

Australia-Indonesia Partnership for Rural Development:

The Story So Far

AIP-RURAL LEARNING SERIES



This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade. The views expressed in this publication are the author's alone and are not necessarily the views of the Australian Government.



AIP-Rural is supported by the Australian Government and implemented by Palladium and Swisscontact.

In collaboration with the Springfield Centre.



Australia-Indonesia Partnership for Rural Development: **The Story So Far**

Why AIP-RURAL?

Agricultural growth can lift millions of Indonesians out of poverty. In 2015, 14% of Indonesia's rural population was classified by the government as poor, compared with just over 8% of the urban population. Rural poverty is also higher in eastern Indonesia. The proportion of the rural population living in poverty ranges from 15% to 37% in the five eastern provinces targeted by AIP-Rural.¹ In these provinces, nearly 60% of the workforce is engaged in agriculture.²

Indonesia's agriculture sector offers opportunities for inclusive economic growth. Agriculture contributes 14% of Indonesian GDP, so growth in the sector is significant to Indonesia's overall economy and can help to lift millions of people out of poverty.

During its five year period, the Australia-Indonesia Partnership for Rural Development (AIP-Rural) has helped to lift thousands of poor farming households out of poverty. The program has enabled 1,055,369 farming households to access market innovations, resulting in 345,001 smallholder farming households earning a total additional income of AUD194m – an average of 255.57% (AUD 497 per household).

Around 65% of these benefiting households lived on less than USD2.50 per day³ and 42% of the farmers accessing improved goods and services are women.

These innovations were provided by 9,746 small businesses, earning them an increased turnover

1 BPS–Statistics Indonesia (2016) Statistical Yearbook of Indonesia 2016. www.bps.go.id [Tables 4.6.2 and 4.6.4].

2 Manning, C. and Purnagunawan, R. D. (2014) *Regional labour markets 2002-2012: limited convergence but integration none-the-less*. In Hill, H. (ed.) (2014) *Regional dynamics in a decentralised Indonesia*. Institute of Southeast Asian Studies, Singapore, p.353-367.

3 The USD2.50 poverty measure used here is based on purchase power parity.

AIP-Rural is funded by the Australian Department of Foreign Affairs and Trade (DFAT), supported by the Government of Indonesia and implemented by Palladium in partnership with Swisscontact, and CSIRO.

AIP-Rural helps to deliver Sustainable Development Goals 1, 2 and 8 and is in line with Indonesia's National Mid-Term Development Planning document (RPJMN) to improve farmer welfare.

The first phase of the program was implemented from 2013 – 2018, with the second phase (PRISMA-2) to be implemented from 2019 – 2023 in East Java, West Nusa Tenggara, East Nusa Tenggara, Papua, West Papua and Central Java.



of AUD68m. By working within market systems, AIP-Rural's impact is likely to be sustainable. Businesses and farmers have already invested AUD85m, mostly cash, in program-supported innovations. By recognising farmers as entrepreneurs and small businesses, AIP-Rural has ensured that Indonesia's agricultural sector will be able to continue to grow, without ongoing assistance, into the future.

What did AIP-Rural do?

AIP-Rural was designed to catalyse broader change, spread innovations from partners to other businesses and government agencies, and increase the overall competitiveness of Indonesian agriculture. The program avoided giving farmers products and services directly. Direct delivery creates risks, including aid dependency and discouraging the private sector from viewing farmers as potential customers. Instead, the program facilitated Indonesia's private and public sectors to provide farming households with more and better goods and services. This is a market systems development approach.

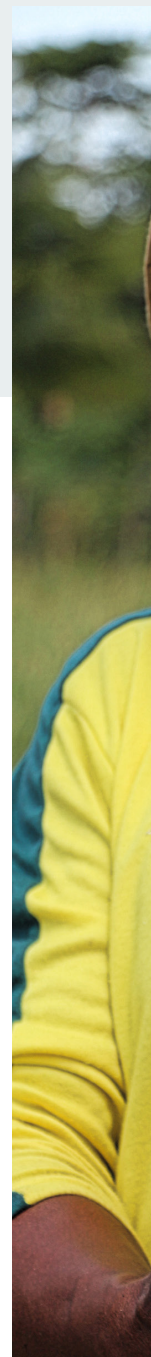
AIP-Rural began by identifying key constraints to farm productivity and access to markets. The program then worked with businesses and government agencies that have a long-term interest in overcoming these constraints, to identify solutions. These solutions, typically new products and services, new ways of providing existing products and services or regulatory changes, benefit all involved. They either generated profits for smallholder farming households and for the businesses that provide them, or help government service providers to achieve their objectives, as well as enabling smallholder farmers to earn more.

The program partnered with 180 businesses and government agencies. To reach large numbers of farmers with their goods and services, these partners worked through over 9,746 intermediaries such as small-scale retailers and crop buyers. Together, businesses, intermediaries and farming households invested AUD85m in AIP-Rural-supported innovations. Boxes 1 and 3 give examples of these partnerships, explaining how investment by AIP-Rural and its partners is bringing lasting benefits to Indonesia's small-scale farmers.

AIP-Rural also delivers on Government of Australia and Government of Indonesia priorities. By focusing on market-driven solutions that attract private sector investment, AIP-Rural has achieved measurable value for money. For every dollar invested by DFAT in PRISMA's interventions an additional AUD3.72 of income was generated. And because farming households and businesses both profit from these innovations, they are self-sustaining and the benefits are likely to continue. For Indonesia's Ministry of National Development Planning (BAPPENAS), AIP-Rural has provided on-the-ground evidence that market systems approaches can work in Indonesia; improving productivity, farmer welfare, and market growth without using government budgets. The program has also provided a model for engaging with the private sector for better planning, programs and delivery.

'Market systems development' programs seek to develop market systems so that they function more effectively, sustainably and beneficially for poor people, building their capacities and offering them the opportunity to enhance their lives.

(The Springfield Centre, 2009)



Box 1: Shallot farmers benefit from new bulbs as a result of policy change and private investment

Growing shallots from seeds is technically difficult, so most of Indonesia's 205,000 shallot farmers plant bulbs. Yet before AIP-Rural intervened, the low quality of shallot bulbs was resulting in low yields.

To address this problem, AIP-Rural supported nurseries to buy quality shallot seeds from a commercial seed supplier, and grow them into mini-bulbs for planting. The high-quality shallot bulbs proved extremely popular with farmers.

Demand for shallot seeds rose but import restrictions limited the commercial seed supplier's ability to supply more seeds. Together with local governments, AIP-Rural helped the commercial seed supplier to provide evidence to national government representatives on how its seeds increase farmers' yields by 50% whilst still producing shallots that meet Indonesian consumers' tastes. Convinced, the Indonesian government allowed the commercial seed supplier and one other supplier to import as much shallot seed as required. As a result, more than eighty nurseries in Indonesia now serve 12,662 farmers with improved shallot bulbs.



How did AIP-Rural operate?

AIP-Rural contributed to inclusive economic growth in eastern Indonesia by using targeting strategies informed by poverty analyses and gender-lens investing techniques. Sectors, locations and intervention designs were purposefully chosen to benefit farming households living under the USD2.50/day income poverty level. Partners, their intermediary businesses and targeted farming households were also purposefully selected to ensure women benefited as much as possible. As shown in Box 2, those benefitting were not just women farmers, but also women working for partners and their intermediary businesses.

AIP-Rural was designed to be flexible; managers could reallocate resources from underperforming interventions to those with greater prospects. To assess intervention performance, the program frequently monitored activities, interviewed stakeholders and measured impact. It scored interventions using a range of criteria in a Quality Management Tool. Intervention scores were then compared and used to inform decisions about which interventions merited further investment. Using this tool, the program dropped all or most interventions in fifteen sectors, and added or reinforced interventions in twelve sectors. The program's allowable 30% failure rate threshold allowed staff to experiment, without jeopardising results. This portfolio management process benefitted an estimated 55,000 additional farming households.⁴

⁴ Suggested citation: Khan, K., Seely, K., Ridwan, M. and Mulya, B. (2018) *Monitoring and Result Measurement for Adaptive Programming – how to use data to manage a market systems development program: lessons from PRISMA*. AIP-Rural and the Springfield Centre.

To operate this way, AIP-Rural invested in robust management information and measurement systems, and built a team of high calibre staff. Data was used systematically across the program to assess performance, inform decisions and assess value for money. When hiring staff, AIP-Rural learned to look for confidence, social skills, leadership potential, presentation skills and analytical capability. It complemented this with structured processes of recruitment, staff induction, technical training and on-going mentoring, performance appraisal and talent management. The program had over 140 staff, more than half of whom managed interventions with private and public sector partners, 93% of whom were Indonesian, and 43% of whom were women. AIP-Rural also used two independent experts to review its strategy and progress every six months.

What difference has AIP-Rural made?

In its first five years, AIP-Rural has helped 345,001 farming households to increase their incomes by 255.57% - an additional AUD194m. It achieved this by catalysing 180 businesses, government agencies and research institutes to co-invest in innovations that improved their goods and services for farmers in eastern Indonesia.

There are encouraging signs that many of these improvements in agricultural markets will continue after program support ends. One sign is the scale of investment (AUD92m) by businesses, intermediaries and farmers in the innovations that AIP-Rural has helped them to introduce. Another sign is that partners are expanding these innovations into other sectors and areas without further support from the program, and other businesses and farming households are copying from those involved in the program's interventions. More than one-third of the AIP-Rural outreach is now from such systemic change. For instance, as a result of the maize intervention described in Box 3, businesses are applying the innovations elsewhere in Indonesia, and other local governments have adopted a partnership approach with the private sector to support disadvantaged farmers.

A third sign of sustainability is how businesses and government have improved their capability to anticipate and respond to future opportunities and threats. Animal disease outbreaks are one example. Following a hog cholera outbreak in Flores, NTT in 2016, AIP-Rural facilitated dialogue and collaboration between the national government and more than ten animal feed and animal health firms. Following dialogue, Government agreed to increase its spending on vaccines; animal health firms agreed to train vaccinators and provide basic equipment as part of their promotion activities; and feed companies agreed to include animal health information and products in their sales activities. Another risk is government subsidy programs, as farmers who expect free seeds and fertiliser are less likely to pay market prices for them in future.

The program has encouraged seed and fertiliser companies to hold constructive dialogue with government, to find ways to complement each other instead of competing (see Box 3 for an example).

Box 2: Evolving approach to gender and social inclusion – people as consumers and market actors

The approach to social inclusion evolved during AIP-Rural, commencing with a “do-no-harm” approach, progressing to a “gender aware” approach and ending at a consumer research approach based on “women as consumers and market actors.”

Gender in targeted sectors and interventions was analysed and the information used to help partners deliver results for women and other excluded groups (e.g. poor men, people identifying as living with disability) as well as improving delivery of their goods or services. At program completion AIP-Rural had a 42% female farmer participation rate.

For example, following AIP-Rural gender analysis in the maize sub-sector, one private sector partner used the information to expand its reach to women farmers by changing how it employed and used frontline maize field agents. Seven of the 12 frontline maize field agents in Madura are now women (58%) and they engaged more than 3,600 women to promote good maize practices. At program completion, 20,615 women were measured to have benefited from increased productivity resulting from use of the one private sector partner's goods and services.

Similarly, another private sector partner used program gender analyses to change the way it promoted a new financial service product, which enables farmers to pay 50% upfront in cash, and 50% post-harvest. 22 of the 54 agents (40%) are now women, and they have supported more than 6,121 women to benefit from improved access to finance. The private sector partner also benefitted, since women repay their loans on average 9 days earlier than men.



Box 3: Enabling more farmers to plant high-yielding maize seeds

Before AIP-Rural's intervention, few farmers in Madura used hybrid maize seeds that could increase their yield. High-yield seed varieties looked unfamiliar to farmers. Furthermore, 98% of farmers who might have bought hybrid maize seeds lived in areas where government distributed free seed, discouraging them from buying higher-yielding seed varieties.

AIP-Rural used these market insights to advise seed companies on growth strategies. Some began to promote maize varieties which resembled the local variety. AIP-Rural also worked with seed companies to encourage government officials in Sumenep, Madura to distribute their free maize seed in areas where commercial provision was absent. In areas where farmers were willing to pay for hybrid seed, government focused on training farmers instead. This partnership between government and business allowed government to target its resources more effectively and in a way that encouraged private sector investment. The result was that more farmers planted high-yielding maize seed, without requiring additional government funding. As of December 2018, these interventions had delivered an average 253% maize income increase for nearly 45,603 Madurese farming households.

Ahmad Fauzi and family are one of these households. Ahmad's maize yield has tripled since adopting hybrid seed. Ahmad is no longer a subsistence farmer; he harvests and sells a surplus. He has also set up a business as a hybrid maize seed agent, advising farmers who have just started using it. With the money he has earned, Ahmad is building a new home for his family.

Key lessons learned by AIP-Rural

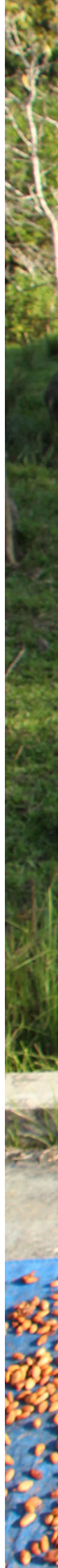
- **A market systems development approach works** in eastern Indonesia, and can benefit poor people and disadvantaged groups, such as women.
- **Analysis and measurement are critical to effectiveness.** To design and implement successful interventions, it is necessary to understand the root causes of constraints and viable opportunities for change, and measure whether the program's actions are contributing to change. AIP-Rural's competence in market analysis and measurement have become core assets.
- **Flexibility is vital** to respond to new opportunities and deal with failures pragmatically. Interventions take place in complex, risky environments. Typically, about 30% of interventions will fail, so a program must be capable of rapidly reallocating resources to better prospects.
- **Engaging effectively with the private sector** requires a program to: (a) clearly understand what development impact its support aims to achieve; (b) identify businesses with incentives and capacity to change; (c) hire staff capable of influencing business,⁵ and (d) offer firms different types of support, depending on the constraints they face.⁶
- **Continued donor and Government support is essential**, in particular from DFAT and BAPPENAS, who have provided AIP-Rural with the freedom to experiment and shown an ongoing commitment to promoting program lessons to ensure broader change is embedded in Indonesia's agriculture markets.
- **Government can benefit from adopting key practices of a market systems development approach.** Diagnosis of the root causes of economic and social problems can improve targeting and objective setting. Working in partnership with the private sector in areas of shared objectives can achieve more, using fewer public resources. Results measurement that focuses on outcomes can be used to improve performance and generate evidence to inform policy.

The future

To build upon the achievements and results of AIP-Rural's first five years, DFAT and BAPPENAS will make a further five-year investment to support inclusive economic growth in Indonesian agriculture, horticulture, livestock and aquaculture sectors, using the market systems development approach. PRISMA-2 (2019-2023) will continue to focus on improving smallholder farmers' competitiveness and access to new markets, better inputs, know-how and technology, and aims to achieve a sustainable 30% increase in the incomes of a further 700,000 smallholder farming households. As a result of the 10-year investment, a total of 1 million households in East Java, Central Java, West Nusa Tenggara, East Nusa Tenggara, Papua and West Papua will have benefitted by 2023.

⁵ Teams should balance sufficient commercial experience with development experience. People who understand businesses' language and needs, who are good at business planning and deal making, and are entrepreneurial and are comfortable that failure is an ordinary part of doing business are an asset.

⁶ Examples of different types of support programs can provide to the private sector include: market research; cost-sharing; expert advice; and introductions to other businesses or government agencies.





AIP-Rural

Australia-Indonesia Partnership
for Rural Economic Development

**Jl. Margorejo Indah I Blok A-535
Surabaya 60238, Indonesia**

P. +62 31 842 0473
F. +62 31 842 0461

www.aip-prisma.or.id