerry Vant Sant, Bruce Galssburner, Mark Poffenburger, and Soesiladi.
1982	PDP credit system	Gonzales-Vega.
1982	PDP information system	Michael Morfit, Donald Micklewait, Robinson Tarigan, Mastuhu.
1986	Beneficiary impact of PDP	SRI/Indonesia.
1987	Institutional impact of PDP	Helen Cruz, Chairil Rasahan, Sri Harjadi, Soesiladi, Soewaji.
1987	General audit	RIG/A/Manila.
1987	Synthesis of beneficiary and institutional impact evaluations on PDP	James Schiller.
1988	PDP credit system	Jack Duckesbury, Christopher James.
1988	PDP planning system	Firman Aji.

### III. PROJECT ACCOMPLISHMENT

PROVISION OF INPUTS. In general, the project inputs were delivered satisfactorily, although at the beginning of the project the provision of technical assistance and initial release of funds for subprojects from the central to local governments were delayed. These problems were addressed and corrected so that there was no adverse effect on the project as a whole.

Inputs provided under the project included expatriate and local technical assistance, overseas and incountry training, selected commodities and equipment, and financing for subprojects. A total of 431 person-months (pm) of technical assistance was provided to local and central governments. This total included 125 pm of short-term technical assistance, comprising 35 expatriate and 9 domestic consultants in various fields of expertise such as rural development planning and management, agriculture (foodcrops), agro-forestry, fisheries, small-scale industries, information systems, rural credit, community development, training, and livestock. Attachment I provides a list of consultants, their expertise and dates of service. The DAI Chief-of-Party (COP) was situated at the central level and provided technical assistance to the Directorate General for Regional Development. Other consultants were attached to the BAPPEDAs in Central Java and Aceh.

Approximately 800 government officials from the local and central governments and more than eight thousand subproject recipients were trained. Training occurred both incountry and abroad in various fields such as rural regional development planning, integrated rural development, community development, planning and information systems, and a number of other special and technical fields. Of the government officials who received training, three obtained Masters degrees in the United States. Many of those people trained under the project are still assigned to PDP and others have been transferred to other offices/divisions to assume different or higher responsibilities.

Project vehicles purchased under PDP I included nine jeeps. Eight were utilized at the provincial level and the other one at the central level. Five of these vehicles are still being used for project-related purposes.

Assistance for subproject financing provided partial funding of 1,119 subprojects at a value of Rp 15.92 billion (USAID contribution was approximately Rp 9.105 billion) in the two PDP I provinces of Central Java and Aceh. Most of the subprojects were implemented by the district, some by the subdistrict and the rest by the provincial governments. The subprojects, which were responsive to local needs, fell into several different sectors/subsectors such as foodcrops, livestock, fisheries, estate crops, agro-forestry, small-scale industries, training and administration. Most of these subprojects were aimed at increasing the productive capacity and incomes of the targeted rural poor, and others were aimed at increasing the administrative capabilities of local governments.

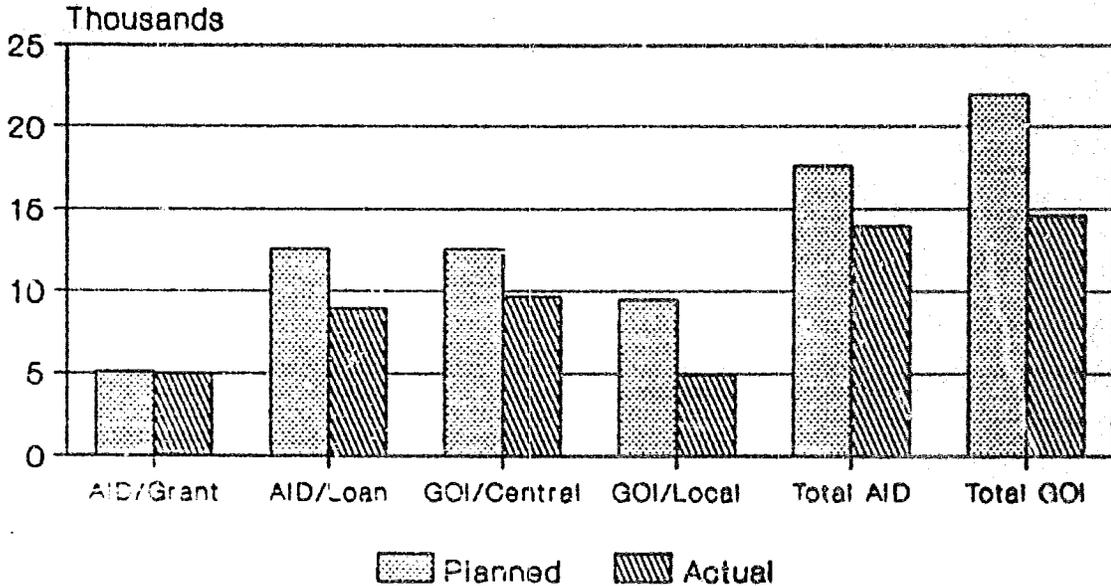
During the life of the project, the GOI made both cash and in-kind contributions particularly for administration, planning, monitoring and partial financing of subproject activities. The following illustrates a comparison between the AID and GOI contributions and the planned and actual budgets as a whole.

Planned vs. Actual Budget  
(\$000)

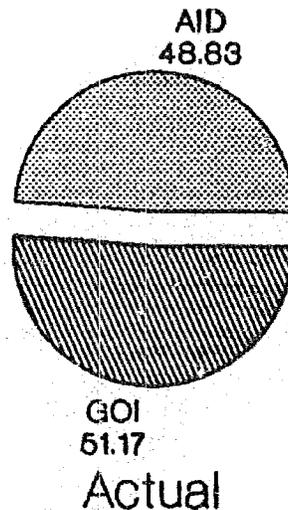
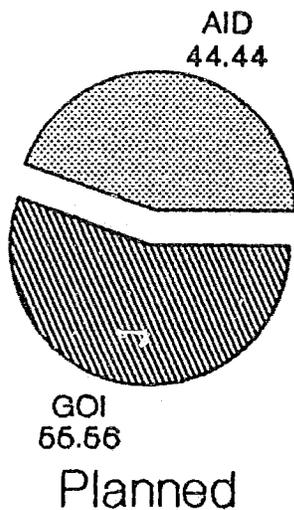
Project Elements	AID		GOI <sup>1</sup>		TOTAL
	Grant	Loan	Central	Local	
<u>Planned<sup>2</sup>:</u>					
Tech. Assist	4,450	1,453	1,500	1,500	8,903
Training	450	300	300	400	1,450
Commodities	200	150	1,100	1,000	2,450
Subprojects	0	10,597	9,600	6,600	26,797
Total:	5,100	12,500	12,500	9,500	39,600
<u>Actual<sup>3</sup>:</u>					
Tech. Assst	4,437	1,347	834	1,527	8,145
Training	451	251	19	277	998
Commodities	121	0	120	1,392	1,633
Subprojects	0	7,333	8,705	1,735	17,773
Total:	5,009	8,931	9,678	4,931	28,549

1. GOI contributions include: (i) technical assistance, namely, provision of office space in BANGDA and the BAPPEDAs of Central Java and Aceh, salaries of full-time GOI counterparts at the central and provincial levels, and travel and per diem costs for full-time BANGDA counterparts; (ii) training, namely, additional allowances for all GOI participants and incountry travel, per diem, and taxes for out of-country training participants; (iii) commodities, namely, procurement and rent of vehicles and purchase of office furniture, equipment, and supplies at the central and local levels; and (iv) subproject financing, namely, budgeted contributions by the central and local governments for funding of subproject activities.
2. USAID. PDP I Project Paper Amendment, p. 35.
3. This reflects expenditures as reported in the MACS report of December 31, 1988.

# Planned versus Actual Budget PDP I - AID and GOI (\$000)



# Planned versus Actual Budget PDP I - AID and GOI (Percentage)



As can be seen from both the tabular and graphic presentations of the PDP I budget, AID's actual disbursement of both grant and especially loan funds was less than planned. This was primarily due to the increasing strength of the US dollar against the Indonesian rupiah. At the time the project was planned the rate was \$1 = Rp 425; at the time this report was written the rate was approximately \$1 = Rp 1,730, an increase of more than 400 percent over the past ten years. This resulted in two deobligations of funds: one in May of 1987 of \$3.27 million of loan funds and a second in September of 1988 of \$53 thousand of loan funds and \$71 thousand of grant funds. An estimated \$265 thousand of loan and grant funds (\$90 thousand grant and \$175 thousand loan) will be unobligated after the TDD.

It should also be noted that the GOI contribution, although smaller than planned (due in part to the exchange rates mentioned above), constituted about 51.2 percent of the total actual budget. This level is significantly above the required minimum host country contribution of 25 percent. The Project Paper Amendment (page 34) stated that GOI contribution during the second phase of PDP I from 1983 to 1987 would reach a level of at least 50 percent of total subproject costs. The GOI did not meet the anticipated 50 percent contribution to subprojects during this period, largely due to the impact of lower world oil prices on governmental revenues.

ACHIEVEMENT OF OUTPUT. The Project Paper Amendment classified three major categories of the project outputs, namely (i) completed subprojects, (ii) improved capacity of local government, and (iii) improved capacity of central government (BANGDA). The following is a summary of the project accomplishments.

As stated earlier, a total of 1,119 subprojects were completed in the two PDP I provinces of Central Java and Aceh. These activities were valued at Rp 15.92 billion (USAID contribution is approximately Rp 9.105 billion). These subprojects were spread away among several different sectors, and implemented at different levels of government. Of the comp-

leted subprojects in Central Java, those packages considered to be successful were in integrated agriculture, foodcrops production, livestock proliferation, fish-pond establishment, assistance to poor families, skills training, subdistrict area development (PPWK), and the rural credit (BKK). The subprojects not considered successful were those of eels and fish cultivation in public waters, mixed breed chicken raising, silage production, land conservation, and sea-water distillation for drinking water. Lack of success was often attributed to insufficient technical instruction of subprojects recipients and/or inadequate feasibility studies.

Of the successful subprojects in Central Java three subprojects were considered outstanding. These were the BKK, the PPWK and the livestock (particularly goats and sheep) subprojects. The BKK system has been replicated in other provinces in Indonesia. The PPWK system has been replicated in all subdistricts in Central Java using APBD funds since 1983. This same system is being tested in the province of NTT. The livestock proliferation system, though not yet replicated province-wide, has shown good impact and generated a great deal of enthusiasm among beneficiaries. It is now one of the most popular subprojects in Central Java.

In Aceh, there were no subproject packages that were as successful as those in Central Java. Among the more successful were the agricultural packages which included diversification, introduction of improved technology, and construction of irrigation networks. The embroidery and 'rencong' traditional dagger production packages in the small-scale industries sector also showed notable impact on beneficiaries' income. The subprojects that were not considered successful were the salt production and marine fishery subprojects. As in Central Java, lack of success was attributed primarily to insufficient technical support of the subproject recipients and/or inadequate feasibility studies.

The rural credit system in Aceh in the earlier years failed due to an inappropriate administrative structure in that the Dinases were made responsible for distribution and collection of repayment of loans. Because of this problem, Aceh adopted the Central Java BKK rural credit system where in the Regional Development Bank (BPD) administers the credit program at both the provincial and district levels. In December of 1988 there were 19 rural credit units, most of which were operating smoothly. It is believed that the rural credit system in Aceh will continue to expand, provided that local government continues its commitment to funding and supervision.

In addition to the replicable subproject packages, improved planning and information systems were also in place in the two provinces. The new PDP planning system was introduced by the Central Government and USAID to the local governments in 1983. An improved information system, which was one of the outcomes of the PDP National Conference conducted in Ciloto in 1985 was adopted by the provinces immediately after the conference. Both of these systems are now in place and operational.

Staff capability, particularly in planning and management of subproject activities at both the provincial and central levels, increased considerably due to the various training activities conducted and the technical assistance provided. The strong PDP I technical assistance team and the various training activities discussed earlier contributed to the achievement of this project output.

The rural poor orientation of the project and the appointment of BAPPEDAS at both the provincial and district levels to exercise authority in controlling the project funds had a very positive impact on strengthening local government structural integration and coordination both vertically and horizontally. This was evident both in Aceh and more clearly so in Central Java. Vertically, PDP I successfully delegated authority for planning and management of development from the central level to the provincial level and for some functions to the district and subdistrict levels. To a certain extent the thrust of decentralization even reached

down to the villages. Horizontally, with the coordination of the BAPPEDAs, the Dinases were able to better communicate and coordinate their activities, especially in achieving the mutual project purposes.

ATTAINMENT OF PROJECT PURPOSE. In 1981, at the end of PDP I Phase I, an evaluation was conducted on PDP I and II. The general findings of the evaluation were:

1. The GOI had demonstrated a genuine commitment to the program and its purposes.
2. There was a need to clarify the program concept and purpose with more specific operational objectives and priorities regarding area choice, recipient choice and subproject activities.
3. There was evidence that some subprojects had improved the productivity of beneficiaries and that improvements in production had positively affected incomes, either directly, through employment effects or through enhanced self-confidence and self-determination.
5. USAID's participation in PDP design, implementation, training and subproject financing had helped build a base for further accomplishment as well as the potential realization of sustainable impact on both GOI institutional structures and targeted subproject beneficiaries. It was recommended that the PDP (Phase I) be extended for another four year period.

Based on the 1981 evaluation findings and recommendations, PDP I Phase I was then extended to a second phase; the PACD was extended from April 12, 1983 to April 12, 1988. In 1986 and 1987 two major evaluations were conducted on PDP I and II to measure PDP's impact on beneficiaries and institution building. Other smaller evaluations were also conducted, for example: comprehensive evaluations on the PDP I in Central Java by

the Gajah Mada University (1986 and 1987), evaluation on the PDP credit component by DAI (1988), and the evaluation on the PDP planning system by Firman Aji (1988). The primary findings and conclusions are:

1. Impact on beneficiaries. The project has had a significant positive impact on beneficiaries. Its targeting success has been quite high, average real net beneficiary gain represents an 11-18% real increase in average annual household income for recipients reporting a gain, and the sustainability rate for beneficiary gains is an estimated 58%.
2. Impact on institutional capacity. The planning and management capacity of local institutions has improved tremendously as measured by the district-level case studies illustrating that local learning has occurred, and the numerous innovative sub-projects and structural innovations initiated.
3. Prospect for sustained institutional performance. It appears at this early point in time that there is less cause for optimism about the prospects for sustained gains in institutional performance, except in Central Java, than other aspects of the project because it requires a higher level intervention.
4. Cost benefit. PDP was judged to be worth doing from the high percentage of relatively poor people who increased their incomes as a result of the project and the many reported cases of non-beneficiaries who adopted PDP's techniques; the technical assistance, equipment, and learning opportunities provided to local agencies and BANGDA; and the sub-projects very favorable rate of return.
5. Spread effect. In addition to its significant contribution to rural development in project provinces, PDP may have had a positive impact far beyond its operating areas and associated institutions.

The findings of the evaluation by P3PK of Gadjah Mada University in 1986 of the Central Java subprojects of fiscal 1980/81 and 1983/84 illustrate the significant impact of PDP upon the targeted beneficiaries. Summarized in brief the findings state that:

1. Unemployment or semi-unemployment was reduced by increased utilization of family manpower by an average of 90 hours per family a month.
2. Subproject revolving systems managed by members of targeted groups contributed to an increase in community dynamism.
3. Almost all recipients (90%) said that PDP had a positive impact in increasing family income, and that this increased income was used for such things as additions to capital, purchases of agricultural implements, payment of school fees, home repair and the like, the value of which ranged between Rp7,000- and Rp83,000- per recipient.
4. The community was not reluctant to make contributions to projects in the shape of funds, land or other assets, valued at an average of Rp25,570-per household due to the demonstrated positive impact on income of PDP activities.

A concrete example of the institutional impact of PDP I is the decision by the provincial governments of both Aceh and Central Java to provide funding to continue successful PDP activities beyond the PACD. USAID has been informed that the provincial government of Aceh has provided 80 million rupiah for IFY 1988/89 in order to continue PDP activities in that province. This amount is significant in terms of the overall provincial budget. Central Java has set aside 300 million rupiah annually from its own budget since IFY 1982/83 and this share has increased over that past years. Central Java will continue to use more

funds in this direction, both to continue activities in the PDP districts and to expand to a new district, as indicated in the Central Java PDP Workshop conducted in early April 1988.<sup>4</sup>

Beginning in fiscal 1983/84, the Central Java BKK rural credit system financing was assumed by the Financial Institutions Development (FID) project. The FID project was developed on the basis of experience gained from related PDP activities in Central Java. The BKK also received soft loans from the Department of Finance amounting to 3 billion rupiah in fiscal 1980/81. This credit system was taken as a model by other provinces, namely, Aceh which now has 19 units; Bengkulu, with 29 units; South Kalimantan, with 30 units, and Nusa Tenggara Barat, 30 units. These four provinces outside Java are now planning to further develop the rural credit system by adding funds and opening new units.

The Central Java Subdistrict Area Development Project (PPWK) has been adopted province-wide since IFY 1982/83. This province-wide program, called 'PPWKT', was implemented in 492 subdistricts with a total budget of 2,9 billion rupiah. In IFY 1988/89, the total budget and the number of subdistricts have increased to 3,3 billion rupiah and 502 subdistricts respectively.

RIG/A/Manila recommended development of a plan for orderly transfer of PDP operations to the GOI. (Audit Report: 1987). In the original and amended project papers, the PDP projects were specifically designed to be implemented within the existing governmental system. This approach was intended to ensure that the lessons learned from the projects could be applied within the existing systems and to lessen or eliminate the problems associated with turning over new systems or procedures created to the GOI upon completion of the project. This approach has proven to

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4. BAPPEDA Central Java. Workshop Proceedings on the Completion of GOI-AID Cooperation concerning the Provincial Area Development Program in Central Java. Semarang: April 1988, p. 3.

be appropriate and effective as shown by the indicators mentioned above, Central Java and Aceh having already allocated and are planning to continue allocation of their own funds to continue the PDP activities in their respective provinces.

With 10 years' experience in carrying out PDP, Aceh and Central Java now possess reliable infrastructures with which to attack rural poverty, namely, improved staff and institutional capacity, improved planning and information systems, and replicable subproject packages which have proved to be effective in increasing rural employment and incomes. Central Java has shown strong indications that they are continuing current PDP activities and even expanding them to a new district. PDP results in Aceh are less conclusive as only Rp 78 million of local funds were allocated for continuing PDP activities.

#### IV. POLICY LESSONS AND STRATEGY QUESTIONS

A number of lessons have been learned from the execution of PDP in Indonesia. The following is summarized from the Schiller paper:

1. The beneficiary and sub-project selection process in future rural development programs should be more rigorous and explicit.
2. Much more needs to be learned about which sectors, kinds of activities, and planning management approaches have worked in the project.
3. A well planned and small-scale longitudinal study of a cross section of beneficiaries would be helpful.
4. Efforts should be made to ensure that the skills, techniques, and approaches learned in PDP are disseminated as widely as possible at every level of government.

The PDP National conference conducted cooperatively by the Research Center for Rural and Regional Development (P3PK) of Gajah Mada University, BANGDA, and USAID in April 1988 concluded the following:<sup>5</sup>

The National Conference, which has been appraised by the participants as sufficiently successful, focused on PDP as a development philosophy which should be examined more carefully by both development planners and implementors in the country. As a development philosophy, PDP sets out to encompass a variety of regional development policies, and, as far as possible implement decentralization which aims towards regional autonomy. One policy implication of PDP philosophy is flexible implementation of these programs which are adjusted to the conditions and aspirations of the community in each region. If each of these programs 'tolerates' flexibility and adjustment to local conditions and aspirations, then community participation and bottom-up planning can truly be carried out.

There is a suggestion to assign PDP more concretely as a system or model of development. Since PDP as a development system or model has successfully provided a vehicle for various equity programs, PDP supporters wish to realize the continuation of the system or model, even if all of its funds come from regional or national budget. As a system, it indeed needs the support of agencies which are capable of establishing ties between vertical and sectoral (national) agencies and local agencies in the regions. As a model, PDP can be studied by other regions which are interested in testing its application in their areas, although adjustment may be necessary.

Finally, PDP can be accepted by all parties as an appropriate approach to development in which each region that plans to implement it must first 'understand' the typical problems of poverty and the economic and social disparities that it faces. Through this area approach, it is hoped that the (poor) community in a certain region will undergo integrated development with the poor population as the primary target. In an area approach, the sectoral and commodity objectives will take second place, while people will be given priority.

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5. BANGDA, P3PK-UGM, USAID. Summary of Conference Findings, Conclusions, Suggestions, and Recommendations. Yogyakarta: 1988, p. 11 - 12.

PDP has gained wide attention from scholars and researchers incountry because of its innovative and experimental aspects, for example, its rural poor orientation, decentralization of project management, bottom-up planning approach, etc. In December of 1988, the PRISMA Magazine published a volume (Number 45) which focused specifically on rural regional development experience in Indonesia. This special English Edition Volume of PRISMA contained eight articles, five of which dealt with PDP.

V. POST-PROJECT MONITORING AND EVALUATION

MONITORING. The continuation of activities under PDP I in Central Java and Aceh will continue to be monitored by USAID and BANGDA during the remaining time of the PDP II in 6 other provinces (PACD of PDP II is December 1, 1989). BANGDA has formed a National Supervisory Team under the USAID-assisted Financial Institutions Development (FID) project. The team is responsible for providing guidance and supervision to local governments on matters concerning rural credit institutions established by both FID and PDP.<sup>6</sup>

EVALUATION. A beneficiary study of Aceh and Central Java will be conducted in mid 1989 in conjunction with the final evaluation of PDP II in 6 provinces of Bengkulu, South Kalimantan, West Java, East Java, Nusa Tenggara Barat (NTB), and Nusa Tenggara Timur (NTT). This evaluation, and other evaluations conducted earlier concerning the PDP planning and financial systems, are in line with Audit recommendation No. 1 to improve the system for measuring progress toward the project's goal and purposes. (Audit Report: 1987).

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6. BANGDA letter to AID No. 050.05/2675/Bangda dated November 14, 1988 concerning the National Supervisory Team of the Financial Institutions Development (FID) project.

This Project Assistance Completion Report on the Provincial Area Development Program I has been:

Approved : Marcus L. Winter  
 Marcus L. Winter  
 Acting Deputy Director

Date : 3/3/89

Disapproved: \_\_\_\_\_  
 Marcus L. Winter  
 Acting Deputy Director

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 Drafted:ARD:Adiwiyana:01/20/89:(8428P)

Distr.: DIR, DD, PPS, FIN, ANE/PD, Indonesian Desk, J&T/Div, PPC/CDIE

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LIST OF PDP I CONSULTANTS.

NO.	NAME	SPECIALIZATION	DURATION
<u>CENTRAL JAVA:</u>			
1.	Richard Patten	Rural Credit	1977 - Okt. 1983
2.	Bennendson	Rural Engineering	1977 (3 bulan)
3.	Maurice Sorenson	Agr. Economics	August 1977
4.	Robert Dodd	Agr. Development	August 1977
5.	Mark Bordsen	Comm. Development	1977 (3 bulan)
6.	John Duewel	Dev. Sociology	1977 (3 bulan)
7.	Hawkworth	Economics	1977 (3 bulan)
8.	Jerry Silverman	Dev. Planning/Mgt.	1978 - 1980
9.	Van Der Goot	Rural Engineering	1978 - 1980
10.	Hans Meier-Eibers	Agriculture	Jan. - Nov. 1981
11.	Donald Emmerson	Rural Development	Jul. 1979 - Sep. 1979
12.	Allan Roth	Information System	Sep. 1978 and Feb. 1979
13.	Willem Heyneker	Winged Bean	1979
14.	Harvey C. Neece	Agriculture	June 1979 - Sep. 1979
15.	Barbara Brower	Rural Industries	1980 (1 month)?
16.	Dick Vittatow	Training	1980
17.	John Hannah	Training	1980
18.	John B. Raintree	Rural Industries	January 1980
19.	Ann Soetoro	Rural Industries	Feb. 79 - Jan. 81
20.	Nancy Straughan	Rural Industries	Dec. 1981 - May 1982
21.	Gordon Hatcher	Small Ruminant	1983 (2 months)
22.	Victor Bottini	Dev. Planning/Mgt	1984 (3 months)
23.	William Ruscoe	Agriculture	Jan. 1983 - Sept. 1984
24.	Gary Kilmer	Rural Industries	Dec. 1983 - Jan. 1984
25.	Mochtar Buchori	Information System	1984 (short-term)
26.	Ali Mufiz	Information System	1984 (2 months)
27.	Amin Husni	Information System	1984 - Feb. 1987
28.	Jerry Van Sant	Information System	1984 (2 months)
29.	Jay Rosengard	Information System	1984 (2 months)
30.	Drh. Soedito	Small Ruminant	Feb. 1983 - Feb. 1987
32.	Drs. Widada	Comm. Development	Oct. 1985 - Feb. 1987
32.	Hazairin Dachlan	Rural Industries	Oct. 1985 - Feb. 1987
33.	Hesti R. Wijaya	Agriculture	Oct. 1985 - Feb. 1987
34.	Jack Dukesbury	Dev. Planning/Mgt.	August 1980 - Jul. 1987
<u>ACEH:</u>			
1.	Bruce Dear	Credit	Dec. 1987 - June 1988
2.	Christopher James	Credit	Apr 1986 - May 1987

NO.	NAME	SPECIALIZATION	DURATION
3.	Ir. Boiran MSc	Food Crops	1985
4.	Drs. Gunawan M.S.	Livestock	1985
5.	Zainal A. Pian	Agriculturist	1982
6.	Charles Daloz	Agriculturist	Sept. 1982 - Sept. 1984
7.	Bruce Harker	Planner	Aug. 1980 - Mar. 1987
8.	S. Ubungen, Jr.	Food Crops Spec.	Jan 1980 - June 1981
9.	A. M. Gonzalvo, Jr.	Agriculturist	Jan 1980 - June 1980
10.	Gordon Means	Planner	Apr. 1980 - Oct. 1981
11.	John Anderson	Food Crops Spec.	Aug. 1978 - 1980
12.	E. Tavanlar, Sr.	Planner	1977 - April 1980
13.	Apacible	Agriculturist	short-term
14.	Robert Drew	Agriculturist	1981
15.	Nancy J. Terrer	Nutrition	Short Term
16.	Eric E. Morris		Short Term ( 1 month)
17.	M. T. Anderson	Handicraft Trg. Spc.	Short Term
<u>JAKARTA:</u>			
1.	John Taylor	COP, Planning/Mgt.	1985 - 1986
2.	Jack Dukesbury	COP, Planning/Mgt.	1986 - 1987
3.	Don Mickelwait	Info System	1982 (short-term)
4.	Mike Morfit	Info System	1982
5.	R. Tarigan	Info System	1982
6	Mastuhu	Info System	1982

RURAL DEVELOPMENT STRATEGY:  
LEARNING FROM THE PROVINCIAL DEVELOPMENT PROGRAM<sup>1</sup>

Jim Schiller  
USAID Jakarta

What have we learned from 10 years implementation of the Provincial Development Program? Does PDP provide some elements of a successful model for locally managed rural development that reaches segments of the population who would not otherwise share in the benefits of Indonesia's economic development? What PDP innovations and approaches can be applied to other development activities and to other institutional objectives? What policy options should the Government of Indonesia or the Ministry of Home Affairs consider that might sustain or expand the kinds of institutional gains made under PDP and other area development programs? What supporting role might foreign donors play?

PDP has been a ten year long experiment in rural development and I hope that this conference will be able to begin to sort out what PDP tells us about institutional performance and needs, and about approaches, procedures, and systems for equity- and area-oriented rural development. This paper draws upon my synthesis of 1986-7 evaluations of PDP's beneficiary and local (provincial and kabupaten) institutional impact to make some generalizations both about PDP's achievements and about the rural development strategy options PDP experience suggests.

PDP is an ambitious and diverse rural development and institution-building effort with a wide range of target groups in Jakarta, in eight provinces and in 44 kabupaten. By the end of the 1987/88 fiscal year PDP will have had a direct economic

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<sup>1</sup>. The ideas presented here are my own and do not represent the US Agency for International Development or any other institution.

impact on more than 600,000 families<sup>2</sup> and an institutional impact on more than 200 national, provincial and district agencies and organizations across Indonesia. The project consists of thousands of small sub-projects operating in many different sectors. Furthermore, it was intended that each region's projects be tailored to local needs and opportunities.

This diversity of operating conditions, target populations, institutional actors and goals<sup>3</sup> makes it hazardous to generalize either about PDP's achievements or about the wider usefulness of locally successful approaches to rural development. I hope that this conference will carefully search for operating principles and policies that might allow central and local institutions to respond more effectively to Indonesia's diversity and complexity.

It might be useful to begin our discussion by noting PDP's objectives. The 1978 PDP project paper states three goals:

(1) To increase the incomes of the rural poor within the project areas.

(2) To improve the capabilities of local government within the six participating provinces<sup>4</sup> to undertake rural development activities which improve the productive capacity of the rural poor.

(3) To improve the capabilities of the central government to support local government rural development activities which impact on the incomes of the rural poor.

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<sup>2</sup>. This is probably a low estimate. By the project termination date direct impact (income generating) sub-projects will have reached approximately 400,000 families. At least another 200,000 borrowers will have benefited from credit sub-projects. The 600,000 figure does not count beneficiaries of training programs or 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.

<sup>3</sup>. The diversity of project goals and lack of clarity about priorities, especially in the early days of the project, clearly had a negative impact on project achievement and sustainability.

<sup>4</sup>. The number of provinces was later increased to eight.

Recent PDP evaluations, my own evaluation synthesis, and this paper deal only with the first and second goals.<sup>5</sup> I want to briefly examine PDP's beneficiary impact, then discuss the project's institutional achievements, and finally to pose some policy questions and options.

### PDP'S BENEFICIARY IMPACT

PDP was intended to reach low income rural households, to raise their incomes and provide reasonable prospects for sustaining income gains after project assistance had stopped. It would be meaningless to say that PDP had improved institutional capability if it was not possible to make observations about institutional performance in meeting project goals. We can only say that PDP was a successful project if it resulted in cost-effective, economic gains by low-income rural people.

We have considerable evidence about the socio-economic characteristics and reported income gains of direct PDP beneficiaries gathered in an SRI-implemented Household Survey<sup>6</sup> - of more than 4000 beneficiaries of direct impact sub-projects funded from fiscal year 1978/79 through 1984/85. Evidence from the household survey examines PDP's successes in three areas of achievement that contribute toward a strong positive impact:

- (A) targeting low income households;
- (B) producing income gains by beneficiaries and;
- (C) improving prospects for beneficiaries to sustain economic gains made under the project.

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<sup>5</sup> However, it is hoped that discussion of rural development strategy will also touch upon the role that BANGDA does play and might need to play in initiating, monitoring and supporting effective, locally-based rural development.

<sup>6</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. While there are obvious difficulties with precise measurement of income gains, ranking of beneficiaries by wealth and the lack of a control group for comparative purpose, the survey does provide a thoughtful, systematic effort to tell us what has happened to project beneficiaries.

### Beneficiary Selection

My own analysis -- based on a study of SRI's wealth/possession index (and comparison with Susenas data on provincial consumption levels) makes it seem likely that between 56% and 88% of recipients of PDP assistance were from the low (bottom 50%) income group in their province. Beneficiary targeting success (as measured by SRI) may have been closer to 88% in many provinces but the SRI survey did not establish separate ownership norms on their possession index for individual provinces so we can not be certain.

The beneficiary selection process was clearly, 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 at reaching low-income people. It seems likely that 85-90% of their beneficiaries were from relatively poor households. Up to 40% of Small Industries and Small Scale Irrigation sub-project beneficiaries may have been relatively well-off. Entrepreneurs and owners of easily irrigable land tend to be better off than other villagers.

### Economic Gains by Beneficiaries

The average real annual net gain reported by recipients of PDP 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 activities.

There was considerable variation in net gain achievement between sectors, between provinces, and between recipients who were continuing an activity and those starting a new activity.

Small Industries and Small Scale Irrigation projects yielded better average results than did the other sectors.<sup>7</sup> 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 (up to 4.5 times) average gains than poorer or less densely populated ones.

One clear trend in the survey data is that sectors and provinces which reported the highest average net gain tended to do less well at targeting poor people. Except in Central Java, improvements over time in targeting the poor were accompanied by modest declines in average net gain.

It may be that activities which reach poorer people will generally yield lower rates of economic return. It is also possible 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 (higher and more sustainable) results in the long run.

#### Prospects for Sustained Beneficiary Gains

Data for estimating whether beneficiaries will sustain gains into the future is very soft. Analysis of SRI survey data, up to the 1984/85 fiscal year, suggests that 58% of beneficiaries were sustaining project introduced economic activities. 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.

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

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7. They also tended to cost more.

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.

#### 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.

The overall picture is one of substantial progress over the life of the project.

#### Improving Institutional Performance

Institutional performance is the best indicator of institutional capacity. In PDP's case, the question is did local institutions improve at their task of achieving project goals. The evidence from the SRI survey 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.

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 PDP 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

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 project funds administered at or below the district level increased from 64% in the 1978/9-1982/3 period to 75% in the 1983/4-1986/7 period. The portion 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.

It should be noted that the devolution of project management accompanied a significant improvement in achievement of most project beneficiary impact goals. This indicates that local governments have acquired many of the skills and resources necessary to effectively assume more management responsibility for rural development.

#### Institutional Learning

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 the way the managers of local institutions perceived and carried out their tasks would not be terribly meaningful if they did not correlate well with improvements in the project's beneficiary impact and with increasing devolution of project management to the district level.

## Institutional Innovation

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. Innovations in beneficiary impact sub-projects are too numerous to mention.

Local responses to opportunities for innovation varied considerably. It is interesting that different provincial Bappedas came away from the same national consultation with very different ideas about how much freedom there was, for example, to try new monitoring and reporting procedures. Similarly, there seems to have been wide variation in how free kabupaten Bappedas or dinas thought they were to innovate in the provision of inputs or with planning or management procedures.

## SUSTAINING INSTITUTIONAL GAINS

It is still rather early to make firm judgments about which elements of PDP's impact on institutional performance should be and 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>9</sup>

## Institutionalizing PDP Practices and Programs

<sup>9</sup>. The downturn in the Indonesian and international economy make it less likely that the GOI or a donor agency will focus on how to sustain gains made by PDP or how to move on with adequately funded, decentralized rural development.

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 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, 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.

### Spread Effect

A number of PDP-initiated sub-project activities or PDP-supported institutions have been adopted by other central and local government agencies or have been taken up by foreign donor supported projects and seem likely to persist. It would be useful to know more than we do about patterns and successes of institutional emulation of PDP.

COSTS AND BENEFITS: WAS PDP WORTH DOING?

That question can be approached in a number of ways. Did the targeted beneficiaries profit from the program? Did local institutions gain and retain skills and resources needed for effective rural development? Did BANGDA acquire skills and systems 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 socio-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: Yes, PDP has been worth doing.

From an individual beneficiary perspective, a high percentage (77%) of relatively poor people increased their incomes. On average -- including those who made no gain-- beneficiaries' real net income grew 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.

Local planning boards and local technical agencies also 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 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. It would be unfortunate if a lack of central or local finances caused local institutions to lose these skills and work practices.

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. I have already suggested that beneficiary targeting and economic gain achievements were significant. The question that needs to be asked is has PDP found a cost-effective way to achieve those goals? 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, PDP 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 very cost-effective means of generating rural employment.

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 GOI and USAID expenditures for central administration, technical assistance, equipment, training, evaluation, and direct beneficiary sub-projects, per beneficiary costs average less than Rp. 250,000.

Between 1978 and 1987 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 usually much more expensive. Frosterman 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.<sup>9</sup> 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>10</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!

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<sup>9</sup>. 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.

<sup>10</sup>. And more recent costs are much higher.

PDP AND INDONESIA RURAL DEVELOPMENT STRATEGY

If the evaluation findings are close to the mark 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 a time when governments everywhere are looking for ways to cut costs and yet deliver useful services.

However, a decentralized, small-scale, program, trying to reach the rural poor, and operating in hundreds of villages spread across the country is not as "visible" to senior officials and foreign donors as a new dam or a change in legislation. The critical question is will PDP's achievements, innovations, methods, and approaches (and those of other area development programs) be noticed by key decision makers in the Indonesian government and donor agencies? And if they are noticed will they be studied and the lessons used as part of an effort to forge a coherent Indonesian strategy for decentralized rural development that reaches many of the poor?

Despite its institutional and administrative complexity and its predictable 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 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.

### Policy Lessons and Strategy Questions

What are the main policy lessons to be learned from PDP? I want to suggest what I think the data from PDP suggests and what sort of strategy questions it poses.

1. Decentralization or delegation of resources and management can be made to work. Over the project lifetime much of the responsibility for management and planning has been moved from the provincial to the kabupaten and kecamatan level with noticeable gains in institutional performance in such areas as: selecting beneficiaries, delivering appropriate products and extension services, and raising and sustaining growth in beneficiary incomes.

We have numerous cases where similar activities carried out by local kabupaten management under PDP and by technical agencies under the Inpres programs were more successful or less expensive when planned, coordinated and/or managed by the kabupaten.

This suggests that regional development might be done more cost-effectively if local Bappedas (or the kabupaten government) were granted a pot of centrally-provided funds which they could use to negotiate with provincial and central agencies to implement development activities.

2. Area development in which the local planning board controlled funds, and technical and sectoral agencies had to communicate with Bappeda and with each other, had much to do with the improvement in institutional performance. An important change which occurred over time in many PDP provinces and kabupaten was greater attention by planners and by implementing agencies to the tailoring of packages of inputs to the needs of particular socio-economic groups, or economic or ecological conditions. Another change was

increased intra-sectoral cooperation and communication as dinas were rewarded (by access to project funds) for cooperation with each other and with bappeda project leadership. Area and target-group oriented development encouraged decision makers to think more about the specific needs, wishes and opportunities of intended beneficiaries. It also encouraged them to plan and locate projects based on local needs.

What happened under PDP was something less than integrated rural development. Complete integration of development activities would require a weakening of institutional interests that is hard to imagine. It would also require technical and planning skills still in short supply at the kabupaten level. Finally, it would require effective communications between all the agencies involved in development activity. The actual costs (in management and coordination time) of complete integration might outweigh the benefits. A more reasonable target would be to build more local coordination meetings into the local planning process and to shift funding control so that, as I suggested above, the bulk of government development activity is managed by the kabupaten.

3. Another key issue that needs more study and thought is beneficiary selection and participation by beneficiaries (and by the community) in determining project inputs and approaches. Clear, easily verifiable, and mutually-agreed upon criteria for beneficiary selection (or non-selection) would ensure that a greater share of resources were channeled to the target group.

Community participation is a more difficult problem. We do know that committees were established in some PDP villages -- for example, in Central Java -- which involved some beneficiaries and community leaders in discussions about project implementation in their village. There were also experiments such as the village motivator program in Nusa

Tenggara Timur which encouraged community participation. In a number of cases it was clear that villagers' sense of a project activity being done by and for the community helped to make a project more successful or less expensive to implement. LPSMs<sup>11</sup> have helped PDP to do that in some places. PDP training has also helped local institutions to communicate better with poor villagers. We need to find ways to more often foster that feeling that a project belongs to the community and the participants and is not something that outsiders require them to do. Involvement of experienced, "independent" LPSMs in the beneficiary selection or evaluation process may be part of the answer.

4. Although on the face of it, PDP was management-intensive, for local and provincial governments, for BANGDA, and for USAID, its flexibility, its intensive focus on training institutions, planning and monitoring activities did change the way that many officials and agencies thought about and performed their tasks. Activities intended to strengthen local institutions and change the way they perceive and perform their tasks will be management-intensive. However, an incentive system that rewards provinces and kabupaten with more funds when they learn to meet agreed upon criteria and reduces funds when monitoring indicates that goals are not being met could shorten the period for which central management and provincial technical assistance is required. For example, I understand that PDP's limited experience with block grants quickly resulted in improved planning procedures. Local institutions and officials will respond to a well-planned incentive system.
  
5. Small is beautiful. PDP tried to disburse too many rupiah in its early years. It took time for provinces and kabupaten to be able to effectively manage increased funding. Planning, training, monitoring/reimbursement and

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<sup>11</sup>. Private Voluntary Organizations.

technical assistance played an important role in increasing the capacity of local institutions to effectively absorb new funds. New endeavors trying to operate in similar fields would do well to start with small funding levels and with a training program, planning mechanism and technical assistance in place.

6. The immediate problem of sustaining the institutional gains made by local planning boards and technical agencies needs careful consideration. While some provincial and district funding has gone into PDP and PDP-like activities, given the present financial situation, there is no way that local finances can maintain the sort of institutional momentum that now exists in some regions. In the short term, thought might be given to the use of Inpres or other national funds to allow a gradual phase out of central funding support for PDP activities.

In the future, it would be useful to examine the possibility of dispensing some Inpres funds in a manner that will encourage locally-managed and coordinated activities. The GOI might want to experiment by linking some Inpres funds to expenditure from provincial and kabupaten budgets. Other possibilities include linkages to, local revenue levels, success at carefully defined project goals, and public participation. Local project management and self-reliance will only work if local institutions have sufficient funding to effectively carry out development activities.

7. A key question in sustaining or expanding the sorts of decentralized development activities supported by PDP is what role can and should BANGDA play? How much information does BANGDA need to monitor PDP-like activities? How active should it be in preparing guidelines for sub-project activities? The PDP experience suggests that much of that

task could be best done at the provincial level. However, it also suggests that BANGDA needs to be able to step in to see to it that mutually agreed upon guidelines are followed. BANGDA may also need to play a role in disseminating information on successes and failures between regions.

8. The question of BANGDA's role in promoting locally managed development leads on to the question of coordination, liaison, policy coordination, analysis, and the collection of good basic data on rural development in Jakarta. There is a pressing need for a national center or unit that tries to bring together the principal actors (and possibly donors) in rural development. Something could be learned from experience of the Tim Koordinasi Proyek Pembangunan Prasarana Kota Terpadu which has been coordinating a number of activities in the urban development field. Such a center could bring together decision makers from BANGDA, PUOD, BANGDES, BAPPENAS, and the Ministry of Finance, and perhaps other agencies to focus on policy issues. It could also contract with Indonesian universities and foreign donors to obtain the technical assistance it needed to do policy-oriented research and analysis. A Rural Development Policy Unit could help the various institutional actors involved understand the consequences of the numerous policy options. It could also arrange to carry out and assess experiments in decentralization, open-management, fiscal and tax-sharing arrangements, training, planning and monitoring that will all be necessary to make the best possible use of scarce government resources.

9. There are some key unresolved issues in the PDP experience. Most of these have to do with choices between sometimes conflicting goals. One example of this is beneficiary selection. Is it better to reach poorer people or to maximize earnings by choosing beneficiaries on the basis of other success-oriented criteria? It would be advantageous
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to think through the beneficiary selection process, define selection criteria much more clearly than has been done in the past, and require deviation from the selection procedures to be explained. Universities and LPSMs could play an important role in clarifying project goals and more precisely defining criteria for exclusion or inclusion in a project.

Another choice to be made is between rapid and slower but potentially more sustainable growth. A number of PDP projects in the estate crop area were seen as unsuccessful by the SRI evaluation because they took several years to begin yielding and beneficiaries reported no gain in income. A repeat evaluation some years later might find that the recipients of tree crops continued to benefit long after other beneficiaries' income source had dried up. One should also add that tree crops and terracing projects may have general environmental benefits that accrue to the community. For example, reduced topsoil loss and less flooding are good for everyone. The question for policy makers is: do you wish to maximize present or future gain?

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Jakarta  
27 March 1988