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**Report No: 38460-ID**

**PROJECT APPRAISAL DOCUMENT**

**FOR A**

**PROPOSED MULTI DONOR FUND FOR ACEH AND NORTH SUMATRA (MDF) GRANT**

**IN THE AMOUNT OF US\$ 100 MILLION**

**TO**

**THE GOVERNMENT OF INDONESIA**

**FOR THE**

**INFRASTRUCTURE RECONSTRUCTION FINANCING FACILITY**

**January 31, 2007**

**Urban Development Sector Unit  
East Asia and the Pacific Region**

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## **CURRENCY EQUIVALENTS**

(EXCHANGE RATE EFFECTIVE JULY 26, 2006)

Currency Unit = Indonesian Rupiah  
IDR 1,000 = US\$ 0.110434  
US\$ 1 = IDR 9,055.20

## **FISCAL YEAR**

January 1 – December 31

## **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
BRR	Bureau for Rehabilitation and Reconstruction for Aceh and Nias
CQ	Selection based on Consultants' Qualifications
CRS	Catholic Relief Services
DED	Detailed Engineering Designs
DIPA	Daftar Isian Proyek Pusat (BRR Approved Budget)
EA	Environmental Assessment
EIA	Environment Impact Assessment
EMP	Environmental Management Plan
FM	Financial Management
FMA	Financial Management Agent
GAM	Free Aceh Movement
GOI	Government of Indonesia
IBRD	International Bank for Reconstruction and Development
IAP	Immediate Action Program
ICB	International Competitive Bidding
IC	Individual Consultants
IDA	International Development Association
IDP	Internally Displaced People
IFR	Interim Financial Report
IPM	Infrastructure Program Management
IREP	Infrastructure Reconstruction Enabling Program
IRFF	Infrastructure Reconstruction Financing Facility
JICA	Japan International Cooperation Agency
KfW	KfW Development Bank
KPPN	Regional Treasury Office
LARAP	Land Acquisition and Resettlement Action Plan
LGIP	Local Government Annual Investment Plan
MDF/MDTFANS	Multi-Donor Trust Fund for Aceh and North Sumatra
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NCB	National Competitive Bidding
NGO	Non-Government Organization
O&M	Operations and Maintenance
PGIP	Provincial Government Annual Investment Plan

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PIP	Project Implementation Plan
PMU	Project Management Unit
QBS	Quality-Based Selection
QCBS	Quality and Cost Based Selection
RFP	Request For Proposal
SA	Special Account
SAK	BRR's Anti-Corruption Unit (Satuan Anti-Korupsi)
SOE	Statement of Expenditure
SOP	Standard Operating Procedures
SPM	Surat Permintaan Pembayaran
SSS	Single-Source Selection
TA	Technical Assistance
TD	Tender Documents
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WFP	World Food Program

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**INDONESIA**  
**INFRASTRUCTURE RECONSTRUCTION FINANCING FACILITY**  
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**INDONESIA**

**INFRASTRUCTURE RECONSTRUCTION FINANCING FACILITY**

**PROJECT APPRAISAL DOCUMENT**

**EAST ASIA AND PACIFIC REGION**

**EASUR**

<b>Date:</b> January 31, 2007 <b>Country Director:</b> Andrew Steer <b>Sector Director:</b> Keshav Varma <b>Project ID:</b> P101785 <b>Lending Instrument:</b> Grant (MDF)	<b>Team Leader:</b> Aniruddha Dasgupta <b>Sectors:</b> Urban Infrastructure <b>Themes:</b> Infrastructure Services, Risk Management <b>Environmental Screening Category:</b> A <b>Safeguard Screening Category:</b> Limited Impact		
<b>Project Financing Data</b>			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
<b>Total Project Costs:</b> US\$291 million <b>MDF Grant Amount:</b> US\$100 million <b>Government Contribution:</b> US\$191 million			
<b>Financing Plan (US\$m)</b>			
<b>Source</b>	<b>Local</b>	<b>Foreign</b>	<b>Total</b>
Borrower	191	0	191
MDF	85	15	100
Total	276	15	291
<b>FY</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Annual	25	50	25
Cumulative	25	75	100

<sup>1</sup> Although IRFF's implementation period is January 2007-January 2010, the disbursement schedule will span two and a half years from January 2007 to June 2009. The completion of BRR's mandate is currently scheduled for April 30, 2009. If subprojects are not completed by April 2009, they can be financed by IRFF till June 2010 (when the project is scheduled to close) in line with post-BRR institutional arrangements, detailed in a transition strategy to be prepared by June 2008, and agreed by GOI and the Bank.

infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake.

**Project description**

- (i) *Financing of Infrastructure Reconstruction and Rehabilitation Investments.* Financing of individual infrastructure reconstruction and rehabilitation subprojects in 12 local governments and districts thereof and strategic investments at the provincial level, including civil works and goods in subprojects in the following sectors: roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals.
- (ii) *Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight.* Need-based support to local and provincial governments for identification, design and preparation of infrastructure reconstruction subprojects, technical assistance for transition to a post-BRR timeframe and institutional arrangements beyond April 2009, including extension of TA provided under IREP, and capacity building and infrastructure asset maintenance programs for local and provincial governments, as well as assistance in conducting performance and financial audit (over and above external audit) of project financial statements.

Which safeguard policies are triggered, if any? The project will not have any large scale or irreversible adverse environmental impacts. The project triggers the World Bank Safeguards Policies on Environmental Assessment (OP/BP 4.01), Indigenous Peoples (OD 4.10), and Involuntary Resettlement (OP/BP 4.12). The project is classified as environment Category "A".

Significant, non-standard conditions, if any: None

## EXECUTIVE SUMMARY

Following the tsunami and earthquake of December 2004, the Government of Indonesia (GOI) created, in April 2005, a dedicated Rehabilitation and Reconstruction Agency - *Badan Rehabilitasi dan Rekonstruksi* (BRR) - to provide leadership and management across all aspects of recovery. The first reconstruction priority was the provision of housing. This program is now well underway. The second reconstruction priority was to rebuild essential infrastructure and much work remains to be done on that front.

The BRR has outlined an Infrastructure Reconstruction Strategy, which encompasses three phases, each one of which receives funding from the Multi-Donor Trust Fund for Aceh and North Sumatra (MDF)<sup>2</sup>:

- An Immediate Action Plan is under implementation. It addresses key infrastructure bottlenecks mainly in transport, logistics and flood protection.
- An Infrastructure Reconstruction Enabling Program (IREP) has just become effective. IREP is providing Technical Assistance (TA) to BRR and to local and provincial governments in Aceh and Nias for the selection, preparation and implementation of infrastructure investments.
- The proposed Infrastructure Reconstruction Financing Facility (IRFF) would contribute US\$100 million from the MDF (and about US\$191 million from BRR) to the reconstruction of basic infrastructure in Aceh and Nias. There is close strategic integration between IREP and IRFF as IRFF focuses to a large extent on financing the individual infrastructure projects (called subprojects in the rest of the report to distinguish them from the overall IRFF project itself) prepared with the IREP TA.

Given the magnitude of the damage caused by the tsunami and the extent to which people's basic needs remain to be met, the GOI puts great emphasis on a swift implementation of the Infrastructure Reconstruction Strategy. BRR has been given about five years to accomplish its mission, with a mandate that is expected to end in April 2009. BRR and MDF will co-finance investments under IRFF, according to a 70:30 ratio starting January 1, 2007. IRFF is therefore being processed under an accelerated schedule to ensure that project implementation can start before November 2006 when BRR's 2007 budget needs to be finalized and approved by Parliament.

Various financing options were considered for IRFF, including (i) MDF and BRR parallel financing; (ii) MDF and BRR co-financing; and (iii) MDF, BRR, and local government co-financing. Given the project's priorities to deliver a significant volume of high-quality infrastructure within a short implementation period, while instilling ownership of local and provincial government – the MDF and BRR co-financing was found to be the most appropriate option. While local government financing may enhance their commitment, differences in budgeting cycles between the local governments and BRR would pose challenges with respect to co-financing arrangements and lead to significant delays in implementation. These delays would be a major reputational risk for the World Bank, BRR, and the MDF – and would weaken confidence of the people of Aceh and Nias in the project and local government(s).

IRFF includes alternate strategies for building local and provincial government ownership and capacity (as highlighted in Annex 10). First, a *Programmatic co-financing* arrangement is in place in which the BRR and the local/provincial governments will co-finance Local Government Investment Plans (LGIPs)

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<sup>2</sup> The Multi-Donor Fund brings together a pool of over US\$520 million from 15 donors and is a partnership of the Indonesia government, international community and civil society to support the recovery in Aceh and Nias. At the request of the Government of Indonesia these donors came together to avoid duplication and reduce transaction costs for the central government, the BRR and the affected communities. The Multi-Donor Fund is co-chaired by the BRR, the European Commission and the World Bank. The World Bank administers the Fund and acts as its trustee.

and Provincial Government Investment Plans (PGIPs). The BRR will finance some of the subprojects under the LGIP/PGIP with IRFF funds, while local governments (and donors) will fund the others. Second, an MOU between the BRR and local and provincial governments will include confirmation of the subprojects the BRR will finance in the LGIP/PGIPs through IRFF, as well as formal commitment by the local and provincial governments to allocate necessary budgetary resources to maintain these investments on the basis of a maintenance plan. Operations and maintenance of all IRFF subprojects will be supported by detailed financial and maintenance assessments/plans developed by IREP technical assistance (West Coast, Nias, and Strategic Planning, Design, and Construction Supervision consultants).

Only some of the investments to be financed by IRFF have been identified up to now (Section X and Annex 11, of the PAD present the information available about those investments). As a result, a primary concern in designing IRFF is to ensure that an appropriate framework is in place to enable adequate planning, selection, preparation, execution and supervision of infrastructure subprojects during the course of IRFF implementation:

- TA is in place, through IREP, to help BRR prepare strategic programs and sector plans based on a sound understanding of infrastructure needs and priority projects, and on an adequate allocation of responsibilities between the major entities active in the infrastructure field (see, inter alia, Section XI).
- New institutional mechanisms have been set up to ensure that annual investment plans are prepared through participatory processes involving BRR, local and provincial governments, as well as other stakeholders (see, inter alia, Section IV).
- Eligibility and prioritization criteria have been identified (and will be further refined by BRR and local/provincial governments) to help select the specific sub-projects – included within the annual investment plans mentioned above – that will receive IRFF funding (see Section V and Annex 4).
- TA is in place - through IREP and IRFF<sup>3</sup> - to support subproject preparation and implementation: consultants will assist in producing subprojects detailed designs, in supervising contractors, in ensuring that environmental and social issues are adequately addressed, in promoting sound financial management and procurement practices, and in combating corruption (see Section IV). An Environmental and Social Safeguards Framework (see Annex 8), Financial Management Arrangements (see Annex 7), a Procurement Plan (see Annex 6), and an Anti-Corruption Action Plan (see Annex 9) have been agreed during appraisal and will be reflected in the Project Implementation Plan to be submitted in draft form prior to negotiation of IRFF.

The speed and magnitude of the planned infrastructure reconstruction activities raise serious capacity and sustainability challenges. This is particularly true for local and provincial governments. Their capacity has always been limited and was further eroded because of the tsunami. In addition, local governments will likely shoulder most of the responsibility for maintaining newly rebuilt assets and for developing new infrastructure after the end of BRR's mandate in April 2009. A number of steps – described in more details in Section XI and Annex 10 – have been taken to try and address those challenges:

- As mentioned above, TA programs have been designed to emphasize hands-on training of local government technical departments, as well as of BRR staff. Such TA is an important tool that will contribute to ensure the quality of infrastructure subprojects undertaken, during BRR's mandate and will prepare local authorities for the post-BRR era.
- The overall incentive framework under which local government officials operate in the context of IRFF is geared toward building lasting institutional capacity at the local government level. For

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<sup>3</sup> Three local governments in Aceh – those of Aceh Besar, Banda Aceh and Sabang – are currently receiving TA assistance from existing consulting arrangements for subprojects identification and design. Such assistance will end in January 2007 however, and a small fraction of IRFF funds will be used to ensure that those three local governments continue to benefit, beyond January 2007, from the type of TA made available, under IREP, to other local governments in Aceh and Nias.

example, making IRFF resources available to finance well prepared local infrastructure subprojects is expected to prompt local governments, to improve their ability to select and prepare such subprojects so as to gain access to IRFF financing.

- Mechanisms have been designed to ensure that local government officials develop a sense of ownership with respect to the infrastructure assets financed under IRFF. For example, new institutional arrangements are in place to give local governments a say in the design of annual investment plans, the program managers or satkers responsible for preparing and implementing subprojects will be chosen by local governments and will generally be local government staff, and responsibilities for procurement and financial management will progressively be transferred to local governments as their capacity to handle such responsibilities increases.
- Finally, measures will be taken to ensure that appropriate institutional arrangements are put in place for the post April 2009 period. BRR and the GOI are committed to drafting a transition strategy to specify those institutional arrangements at least one year before the scheduled expiration of BRR's mandate in April 2009. This transition strategy will, inter alia, propose institutional mechanisms aimed at facilitating exchanges of experience between all Aceh and Nias local governments involved in infrastructure reconstruction and development. In addition, an unallocated component of IRFF is currently held in reserve and could be used to extend the TA carried out under IREP beyond June 2009.

Finally, the PAD highlights the need to allocate sufficient resources to allow thorough Bank supervision of this complex operation. During IRFF implementation, Bank staff will review Interim Financial Reports each quarter to assess financial management, procurement, and physical progress made in the preceding quarter and to agree with the procurement plan of the forthcoming quarter. This procurement plan will include subprojects to be undertaken in the next quarter along with the rationale for their inclusion. The Bank will also receive bi-annual monitoring reports covering environmental and safeguards issues. As part of the agreed Anti-Corruption Action Plan, BRR will regularly share with the Bank the findings of technical and financial audits and ensure that any suspected case of corruption related to IRFF is reported immediately to the Bank. Lastly, any changes to the Project Implementation Plan – and in particular to the main components of the Plan such as the Environmental and Social Safeguards Framework, the Financial Management Arrangements, the Procurement Plan and the Anti-Corruption Action Plan – will be made in agreement with the Bank (see Section XIII for more details on the Bank's review and supervision functions under IRFF).

## TECHNICAL REPORT

### I. BACKGROUND

1. The tsunami and earthquake that struck the Indian Ocean in December 2004 caused devastation on a horrific scale. In Indonesia, the disaster killed or left missing more than 230,000 people, and destroyed communities, infrastructure and livelihoods. The total reconstruction and development program for Aceh and Nias is estimated to cost between US\$6-9 billion<sup>4</sup> (2005-2009), making it the largest reconstruction program in the developing world. In addition to the physical damage, the disaster caused enormous destruction to the economy and loss of institutional capacity. While it appears that peace may finally have been achieved in Aceh between the government and the Free Aceh Movement, the neglect of infrastructure and human development from thirty years of conflict adds to the reconstruction challenges.

2. Following the disaster, the immediate need was to put in place humanitarian and disaster relief programs; these were widely supported and successfully implemented by local and national governments, as well as numerous agencies, NGOs and individuals. The people of Indonesia and the international community have since shifted from the initial emergency phase to the recovery phase. In April 2005, the Government of Indonesia (GOI) created a dedicated Rehabilitation and Reconstruction Agency - *Badan Rehabilitasi dan Rekonstruksi* (BRR) - to provide leadership and management across all aspects of recovery. Given the magnitude of the losses suffered and the number of organizations currently involved in reconstruction efforts, demands on the technical and coordination capacities of BRR as well as on local and provincial governments are enormous. The first reconstruction priority was the provision of housing – this program is well underway, with 45 percent of the overall rebuilding needs in progress. The second reconstruction priority – which has made less progress – was to rebuild and restore essential infrastructure services, such as transport, roads, macro and local level drainage, water supply and sanitation, power distribution, and solid waste. Overarching these demands are the BRR's policy goals of rebuilding to improved standards (i.e., building back better), strengthening local governments, and working with communities.

3. **Sector overview.** As of March 2006, approximately US\$4.7 billion had been allocated by GOI, NGOs and donors (including MDF) to specific rehabilitation projects and an estimated additional US\$3.7 billion had been committed but had not been allocated to specific projects. Of this total of US\$8.4 billion, US\$535 million comes from the MDF<sup>5</sup>. This total of US\$8.4 billion appears sufficient given overall funding needs to: (i) cover the original loss assessment across all sectors from the tsunami and earthquake of US\$4.9 billion; (ii) cover anticipated cost increases of US\$ 1.2 billion resulting from inflation; and (iii) build back better (US\$2.3 billion) according to the GOI's stated objective. However, BRR, donors' and NGOs' interests and focus are varied across sectors according to their comparative advantage and preference and this has resulted in some mismatch between available funds and financing needs. Infrastructure, in particular, currently shows a deficit of available funds for reconstruction of about US\$650 million.

4. Having suffered the most damage, the housing and social sectors have received the greatest attention in the post-tsunami reconstruction program in terms of the allocation of resources. The estimate of damage to the housing sector was US\$1.4 billion, with the demand for new houses now ranging from 93,000 to 120,000<sup>6</sup>. The housing program is moving rapidly (and generally in the absence of supporting

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<sup>4</sup> *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*, December 2005

<sup>5</sup> *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*, December 2005

<sup>6</sup> Permanent Housing Brief, February 16, 2006, UN-HABITAT.



infrastructure) – by the end of June 2006, an estimated 35,000 houses have been completed, with up to 22,000 under construction. Ensuring quality of finished works and providing sufficient supporting infrastructure are the key sector priorities.

5. Damage to infrastructure has been substantial and progress slow. To the extent that both physical infrastructure and staffing were limited before the tsunami, (for e.g., in the water and sanitation sector, there were no sewage systems and less than 30 percent of the population have been provided with piped water), building back better will require substantially more investment than simply replacing what was lost. Sectoral funding gaps resulting from a mismatch between available funds and financing needs further strain reconstruction efforts. Lack of sufficient funding is particularly severe in the transport sector, and to a lesser extent in flood control and in irrigation. The funding deficit in the transport sector is a critical issue as an efficient transport network is vital for the delivery of rehabilitation and reconstruction assistance and for overall economic development.

6. The progress of spatial and infrastructure development planning is mixed. At the sub-district level, numerous donors, NGOs, and the government have produced community mapping and development plans but hardly any infrastructure planning. These efforts have succeeded in involving communities in the planning process, articulating community priorities and vision, and creating the foundations for the reestablishment of land rights. However, the early approaches were not standardized and quality varies. Many community maps/village spatial plans were made before the release of post-tsunami aerial photography, not developed on accurate base maps, and lack topographic details – thus limiting their utility for implementation. At the district level, the availability of updated spatial and infrastructure development plans is limited.

7. **Role of the Aceh-Nias Reconstruction and Rehabilitation Agency (BRR).** BRR's primary mission was to develop standard operating procedures and to provide coordination, leadership, and quality control of the activities financed by the government or underway by donors and NGOs. The BRR has undergone continuous organizational and managerial strengthening since then. BRR is also strengthening its presence and coordination, at the-district and sub-district level through newly established regional offices. BRR has given priority to engaging district governments – the ultimate aim is to increase capacity of provincial and district authorities to allow a gradual shift of decision-making, management, and implementation responsibility from BRR to facilitate BRR's exit in 2009.

8. **BRR's Infrastructure Reconstruction Strategy.** To determine the allocation of remaining MDF resources and to provide a strategic approach to infrastructure design and management, BRR has outlined an Infrastructure Reconstruction Strategy. This strategy serves as a framework for rehabilitation tailored to addressing infrastructure needs at the district and provincial levels, in particular, infrastructure linking communities. The core approach is to engage local governments, in collaboration with affected communities, to prioritize and manage their own infrastructure needs, within a framework of strong planning and oversight by BRR, with appropriate technical assistance (TA)<sup>7</sup>. BRR's medium-term strategy for the MDF comprises three main priorities:

- (i) Remaining MDF resources should be predominantly used for the reconstruction and development (i.e., building back better) of infrastructure, broadly defined, at the housing plot, community, and district/provincial levels.

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<sup>7</sup> In July 2005, the Multi Donor Fund (MDF) approved a technical support project to BRR for US\$14.7 million, which provides BRR with additional funding, to enable BRR to recruit consultants and advisors with the best skills and expertise available. TA provided by IREP/IRFF is distinct from this program, and from other TA provided to BRR, as it is specific to the implementation and supervision of infrastructure investments.

- (ii) The provision of infrastructure should be closely matched with capacity building efforts for local and provincial governments through a *learning by doing* approach and community participation for enhanced governance to prepare for the BRR's handover of recovery activities to local and provincial governments in 2009.
- (iii) Though the initial focus will be on the areas most damaged by the tsunami and earthquake (with a particular focus on Nias), infrastructure support and related capacity building should be gradually extended to districts of Aceh where years of conflict stunted economic and human development.

9. **Phasing of infrastructure support.** The BRR Infrastructure Reconstruction Strategy encompasses three phases: (i) the execution of the ongoing MDF-supported Immediate Action Plan (IAP) agreed upon in November 2005 to meet urgent infrastructure needs; (ii) the Infrastructure Reconstruction Enabling Program (IREP), which is providing technical assistance for the mobilization of human resources and technical support to BRR, provincial, and local governments; and (iii) the proposed Infrastructure Reconstruction Financing Facility (IRFF), which will finance local and provincial level infrastructure subprojects, provide targeted technical assistance and capacity building to local governments to plan, implement and strengthen implementation oversight of the infrastructure reconstruction program, and facilitate the transition of infrastructure program management to provincial and local governments.

10. The first phase, the IAP, addresses key infrastructure bottlenecks – existing and anticipated. BRR is implementing this program through four partner agencies, the World Food Program (WFP), United Nations Development Program (UNDP), Catholic Relief Services (CRS), and Muslim Aid. The projects covered by these agencies include sea delivery, logistics, ports, road and bridge repairs, and drainage and flood protection works, respectively. These projects lay some of the groundwork for the implementation of the second and third phases of the Infrastructure Reconstruction Strategy.

11. The second phase, MDF-funded Infrastructure Reconstruction Enabling Program (IREP) is providing technical assistance and additional human resource capacity over a three-year period, to assist the BRR in implementing the proposed third phase of the strategy, which provides funding for investment to targeted infrastructure subprojects. This TA will provide direct support to BRR for the strategic planning, programming and implementation of infrastructure development and reconstruction. IREP will also provide TA to 9 local governments most severely affected (7 on the West Coast<sup>8</sup> and 2 on Nias Island<sup>9</sup>), and to the provincial governments of Aceh and Nias to strengthen their project preparation capacity across infrastructure sectors. IREP is designed to support the activities already undertaken by the government and by numerous agencies and donors. The local government and provincial level teams will build project management capacity, prepare infrastructure development plans, feasibility studies, detailed designs, comprehensive procurement planning and support, and will provide construction supervision for infrastructure development.

12. The proposed MDF-BRR co-financed Infrastructure Reconstruction Financing Facility (IRFF) is the third phase of the Infrastructure Reconstruction Strategy. It will provide an annual allocation of funds for the reconstruction of basic infrastructure to each of the disaster-affected districts, with additional oversight, monitoring, and quality control provisions. There is close strategic integration between IREP and IRFF as IRFF focuses to a large extent on financing the individual infrastructure projects (called

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<sup>8</sup> Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, and Simueleu.

<sup>9</sup> Nias and Nias Selatan.

subprojects, in the rest of the report to distinguish them from the overall IRFF project itself) prepared with the IREP TA<sup>10</sup>.

13. **Rationale for MDF involvement.** The BRR's approach of utilizing available resources from the MDF in the context of its overall rehabilitation and reconstruction strategy will yield three distinct benefits: (i) MDF will provide an additional and needed US\$100 million, to partially fill the infrastructure funding gaps that have emerged as a result of the misallocation of resources<sup>11</sup> among sectors and across local governments in Aceh and Nias, as well as due to inflation; (ii) the US\$100 million of MDF resources (of which US\$82 million will be allocated to financing infrastructure subprojects) will leverage US\$191 million of BRR's monies to ensure that the investments under preparation, benefiting from high quality technical assistance provided by IREP, will indeed be financed; and (iii) MDF resources will be used to strengthen the sustainability of infrastructure reconstruction and facilitate the continuation of infrastructure development beyond the end of BRR's mandate in April 2009 by financing (a) subproject implementation till IRFF's scheduled closing in June 2010; (b) the extension of TA provided by IREP to local and provincial governments beyond June 2009 to continue supporting the implementation and construction supervision of subprojects financed by IRFF; and (c) TA activities specifically designed to facilitate the transition to the post-BRR era.

## **II. PROJECT DESCRIPTION**

14. **Objectives.** The objective of the Infrastructure Reconstruction Financing Facility is to assist the province of Aceh and 12 local governments in Aceh and Nias to reconstruct/rehabilitate strategic infrastructure and extend key infrastructure services of adequate quality standards that meet the needs of communities where infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake. BRR has devised a consultative planning process that considers local needs as well as the overall strategic priorities of the reconstruction program to develop Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs) that contain a list of priority infrastructure subprojects to be undertaken. BRR is already receiving technical assistance from MDF under IREP in the strategic planning, programming and implementation of infrastructure development and reconstruction. The proposed IRFF will finance a subset of individual subprojects in the LGIPs and PGIPs totaling US\$273 million by utilizing \$82 million of MDF resources and \$191 million of BRR's funds. In order to provide adequate time to complete IRFF-financed subprojects by the scheduled completion date of January 2010, BRR plans to complete the allocation of US\$273 million to approved IRFF subprojects by April 30, 2008. In addition, MDF resources will be used to strengthen the sustainability of infrastructure reconstruction as mentioned above.

15. **The key performance indicators for these development objectives are:**

- (i) Proposals of infrastructure subprojects financed by IRFF will include a set of indicators, including use of infrastructure, quality, user satisfaction, cost and timeliness that will be used

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<sup>10</sup> IREP TA will be to identify, prepare, implement and supervise IRFF-financed subprojects. It may be noted however, that supporting IRFF is but a part of IREP TA's contribution to BRR's infrastructure reconstruction program; IREP TA will oversee infrastructure program management, planning, design, and construction management of adequate standards in the West Coast and Nias, as well as support BRR in overall coordination of the infrastructure reconstruction program.

<sup>11</sup> The mismatch between available funds and financing needs has arisen somewhat inadvertently as a result of donors and NGOs contributing resources to specific activities they see themselves best suited to deliver. Although BRR coordinates the post-tsunami recovery and reconstruction program, its ability to address the funding mismatch across sectors by reallocating resources is limited given that the activities that it coordinates would themselves need to reflect donors' and NGOs' preferences. i.e., donors would not like to see their contributions finance activities in a sector outside their area of expertise.

- to measure performance during subproject implementation and after subproject completion. Monitoring mechanisms, to assess the level of compliance with subproject performance criteria will be put in place;
- (ii) Infrastructure subprojects financed by IRFF after the infrastructure development strategy<sup>12</sup> drafted to reflect the priorities laid out therein;
  - (iii) Technical designs of infrastructure subprojects are sound and appropriate;
  - (iv) Proper financial and safeguards measures are integrated into the preparation of infrastructure subprojects financed by IRFF;
  - (v) Implementation of infrastructure subprojects financed by IRFF is adequately supervised;
  - (vi) Performance and financial audit reports (in addition to external audits financed under IREP) of financial statements of infrastructure subprojects financed by IRFF are prepared;
  - (vii) A progressively increasing proportion of projects, is managed by local and provincial government staff over IRFF project cycle;
  - (viii) A progressively increasing proportion of projects managed by local and provincial government staff over IRFF project cycle incorporates appropriate safeguards measures, financial management and procurement practices during project design and implementation.
  - (ix) Maintenance of infrastructure subprojects reflects asset maintenance strategies developed by IPM/IREP consultants;
  - (x) IPM/IREP consultants design institutional mechanisms according to local/provincial government capacity to sustain subproject implementation and supervision responsibilities of BRR after the completion of BRR's mandate;
  - (xi) A comprehensive survey designed to assess the state of infrastructure service delivery, in the 12 districts of Aceh and Nias that are benefiting from IRFF financing of individual subprojects will be conducted at the beginning and at the end of IRFF. Additionally, the survey will assess beneficiaries' satisfaction with infrastructure investments made in their respective communities as well as their quality at the end of IRFF.

16. **Project components.** The proposed IRFF, co-financed by MDF and BRR, consists of two main components that will be implemented over the January 2007 – January 2010 period<sup>13</sup>. A detailed description of the project components is provided in Annex 2.

- a) **Component 1 - Financing of Infrastructure Reconstruction and Rehabilitation Investments (US\$273.0 million)** will finance individual infrastructure reconstruction subprojects in 12 local governments – 9<sup>14</sup> of which are benefiting from IREP TA, and 3<sup>15</sup> of which are receiving technical advice from existing consulting arrangements, as well as strategic investments at the provincial level. Each individual infrastructure subproject will be co-financed by BRR and MDF, according to a 70:30 ratio. This component will provide resources for civil works and goods in subprojects in the following sectors: roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals.

<sup>12</sup> BRR is benefiting from IREP support to create an overall strategic program for infrastructure recovery on the basis of individual sector plans highlighting needs and corresponding priority projects in affected areas. This infrastructure development strategy will be reviewed every six months, and will require the approval of, the Infrastructure Board of BRR.

<sup>13</sup> BRR's mandate to lead, coordinate, and manage post-tsunami reconstruction is scheduled to expire in June 2009. The IRFF project, scheduled to close in June 2010, will extend one year beyond the completion of BRR's mandate. This will provide adequate time, if needed, for subprojects financed by IRFF to be completed in line with post-BRR institutional arrangements, detailed in a transition strategy to be prepared by June 2008, and agreed by GOI and the Bank.

<sup>14</sup> Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, and Simueleu in the West Coast and Nias and Nias Selatan in Nias.

<sup>15</sup> Aceh Besar, Banda Aceh, and Sabang.

- b) **Component 2 – Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (US\$3.0 million)**<sup>16</sup> will provide TA (i) to Aceh Besar, Banda Aceh and Sabang that are currently receiving TA from existing consulting arrangements for subproject identification and design (till January 2007) for the period January 2007 to January 2010<sup>17</sup> (US\$2 million). This component aims at strengthening the ability of the Aceh Besar, Banda Aceh and Sabang local governments to improve the provision of infrastructure in their respective jurisdictions by providing technical experts to assist them in planning and subproject identification, subproject design, document submission, procurement, safeguards compliance, implementation, construction supervision, and monitoring; (ii) to support performance and financial audit (over and above external audit) of the project financial statements (US\$0.6 million); and (iii) to provide technical assistance for transition to a post-BRR timeframe and institutional arrangements beyond April 2009, including extension of TA provided under IREP, and capacity building and infrastructure asset maintenance programs for local and provincial governments (US\$0.4 million).

**Unallocated funds (US\$15.0 million).** In order to mitigate uncertainty in the implementation of this project, a portion of the project funds is not allocated to any specific component. These unallocated resources may be used for one or more of the following: (i) extending IREP TA (a) beyond June 2009 to continue supporting the implementation, construction supervision and performance monitoring of subprojects financed by IRFF, and (b) to support BRR's mandate of supervision, performance monitoring and quality assurance of the infrastructure reconstruction program; (ii) financing TA activities necessary to help local and provincial governments prepare for the transition to a post-BRR era by undertaking greater responsibility of infrastructure program management based on the IREP-financed BRR transition strategy, detailing institutional arrangements beyond the scheduled expiration of BRR's mandate agreed by GOI and the Bank by June 2008; and (iii) financing additional subprojects in the event the implementation of all subprojects proceeds as planned.

17. **Lessons learned and reflected in the project design.** Numerous lessons have been learned from review of reconstruction efforts to date<sup>18</sup>. The design of the project takes into account the following:

- *The need to balance local level planning and overall reconstruction needs.* One the one hand it is critical to design a subproject planning process originating at the decentralized, local level so that the investments financed respond to community needs and local government planning capacity is strengthened. Yet, to ensure coordination and efficient management of available resources, it is essential that infrastructure subprojects reflect the overall reconstruction needs and priorities

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<sup>16</sup> There will be no replication of TA funding between IREP, IRFF and other existing consulting arrangements. During appraisal, additional TA needs, similar to those addressed by IREP TA (including planning, design, and construction supervision) were identified for Banda Aceh, Aceh Besar and Sabang. TA activities in these districts were being supported by existing consulting arrangements funded by the French government, and were scheduled to end in January 2007. However, after appraisal, the French government announced its commitment to extending TA in Aceh Besar, Banda Aceh and Sabang. If and when a commitment of funds is made by the French government, an equivalent amount of funds for this TA will be put in the unallocated funds under IRFF.

<sup>17</sup> During IREP preparation it was anticipated that additional bilateral assistance would be available to extend this TA beyond January 2007. However, these resources were not secured. In addition, infrastructure reconstruction in Aceh Besar, Banda Aceh and Sabang is very complex and is beyond the resources and mandate of the IREP Infrastructure Program Management (IPM) consultants. Taken together, these factors warranted the inclusion of TA support in infrastructure reconstruction to Aceh Besar, Banda Aceh and Sabang in IRFF.

<sup>18</sup> Refer to December 2005 report *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*.

outlined in the BRR infrastructure development strategy. This balance is achieved by requiring that IRFF-financed subprojects (i) be selected by local governments through a consultative process described in section IV below; and (ii) be confirmed by BRR.

- *The importance of speedy reconstruction while upholding the quality of construction.* The magnitude of infrastructure service disruption to communities in Aceh and Nias, calls for quick implementation and completion of high quality reconstruction operations. IRFF addresses the need for speed and quality in reconstruction by utilizing high quality expertise through IPM/IREP consultants who will support BRR and local/provincial governments to deliver infrastructure subprojects on an accelerated basis.
- *The need for local ownership of reconstruction efforts.* It is critical to ensure that local governments develop a sense of ownership with respect to the infrastructure subprojects financed by BRR so that they devote financial and technical resources to keep building and maintaining these infrastructure assets. IRFF addresses this issue in several ways. For instance, LGIPs and PGIPs, which include investments to be financed by BRR as well as by local governments and other stakeholders, will be developed by the local government themselves with support from BRR staff and IREP consultants. Further, project managers (or satkers) for BRR-financed projects will be designated by local governments and will generally be local government employees. In addition, all local infrastructure assets financed by BRR will legally belong to the respective local/provincial governments.
- *The need for transition of overall infrastructure reconstruction management from BRR to local and provincial governments so as to sustain reconstruction activity beyond the duration of BRR's mandate in April 2009.* Local and provincial government capacity in Aceh and Nias had been compromised over years of political strife and the tsunami further reduced government capacity. Cognizant of the risk that infrastructure reconstruction may breakdown in the absence of BRR post-April 2009, IRFF has built-in mitigating measures. BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity with a view to progressively transfer implementation responsibilities to local/provincial governments; IRFF will finance TA to support local governments' capacity enhancement, if needed. Further, IREP will assist the BRR/GOI to design institutional mechanisms detailed in a transition strategy, by June 2008 at the latest, to ensure that Government bodies are able to keep meeting the obligations of BRR beyond the scheduled expiration of its mandate in April 2009. IRFF will finance additional TA, as and when needed, to help local and provincial governments transition to the new post-BRR institutional arrangements.

18. **Alternatives considered and reasons for rejection.** Options for financing and implementing infrastructure subprojects to the level of quality envisioned under IRFF are limited in the context of Aceh and Nias. However, the following approaches were considered:

- *Project closing dates of June 2012 and June 2009.* The team considered structuring IRFF as a five year project with a closing date of June 2012 to provide sufficient time to complete infrastructure subprojects financed. However, such an arrangement would be contingent on (i) the extension of the MDTFANS, which is scheduled to close in June 30, 2010; (ii) the provision of funds by GOI to finance its share of IRFF subprojects after the scheduled completion of BRR's mandate; (iii) the preparation of a transition strategy by BRR/GOI with IREP support, acceptable to the Bank, that will help local governments prepare for the post-BRR period; and (iv) the restructuring of IRFF along the new institutional arrangements outlined in the transition strategy and modalities stipulated in the MDTFANS extension. Another alternative considered was to structure IRFF as a two year project with a closing date of June 2009, to be approximately coterminous with the currently scheduled expiration of BRR's mandate in April 2009. On balance, the team decided to structure IRFF as a three year project with a closing date of June

2010 to be coterminous with the MDTFANS. This would provide sufficient time for IRFF-financed subprojects to be completed, or at the very least, reach an advanced stage of implementation, that could be completed under the new institutional arrangements in the transition strategy using GOI resources.

- *No co-financing of individual infrastructure reconstruction subprojects.* The team considered using MDF resources to fully finance a subset of infrastructure subprojects prepared by BRR with IREP support. This alternative was rejected on the grounds that it would decrease the leverage of MDF resources in two ways: (i) US\$100 million of MDF monies would not be sufficient to finance the subprojects generated by IREP, expected to be of a total magnitude of US\$300-400 million; and (ii) utilizing US\$100 million of MDF funds to completely finance a few subprojects as opposed to co-financing a larger number of investments, would decrease the leverage of MDF resources with respect to the quality and sustainability of BRR-financed investments as such investments would not benefit from the technical, economic, financial and safeguards measures discussed in Section V below and in Annex 4.
- *Co-financing individual infrastructure reconstruction subprojects funded from BRR/MDF resources with local governments.* Misalignment of the budgetary cycles and administrative procedures of BRR and local governments ruled out this alternative.
- *Using MDF resources to co-finance all the infrastructure subprojects financed by BRR.* The team considered using MDF resources to co-finance all the infrastructure subprojects financed by BRR to increase the leverage of MDF finances spent on infrastructure reconstruction. However, financing all of these subprojects under the proposed IRFF would result in spreading MDF resources too thinly across all of BRR-financed subprojects, some of which will not be subject to IREP quality control mechanisms.
- *Financing overall support to BRR without focusing solely on infrastructure.* Key to recovery in Aceh and Nias is the provision of water and sanitation, transport and other essential infrastructure. Other donors are focusing on support to social and other areas of BRR work, leaving infrastructure to be addressed by alternative sources.
- *Suggesting that the BRR use its own funds to procure consultants for additional TA.* BRR is allowed to contract international expertise using its own funds. However, this procurement method limits the salary to which the consultant is eligible, which hinders the hiring of top international experts. As infrastructure reconstruction progresses, highly specialized consulting services, not readily available from local expertise, will be required to respond to specific needs.
- *Execution of the project by the Bank.* The team considered Bank execution of the project to facilitate faster implementation. However, this alternative was rejected since it would dilute the long term development of ownership and capacity building of local government and institutions.

### III. PROJECT COSTS

19. IRFF will fund, among other things, individual infrastructure subprojects, each of which will be co-financed by BRR and MDF according to a 70:30 ratio starting on January 1, 2007. IRFF is therefore being processed under an accelerated schedule to ensure that project implementation can start before November 2006 when BRR's 2007 budget needs to be finalized and approved by Parliament.

20. The estimated costs of financing infrastructure subprojects and funding the technical assistance discussed above are displayed below in Table 1. The Infrastructure Reconstruction Financing Facility (IRFF) will combine US\$100 million of MDF and US\$191 million of BRR resources to finance individual infrastructure subprojects in 12 local governments of Aceh and Nias, provide targeted support to infrastructure subproject planning, design, supervision and implementation oversight, and set aside US\$15 million currently unallocated to specific project activities. The table below assumes that US\$273 million (of the total project cost of US\$291 million) will be used to fund infrastructure subprojects by

combining US\$82 million of MDF and US\$191 million of BRR resources in a co-financing ratio of 30:70.

**Table 1: IRFF Costs and Proposed Sources of Funding**

Component	MDF Request US\$m	BRR Co-financing US\$m	Local Gov't Co-financing US\$m
1. Financing of Infrastructure Reconstruction and Rehabilitation Investments	82.0	191.0	Local support costs
2. Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (i) TA support to Aceh Besar, Banda Aceh and Sabang (ii) Transition to post-BRR timeframe (iii) Performance and financial audit (over and above external audit) of project financial statements	3.0	Local support costs	Local support costs
Unallocated	15.0		
<b>Total</b>	<b>100.0</b>	<b>191.0</b>	

#### IV. IMPLEMENTATION ARRANGEMENTS AND INSTITUTIONAL DESIGN

21. **Institutional support to infrastructure reconstruction.** IRFF will use the management structure set up for IREP. The Project Management Unit (PMU) established under IREP will be responsible for managing IRFF. BRR has appointed the Deputy of Infrastructure as Head of the PMU. Located in the PMU is the IREP Secretariat, responsible for daily work to support the functions of the PMU. A full-time Chief of the PMU Secretariat has been appointed to administer the Secretariat work program and staff. BRR will be responsible for equipping the Secretariat with qualified staff. The PMU reports to the Chief Operating Officer (COO) of BRR.

22. At the BRR level, the progress of the project will be monitored by the BRR Infrastructure Board (IB), which is comprised of the Chief Operating Officer and the Deputies of Infrastructure, Housing, Finance and Planning, and Institutional Development. The IB will provide overall guidance related to donor and sectoral coordination, and monitor progress of the reconstruction program. Detailed implementation arrangements for the project are provided in Annex 3.

23. Joint Secretariats comprising representatives from local governments and from decentralized BRR offices will be established in each of the 12 districts covered by the project. The Joint Secretariats, assisted by IREP consultants, will facilitate a mechanism of coordination and consultation among multiple stakeholders, including the local governments, BRR, and NGOs. Discussions at the Joint Secretariats will be aimed at guiding the local/provincial planning process, formulating Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs), and identifying individual subprojects therein to be co-financed by IRFF using BRR/MDF resources.

24. **Planning and implementation of infrastructure reconstruction subprojects.** IRFF will finance individual infrastructure reconstruction subprojects in 12 local governments as well as strategic investments at the provincial level. Local and provincial governments, with support from BRR and IREP consultants will prepare Local Government Annual Investment Plans (LGIPs), and Provincial Government Annual Investment Plans (PGIPs). IRFF will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs. To avoid delays in making progress on the 2007 investment plan, IREP-financed IPM consultants will review the projects already under preparation by BRR and other donors and identify subprojects for IRFF financing. All subprojects financed by IRFF will be required to



meet eligibility criteria based on sector and geographic location, technical, economic and financial requirements, and environmental safeguards.

25. *Preparation and review of the Local and Provincial Government Annual Investment Plans.* The proposed project aims for *programmatically co-financing* of key local investments embedded in strategic local development investment plans prepared by local governments with the assistance of IREP-financed consultants. Existing and on-going donor assisted development and strategic planning efforts (for e.g., ADB's support of KAPs, and Government of France's support of local level infrastructure design) would also serve as inputs for IRFF funded projects. Local governments will work with the Joint Secretariats and IREP-financed consultants to prepare a Local Government Annual Investment Plan (LGIP) and Provincial Government Annual Investment Plan (PGIP) in which prioritized local investment needs will be grounded<sup>19</sup>.

26. Once the LGIPs & PGIPs are finalized, the Joint Secretariat and local government will send the LGIPs and PGIPs to the BRR PMU, through BRR's regional office, for discussion and confirmation of BRR's potential commitment to finance specific subprojects with IRFF funds in line with regional priorities. The BRR PMU will share the list of confirmed subprojects with the Bank every quarter as part of the Interim Financial Reports (IFRs; see section VI below) along with analyses justifying their confirmation. Each accepted sub-project would be subject to a documented appraisal process to ensure eligibility. As part of the IFR review process, the Bank will ensure that subprojects are fully consistent with, and meet the defined subproject eligibility criteria (set out in Annex 4), and that the required safeguards assessments are met (see Annex 8). The BRR PMU and the Bank will agree (through a Bank no objection letter, 'NOL') on a procurement plan (subproject list of IRFF funded projects derived from LGIPs and PGIPs) for eligible subprojects for the forthcoming quarter that will contain details of confirmed subprojects and an explanation of their inclusion in IRFF. Further, the Bank will require prior review of all International Competitive Bidding (ICB) goods and works contracts, all projects financed retroactively, the first three National Competitive Bidding (NCB) goods and works contracts, consultants contracts greater than US\$200,000, the first three contracts using Consultants Qualification Process (CQ) and all sole-source contracts (see Annex 6).

27. *Preparation and approval of individual subprojects.* All confirmed subprojects will be notified to the local governments. After agreement, an MOU between the BRR and local and provincial governments will include confirmation of the subprojects the BRR will finance in the LGIP/PGIPs through IRFF, as well as formal commitment by the local and provincial governments to allocate appropriate budgetary resources to maintain these investments on the basis of a maintenance plan. Operations and maintenance of all IRFF subprojects will be supported by detailed financial and maintenance assessments/plans developed by IREP technical assistance (West Coast, Nias, and Strategic Planning, Design, and Construction Supervision consultants).

28. Local governments, with the assistance of the IREP-financed consultants working at the district level, will be responsible for detailed subproject preparation, including preliminary design, analysis of alternatives, conducting feasibility studies (including required environmental and social studies), followed by detailed design and bidding documents<sup>20</sup>. Final subproject designs and tender documents will be

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<sup>19</sup> The LGIPs and PGIPs will be circulated to the MDF Steering Committee for informational purposes and posted on the BRR's webpage. The MDF will have the opportunity to comment on the plans during project supervision.

<sup>20</sup> Environmental studies (AMDAL, UKL/UPL) will be carried out in such a way as to inform the completed detailed designs. Therefore environmental mitigation should be integrated, as necessary, into finalized technical drawings and in the bill of quantities.

submitted to the BRR PMU for review and tendering<sup>21</sup>. Once received by the BRR PMU for final clearance and procurement, subprojects will be reviewed to ensure that they meet the technical, economic, financial, environmental and safeguards compliance criteria developed at the outset of the project. Subproject eligibility criteria are discussed in Annex 4, and their role in the local government planning process is presented in Annex 3.

29. *Subproject implementation.* It is expected that subprojects of approximately US\$150 million will be allocated during each of the 2007 and 2008 BRR budget cycles. Satkers will be responsible for implementing individual subprojects and overseeing contractors with the support of IREP supervision consultants. These satkers, traditionally work-groups established within an appointed line-ministry, are now organized by activities and sub-activities. Currently, satkers function as work-groups to manage the implementation of a project or program. In 2007, these satkers will be nominated by local governments and appointed by BRR. In later years, it is expected that satkers will be nominated and appointed by local governments. Consultant teams will work alongside satkers to assist in the procurement, implementation and supervision of infrastructure reconstruction. Satkers will also be assisted by IREP consultants to manage the flow of subproject funds. In particular, the IREP supervision consultant will apprise the satkers of the progress made by contractors, and put his/her signatures on the contractor's invoice on the basis of which satkers will initiate payment.

30. **IRFF project financing and disbursement procedures.** BRR and KPPN (Regional Treasury Office) have established a very effective means of disbursing satker investment funds to contractors, other suppliers, and to satkers to cover day-to-day operating expenses. The project will establish a Designated/Special Account (DA) (described in Section VI below and in Annex 7), and the KPPN will draw funds from the special account to meet project commitments as required. BRR and MDF will contribute to each subproject financed by IRFF according to a co-financing ratio of 70:30. KPPN will simply draw 30% of each claim's funding requirements from the Special Account and 70% from the BRR's approved budget (DIPA) resources.

31. As subprojects come on stream, contractors will be paid 20 percent of contract price (as stipulated in the contract) directly into their designated account on signing the contract. The advance will be secured by a bank guarantee as stipulated in the contract. To process the balance of the payments, the contractor will submit invoices, along with supporting documents, to the satker according to payment provisions included in the contract. The invoices submitted will be verified by, and bear the signatures of, the IREP/IRFF supervision consultant. Verification by IREP/IRFF supervision consultant will require his/her review and confirmation that the physical progress of works is in accordance with the contract and with the contractor's invoice. The BRR satker will not process invoices that do not have the IREP/IRFF supervision consultant's signatures attesting to his/her verification of the invoice. Satkers will review the claim and confirm that it is in accordance with the contract, that supporting documents are complete, and that the claim is in accordance with the approved satker budget. When all documentation is complete the satker will prepare an SPM-LS, which will be signed and stamped by both the satker manager and the IREP/IRFF supervision consultant. The SPM-LS will then be forwarded by the satker to KPPN for processing and direct payment to the contractor's bank account less any retention for guarantees or advances provided for in the contract and for any taxation obligations. After checking that all supporting documents are in order and that the claim has been correctly authorized by both the satker and IREP/IRFF supervision consultant, KPPN will draw payment from the satker budget held by treasury and special

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<sup>21</sup> BRR PMU and provincial governments will carry out procurement for the first year of the project. In later years, procurement will be decentralized to local and provincial governments on the basis of procurement capacity assessments conducted by IPM consultants. Further details regarding procurement arrangements are provided in Annex 6.

account according to the agreed apportionment and pay this directly to the contractor's specified account. Details of the project financing procedures are presented in Annex 5.

32. **Local government participation in IRFF.** During project appraisal, the team considered co-financing individual infrastructure reconstruction subprojects funded from BRR/MDF resources with local governments. However, misalignment between the budgetary cycles of local governments and that of BRR, variance between the administrative procedures of local governments and those of BRR as well as between different local governments themselves, and weak technical and institutional capacity of local governments would have made formal co-financing between BRR, MDF and local governments unduly challenging and complex. At the same time, strengthening the capacity and the incentives of local governments to prepare, implement and maintain infrastructure projects together with BRR and also after BRR's scheduled exit in April 2009 is a key priority. Accordingly, several steps have been taken to maximize local government involvement in the projects financed by IRFF:

- Both IREP and IRFF include TA components that emphasize **hands-on training of local government technical departments**, as well as of BRR staff. Such TA is an important tool that will contribute to ensure the quality of infrastructure subprojects undertaken during BRR's mandate and to prepare local authorities for the post-BRR era. These capacity building efforts will cover all aspects of subproject selection and implementation.
- The overall incentive framework put in place in the context of IRFF is geared toward **building lasting institutional capacity at the local government level**. In particular, making IRFF resources available to finance well prepared local infrastructure subprojects is expected to prompt local governments to improve their ability to select and prepare such subprojects so as to gain access to IRFF financing.
- Measures are taken to **ensure that local governments develop a sense of ownership with respect to IRFF-funded projects**. For example, Joint Secretariats, comprising a number of local government staff along with representatives of the Bappeda district office and the BRR decentralized office, are being set up in each district to facilitate the process of selecting infrastructure subprojects. In addition, once subprojects are selected and approved for funding by BRR/MDF, project teams will be formed at the local government level to start subproject preparation and the key members of these project teams – in particular the satkers who manage subprojects – will be chosen by local governments and will generally be local government staff. Finally, BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity with a view to progressively transfer implementation responsibilities to those local governments able to carry out such responsibilities.
- In the context of IRFF, BRR and the GOI are committed to develop a **transition strategy**, by June 2008 at the latest, which will specify the institutional arrangements that will apply after April 2009 period, the scheduled expiry date of BRR's mandate. Such transition strategy will, inter alia, propose institutional mechanisms aimed at facilitating exchanges of experience between all Aceh and Nias local governments involved in infrastructure reconstruction and development. In addition, an unallocated component of IRFF is currently held in reserve and could be used to extend the TA carried out under IREP beyond June 2009.

## V. ELIGIBILITY OF SUBPROJECTS

33. In order to ensure that investments financed under the operation meet Bank and international standards for quality of investment and are sustainable, investments financed under the operation will be evaluated prior to tendering using simple eligibility criteria. During the initial stages of their engagement, the IPM consultants financed under the related IREP operation, will aid BRR in defining eligibility criteria and in disseminating them to local governments and district level consultant teams. These eligibility criteria aim to ensure that subprojects submitted for final approval by the BRR meet

simple requirements for (i) sectoral and geographic inclusion in the proposed project; (ii) appropriate design of technical solutions; (iii) economic and financial viability, including ensuring that mechanisms are in place for operation and maintenance of IRFF-financed investment; and (iv) compliance with the agreed-upon safeguard approach as relates to environmental, social, and fiduciary safeguards in place under IRFF. Details of these eligibility criteria are provided in Annex 4.

## **VI. FINANCIAL MANAGEMENT**

34. The size of the proposed project, the number of subprojects to be undertaken, and the complexity of the overall coordination and implementation of the infrastructure reconstruction program assigned to a newly-established agency like BRR create specific financial management challenges. A variety of risk management measures addressing these challenges have been adopted and are discussed below. Additional information on financial management provisions is provided in Annex 7.

35. **Budgeting.** IRFF will follow a standard annual government budget mechanism. The budget authority (Satker) at the local level will work under BRR supervision and oversight. Project Management Unit (Satker) at local level will be appointed by BRR through fit and proper procedures. Satkers at the local level will report to BRR.

36. As with other government projects, funds under this project need be put in the government budget and follow existing government budgeting processes. Each individual infrastructure subproject will be co-financed by BRR and MDF according to a 70:30 ratio, and will be recorded as such in the budget documents. In exceptional circumstances, other ratios may be considered by the Bank and BRR.

37. **Accounting & Reporting.** The project will use government accounting software (SAI) to record project transactions. An additional feature of monitoring contract commitments in the accounting software has been developed and will be used in project implementation. A separate worksheet will be prepared to serve the reporting needs of the Bank outlined in the Interim Financial Reports (IFRs). Grant expenditures and activities will be reported to the Bank under the project IFR on a quarterly basis. Satkers at the local level will submit the project IFRs to PMU in Banda Aceh for report consolidation. The financial report may be prepared using a separate stand-alone spreadsheet. This would include information on procurement, physical progress of budgeted activities and financial sources and uses of funds. Formats for these will be agreed to before negotiations.

38. Quarterly IFRs should be received by the Bank no later than 30 days after the end of each quarter. To ensure consistency of the IFRs with GOI reporting, the aggregates in the financial reports will be reconciled periodically with the aggregates in the SAI and Special Account. All financial transactions should be properly recorded and supported by adequate evidence in accordance with Grant objectives. The audited annual financial statements should be made publicly available to ensure transparency.

39. **Internal Controls and Internal Audit.** The internal audit department will be responsible to review internal control of all Satkers that implement the project budget at the local level. The internal audit unit will recruit additional staff, if necessary, to supervise the project activities. The internal auditor will conduct a review on internal control system in the implementing Satker, including payment validation. Copies of these reports will be made available to the Bank upon request.

40. **External Audit.** BRR will prepare special purpose project financial statements annually in specified formats. The financial report will be based on the summary of financial transactions under this grant. The project financial report will be subject to a performance and financial audit by the Supreme Audit Institution (BPK), which may sub-contract this work to a reputable auditor acceptable to the Bank.

A copy of the audited project financial statements, along with management letters issued by the auditors, if any, will be submitted to the Bank no later than six months after the end of the fiscal year.

41. Terms of Reference (TOR) for the project audit were agreed by the Bank with the Recipient before negotiations. The audit report will include an opinion on the reliability of the project financial statements, including the validity and eligibility of transactions through dedicated special account used for channeling MDF funds. The audit reports will be made accessible to the public to ensure transparency.

42. **IRFF Disbursement Arrangements.** Applicable disbursement methods include: (i) Advance; (ii) Direct payment; and (iii) Reimbursement. Advance method will be used to facilitate disbursements for eligible expenditures. A Designated Account (DA) denominated in US dollars will be opened in the Central Bank (BI) or a commercial bank acceptable to the Bank under the name of MoF. The management of the DA would be under the responsibility DG Treasury, MoF and thus the application for applying for an advance and reporting on uses of the advances to the DA would be prepared by PMU and submitted to the Bank through DG Treasury, MOF. The ceiling of the advance provided to a Designated Account (DA) is \$10,000,000. Application for applying for an advance and/or reporting on the uses of advances to the DA would be submitted, monthly or as required. Such an application would be supported by: (i) list payments for contracts under Bank's prior-review and records evidencing such expenditures, or (ii) statement of expenditures (SOEs) for all other expenses, and (iii) DA reconciliation statement.

43. Another acceptable method of withdrawing funds under this arrangement is the direct payment method, involving direct payments to suppliers for works, goods and services upon request form. The Disbursement Letter will stipulate the minimum application value for direct payment. No disbursements will be made for goods or works for subprojects until the FM consultants are mobilized.

44. When the PMU has the capacity of producing timely quarterly Interim Financial Reports (IFRs), reporting the use of funds will be based on the IFR, and advance to the DA made for six month projected expenditures. Preparation and presentation of IFRs will be required regardless of the selected method of disbursement.

45. Retroactive financing will be provided under the project for up to 20% (i.e., US\$20,000,000) of the MDF grant amount to finance eligible expenditures for project activities incurred after June 20, 2006. The services, civil works, and goods to be eligible for retroactive financing should be contracted following World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004. All procurement contracts proposed under retroactive financing will be subject to the Bank's prior review.

46. **Supervision Plan.** Supervision of project financial management will be done on a risk-based approach at least once a year. The supervision will review the project's financial management system, including but not limited to accounting, reporting and internal control. The financial management supervision will be conducted by financial management specialist and Bank consultants.

## **VII. PROCUREMENT ARRANGEMENTS**

47. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Grant Agreement. International Competitive Bidding (ICB) will be used for all works packages estimated to cost more than US\$5 million each and goods packages estimated to cost US\$200,000 each. National Competitive Bidding (NCB) will be used for all other packages. Since the

minimum size of a subproject is US\$300,000 there will be no need for shopping. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Grant Recipient (BRR) and reflected in the Procurement Plan. As mentioned above, retroactive financing will be provided under the project for up to 20% (i.e., US\$20,000,000) of the MDF grant amount to finance eligible expenditures for project activities incurred after June 20, 2006. All procurement contracts proposed under retroactive financing will be subject to the Bank's prior review.

48. In line with the project's emphasis on supporting every stage of the subproject cycle, including subproject identification, preparation of detailed design and tender documents, procurement, implementation and supervision, the current procurement plan reflects contracts for technical assistance. This will be updated once the subprojects are identified and prior to launching any procurement process for subprojects. Once the first set of subprojects are identified and reflected in the plan, the procurement plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity in the different local governments. Details of the description of the various components and the proposed selection procedures are presented in Annex 6.

49. BRR has carried some procurement activities so far, mainly in the housing sector using direct award. It provides funds to local governments to carry procurement, but retains the prerogative to approve the final award of contracts. BRR has expressed its concern on the capacity, timeliness and quality of procurement at the local government level, particularly in certain cases where there has been suspicion of collusion. In addition, political pressures weaken the capacity of most local governments to undertake procurement. As a result, BRR has indicated its decision to centralize procurement with the participation of the concerned local governments. BRR is currently developing a structure for a new procurement unit and plans to staff it with qualified personnel to carry the procurement for funds provided by BRR. All procurement managers will have to be certified to carry procurement in accordance with the current national certification system. The BRR will also have access to a pool of experts and procurement certified civil servants who then can use on an on-call basis. Additionally BRR intends to install and use an e-procurement system. BRR is currently assessing the e-procurement system in the city of Sorabaya to determine the ease of its transferability for use in their procurement, including under this project. A Bank staff expert in e-procurement has assessed the current system in Sorabaya and found it to be acceptable for use, subject to recommendations that address weaknesses in the system.

50. IPM consultants will have a dedicated team of procurement specialists with international and national experience who will assist BRR in all procurement activities. The procurement services of the IPM will include supporting the BRR in directly carrying procurement for the first 12 months while in parallel assessing the procurement capacity at the local government level to determine the current benchmark, developing this capacity through a combination of training programs, on the job training, and gradual transfer of procurement responsibilities to the local governments in the last phase of the project. The BRR will request the Bank's no-objection to their decision to decentralize procurement to local governments, and will reflect this in a revised procurement plan. The BRR will still be responsible for all procurement in terms of preparing procurement plan, ensuring use of appropriate methods, following all applicable procurement procedures in managing the process and evaluating and awarding bids.

## **VIII. SAFEGUARD POLICIES**

51. Safeguard policies triggered by this project include environmental assessment, involuntary resettlement, and Indigenous Peoples. These policies are triggered by virtue of the fact that, taken together, IREP/IRFF will design and finance a range of infrastructure subprojects, and will therefore have had to consider a full range of safeguards issues as part of subproject preparation and detailed design. A

safeguards framework for this project is attached as Annex 8. The environmental and social safeguards framework provides general policies and guidelines to serve the following objectives:

- Protect human health;
- Prevent environmental degradation as a result of either individual investments or their cumulative effects;
- Enhance positive environmental outcomes;
- Avoid or minimize land acquisition and involuntary resettlement, and where this can not be avoided, provide compensation at replacement value and assistance to rehabilitate livelihoods based on consultation with those affected;
- Avoid conflict among community members and strengthen community social cohesiveness.

52. The safeguard policies triggered include OP 4.01 on Environmental Assessment, OP 4.12 on Involuntary Resettlement and OP 4.10 on Indigenous Peoples.

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment (OP/BP/GP 4.01)	[x]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[x]	[ ]
Indigenous Peoples (OP 4.10)	[x]	[ ]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)	[ ]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[x]

53. **Environmental issues.** Taken together, IREP and IRFF entail the procurement of services to support infrastructure reconstruction and programming of very significant MDF and BRR resources for Aceh and Nias. Consequently, the consultant teams that will be engaged under the project will need to have a good understanding of related environmental and social impacts and how such impacts can mitigated via appropriate planning, design, and implementation measures.

54. Assessment of the impacts of infrastructure reconstruction first needs to be set within the context of existing environmental conditions, particularly along the West Coast and in Nias. Furthermore it should be recognized that existing conditions are being further impacted by the reconstruction process that has been underway since early 2005 – now increasing in scope and intensity. Many coastal areas have been severely damaged by the tsunami both in terms of marine and terrestrial environments. In many places coastlines have been physically altered, particularly the inter-tidal zones. Shallow coral reefs have been affected resulting from the large amounts of solid waste, silts and clays generated by the waves. In Nias, large tracts of coastal land have been lifted up and an estimated 250 ha of coral reefs are reported to have been destroyed. With the loss of sea defenses previously built up areas have been reclaimed by the tides leading to coastal inundation and the recreation of marshy areas juxtaposed with human settlement.

55. **Social issues.** In general, the infrastructure subprojects that will be designed and implemented with support from IREP/IRFF will entail replacement of pre-existing infrastructure. As a result, the level of associated social risks is likely to be limited. However, it is important for planning processes, including prioritization of infrastructure needs, to reflect community needs - specifically those of vulnerable groups, such as women, children, and the poorest in society.

56. In some cases, land acquisition and resettlement will be unavoidable, leading to a range of challenges associated with clarifying land titles and ensuring that adequate and timely compensation is provided. Thousands of people still remain missing after the tsunami while others still live in the camps/barracks or have moved to other regions. Although most intend to return to their holdings, the timing varies. Therefore, in many cases landowners are not available to discuss land acquisition issues leading to project delays or later conflicts during project implementation relating to disputed land claims. A further challenge is in dealing with the tenure rights defined under the customary and traditional codes, particularly in Nias which is dominated by traditional tenure systems. For example, traditional codes do not clearly define rights for women to inherit land, and a challenge may be how to ensure that female heads of households retain rights to receive compensation.

57. Although the people of Aceh are a broadly homogeneous group, there are indigenous people living in Nias requiring the project to undertake specific measures to ensure that they are meaningfully engaged in consultation processes associated with the planning, design, and construction of proposed infrastructure.

58. **Safeguards approach.** A range of safeguards specialists will be hired by IREP and IRFF both for the IPM team, the province level team and geographically based consultant teams situated on the West Coast and in Nias. The safeguards team will initially conduct an environmental orientation study based on a pressure/state/response methodology in order to determine how overall infrastructure planning can best take account of environmental challenges. In order to ensure that investments financed under IRFF meet Bank and international standards for quality of investment and are sustainable in the medium term, all subprojects financed under the operation will be screened for compliance with environmental and other safeguard policies.

59. The Government of Indonesia's environmental review procedures, which include specific procedures for Aceh and Nias<sup>22</sup>, are broadly consistent with those of the World Bank, and will form the framework for the project's approach to environmental screening and mitigation. Subprojects being prepared, designed and implemented under IREP/IRFF (including any subprojects not prepared under IREP but submitted to IRFF) will first be subject to eligibility criteria at subproject identification stage (to be developed by BRR) in order to rapidly eliminate highly damaging or controversial proposals. Once sub-projects progress into formal project preparation, the World Bank and GOI formal social and environmental screening will be applied to determine what level of social and environmental review is required as follows:

- full environmental assessment (AMDAL) required;
- environmental management and monitoring plan (UKL/UPL) required;
- Land Acquisition and Resettlement Action Plan (LARAP) required;
- standard operating procedures (SOP) only;

60. All subprojects (being funded by IRFF) will be required to complete a standardized screening form providing basic information, according to infrastructure sub-sector (roads, irrigation, drainage, coastal defenses, etc.)<sup>23</sup>. Other key tasks to be undertaken are further detailed in Annex 8. These include principles for handling of land issues and other assets based on minimizing impacts on assets, informed consultation and use of market price for assets lost, as well as sensitivity to local culture. Annex 8A provides details for a framework for treatment of indigenous or isolated vulnerable people. Detailed

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<sup>22</sup> Ministry of Environment Decree No. 308/2005 on Implementation of Environmental Impact Assessment, Environmental Management Measures and Environmental Controlling Measures for Rehabilitation and Reconstruction Activities of Nanggroe Aceh Darussalam and Nias Islands of North Sumatra.

<sup>23</sup> GTZ is in process of preparing standard screening formats for discussion with Province Bapedalda. The project will review these formats as a basis for preparing appropriate internal screening procedures.



operational procedures for implementation of the safeguards framework will be developed by the PMU/IPM team and integrated into the Project Implementation Plan (PIP), and a program of training delivered for BRR, local government, project staff, and contractors.

61. **Gender outreach strategy.** BRR has proposed special provisions in IREP/IRFF for empowering women throughout the IRFF project cycle, and anticipates improved quality of IRFF investments through this outreach strategy. The BRR's preliminary concept for engaging women and addressing gender considerations in IRFF are; (i) direct solicitation of inputs from women's groups during early review of proposed project designs (particularly for water and sanitation, and market projects); (ii) obtaining women's inputs on investment prioritization through focus group discussions, or other means, and integrating these considerations into the selection process; (iii) ensuring women are represented and active in the district joint secretariat fora; and (iv) direct outreach to community stakeholders through local print media and community radio, to inform on IRFF progress, plans, and major decision. Once mobilized, the IPM Consultants will develop the gender component for IRFF, which the district based IREP consultants will be responsible for implementing. In the interim, BRR will continue to develop these gender outreach strategies, which will be refined and formally integrated into IRFF once IREP consultants begin operations.

#### IX. ANTI-CORRUPTION ACTION PLAN

62. An Anti-corruption Action Plan (ACAP) has been prepared for the infrastructure investments to be financed by IRFF. The implementation of this plan depends on strong support from the BRR through its PMU as well as the BRR's Anti-Corruption Unit (*Satuan Anti-Korupsi*, or SAK). Details of the action plan and the mechanisms to protect IRFF subprojects from corruption are provided in Annex 9.

63. BRR will establish a small Ethics Team that would include representatives from the SAK and from the Internal Audit unit of BRR<sup>24</sup>. This Ethics Team will work closely with the IPM consultants, and provide timely advice to the PMU on issues such as:

- Adapting and adopting procedures acceptable to the MDF and the government for hiring and managing consultants and contractors;
- Ensuring that parliament and civil society groups are properly informed and engaged within an appropriate "third-party" monitoring system.

64. The IRFF Anti Corruption Action Plan has six key elements, each of which is briefly discussed below. An additional element focusing on effective involvement of local parliaments at BRR's request is also included.

65. **Disclosure of information.** To encourage healthy competition between bidders, the PMU, with advice from the SAK and the Ethics Team, will ensure that information concerning all contracts as well as full audit and progress reports of subprojects is widely circulated. This will be done using established procedures (e.g., advertisements in newspapers, BRR's website [www.e-aceh-nias.org](http://www.e-aceh-nias.org), development-related newsletters), enhancing with additional measures when possible. To avoid misinformation circulating about the project, the PMU will ensure that groups interested in individual subprojects are kept up to date with progress during the procurement and implementation phases, *inter alia* by using an electronic mailing list and by sending information directly to key distribution hubs, such as NGO fora. The project will also use Public Accountability Meetings, hosted by the local government, to provide an

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<sup>24</sup> This team would greatly benefit from having access to a fulltime Advisor on operational aspects, including the MDF and government disbursement, procurement and financial management guidelines.

opportunity for civil society to hear about the subprojects from related contractors and consultants in person at the beginning, middle and end of each subproject.

66. **Civil society oversight.** To broaden informal oversight coverage and further reduce the problems related to misinformation, the PMU will ensure that socialization of civil society oversight begins as soon as possible, so that civil society becomes aware of any forthcoming bidding and so that local governments can see that BRR fosters coordination with key external groups. These groups will include NGOs, religious groups, local parliament and higher education institutions. Both of the latter institutions should be encouraged to send representatives to witness the procurement process and comment on progress. Public Accountability Meetings briefly discussed above will be used to engage with civil society groups, where participants can hear about subproject(s), including information on contracts and progress, and pose questions concerning, *inter alia*: timing, finance and quality issues. During subproject preparation, BRR, with assistance from the IPM and the Ethics Team, will develop plans for achieving effective third-party monitoring of procurement and implementation.

67. **Collusion mitigation.** Special attention will be given to the planning and preparation of procurement processes, as this may entail very different package types and sizes, different levels of responsibility (e.g. shared between BRR and local governments), and different local capacities in terms of process management and oversight (internal and external). As mentioned above, BRR will encourage representatives from civil society and, where possible, local parliament to act as observers of the key stages in procurement. The Ethics Team and the SAK will be fully consulted concerning the methods to be used for each location. At a minimum, the measures outlined in the procurement and financial management sections of the PIP must be closely followed at each stage and any deviation from the agreed rules must be carefully investigated with appropriate sanctions strictly applied.

68. **Mitigation of forgery and fraud.** Forgery and fraud risks will be minimized by adherence to fiduciary management practices. Measures undertaken will include strict payment validation procedures that will be rigorously enforced. Project filing/bookkeeping will be tightly controlled and subject to strict reviews. Internal and external audits will be held to ensure that fiduciary management is in accordance with the agreed procedures. Special attention will be given to aspects that have proven vulnerable in previous projects, such as “soft” categories like training, workshops and information dissemination. Internal audits will be carried out by BRR, and external audits by the Supreme Audit Board (BPK), which may outsource the task to a professional and reputed audit company acceptable to the Bank. IPM consultants will assist BRR in supervisory work, including routine and ad hoc reviews of other contracts, etc.

69. **Complaints handling.** A sufficiently independent and credible system for handling complaints is already available within the BRR that feeds into the SAK. The PMU will make full use of this system throughout the life of the program. The overall approach of the project is to support the SAK as an independent unit within the BRR, to carry out most anti-corruption activities for IREP/IRFF. To enhance SAK’s capacity, the IPM consultants have staff to support the SAK. However, SAK will continue to report directly to the BRR, and not the PMU, to maintain the integrity of the unit.

70. **Remedies and sanctions.** To the extent that this project will finance several individual infrastructure subprojects in an environment of weak institutions and local government capacity, there may be several cases of abuse during the implementation phase. The BRR will follow up on each case appropriately, taking into consideration the size and nature of the case as well as the level of evidence available. BRR may use its own sanctioning regime which includes blacklisting of companies. Depending on the case, sanctions may be imposed by on individual offenders, companies or other entities. If necessary, the BRR Anti-corruption Unit will activate and monitor the referral system to external authorities (e.g., the police/KPK) to gauge if legal and/or administrative sanctions are being effectively

applied. The PMU will ensure that proven cases of corruption get high publicity so that they will act as a social (“name and shame”) deterrent.

71. **Effective involvement of the Local Parliament.** The PMU will ensure that the local parliament (DPRD) is actively involved from the beginning by insisting that they are properly involved in the strategic planning stage. It will also invite representatives from the relevant commission to observe the procurement process on the condition that conflict of interests is avoided. Later on, the PMU will ensure that DPRD are invited through relevant commission to all Accountability Meetings. All of these activities will require inputs from the Ethics Team and the IPM.

#### **X. INFRASTRUCTURE SUBPROJECT PIPELINE**

72. The BRR has formulated a phased infrastructure program to reconstruct and provide essential economic services for Aceh and Nias. Several of the key multilateral and bilateral agencies, donors, and NGOs have been involved in supporting infrastructure reconstruction – the former involved in some of the larger-scale items, and the latter supporting housing reconstruction and social facility reconstruction. An initial pipeline of prioritized infrastructure programs and projects has been prepared by BRR for financing by different sources. Projects in the pipeline cover the ports and harbors, sea defense and macro-drainage, roads and transportation, water supply, sanitation and solid waste management, and urban and town essential municipal services sectors. Some of these projects may be potential candidates for MDF/BRR funding under IRFF. Criteria to select subprojects to receive funding under IRFF are set out in detail in Annex 4. The complete list of projects in the initial pipeline prepared by BRR is presented in Annex 11.

#### **XI. TRANSITION STRATEGY AND SUSTAINABILITY**

73. Rebuilding infrastructure in Aceh and Nias so as to reverse the destruction caused by the tsunami, compensate for the under-development caused by years of political strife and unlock the medium to long term development potential of the province is a task of enormous magnitude. The risk that the efforts now underway might prove unsustainable is substantial. Compounding this risk is the expiration of BRR’s mandate scheduled for April 2009, beyond which local and provincial governments will need to undertake greater responsibility for infrastructure reconstruction program management. BRR’s exit in April 2009 and the need for new institutional arrangements to facilitate continued progress in infrastructure reconstruction require a well conceived transition strategy to prepare local and provincial governments for the post-BRR period. A number of steps in the context of both the IREP and the IRFF are being undertaken to ensure the sustainability of the reconstruction program for Aceh and Nias and to facilitate the transition of local and provincial governments beyond BRR’s mandate. Each of these is briefly discussed below. Details about the efforts to enhance the sustainability of the infrastructure reconstruction program are provided in Annex 10.

74. **Technical assistance.** Both IREP and IRFF include TA components that emphasize hands-on training of local government technical departments as well as of BRR staff. Such TA is an important tool that will contribute to ensure the quality of infrastructure subprojects undertaken during BRR’s mandate and to prepare local authorities for the post-BRR era. These capacity building efforts will cover all aspects of subproject selection and implementation, including subproject selection, preparing detailed design and tender documents safeguards compliance, procurement, subproject supervision, training for handover of databases and other development monitoring tools, anti-corruption measures and infrastructure asset maintenance.

75. **Ownership.** Steps will be taken to ensure that local governments develop a sense of ownership with respect to the infrastructure assets financed by BRR. For example, infrastructure investment plans

that include subprojects to be financed by BRR/MDF resources as well as by local governments and other agencies will be developed through the Joint Secretariats by the local government themselves with support from BRR staff and in coordination with other relevant stakeholders. Once subprojects are selected and approved by BRR central for funding by BRR/MDF, project teams will be formed at the local government level to start subproject preparation. The key members of these project teams – in particular the satkers who manage subprojects – will generally be local government staff. In addition, BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity with a view to progressively transfer implementation responsibilities, including procurement and financial management, to those local governments able to carry out such responsibilities. The capacity building measures mentioned above are designed to enable transferring increasing levels of responsibilities to local governments over time.

76. **Building institutional capacity.** The overall incentive framework under which local government officials operate in the context of IRFF is geared toward building lasting institutional capacity. For example, making IRFF resources available to finance well prepared local infrastructure subprojects is expected to prompt local governments to improve their ability to select and prepare such subprojects so as to gain access to IRFF financing. During the IRFF cycle, it is anticipated that local governments will share some of the implementation responsibilities (procurement, financial management, etc) of IREP TA. This will be determined on a case-by-case basis after capacity assessments are conducted by IPM and the district/provincial based IREP TA, and with NOL from the Bank. In addition, a transition strategy – to be developed with the help of IREP consultants to help local governments prepare for the post-BRR period – will propose institutional mechanisms aimed at facilitating exchanges of experience between all Aceh and Nias local governments involved in infrastructure reconstruction and development.

77. **Post-BRR arrangements.** The capacity building measures described above are designed to help local governments work together with BRR to select, design and implement high quality infrastructure subprojects, and will help local governments implement infrastructure development programs on their own after the end of BRR's mandate. Additional measures are specifically designed to ease the transition to the post-BRR period. For example, BRR with support from IREP consultants will develop institutional mechanisms, by June 2008 at the latest, for the post April 2009 period when its mandate is scheduled to expire. In addition, unallocated funds under IRFF are currently held in reserve to be used, for example, to extend the TA carried out under IREP beyond June 2009 if it proves desirable.

## XII. RISKS

78. Table 2 below outlines critical risks to the project, as well as proposed mitigation measures to be taken to minimize these risks.

**Table 2 – Critical risks and proposed mitigation measures**

RISK	RATING	MITIGATION	RATING AFTER MITIGATION
Misuse of and failure to account for project funds	H	Outsourcing of accounting and reporting functions. Public disclosure of audit report and anti-corruption initiatives as outlined in the Anti-corruption Action Plan.	M
Ineffective audit functions	H	Inclusions of an independent audit as part of the FM component. FM consultants apply professional best practices to implementation.	M

<b>Political involvement in funds flow process</b>	S	An independent financial management team will be supplied as part of the IPM team to monitor fiduciary arrangements.	M
<b>Lack of involvement and support of key government agencies</b>	S	The Infrastructure Board of BRR will be engaged to ensure the appropriate commitment of BRR and the relevant LGs.	M
<b>Inadequate capacity of the executing agency</b>	S	TA consultants will provide the required capacity. BRR will establish a PMU staffed by experienced technical staff, administrative staff, procurement and financial management staff/accountants.	M
<b>Limited availability of foreign and local TA consultants</b>	M	All consultants will be procured using standard Bank procedures. Maximum coverage will be given to advertisements requesting interest from consultants.	N
<b>Consultant teams do not meet performance requirements</b>	S	Use of procurement advisors will ensure good quality consultants are selected. The Bank will support BRR in closely monitoring performance of consultants through intensive supervision. The TORs of the consultants have clauses included that mandate replacement of underperforming staff; also as part of the contract, consultants must sign an integrity clause.	M
<b>Local governments unable to supply co-financing for compensation of land acquisition</b>	H	If local governments are unable to mobilize funding to co-finance land acquisition for infrastructure works, BRR will provide the additional financing.	S
<b>Weak procurement environment and collusive practices in past projects</b>	H	All packages funded on a retroactive basis will be subject to prior review. To ensure transparency in the procurement process, enhanced procurement procedures are included in the Anti-Corruption Action Plan. Procurement training activities and a capacity assessment will also be conducted with local and provincial governments with IPM assistance.	S
<b>Low capacity of local and provincial governments to provide experienced, qualified staff to work with consultant teams</b>	H	The project will create incentives for active participation of local and provincial government staff by increasing their ability to manage subprojects through capacity building activities for subproject selection and management.	S
<b>Low capacity of the local governments to operate, and maintain new/rebuilt infrastructure</b>	H	The project design includes significant institutional strengthening to promote sustainable management, operations, and maintenance by the PU staff.	S
<b>Infrastructure contracts will not be executed to standards and costs as designed</b>	S	Improved bid documents and tightened control of quantities and quality by consultants.	M

<b>All subprojects financed by IRFF will not be fully implemented by the time the project closes in June 2010</b>	H	TA provided under IREP will facilitate adequate pace of implementation of IRFF-financed subprojects by supporting subproject identification, preparation, implementation and construction supervision. In addition, the following provisions aim to achieve timely completion of IRFF-financed subprojects: (i) development of a transition strategy detailing post-BRR institutional arrangements agreed by GOI and the Bank by June 2008; (ii) provision of funds by IRFF to extend TA under IREP after IREP closes in June 2009; and (iii) restructuring of IRFF after January 2010 to fund expenditures related to IRFF-financed subprojects along the post-BRR institutional arrangements outlined in the transition strategy.	S
<b>Transition of responsibility to local and provincial governments for maintenance of infrastructure proves unsustainable after BRR's mandate ends</b>	H	IREP is designed to help build capacity of local and provincial government staff to bring about improvements in the planning and maintenance of infrastructure. The consultants will gradually shift responsibility to local government staff to manage infrastructure subprojects during the course of IREP/IRFF. Steps will be taken to ensure that local governments develop a sense of ownership with respect to the infrastructure assets financed by BRR. BRR/GOI, with support from IREP consultants, will develop a transition strategy detailing post-BRR institutional arrangements agreed by GOI and the Bank by June 2008. IRFF will finance TA, as and when needed, to support local and provincial governments transition to the new post-BRR institutional arrangements.	S
<b>Capacity of the Bank to meet its responsibilities with respect to review and supervision of subprojects</b>	S	It is expected that IRFF will finance 100 to 200 subprojects across several infrastructure subsectors over the duration of the project. Each of these will require Bank review of procurement, financial management, and safeguards and anti-corruption measures, as well as their respective technical reviews. In addition, the Bank will be required to monitor the quality of design and implementation. The Bank will assess its staffing needs and allocate adequate resources to ensure the constitution of a strong team that can shoulder its responsibilities towards subprojects financed.	M
<b>OVERALL RISK LEVEL</b>	H		S

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

### XIII. MONITORING AND EVALUATION

79. Monitoring and evaluation (M&E) of IRFF projects will be carried out by IREP district and provincial level TA, and coordinated by IPM consultants. The M&E framework will be developed by the IPM consultants and reviewed by the Bank during supervision. Each subproject proposal will include monitoring indicators and data collection indicators. The framework will include roles and responsibilities

of the PMU and IREP consultants. M&E for safeguards will be conducted under the same framework, and will be overseen by the IPM safeguards coordinator<sup>25</sup>.

#### XIV. BANK REVIEW AND SUPERVISION

80. The proposed IRFF is structured as a programmatic operation, with multiple subprojects being prepared, implemented and their construction supervised over the next three years<sup>26</sup>. The Bank, as partner agency under the MDF legal framework, will be responsible for project supervision of the project on behalf of the MDF. In such capacity, the Bank will have the following review and supervision functions during implementation of IRFF:

81. **Finalization of Project Implementation Plan (PIP).** The PIP will guide project implementation and will list all project-related policies and procedures. The PIP will contain, among other things, specific accounting and reporting procedures for all organizations involved in project implementation, preparation of Interim Financial Reports (IFRs), and details of procurement, environmental and safeguards compliance procedures. In addition, the document will include details of the eligibility criteria formulated by IPM consultants that will help identify subprojects to be financed by IRFF. A draft of the PIP was agreed with the Bank prior to negotiations. Any further changes to the PIP will be made in agreement with the Bank.

82. **Interim Financial Reports (IFRs).** During implementation, Bank staff will review IFRs each quarter to assess financial management, procurement, and physical progress made in the preceding quarter as well as agree with the procurement plan of the forthcoming quarter. This procurement plan will include subprojects to be undertaken in the next quarter along with the rationale for their inclusion. Quarterly IFRs should be received by the Bank no later than 30 days after the end of each quarter. To facilitate project supervision, the Bank will schedule its supervision missions in line with the submission of the IFRs. The format of the IFRs will be agreed by BRR and the Bank at negotiations.

83. **Procurement review.** During implementation, Bank staff will review and monitor procurement in IRFF subprojects through the following: (i) IPM will support BRR and provincial governments in carrying procurement for the first 12 months, and in parallel, assess the procurement capacity at the local government level to determine the current benchmark, develop this capacity through training programs, and facilitate a gradual transfer of procurement responsibilities to the local governments. BRR may delegate procurement responsibilities to local governments during implementation in agreement with the Bank; and (ii) as displayed in the procurement arrangement details in Annex 6 detailing the Procurement Plan and Assessment, all TA contracts will be subject to prior review by the Bank. As mentioned above, the Bank will review procurement over the preceding quarter as well as the procurement plan for the forthcoming quarter submitted along with quarterly IFRs. In addition to the regular prior review supervision and a review of quarterly IFRs to be carried out from Bank offices, annual supervision missions will visit the field to carry out post review of procurement actions on a yearly basis.

84. **Environmental review.** An environmental and social safeguards framework was agreed to at appraisal, and is outlined in Annex 8. Formal Bank review will be required at three stages: (i) completion

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<sup>25</sup> IRFF documents will include a covenant for the BRR to submit, within six months of IPM mobilization, a draft M&E framework to the Bank for review.

<sup>26</sup> Although IRFF's implementation period is January 2007-January 2010, the disbursement schedule will span two and a half years between January 2007-June 2009, to be coterminous with the currently scheduled completion of BRR's mandate. If subprojects are not completed by June 2009, they can be financed by IRFF till June 2010 (when the project is scheduled to close) in line with post-BRR institutional arrangements, detailed in a transition strategy to be prepared by June 2008, and agreed by GOI and the Bank.

of required environmental and social studies (AMDALs, UKL/UPL and LARAP) during sub-project preparation; (ii) integration of study results into DD/TDs prior to sub-project approval; and (iii) completion of land acquisition and resettlement monitoring form prior to contracting of work. During construction supervision, the Bank will receive bi-annual monitoring reports covering environmental and safeguards issues.

85. **Anti-corruption.** The Anti-corruption Action Plan will be part of the PIP prepared by BRR and agreed with the Bank prior to negotiation. During implementation, Bank staff will monitor the six elements of the anti-corruption action plan (elaborated in Annex 9). Aide Memoirs will clearly state progress in relation to the Anti-Corruption Action Plan. Any changes to the Anti-Corruption Action Plan will be made in agreement with the Bank. Bank supervision may be enhanced by support from an External Supervision Team (EST), which advises the Bank's internal Anti-Corruption committee for Indonesia in relation to infrastructure development, to help identify the risks of fraud and corruption at an early stage, and bring these to the attention of the Bank and Government institutions for further processing. In particular, the EST may aid Bank supervision by identifying and tracking indicators of corruption, and carrying out subproject site checks at strategic times between formal supervision missions. The EST may also assist the Bank's supervision team in designing complaint handling processes as well as mechanisms for coordination with other institutions including BPK and SAK. These inputs in no way reduce the need for the BRR to monitor the project implementation through the agreed mechanisms. BRR will regularly share with the Bank the findings of technical and financial audits, to be held during (interim audits) and after (post audits) each year for a significant sample of subprojects. The BRR will also ensure that any suspected cases of corruption related to this project be reported immediately to the Bank.

## **XV. POLICY EXCEPTIONS AND READINESS**

86. **Grant conditions and covenants.** Standard World Bank conditions and covenants apply. The following action(s) will be taken prior to disbursement:

- Mobilization of FM Consulting Firms to support BRR-financed infrastructure projects

87. In addition to standard implementation actions, the following actions will be taken during implementation and will be reflected in the Grant Agreement:

- **Finalization of PIP.** BRR will review/revise the PIP at least once every six months with the IPM consultants, the first such review to be completed by two months after the date of mobilization by the IPM Consultants.
- **Approval of Subprojects.** BRR will submit a quarterly list of proposed subprojects and supporting documentation to the Bank, for review by no later than each January 31, April 30, July 31 and October 31 in each year.
- **Transition to post-BRR phase beyond April 2009.** BRR/GOI will submit a draft transition strategy to the Bank by June 30, 2008 for its review and comments and will submit the final transition strategy to the Bank by September 30, 2008.
- **Subproject Financing.** GOI will ensure that adequate financing and institutional support will be provided to complete projects beyond the scheduled expiration of BRR's mandate in April 2009.
- **Audit Arrangements.** BRR will appoint BPK as external auditor for this project and BPK may sub-contract work to private audit firms acceptable to the Bank; such contracts should be completed no later than 6 months after signing of the Grant Agreement.



## ANNEX 1. PROJECTS RESULTS SUMMARY

Project Intervention Logic	Verifiable Indicators of Achievement	Means of Verification	Assumptions
<b>Overall Goal</b> Sustainable post tsunami infrastructure reconstruction and development in Aceh and Nias.			
<b>Project Development Objective</b> The objective of the Infrastructure Reconstruction Financing Facility is to assist the province of Aceh and 12 local governments in Aceh and Nias to reconstruct/rehabilitate strategic infrastructure and extend key infrastructure services in communities where infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake.			
<b>Result 1.</b> Infrastructure subprojects financed by IRFF respond to the post-tsunami infrastructure needs of communities in 12 local governments/districts specified in Aceh and Nias.	<p>Proposals of infrastructure subprojects financed by IRFF will include a set of indicators that will be used to measure performance during subproject implementation and after subproject completion.</p> <p>Infrastructure subprojects financed by IRFF, after the infrastructure development strategy is drafted - with the help of IPM consultants, to reflect the priorities laid out therein.</p> <p>A comprehensive survey designed to assess the state of infrastructure service delivery in the 12 districts of Aceh and Nias benefiting from IRFF financing of individual subprojects will be conducted at the beginning and at the end of IRFF.</p>	<p>Reporting by IPM, West Coast, North Coast and Nias consultant teams on subproject performance indicators<sup>27</sup>.</p> <p>Annual audit of IREP's technical assistance, confirms that data on performance indicators has been gathered, and validates the data on 10-15% of completed subprojects.</p> <p>IPM consultants will report the results of the comprehensive survey assessing the state of infrastructure service delivery in the 12 districts of Aceh and Nias benefiting from IRFF at the beginning and at the end of IRFF.</p> <p>IPM and BRR will monitor the progress of infrastructure subprojects using the MIS system.</p>	<p>Performance indicators of subprojects financed by IRFF adequately capture the performance of their respective subprojects.</p> <p>BRR has information on all infrastructure reconstruction programs being planned and implemented as well as needs of communities in Aceh and Nias.</p> <p>Survey instrument developed adequately captures the contribution of subprojects financed by IRFF to the state of infrastructure service delivery in the 12 districts of Aceh and Nias benefiting from IRFF.</p>
<b>Result 2.</b> Infrastructure subprojects financed by IRFF are held to high quality standards.	<p>Technical designs of infrastructure subprojects are sound and appropriate.</p> <p>Implementation of infrastructure subprojects financed by IRFF is adequately supervised.</p>	<p>Regular reporting by IPM, West Coast, North Coast, and Nias consultant teams financed by IREP to monitor quality of designs and implementation created at the district and provincial levels.</p> <p>Satisfactory spot checks (i.e., un-announced inspection of work; undertaken in this project to monitor progress of approximately 10%-15% of subprojects being prepared) of technical designs and implementation by IPM</p>	<p>Local and provincial governments work closely with IREP consultant teams to prepare their LGIPs and PGIPs, respectively.</p> <p>Local and provincial governments work closely with IREP consultant teams during supervision of subproject implementation.</p>

<sup>27</sup> IRFF will finance consultants' activities relating to implementation, construction supervision, and performance monitoring after IREP's scheduled completion in June 2009.

		consultants during subproject appraisal.	
<b>Result 3.</b> Infrastructure subprojects financed by IRFF are financially, socially and environmentally sustainable.	Proper financial and safeguards measures are integrated into the preparation of infrastructure subprojects financed by IRFF.	Regular reporting by IPM, West Coast, North Coast and Nias consultant teams financed by IREP to monitor quality of designs created at the district and provincial levels.  Satisfactory spot checks (i.e., un-announced inspection of work; undertaken in this project to monitor progress of approximately 10%-15% of subprojects being prepared) of financial sustainability and safeguards documentation by IPM consultants during subproject appraisal.	Local and provincial governments work closely with IREP consultant teams to prepare their LGIPs and PGIPs, respectively.
<b>Result 4.</b> Financial management of infrastructure subprojects financed by IRFF is strengthened.	Performance and financial audit reports (in addition to external audits financed under IREP) of financial statements of infrastructure subprojects financed by IRFF are prepared.	External audit reports will be subject to a performance and financial audit by Supreme Audit Institution (BPK) which may sub-contract this work to a reputable auditor acceptable to the Bank.	Local and provincial governments assign appropriate staffing as a long-term commitment.  Relevant government staff, participate in training programs offered by BRR and consultants.
<b>Result 5.</b> Local/provincial government capacity in infrastructure subproject planning, implementation, and supervision is sustained.	Maintenance of infrastructure subprojects reflects asset maintenance strategies developed by IPM/IREP consultants.  IPM/IREP consultants design institutional mechanisms according to local/provincial government capacity to sustain subproject implementation and supervision responsibilities of BRR after the completion of its mandate.	Regular reporting by IPM, West Coast, North Coast and Nias consultant teams financed by IREP to monitor subproject implementation, including that of asset maintenance strategies developed.  Regular reporting by IPM, West Coast, North Coast and Nias consultant teams financed by IREP monitor adoption of/adherence to institutional mechanisms designed to sustain financial and subproject implementation after the completion of BRR's mandate.	Local and provincial governments actively participate in subproject planning and implementation, developing asset maintenance strategies, and designing institutional mechanisms to sustain financial and subproject implementation after the completion of BRR's mandate.

## ANNEX 2. DETAILED PROJECT DESCRIPTION

The proposed IRFF will finance strategic infrastructure reconstruction and rehabilitation subprojects in the province of Aceh and infrastructure subprojects in 12 local governments in Aceh and Nias to extend key infrastructure services in communities where infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake. In addition, IRFF will provide targeted and need-based support to provincial and local governments for infrastructure subproject planning, design, supervision as well as for enhancing the quality of project implementation oversight. IRFF will also finance, as and when needed, TA to continue supporting the implementation and construction supervision of subprojects financed by IRFF after IREP's completion, as well as to help local and provincial governments transition to post-BRR institutional arrangements after April 2009 and undertake greater responsibility of infrastructure program management in a post-BRR era.

The proposed project includes the two main components described below.

### **A. Component 1: Financing of Infrastructure Reconstruction and Rehabilitation Investments (US\$273.0 million)**

This component will finance individual infrastructure reconstruction subprojects in 12 local governments – 9<sup>28</sup> of which are benefiting from IREP TA, and 3<sup>29</sup> of which are receiving technical advice from existing consulting arrangements until January 2007, but will cease to do so thereafter – as well as strategic investments at the provincial level. Each individual infrastructure subproject will be co-financed by BRR and MDF resources according to a 70:30 ratio. In exceptional circumstances, other ratios may be considered by the Bank and BRR. Local and provincial governments, with support from BRR and IREP consultants will prepare Local Government Annual Investment Plans (LGIPs), and Provincial Government Annual Investment Plans (PGIPs) in which prioritized local investment needs will be grounded. This component will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs. To avoid delays in making progress on the 2007 investment, IREP-financed IPM consultants will review the subprojects already under preparation by BRR and other donors and identify subprojects for IRFF financing. A discussion of subprojects under preparation, and the list of subprojects in the initial pipeline prepared by BRR is presented in Annex 11. All subprojects financed by IRFF will be required to meet eligibility criteria based on sector and geographic location, technical, economic and financial criteria, and environmental safeguards. In order to provide adequate time to complete IRFF-financed subprojects by the scheduled completion date of January 2010, BRR plans to complete the allocation of US\$273 million to approved IRFF subprojects by April 30, 2008.

This component will provide resources for civil works and goods in subprojects in the following sectors: roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals. In general terms, the investments financed would be representative of standard infrastructure investments for the included sectors and would focus on the reconstruction and rehabilitation of existing infrastructure and the construction of new investments in limited cases. Typical works to be financed under the project would include:

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<sup>28</sup> Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, and Simueleu in the West Coast and Nias and Nias Selatan in Nias.

<sup>29</sup> Aceh Besar, Banda Aceh, and Sabang.

- In the roads sector, primarily improvements and reconstruction of existing roadways, including paving and widening, safety-related rerouting, regarding, and improvements in road quality. Roads to be financed would generally be provincial and *kabupaten*-level roads.
- In the ports sector, reconstruction and improvements for ferryboat, cargo, and passenger ports, including existing and tsunami-affected quays, the construction and rehabilitation of berthing areas for cargo vessels, ferryboat and passenger terminals, dredging and land reclamation activities as appropriate, and investments to improve multimodal transport interfaces at cargo ports.
- For water and sanitation, primarily intake and retention infrastructure, the expansion and rehabilitation of water treatment facilities, primary and secondary water supply networks, including storage facilities, and sewer network rehabilitation and expansion (primarily main collectors and pumping stations);
- For drainage and flood control, primarily the rehabilitation and expansion of drainage networks and small retention works, including earthen and concrete dykes. Investment subprojects would likely include main drainage and secondary networks, manholes and junctures, and installed pumping stations and related equipment.
- Coastal protection investments including the construction and rehabilitation of seawalls and underwater defensive infrastructure and activities to restore coastal areas including dredging and sand replenishment along vulnerable coastlines;
- Irrigation sector investments, in general limited to the reconstruction, rehabilitation, and improvement of provincial- and *kabupaten*-level primary irrigation canals at pumping infrastructure and equipment.

As mentioned above, this component will finance individual subprojects that meet eligibility criteria based on sector and geographic location, technical, economic and financial criteria, and environmental safeguards. These criteria will be published by BRR at the outset of the planning process. In addition, regional offices of BRR will develop region-specific criteria to guide the prioritization of infrastructure investments in their respective regions. Details of these criteria are provided in Annex 4.

Joint Secretariats will be established in each of the 12 project districts and will comprise representatives from local governments and representatives from BRR. The Joint Secretariats, assisted by IREP consultants, will facilitate a mechanism of coordination and consultation among multiple stakeholders, including the local governments, BRR, donors, and NGOs in the planning process and identify individual subprojects to be potentially co-financed by IRFF using BRR/MDF resources. The PMU, located in the BRR central office, will review this list and confirm BRR/MDF financing for subprojects on the basis of the eligibility criteria to receive BRR/MDF funding, the budget available and after balancing conflicting geographic and sectoral interests. The details of the IRFF project cycle and the institutional mechanisms through which individual subprojects are selected for IRFF financing are discussed in Annex 3.

#### **B. Component 2: Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (US\$3.0 million)**

This component will provide targeted and need-based TA to local and provincial governments for identification, design and preparation of infrastructure reconstruction subprojects, including financing TA for transition to a post-BRR timeframe, as well as for enhancing the quality of project implementation oversight.

This component will provide TA to Aceh Besar, Banda Aceh and Sabang that are currently receiving technical support from existing consulting arrangements for subproject identification and design until January 2007, beyond this timeframe. This component aims at strengthening the ability of the Aceh Besar, Banda Aceh and Sabang local governments – collectively known as the North Coast logistical area – to improve the provision of infrastructure in their respective jurisdictions by providing technical experts to assist them in planning and subproject identification, subproject design, tender documents, procurement, safeguards compliance, implementation, construction supervision, and monitoring. It will build on the on-going work supported by the French government (scheduled to end in January 2007) that has focused primarily on designing and rebuilding the village level infrastructure in heavily impacted areas in Banda Aceh. The North Coast TA will be a key building block of the BRR's reconstruction program to (i) coordinate and implement district and provincial level infrastructure in the three districts; (ii) fill the void in local government capacity building TA; (iii) improve donor and NGO coordination in these areas, particularly in harmonizing the housing and infrastructure works; and (iv) ensure the design work at the village level (conducted by existing consultant arrangements financed by the French government) is implemented to quality standards. This component will also finance TA for transition to a post-BRR timeframe and institutional arrangements beyond June 2009, including extension of TA provided under IREP, and capacity building and infrastructure asset maintenance programs for local and provincial governments.

In order to enhance the quality of subproject implementation oversight, IRFF will support undertaking performance and financial audit of the project financial statements carried by the country's Supreme Audit Institution (BPK), which may sub-contract this work to a reputable auditor acceptable to the Bank. Ideally, the auditor should visit all *kabupaten* that implement the project activities. The related external audit cost will be included in this project component.

**Unallocated funds (US\$15.0 million).** In order to mitigate uncertainty in the implementation of this project, a portion of the project funds is not allocated to any specific component. These unallocated resources may be used for one or more of the following: (i) extending IREP TA (a) beyond June 2009 to continue supporting the implementation, construction supervision and performance monitoring of subprojects financed by IRFF, and (b) to support BRR's mandate of supervision, performance monitoring and quality assurance of the infrastructure reconstruction program; (ii) financing TA activities necessary to help local and provincial governments prepare for the transition to a post-BRR era by undertaking greater responsibility of infrastructure program management based on the IREP-financed BRR transition strategy, detailing institutional arrangements beyond the scheduled expiration of BRR's mandate agreed by GOI and the Bank by June 2008, and regional economic development strategy<sup>30</sup>; and (iii) financing additional subprojects in the event the implementation of all subprojects proceeds as planned.

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<sup>30</sup> IREP will finance a regional economic development strategy for Aceh and Nias to re-orient infrastructure policy from infrastructure reconstruction to rehabilitation of livelihoods and sustained economic growth by conceptualizing Aceh's long term development needs and identifying the strategic priorities to address them. This economic development strategy will inform the transition strategy being prepared by BRR (supported by IREP) that will articulate the actions to be taken to help local governments prepare for a post-BRR environment, including capacity building programs for local and provincial governments, maintenance by local governments of BRR-financed infrastructure assets, institutional arrangements for the post-BRR period, and potential support of the international development community to infrastructure development for the post-BRR period.

### ANNEX 3. INSTITUTIONAL DESIGN AND IMPLEMENTATION ARRANGEMENTS

#### A. Introduction

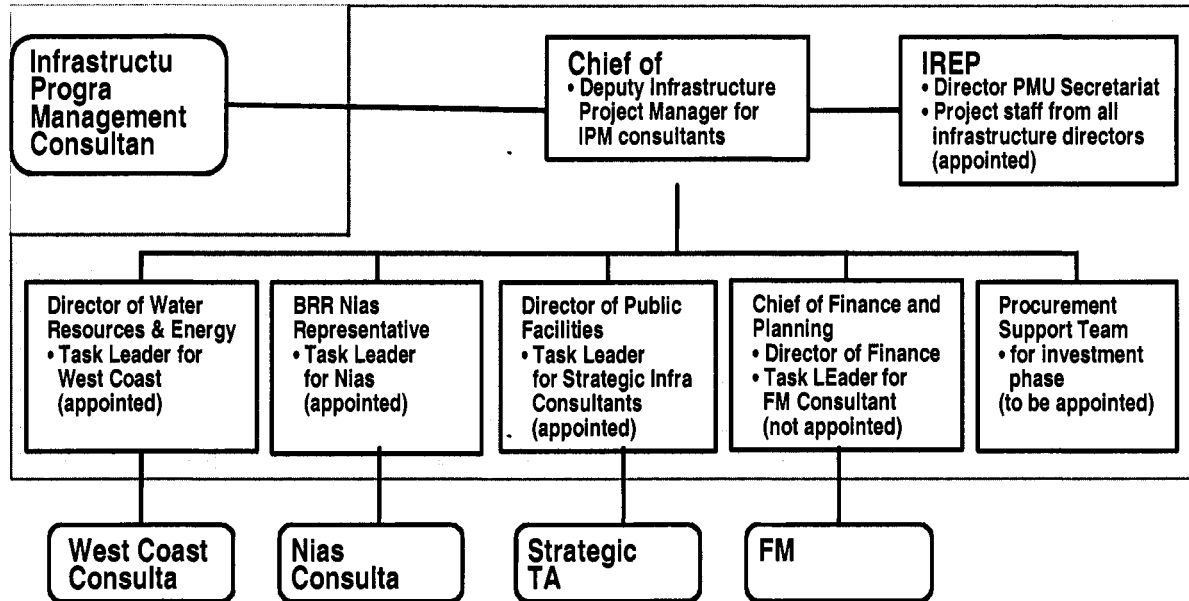
To ensure smooth execution of project components, it is important to devise a clear, transparent structure for reporting on progress, outcomes, and challenges to the program. IRFF will use the management structure and institutional arrangements set up for IREP. BRR has established a Project Management Unit (PMU) to coordinate and oversee day-to-day implementation of the IREP TA. This same PMU will be responsible to manage and coordinate day-to-day functioning of the IRFF, including design, procurement practices, safeguard policies, financial management, and supervision of the subprojects financed by the Infrastructure Reconstruction Financing Facility (IRFF). This annex explains how the proposed IRFF will work in the context of the BRR structure – through management of the BRR Infrastructure Board, the PMU and the establishment of Joint Secretariats (JSs) – to support provincial and local governments in financing infrastructure subprojects in 12 local governments in Aceh and Nias.

#### B. Institutional Support to Infrastructure Reconstruction

IREP is providing direct support to BRR in the form of an **Infrastructure Program Management (IPM)** team and financial management advisors, as well as by mobilizing technical teams to work closely with the local governments in Aceh and Nias. Under IREP, BRR has established a **Project Management Unit (PMU)** to coordinate and oversee day-to-day implementation of the TA at the macro level, which includes management of the IPM team, donor coordination, procurement practices, safeguards policies, fiduciary management of BRR investments, monitoring of project progress, and the development of a strategic infrastructure reconstruction plan covering Aceh and Nias. BRR has appointed the Deputy of Infrastructure as Chief of the PMU, who will also serve as Task Leader of the IPM team. The Chief Operating Officer (COO) at BRR will oversee the activities of IRFF.

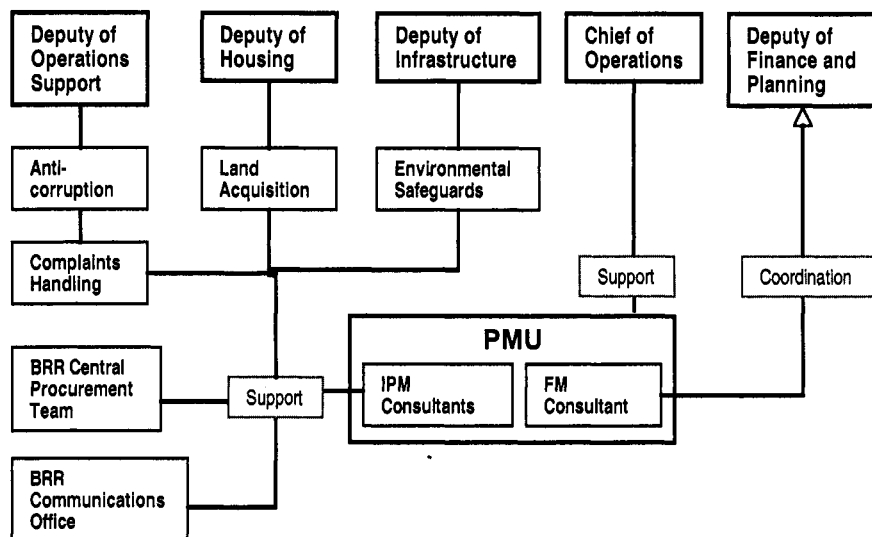
The PMU will consist of Directors of relevant BRR programs in the following thematic areas: the Chief of the PMU Secretariat, Funding, Communication, Water Resources and Energy, Water and Sanitation, Nias Representative, and Roads and Bridges. Sitting within the PMU will be an **IREP Secretariat**, responsible for daily work to support the functions of the PMU. The IPM team will support the Secretariat. A full-time Chief of PMU Secretariat has been appointed to administer the Secretariat work program and staff. BRR will be responsible for equipping the Secretariat with qualified personnel and support staff. Also working within the PMU will be an IREP Procurement Support Team that will be staffed by BRR and supplemented by procurement staff from the IPM team. As part of its work program, the Procurement Support team will manage procurement of works related to individual infrastructure subprojects under IRFF and will train local and provincial government staff on procurement practices and policies under the project. The chart below highlights the PMU structure.

## IREP PMU Structure



The PMU will liaise closely with other BRR units to coordinate activities and maximize the use of existing expertise within the organization. With the help of the IPM consultants, the PMU will work with the BRR Internal Supervisory Unit that addresses complaints handling and anti-corruption measures to monitor and resolve issues that arise during implementation. It will also feed information and data collected on implementation progress and results of infrastructure subprojects to the Communications Office for dissemination. The PMU Procurement Support team working under the umbrella of the PMU will work with the central BRR procurement team to ensure consistency across all BRR programs. The IPM safeguards consultants will provide support to the land acquisition and environmental safeguards teams within BRR. In addition, the financial management team, will be responsible for coordinating with the Deputy of Financial Management. These relationships are illustrated in the chart below.

### Relationship with Other Units in BRR



**Joint Secretariats** comprising representatives from local governments and from the regional and district BRR offices<sup>31</sup> will be established in each of the 12 districts covered by the project. The Joint Secretariats, assisted by IREP consultants, will facilitate a mechanism of coordination and consultation among multiple stakeholders, including the local governments, BRR, and NGOs in the overall planning process, formulating LGIPs and PGIPs, and identifying individual subprojects to be co-financed by IRFF using BRR/MDF resources.

The progress of the project will be monitored by the BRR **Infrastructure Board (IB)**, which is comprised of the COO and the Deputies of Infrastructure, Housing, Finance and Planning, and Institutional Development. The IB will discuss issues related to donor coordination, monitor progress of the reconstruction program, and resolve multisectoral issues. The Board will meet every month during the first few months of project implementation to provide additional oversight, and then will hold bimonthly meetings for the duration of project implementation. The PMU Secretariat team will prepare agendas for these meetings and highlight issues to be discussed.

The IB will receive monthly reports from the Project Management Unit (PMU) on progress, challenges to implementation, and budgeting issues. In addition, the BRR complaints handling unit will provide monthly updates of complaints received regarding the infrastructure program to both the PMU and to the IB. The PMU will be responsible for recommending courses of action for resolution, which could escalate to the IB, if the problem is complex and warrants special attention. The IB will also give regular updates and full briefs every three months to the BRR Executive Board, which comprises all BRR Deputy Directors and is headed by an Executive Director. The Bupati/Walikota will also communicate feedback on progress of the infrastructure program in their jurisdictions to the Executive Board on a regular basis.

<sup>31</sup> In all, BRR is establishing 6 **regional offices** and 15 **district offices** across Aceh and Nias, with one district office located in each one of the 12 districts covered by IRFF. There is an overlap between the 6 regional and 15 district BRR offices: 6 of the 15 district offices will be regional offices with responsibility for their own district, as well as coordinating responsibilities over a few neighboring districts.



### **C. Planning and Implementation of Infrastructure Reconstruction Subprojects**

IRFF will finance individual infrastructure reconstruction subprojects in 12 local governments as well as strategic investments at the provincial level. Local and provincial governments, with support from BRR and IREP consultants will prepare Local Government Annual Investment Plans (LGIPs), and Provincial Government Annual Investment Plans (PGIPs) that respond to local investment needs. IRFF will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs. To avoid delays in making progress on the 2007 investment plan, IREP-financed IPM consultants will review the subprojects already under preparation by BRR and other donors and identify subprojects for IRFF financing. All subprojects financed by IRFF will be required to meet eligibility criteria based on sector and geographic location, technical, economic and financial criteria, and environmental safeguards.

In order to meet urgent infrastructure needs, local governments and BRR, supported by IREP consultants will identify subprojects in advanced design stages and with low safeguards risks to begin construction within the first 6 months of consultants' mobilization. IREP consultants will conduct field assessments to identify overall infrastructure needs and take stock of ongoing infrastructure activities of all major donors, as well as those of local and provincial governments. IREP consultants will use findings from these field assessments and work closely with BRR to develop selection criteria to quickly identify subprojects that reflect the priorities of local governments, BRR, and local stakeholders, as well as the eligibility criteria based on technical, economic, financial, environmental and safeguards compliance considerations. Local governments will review and approve the subprojects proposed. The list of subprojects approved by local governments will be sent to the Bank for no objection. IREP consultants will assist in the preparation of subprojects, including detailed design and tender documents, and bidding documents. The IPM Procurement Support Team from IREP TA will provide overall guidance to BRR for procurement of subprojects. For 2007, procurement will be centralized<sup>32</sup> and undertaken by BRR with the participation of satkers. In 2007, these satkers will be nominated by local governments and appointed by BRR.

#### ***Local and Provincial Government Annual Investment Plans***

The proposed IRFF aims to finance key local investments embedded in strategic local development investment plans prepared by local/provincial governments with the assistance of IREP-financed technical assistance. Currently, most local/provincial governments have long lists of reconstruction investment needs, and efforts are needed to consolidate these demands, identify appropriate financing sources (e.g. the IRFF, NGOs with investment resources, other donors, local governments' own resources, the BRR) and define local government priorities. Local and provincial governments will prepare Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs), respectively, addressing key infrastructure gaps and priorities with IREP's support. Existing and on-going donor assisted development and strategic planning efforts (for e.g., ADB's support of KAPs, and Government of France's support of local level infrastructure design) would also serve as inputs for IRFF funded projects. These LGIPs/PGIPs will comprise a series of individual investment subprojects to be financed by BRR, local governments and donors. The proposed IRFF will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs, each of which will be co-financed by BRR and MDF monies.

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<sup>32</sup> During Year 1 of the project, IPM consultants will conduct a procurement capacity assessment that will determine the extent to which procurement will be decentralized to the local and provincial governments in later years.

*Prioritization and eligibility criteria of local and provincial governments' plans.* At the outset of the planning process, BRR will publish screening criteria to prioritize the subprojects contained in the LGIPs and PGIPs. In order to inform the selection of subprojects that can potentially be funded by BRR/MDF resources from the prioritized list of subprojects, BRR will publish eligibility criteria based on sector and geographic location, technical, economic and financial criteria, in addition to environmental safeguards. Details of these eligibility and screening criteria to inform the selection of subprojects to be financed by IRFF are provided in Annex 4. The prioritization and eligibility criteria developed will be shared with the Bank for its no objection. These criteria will be periodically reviewed and revised with the assistance of IPM consultants. In addition, regional offices of BRR will develop region-specific criteria to guide the prioritization of infrastructure investments in their respective regions.

Local and provincial governments with support from IREP consultants will prepare a prioritized list of proposed infrastructure reconstruction subprojects in their respective districts to form the basis of LGIPs and PGIPs. This list will be discussed at the Joint Secretariats in each of the 12 project districts. Discussions at the Joint Secretariats, assisted by IREP consultants, will facilitate consultation among local governments, BRR district offices, and local stakeholders to develop LGIPs and PGIPs<sup>33</sup>. During discussions at the Joint Secretariat, BRR supported by IREP consultants will disseminate information on, and sensitize local and provincial governments to, the eligibility criteria of subprojects to be financed by IRFF, i.e. from BRR/MDF resources, as well as region-specific criteria received from the BRR regional office. These criteria will inform the selection of subprojects eligible for IRFF financing from the list of prioritized subprojects in the LGIPs and PGIPs.

*Submission of LGIPs and PGIPs for approval of subprojects to be financed by BRR/MDF.* Once the LGIPs & PGIPs are finalized, the Joint Secretariat and local government will send the LGIPs and PGIPs to the BRR PMU, through BRR's regional office, for discussion and confirmation of BRR's potential commitment to finance specific subprojects with IRFF funds in line with regional priorities. These initial investment plans will serve as baseline projections for commitments and disbursements for the operation, and periodic reviews progress during implementation would allow for the BRR to update projections and reallocate commitments based on implementation progress. The BRR PMU will share the list of confirmed subprojects with the Bank every quarter as part of the Interim Financial Reports (IFRs) along with analyses justifying their confirmation. Each accepted sub-project would be subject to a documented appraisal process to ensure eligibility. As part of the IFR review process, the Bank will ensure that subprojects are fully consistent with, and meet the defined subproject eligibility criteria (set out in Annex 4), and that the required safeguards assessments are met (see Annex 8). The BRR PMU and the Bank will agree (through a Bank no objection letter, 'NOL') on a procurement plan (subproject list of IRFF funded projects derived from LGIPs and PGIPs) for eligible subprojects for the forthcoming quarter that will contain details of confirmed subprojects and an explanation of their inclusion in IRFF. Further, the Bank will require prior review of all International Competitive Bidding (ICB) of goods and works contracts, all projects financed retroactively, the first three National Competitive Bidding (NCB) goods and works contracts, consultant's contracts greater than US\$200,000, and the first three contracts using Consultants Qualification Process (CQ) (see Annex 6).

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<sup>33</sup> The LGIPs and PGIPs will be circulated to the MDF Steering Committee for informational purposes and posted on the BRR's webpage. The MDF will have the opportunity to comment on the plans during project supervision.

*Subproject preparation.* All approved subprojects will be notified to the local/provincial governments. After agreement, an MOU between the BRR and local and provincial governments will include confirmation of the subprojects the BRR will finance in the LGIP/PGIPs through IRFF, as well as formal commitment by the local and provincial governments to allocate appropriate budgetary resources to maintain these investments on the basis of a maintenance plan. Operations and maintenance of all IRFF subprojects will be supported by detailed financial and maintenance assessments/plans developed by IREP technical assistance (West Coast, Nias, and Strategic Planning, Design, and Construction Supervision consultants).

Local/provincial governments, with the assistance of the IREP-financed consultants working at the district level, will be responsible for the process of detailed subproject preparation, including preliminary design, analysis of alternatives, environmental and social screening, and eventually detailed engineering design and tender documents. Final subproject designs and tender documents will be submitted to the BRR PMU for review and tendering.

*Subproject Approval.* Once received by the BRR PMU for final clearance and procurement, subprojects will be reviewed to ensure that they meet the technical, economic, financial, environmental and safeguards compliance criteria developed at the outset of the project.

*Social and environmental safeguards.* Safeguard policies triggered by this project include environmental assessment, involuntary resettlement, and indigenous peoples. A safeguards framework for this project is attached in Annex 8. IREP consultants working with local governments will help address all safeguard concerns at the subproject feasibility and design stage. Contractors will be responsible for the adequate implementation of safeguard measures with support from IREP consultants. Subprojects that call for special studies to address safeguards issues will benefit from additional assistance from IPM consultants (i.e., IREP consultants assisting the PMU). Funds for compensating communities for land acquisition and other resettlement activities will be provided by local governments.

*Procurement support and capacity building.* The IPM Procurement Support Team from IREP TA will provide overall guidance to BRR for procurement of subprojects confirmed to receive BRR/MDF financing. For 2007, procurement will be centralized and undertaken by BRR and provincial governments with the participation of satkers. During Year 1 of the project, IPM consultants will conduct a procurement capacity assessment that will determine the extent to which procurement will be decentralized to the local and provincial governments in later years.

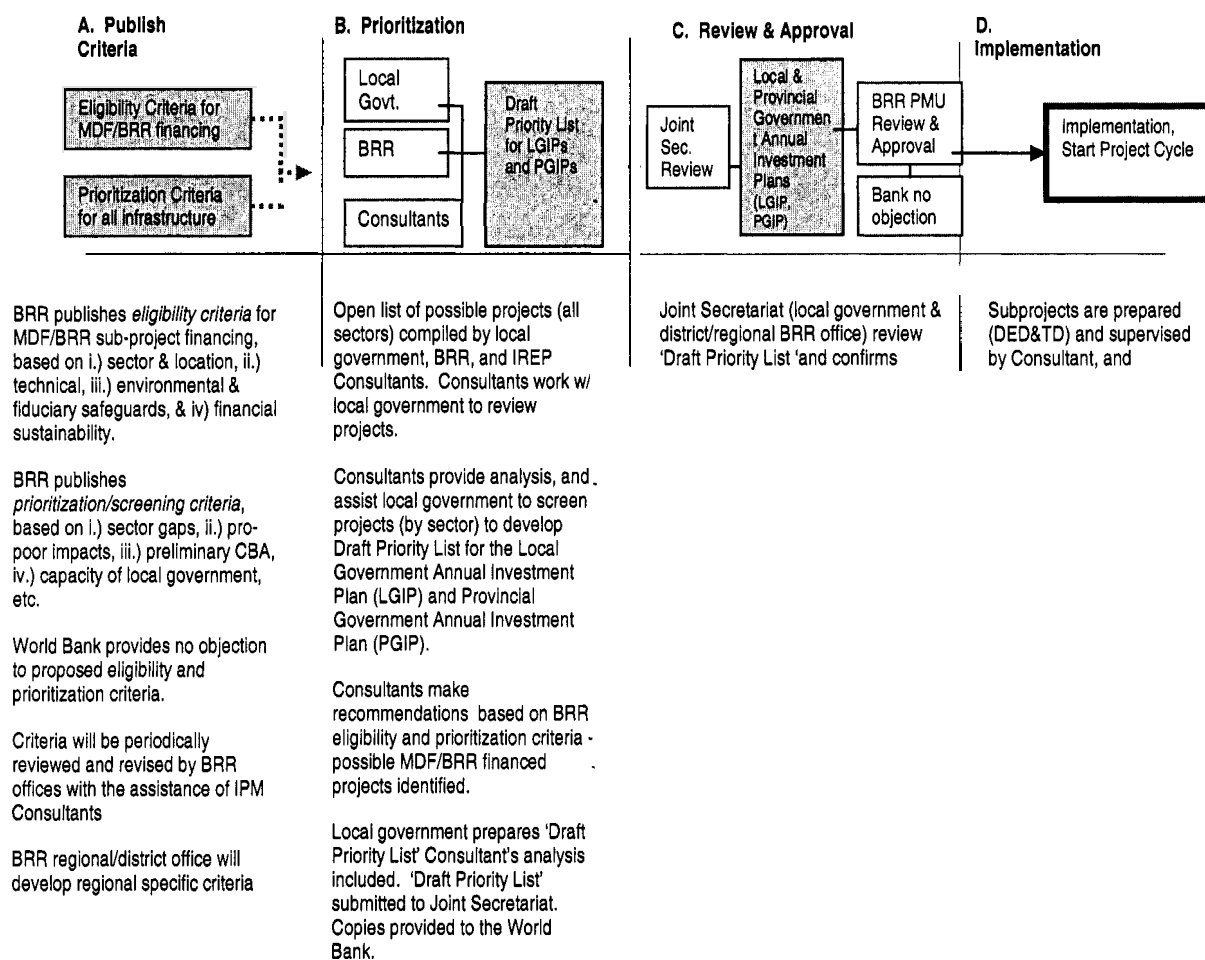
*Subproject implementation and support.* Satkers will be responsible for implementing subprojects and overseeing contractors with the support of IREP supervision consultants. In 2007, these stakers will be nominated by local governments and appointed by BRR. In later years, it is expected that satkers will be nominated and appointed by local governments. Consultant teams will work alongside satkers to assist in the implementation and supervision of infrastructure reconstruction. In particular, IREP supervision consultants will apprise the stakers of the progress made by contractors, on the basis of which satkers will initiate payment to contractors. In addition, IREP consultants will assist local and provincial governments in devising asset maintenance strategies to be reflected in their LGIPs and PGIPs.

*Monitoring and evaluation.* BRR, with the assistance of the IPM team, will be responsible for developing and implementing a monitoring and evaluation system for the project. Physical implementation progress and financial performance will be measured and evaluated against set standards or targets using performance indicators and the MIS system created by the IPM team. Regular reporting by IPM, West Coast, Nias and provincial consultant teams will monitor the

investments committed, the quality of designs and of investments during implementation, and the levels of involvement and responsibility of subproject management taken over time by local and provincial government staff. IPM consultants will also conduct spot checks of design and construction quality.

The process of developing prioritization and eligibility criteria, prioritizing subprojects for inclusion into the LGIPs and PGIPs, their review and approval by the PMU and the Bank, and the transition into the implementation phase is shown in the chart below.

### Local and Provincial Government Annual Investment Plans



### IRFF Project Financing and Disbursement Procedures

BRR and KPPN (Regional Treasury Office) have established a very effective means of disbursing satker investment funds to contractors, other suppliers, and to satkers to cover day-to-day operating expenses. The project proposes to utilize these procedures in addition to providing the

facility of direct payment if needed. The project will establish a Designated/Special Account (DA) described in Annex 7 on Project Financial Management, and the KPPN will draw funds from the special account to meet project commitments as required. BRR and MDF will contribute to each subproject financed by IRFF according to a 70:30 co-financing ratio. KPPN will simply draw 30% of each claim's funding requirements from the Special Account and 70% from the BRR's approved budget (DIPA) resources.

The only addition to the existing BRR withdrawal procedures from KPPN for IRFF subprojects will be the inclusion of an authorization for payment from the IREP/IRFF supervision consultant. BRR will advise KPPN of this change of procedure which is not expected to be problematic. A summary of the project's disbursement procedures is noted below.

1. BRR's PMU prepares separate DIPA for each satker on the basis of the agreed IRFF work-plan prior to the commencement of any work or commitment.
2. BRR's PMU releases the DIPA and letter of assignment of the satker to the appropriate line ministry or other supervising work unit according to existing procedures.
3. The satker delivers a copy of the DIPA and the letter of assignment which details the satker's function and names of key satker personnel to KPPN.
4. Each satker will have two (2) broad functions which will be financed by the DIPA using MDF and BRR funds:
  - (a) general project administration duties; and
  - (b) project implementation activities.
5. Funds will be provided to the satker for general administrative and operational expenses by the SPM (Surat Permintaan Pembayaran) – UP (special payment order- operational expenditure) procedures, which effectively provide the satker with a cash float to fund small day to day operational expenses. Funds will be paid into the satker's bank account by KPPN usually to a ceiling of Rupiah 5 million. The float will be replenished as required.
6. Contractors and suppliers of larger administration items (such as computers for the satker office) will be paid using a SPM- LS (special payment order- direct contractor payment) using the following procedures:
  - (a) Contractors will be paid 20 percent of contract price (as stipulated in the contract) directly into their designated account on signing the contract. The advance will be secured by a bank guarantee as stipulated in contract.
  - (b) The balance of payments will be made according to contractual obligations using the following procedures:
    - (i) Contractor will submit invoices to the satker according to payment provisions included in the contract;
    - (ii) Contractor will submit supporting documents according to contractual requirements;
    - (iii) Invoices submitted must be verified by, and bear the signatures of, the IREP/IRFF supervision consultant. Verification by IREP/IRFF supervision consultant will require his/her review and confirmation that the physical progress of works is in accordance with the contract and with the contractor's invoice.

- (iii) Satker will review and confirm that the physical progress of works are in accordance with the contract and with the contractor's invoice.
- (iv) Satkers will review the claim and confirm that: it is in accordance with the contract; supporting documents are complete; and the claim is in accordance with the approved satker budget.
- (v) When all documentation is complete the satker will prepare an SPM-LS which will be signed and stamped by both the satker manager and the IREP/IRFF supervision consultant.
- (vi) The SPM-LS will then be forwarded by the satker to KPPN for processing and direct payment to the contractor's bank account less any retention for guarantees provided for in the contract, any advances provided for in the contract and for any taxation obligations.
- (vii) After checking that all supporting documents are in order and the claim has been correctly authorized by both the satker and IREP/IRFF supervision consultant, KPPN will draw payment from the satker budget held by treasury and special account according to the agreed apportionment and pay this directly to the contractor's specified account.

7. If, for any reason, agreement has been reached with a contractor to pay claims directly from the MDF/World Bank the contractor and satker will follow the same procedures noted in (i) though (iv) immediately above and complete a Bank withdrawal request as per standard Bank procedures and forward this to the predetermined location for processing. These withdrawal requests will also need to be endorsed by the IREP/IRFF supervision consultant.

## ANNEX 4. SUBPROJECT ELIGIBILITY CRITERIA

### A. Introduction

IRFF will finance individual infrastructure reconstruction subprojects in 12 local governments as well as strategic investments at the provincial level. All subprojects financed by IRFF will be required to meet eligibility criteria based on sector and geographic location, technical, economic and financial criteria, and environmental safeguards. This annex outlines the criteria used to determine the eligibility of a subproject to be funded by IRFF.

### B. Subproject Eligibility

To ensure that investments financed under the operation meet Bank and international standards for quality of investment and are sustainable in the medium term, all investments financed under the operation would be evaluated prior to tendering using simple eligibility criteria. During the initial stages of the engagement of the IPM consultants financed under the related IREP operation, detailed eligibility criteria will be defined and disseminated to local governments and the consultant teams which aim to ensure that subprojects submitted for final approval by the BRR meet simple requirements for (a) sectoral and geographic inclusion in the proposed project; (b) appropriate design of technical solutions; (c) economic and financial viability, including ensuring that mechanisms are in place for operation and maintenance of IRFF-financed investment; and (d) compliance with the agreed-upon safeguard approach as relates to environmental, social, and fiduciary safeguards in place under IRFF. In addition, consideration will be given to whether subprojects can be implemented within the investment phase of the project, although guarantee, operations and maintenance periods may exceed this period. While the details of the eligibility approach would be finalized by the IPM consultants during the initial phase of their engagement under the IREP, the principles of subproject eligibility would be based upon 5 key filters:

- **Geographic and Sectoral Eligibility Criteria.** Except as the Bank may otherwise agree, the IRFF would finance eligible investments which are:
  - for reconstruction and rehabilitation of strategic infrastructure assets or extension of key infrastructure services of adequate quality standards to meet the needs of communities where infrastructure was damaged by either the tsunami or earthquake or are:
  - provincial or district level infrastructure, although limited village infrastructure may be included in case it is necessary for the overall function of the investment.
  - in the eligible sectors, namely *kabupaten* and provincial roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals. In exceptional cases, subprojects outside these sectors may be financed by IRFF by submitting a detailed subproject proposal to the Bank to seek its no-objection.
  - greater than US\$300,000 for local investments and US\$1,000,000 for provincial investments in order to focus IRFF on priority investments at the district level and allow for other sources of financing, including own-source revenues, to be used on small, local investment.
- **Technical Criteria.** IPM consultants under Component 1 of the IREP will develop simplified technical screening criteria, differentiated by sector, for the rapid review of subprojects. The technical eligibility framework will emphasize the identification of least-cost solutions and evaluation of alternatives and appropriate, 'right-sized' technical solutions.

- **Economic Criteria.** Subprojects will be quickly screened to ensure that they have positive economic outcomes. Methodologies and guidelines for rapid economic and financial analysis of subprojects will be prepared by the IPM consultants. For access roads, the project will use a derivative of the SK77, a locally used economic model for the evaluation of road investments consistent with the Bank's Highway Development and Management Model to evaluate the economic and financial feasibility.
- **Environmental and Fiduciary Safeguards Criteria.** Subprojects will be assessed to ensure that they are not likely to be highly damaging for the environment or socially controversial. For example subprojects will not be deemed eligible if they likely to: (i) significantly impact on environmentally or culturally sensitive sites; (ii) result in inter-basin transfer of water resources; significantly alter coastal zone morphology and processes; (iii) result in large scale land-clearance; (iv) use or emit toxic and/or hazardous wastes; or (v) result in large-scale resettlement. The eligibility criteria are not to be confused with formal social and environmental screening mandated under GOI regulations to determine what level of environmental and social review is required for each subproject, as further detailed in the Environmental and Social Safeguards Framework outlined in Annex 8. Eligibility will also include fiduciary and anti-corruption measures.
- **Financial Sustainability Criteria.** To ensure financial sustainability, primarily aimed at putting in place mechanisms for proper operation and maintenance of IRFF-financed investment, each finalized subproject would include a plan for operation and maintenance, including identification of financing sources and the appropriate commitment from local authorities to put in place such mechanisms.



## **ANNEX 5. FINANCING AND FUND FLOW TO INFRASTRUCTURE RECONSTRUCTION PROJECTS**

The purpose of this annex is twofold. Firstly, it provides a background of the financial resources required and available to Aceh and BRR particularly, to finance infrastructure rehabilitation and reconstruction subprojects in tsunami and earthquake affected areas. The second part explains what budgeting procedures are in place to ensure the effective management of funds to be used to finance subprojects prepared and supervised by IREP.

### **A. Available Financial Resources for Infrastructure Subprojects**

Funding for rehabilitation and reconstruction has come from: (i) the Government of Indonesia (GOI) through BRR; (ii) donors- both multilateral and bilateral; and (iii) NGOs. In overall terms sufficient funds were pledged to meet most needs and to build back infrastructure to a higher standard than that which was destroyed or damaged. However, the impact of inflation and the less than perfect allocation of resources mean that there are significant funding gaps between sectors and across parts of Aceh and Nias.

#### ***Impact of inflation on rehabilitation and reconstruction and exchange rate***

Since the tsunami, prices in Aceh have increased more sharply than the national average; the most dramatic increases being in Banda Aceh where year-on-year inflation in December 2005 reached 41 percent (compared to 23 percent in Medan and 17 percent nationwide). The increase in prices has been mostly driven by increases in transport costs of 93 percent over the same period. This has, in turn, been the major determinant in the increase in the cost of construction materials (brick, wood, and sand increased by 83 percent, 124 percent, and 164 percent respectively over the same period). In addition to materials, labor costs also increased significantly in 2005; up 40 to 50 percent across all categories of construction workers. On a less pessimistic note, since January 2006 prices for both material inputs and labor have remained relatively stable at the high 2005 levels but they have not increased significantly since then. The impact of inflation is readily shown since BRR needed to increase the average unit cost of new houses from its original estimate of Rupiah 28.5 million to Rupiah 53 million- an increase of some 85 percent.

Between January 2005 and February 2006 the Rupiah to US Dollar exchange rate has ranged in value significantly. However, the current exchange rate is approximately the same as it was in January 2005 and, under current macroeconomic conditions, the exchange rate is likely to remain at around its current levels. It is therefore unlikely that exchange rate will have any impact on the cost of reconstruction.

Inflation will result in at least an additional US\$ 1.2 billion being needed to deliver the Aceh reconstruction program for all sectors which was initially estimated at US\$4.9 billion. For the key infrastructure sub-sectors of transport, flood control and irrigation, energy, and communication, inflation will add about US\$ 400 million to the cost of building back assuming an inflation rate of 40 percent.

#### ***Overall financing perspective and funding gaps***

As of March 2006, approximately US\$4.7 billion had been allocated by GOI, NGOs and donors (including MDF) to specific rehabilitation subprojects and an estimated additional US\$3.7 billion had been committed but had not been allocated to specific subprojects. This total of US\$8.4 billion appears sufficient given overall funding needs to: (i) cover the original loss assessment across all sectors from the tsunami and earthquake of US\$4.9 billion; (ii) cover anticipated cost

increases of US\$ 1.2 billion resulting from inflation; and (iii) build back better (US\$2.3 billion) according to the GOI's stated objective. Housing and the social sectors have received the greatest attention in terms of the allocation of resources and this is reasonable given that these are the sectors which suffered the greatest damage. However, BRR, donors' and NGOs' interests and focus have varied across sectors according to their comparative advantage and preference and this, understandably, has resulted in some mismatch between available funds and financing needs. The table below provides a summary of the apparent surpluses and funding gaps in key sectors which were impacted by the tsunami and earthquake. The table's assessment is based upon the minimum needs to build back rather than the estimated loss assessment noted above. This is because the data in the table considers: (i) the reduced housing needs because of the very significant loss of life; and (ii) only the needs of the public sector. Many NGOs will complete their reconstruction tasks by the end of 2006 which means that critical gaps will need to be funded by BRR and other donors such as the MDF and ADB.

Surpluses and gaps noted in the table below are calculated using funds which have already been allocated to subprojects; they exclude the estimated US\$3.7 billion in funds that have been committed but not allocated to specific subprojects.

**Table 1. Assessment of Gap between Funding Availability and Needs**

<b>Sector- sub-sector</b>	<b>Minimum to build back with 20% US\$ mill.</b>	<b>Already allocated US\$ mill.</b>	<b>Surplus/ Gap (-) at 20% inflation US\$ mill.</b>	<b>Minimum to build back with 40% US\$ mill.</b>	<b>Surplus/ Gap (-) at 40% inflation US\$ mill.</b>
<b><u>Social</u></b>	<b>482</b>	<b>1,478</b>	<b>996</b>	<b>563</b>	<b>915</b>
Education	204	455	252	238	217
Health	152	526	374	177	349
Community	127	497	370	148	349
<b><u>Infrastructure</u></b>	<b>2,415</b>	<b>2,165</b>	<b>-250</b>	<b>2,818</b>	<b>-653</b>
Housing	991	1,125	134	1,156	-31
Transport	824	506	-319	962	-456
Communications	56	23	-33	65	-42
Energy	118	46	-72	138	-92
Water/sanitation	82	235	153	96	139
Flood control & irrigation	284	140	-144	332	-192
Other	59	91	32	69	22
<b><u>Productive</u></b>	<b>223</b>	<b>628</b>	<b>404</b>	<b>260</b>	<b>368</b>
Agriculture	73	159	86	85	74
Fisheries	130	201	72	152	49
Enterprise	20	267	247	23	244
<b><u>Cross sector</u></b>	<b>349</b>	<b>458</b>	<b>109</b>	<b>408</b>	<b>49</b>
Environment	201	72	-129	235	-163
Governance	129	380	251	151	229
Admin.	19	5	-14	22	-17
<b>Total</b>	<b>3,470</b>	<b>4,729</b>	<b>1,259</b>	<b>4,049</b>	<b>679</b>

While it is difficult to be precise or certain, it is estimated that of the \$3.7 billion that may be committed about: (i) \$1.12 billion will come from GOI through BRR (see below); (ii) \$0.495 billion could be available from local government (see below); (iii) \$0.2 billion could be available from NGOs; and (iv) \$1.9 billion could be available from other donors. The only certain funding is \$1.12 billion from GOI. Availability and use of GOI (US\$1.12 billion) and local government (\$0.495 billion) funds is discussed below. The availability of the balance of other funds (\$2.1 billion) from NGOs and other donors is unclear. It is more than likely though that these donors will continue to fund programs which they have funded previously and concentrate on housing, education, health, and livelihoods leaving key funding gaps to BRR to finance.

### *Sector Gaps*

The table shows that, in total, there is an apparent surplus in available funds from BRR, donors and NGOs to build back minimum needs at both the 20 percent and 40 percent inflation assumptions. This, however, is misleading as it does not highlight the shortfalls in key sectors and sub-sectors. Infrastructure is showing a deficit of available funds for reconstruction of US\$653 million using the 40 percent inflation assumption. If the water and sanitation surplus is removed the infrastructure deficit rises to US\$792 million. The lack of sufficient funding for the transport sector is clearly a critical issue because an efficient transport network is vital for the delivery of rehabilitation and reconstruction assistance and for overall economic development.

### *Geographic Gaps*

In addition to there being funding shortfalls by sector and sub-sector there are significant differences in the availability of funds between regions in Aceh and Nias. In some instances regional gaps are more pronounced than sectoral gaps. The areas immediately adjacent to Banda Aceh (Banda Aceh Kota and Aceh Besar) have more than adequate resources to rebuild but other areas are severely under-funded. On the west coast, areas south of Meulaboh and Nias are particularly under-funded as are Aceh Timur and Aceh Temang on the east coast. Aceh Barat Daya, Aceh Selatan, and Nias Selatan only have financing to cover less than 50 percent of needs. Funding needs and availability of funds for Aceh Singhil are not known.

### ***BRR's ability to fund gaps without additional assistance***

Table 2 below, estimates funds from BRR and local government, available to finance infrastructure subprojects between 2007 and 2009. The table provides estimates for: (a) remaining committed but unallocated funds (to subprojects or sectors) for budget years 2007, 2008, and 2009; and (b) the estimated funds available for infrastructure subprojects for the same three years. There are three sources of funding: (a) BRR; (b) Decon or special development grants to local government; and (c) local government funds.

**Table 2. Estimate of available funds for reconstruction and for infrastructure- 2005 to 2009**

<b>Item</b>	<b>BRR (\$mill.)</b>	<b>Decon (\$mill.)</b>	<b>Local (\$mill.)</b>	<b>Total (\$mill.)</b>
<b>Total funds for reconstruction</b>				
Total commitment- 2005 to 2009	2,100	300	350	<b>2,750</b>
Already allocated- 05 & 06 budgets	980	83	72	<b>1,135</b>
Remaining for 07, 08, & 09	<b>1,120</b>	<b>217</b>	<b>278</b>	<b>1,615</b>
<b>Funds available for infrastructure 07 to 09</b>				
Estimated % allocation to infrastructure	65	65	40	
Total available for infrastructure 07 to 09	728	140	110	978
Less housing & housing infrastructure	210			
Available for infrastructure excluding housing	<b>518</b>	<b>140</b>	<b>110</b>	<b>768</b>
Estimate available for 2007	390	55	45	<b>490</b>
Estimate available for 2008	128	55	45	<b>228</b>
Estimate available for 2009		30	20	<b>50</b>
Total available 2007 to 2009	<b>518</b>	<b>140</b>	<b>110</b>	<b>768</b>

Best bet estimates indicate that about \$768 million should be available in total for the three years from the three sources for infrastructure. However, there are four significant points to be considered with this data:

- (i) The US\$768 million is US\$24 million short of the US\$792 million infrastructure sector funding gap estimated and described above;
- (ii) Decon and local government funds (US\$495 million for 2007 to 2009) cover all local governments in the province (and Nias) not just those local governments in the greatest need or those local government districts with the widest funding gaps;
- (iii) Funding from Decon and local government sources may not be available for key sectors in funding deficit kabupatens because of investment decisions by local governments. Nevertheless, it is anticipated that IRFF funds and technical assistance can be used to effectively leverage a portion of these two significant sources of funding; and
- (iv) BRR's mandate calls for it to support all affected geographic regions so BRR is highly unlikely to only support infrastructure subprojects in local government districts with the widest funding gaps.

On balance, it is clear that there will not be adequate local resources to fund the sectoral and geographic gaps described above. It is also highly unlikely that this gap will be met by other donors who have their own predetermined programs and preferences and most of which have committed all they are likely to commit. Additional resources from MDF will, therefore, be critical to fund shortfalls in under-funded sectors generally and, more particularly, in under-funded sectors in under-funded regions or kabupatens. MDF funds will also be able to be used to effectively leverage GOI's and local government's funds into deficit sectors and geographic regions.

## **B. Public Flow of Rehabilitation and Reconstruction Funds**

Timing will be critical if the needed program of rehabilitation and reconstruction is to be completed before BRR's mandate expires in April 2009 – less than three years away. BRR's 2005 and 2006 budgets are currently being implemented and the 2007 budget is being framed. It is, therefore, vital to include a timely budgeting mechanism that can effectively leverage BRR

and MDF funds to development needs, the remaining available time, and the resources available to the program through IREP and IRFF.

### ***Local Government Funding and Participation***

Aceh's special autonomy status and fiscal decentralization, with its accompanying intergovernmental transfers which have become the major source for regional government revenues, has provided both provincial and district governments with substantial financial resources in addition to further financing responsibilities. The combination of reconstruction funds with these transfers, in addition to locally derived funds, has created a major opportunity for the province to repair damage caused by the tsunami and earthquake and develop further. However, despite the promising opportunity provided by the influx of funds, managing funds flow and the budget process is problematic for local governments and, as a consequence, the availability of funds has not provided the anticipated benefits.

Regional budgeting (APBD) processes should start in June of the year preceding the budget year and conclude prior to the start of the financial (and calendar) year. Additionally, the first semester's realizations and estimates for the second semester should be evaluated and presented to DPRD (regional parliament) at the end of July of the fiscal year concerned. As the fiscal year ends, the realization of APBD is audited by BPK (National Auditing Agency) and the audit report should be submitted to DPRD.

Unfortunately, in most instances, the budget process does not work in accordance with the timeline set by the laws and regulation. The result of studies on district governments' capacity in ten tsunami affected districts in Aceh showed that, on average, it takes four months for local budgets to be approved by the local parliament. In some districts in Aceh in 2005, the budget was submitted after the fiscal year began and, as result, it was approved as late as June and even August 2005. These delays also occurred before the tsunami and they have reoccurred in 2006. Because of these problems it is difficult for local government districts to function and manage their financial resources effectively. Accordingly it is considered impractical and totally unworkable to include local government financial resources (estimated at US\$495 million) as co-financing or partnership funds to be included in the financing facility. There is little doubt that providing for local government funds in the financial plan for the project would have resulted in unacceptable delays that would, in turn, have jeopardized the benefits to be derived from this project and IREP.

On a more positive note it is also apparent that the financing facility will be able to effectively leverage some local government development funds even though they will be outside the IRFF financial envelope. Firstly, local government funds will be used to fund tertiary or local subprojects which have been made possible by larger infrastructure subprojects financed by IRFF. Examples here include: (i) the construction of village roads by local government and their connection to larger kabupaten and provincial roads funded by IRFF; and (ii) the connection of households by local government to water and drainage infrastructure. Local government will be engaged by the IREP and IRFF programs to ensure, as best as possible, that this local government investment occurs and that capacity is strengthened. Second, programs and subprojects to be funded by IRFF and implemented under the IREP umbrella will require agreements to be reached on asset maintenance prior to implementation. The role of maintenance and sustainability will fall, to a large part, to local government and it is anticipated that IRFF and IREP will enter into agreements with these authorities to fulfill this function.

### ***BRR Budget Procedures***

Budgeting procedures used by BRR follow regulated government budget guidelines. This year the process commenced in March 2006 with the submission of the work-plan (for 2007) and it will finish with the approved budget (DIPA), anticipated to be in December 2006. The work-plan is used to determine budget ceilings (about Rupiah 10 trillion- about US\$ 1 billion for 2007) and BRR use this ceiling to prepare detailed work plans. Consolidated and individual ministry (and BRR) work-plans and draft budgets undergo significant scrutiny by the Ministry of Finance, Parliamentary Committees and the Parliament before they are eventually approved and released.

BRR's budget format has changed considerably between the 2006 and 2007 budget. For the 2005 and 2006 budgets, work-plan activities were specified according to satkers (program or project work-groups). These satkers, which were usually work-groups established within an appointed line-ministry, were then subdivided into activities and sub-activities. Satker's projects could cover the entire province, or just one kabupaten or one kota (district). The 2005 budget comprised 101 satkers and there were over 900 activities with accompanying sub-activities. This approach was problematic and lacked flexibility for BRR as rehabilitation and reconstruction activities could not be readily changed from: (i) one satker to another satker; and (ii) from one activity to another. BRR could only change or move funds from one sub-activity to another without making significant representations to Ministry of Finance at the national level. This frustrated development as many satkers which had been formed relatively quickly were unable to: (i) effectively implement BRR's program; and (ii) disburse funds quickly.

Had the 2005 and 2006 procedure remained in place for the 2007 budget (DIPA) it would have been particularly problematic for IRFF and IREP because it could have effectively locked away BRR's 2007 funds to DIPA specified satkers and activities. This is because IREP's consultants would not have had sufficient time to prepare a feasible program for IRFF funding prior to BRR having to submit its 2007 budget proposal for final approval. BRR may have had to wait until the 2007 budget revision time (mid-year 2007) which may have been too late. This issue was not considered problematic for 2008 because there would have been adequate time for BRR, IREP, and IRFF to prepare the 2008 investment program for the normal budget approval process.

BRR has altered its budget procedures significantly for 2007 and it is evident that the issue of being unable to readily shift funds between subprojects (or activities within subprojects) has been largely resolved. Instead of providing a detailed work program to the Ministry of Finance with a detailed list of activities BRR will shift to a more flexible and satisfactory funding regime for the 2007 DIPA. Effectively the BRR allocation to the 2007 IRFF project (about US\$100 million) will be allocated in the budget in three activities: (i) rehabilitation and reconstruction of energy, water resources, irrigation, and flood control; (ii) rehabilitation and reconstruction of seaports and airports, telecommunications and postal services; and (iii) rehabilitation and reconstruction of roads and bridges. Budget guidelines require BRR to seek approval from MOF Jakarta should it wish to reallocate funds from one of these activities to another; this task can be difficult and time consuming. These same three activities will be allocated to sub-activities which, BRR advises, can be readily reallocated at the local level.

Budgeting procedures have not been determined for 2008 at this stage. However: (i) the procedures which will be in place for 2007 should be sufficiently flexible to more than adequately manage the 2008 allocation vote; and (ii) because the IRFF consultants will have been in place for some time prior to the formulation of the 2008 budget, greater detail could be provided if required. Subprojects to be funded from the IRFF facility in 2007 will be provided with budget from the three infrastructure activities noted in the DIPA.

As noted above, BRR's budget ceiling for 2007 has been set (at about Rupiah10 trillion-approximately US\$1 billion) and the DIPA is being prepared to match this ceiling. The additional US\$50 million MDF funding for 2007 is not included in the ceiling so it will be necessary for BRR to address this issue. BRR advises this will not be difficult because the additional funds are being provided as a grant.

The table below shows BRR's Renja to all four of its infrastructure programs (the three activities or programs noted above in addition to housing and housing infrastructure) for 2007. The Renja is the preliminary budget document which establishes ceilings for each of the eventual DIPA's (budget) activities. Total funds (government and grants) allocated to infrastructure subprojects excluding housing is approximately Rupiah 3.6 trillion; about US\$390 million (at an exchange rate of US\$1 to Rupia 9,200). One further point needs to be noted from the data in the table below: activity funds are allocated to Aceh and Nias. Similar restrictions apply to transferring funds between Aceh and Nias as those which apply to transferring funds between the three activities. In other words, should BRR wish to transfer any of the allocations noted against Aceh or Nias in the Renja it would need to seek approval from Jakarta to do so.

**Table 3. BRR Renja for Infrastructure- 2007 (Rupiah million)**

	<b>Housing &amp; housing infra</b>	<b>Energy, irrigation water, &amp; flood control</b>	<b>Sea &amp; airports, telecoms &amp; post</b>	<b>Roads &amp; bridges</b>	<b>Total excluding housing</b>
<b>Aceh</b>					
Government funds	1,033,779.0	776,990.2	540,657.0	944,355.9	2,262,003.1
Grants	643,299.3	141,023.7	530,595.0	175,150.2	846,768.9
<b>Total</b>	<b>1,677,078.3</b>	<b>918,013.9</b>	<b>1,071,252.0</b>	<b>1,119,506.0</b>	<b>3,108,772.0</b>
<b>Nias</b>					
Government funds	166,221.0	123,009.8	55,000.0	212,712.0	390,721.8
Grants	106,330.7	22,326.3	52,000.0	39,451.8	113,778.1
<b>Total</b>	<b>272,551.7</b>	<b>145,336.1</b>	<b>107,000.0</b>	<b>252,163.9</b>	<b>504,499.9</b>
<b>Total NAD &amp; Nias</b>					
Government funds	1,200,000.0	900,000.0	595,657.0	1,157,067.9	2,652,724.9
Grants	749,630.0	163,350.0	582,595.0	214,602.0	960,547.0
<b>Total</b>	<b>1,949,630.0</b>	<b>1,063,350</b>	<b>1,178,252.0</b>	<b>1,371,669.9</b>	<b>3,613,271.9</b>

## **ANNEX 6. PROCUREMENT PLAN AND ASSESSMENT**

### **A. Introduction**

Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Grant Agreement. The general description of the various components and the proposed selection procedures are detailed below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Grant Recipient (BRR) and reflected in the Procurement Plan. Due to the nature of the project and in particular defining the subprojects under component 1, a draft procurement plan was developed by negotiations based on the list of priority projects that are in the preparation phase. This will be updated once the subprojects are further identified, prior to launching any procurement process for subprojects. Once the first set of subprojects are identified and reflected in the plan, it will be updated at least annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity in the different local governments.

Retroactive financing will be provided under the project for up to 20% (i.e., US\$20,000,000) of the MDF grant amount to finance eligible expenditures for project activities incurred after June 20, 2006. The services, civil works, and goods to be eligible for retroactive financing should be contracted following Bank's Guidelines. All procurement contracts proposed under retroactive financing will be subject to the Bank's prior review.

### **B. Project Description and Procurement Methods**

The proposed IRFF will finance strategic infrastructure reconstruction and rehabilitation subprojects in the province of Aceh and infrastructure subprojects in 12 local governments in Aceh and Nias to extend key infrastructure services in communities where infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake. In addition, IRFF will provide TA to local governments and tailor support to specific needs expected to arise from their infrastructure reconstruction activities in the medium term. The proposed project includes two main components described below, in addition to unallocated funds.

#### **Component 1: Financing of Infrastructure Reconstruction and Rehabilitation Investments (US\$273.0 million)**

This component will finance individual infrastructure reconstruction subprojects in 12 local governments – 9<sup>34</sup> of which are benefiting from IREP TA, and 3<sup>35</sup> of which are receiving technical advice from existing consulting arrangements until January 2007, but will cease to do so thereafter – as well as strategic investments at the provincial level. Each individual infrastructure subproject will be co-financed by BRR and MDF resources. This component will provide resources for civil works and supply & installation of equipment in subprojects in the following sectors: roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals. Subprojects will be identified and selected in accordance

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<sup>34</sup> Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, and Simueleu in the West Coast and Nias and Nias Selatan in Nias.

<sup>35</sup> Aceh Besar, Banda Aceh, and Sabang.



with the criteria and the subproject cycle identified in Annexes 3 (Institutional Design and Implementation Arrangements) & 4 (Subproject Eligibility Criteria).

Local and provincial governments, with support from BRR and IREP consultants will prepare Local Government Annual Investment Plans (LGIPs), and Provincial Government Annual Investment Plans (PGIPs). This component will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs. To avoid delays in making progress on the 2007 investment plan, IREP-financed IPM consultants will review the subprojects already under preparation by BRR and other donors and identify subprojects for IRFF financing. All subprojects financed by IRFF will be required to meet eligibility criteria based on sector and geographic location, technical, economic and financial criteria, and environmental safeguards.

All confirmed subprojects will be notified to the local governments. After agreement, an MOU between the BRR and local and provincial governments will include confirmation of the subprojects the BRR will finance in the LGIP/PGIPs through IRFF. Local/provincial governments will then prepare detailed design and bidding documents for IRFF-financed subprojects with the help of IREP consultants. These IREP consultants will be responsible for utilizing the IPM team's contract designs to ensure high quality standards are applied. Subproject implementation will be the responsibility of satkers.

*Procurement support and capacity building.* The IPM Procurement Support Team from IREP TA will provide overall guidance to BRR for procurement of subprojects confirmed to receive BRR/MDF financing. For 2007, procurement will be centralized and undertaken by BRR with the participation of satkers. In 2007, these satkers will be nominated by local governments and appointed by BRR. These satkers will report to BRR and will follow the project procurement procedures and will be supported the IPM procurement team who will be part of the evaluation committees. In later years, it is expected that satkers will be nominated and appointed by local governments. However, planning & quality control of procurement under this project will always be the responsibility of BRR. Consultant teams will work alongside satkers to assist in the implementation and supervision of infrastructure reconstruction.

During Year 1 of the project, IPM consultants will conduct a procurement capacity assessment that will determine the extent to which procurement will be decentralized to the local and provincial governments in later years of the project. The procurement services of the IPM will include supporting the BRR for carrying procurement in the first 12-18 months of the implementation of subprojects while in parallel assessing the procurement capacity at the local government level, developing this capacity through a combination of training programs, on the job training, and gradual transfer of procurement responsibilities to the local governments. The BRR will remain responsible for the quality of procurement at the local government level and will continue to monitor these procurement activities and will be represented in the evaluation committees.

The minimum size of subprojects financed by IRFF at the local government level is US\$300,000 and at the provincial government level is US\$1 million. The methods of procurement under this project will be as follows: International Competitive Bidding (ICB) will be used for all works packages estimated to cost more than US\$5 million each and goods packages estimated to cost US\$200,000 each. National Competitive Bidding (NCB) will be used for all other packages. Since the minimum size of a contract is US\$300,000 there will be no need for shopping. Direct award, if any, will be in accordance with the requirements of paragraph 3.6 of the Guidelines for Procurement and will be subject to Bank's no objection.

## **Component 2: Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (US\$3.0 million)**

This component will provide targeted and need-based TA to local and provincial governments for identification, design and preparation of infrastructure reconstruction subprojects, as well as for enhancing the quality of subproject implementation oversight.

This component will provide assistance to Aceh Besar, Banda Aceh and Sabang that are currently receiving TA from existing consulting arrangements for subproject identification and design until January 2007 beyond this timeframe<sup>36</sup>. This component aims at strengthening the ability of the Aceh Besar, Banda Aceh and Sabang local governments to improve the provision of infrastructure in their respective jurisdictions by providing technical experts to assist them in planning and subproject identification, subproject design, tender documents, procurement, safeguards compliance, implementation, construction supervision, and monitoring. This component will also finance TA for transition to a post-BRR timeframe and institutional arrangements beyond April 2009, including extension of TA provided under IREP, and capacity building and infrastructure asset maintenance programs for local and provincial governments. This TA will be provided under one contract, estimated to be US\$2 million and will be selected using Quality and Cost Based selection (QCBS).

In order to enhance the quality of subproject implementation oversight, IRFF will support undertaking a performance and financial audit of the project financial statements carried by the country's Supreme Audit Institution (BPK). A reputable auditor, acceptable to the Bank, will be recruited to carry this work under the supervision of BPK. Ideally, the auditor should visit all *kabupaten* that implement the project activities. The related external audit cost will be included in this project component. Selection of this auditor will follow least cost selection method. The contract will be for the lifetime of the project subject but phased on a yearly basis subject to satisfactory performance of the consultant.

All procurement activities under this component will be carried out by the BRR and supported by the IPM consultant under IREP. The methods for selection of consultants will be Quality and Cost Based Selection (QCBS) for all assignments estimated to cost more than US\$200,000, while selection Based on Consultant's Qualifications (CQS) will be used for contracts estimated to cost less than US\$200,000.

**Unallocated funds (US\$15.0 million).** In order to mitigate uncertainty in the implementation of this project, a portion of the project funds is not allocated to any specific component. These unallocated resources may be used for one or more of the following: (i) extending IREP TA (a) beyond June 2009 to continue supporting the implementation, construction supervision and performance monitoring of subprojects financed by IRFF, and (b) to support BRR's mandate of supervision, performance monitoring and quality assurance of the infrastructure reconstruction program; (ii) financing TA activities necessary to help local and provincial governments prepare

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<sup>36</sup> There will be no replication of TA funding between IREP, IRFF and other existing consulting arrangements. During appraisal, additional TA needs, similar to those addressed by IREP TA (including planning, design, and construction supervision) were identified for Banda Aceh, Aceh Besar and Sabang. TA activities in these districts were being supported by existing consulting arrangements funded by the French government, and were scheduled to end in January 2007. However, after appraisal, the French government announced its commitment to extending TA in Aceh Besar, Banda Aceh and Sabang. If and when a commitment of funds is made by the French government, an equivalent amount of funds for this TA will be put in the unallocated funds under IRFF.

for the transition to a post-BRR era by undertaking greater responsibility of infrastructure program management based on the IREP-financed BRR transition strategy, detailing institutional arrangements beyond the scheduled expiration of BRR's mandate agreed by GOI and the Bank by June 2008; and (iii) financing additional subprojects in the event the implementation of all subprojects proceeds as planned.

### **C. Assessment of the agency's capacity to implement procurement and procurement management**

The BRR was established in May 2005, and staffed with specialized and experienced personnel drawn from throughout Indonesia. The BRR has ministerial status in Indonesia, and has undertaken a wide variety of aspects in the reconstruction program, working closely with and coordinating the activities of provincial and local governments, NGOs, bilaterals and multilaterals. A special regulation of the President (Keppres 70 of year 2005) was issued on November 2005 amending the presidential decree (Keppres) 80/2003 on public procurement. This special regulation is specific for procurement for funds managed by BRR. It allows for some flexibility and in particular the housing sector. Some of the special provisions of this Keppres allowing direct contracting has expired end of June 2006. It is worth mentioning that this Keppres also allows use of non civil servants to carry procurement.

BRR has carried some procurement activities so far, mainly in the housing sector using direct award. It provides the funds for the local governments who carry procurement. Final award of contracts should be still subject to BRR approval. However, this may not have been consistently observed by all saktars.

BRR has expressed its concern on the capacity, timeliness and quality of procurement at the local government level, particularly in certain cases where there has been suspicion of collusion. In addition, political pressures weaken the capacity of most local governments to undertake procurement. As a result, BRR has considered several options for implementing procurement under the project. It was agreed that there is need to centralize procurement with the participation of the concerned local governments. BRR had developed a structure for a central procurement unit (CPU) and is currently staffing it with qualified personnel to carry the procurement for funds provided by BRR. The unit will be headed by an experienced BRR staff member who has knowledge of Bank and international donors financed projects. The CPU will have five procurement managers, five assistant managers and two assistants per manager. All the procurement managers have to be certified to carry procurement in accordance with the current national certification system. The BRR will also have access to a pool of experts and procurement certified civil servants who then can use on an on-call basis. It is to be noted that this plan is still not fully achieved.

The IPM consultants will have a dedicated team of procurement specialists with international and national experience who will assist BRR in all procurement activities. In particular, reporting bidding documents, procurement plans, capacity building and monitoring of procurement activities at the local level.

BRR intended to install and use an e-procurement system. The system they planned to use is the e-procurement system in the city of Sorabaya for use in their procurement including under this project. The targeted date for installing and using this system was October 2006 with the intention of transferring the knowledge and use of this system to the local governments at a later stage. However, progress on this initiative is slow. A Bank staff expert in e-procurement has assessed

the current system in the city of Sorabaya in July 2006 and has found it to be acceptable for use subject to addressing some recommendations to deal with some of the weaknesses in the system.

BRR has two objectives on the procurement level: the short and urgent one is to implement the project and the longer term one is to develop procurement capacity at the local level. This will be achieved by BRR carrying the procurement for all the technical assistance, all strategic and provincial subprojects, all procurement using ICB under the project and all subprojects for the first 12 months with the direct assistance of the IPM consultants' procurement team. The procurement services of the IPM will include supporting the BRR in directly carrying procurement for the first 12 months while in parallel assessing the procurement capacity at the local government level to determine the current benchmark, developing this capacity through a combination of training programs, on the job training, and gradual transfer of procurement responsibilities to the local governments in the second phase of the project.

Once the capacity development plan of a local procurement is completed, another assessment will be carried to certify that procurement can be transferred to the local government. The BRR will request the Bank's no-objection to this decision and will reflect this in a revised procurement plan. The BRR will still be responsible for all procurement in terms of preparing the procurement plan, ensuring use of appropriate methods, following all applicable procurement procedures in managing the process, evaluating and awarding bids. BRR, with the assistance of IPM, will continue to monitor all procurement activities, have a representative in the evaluation committees at the local level and receive a copy of all bids submitted. Since the Aceh province has an established track in conducting procurement for infrastructure projects (around US\$100 million during last year), it will be the first case to be assessed by BRR and IPM to serve as a model to be agreed with the Bank and followed for the other governments. The Bank will provide a sample of a Procurement Capacity Assessment Report (PCAR) for guidance, but the BRR and IPM will develop their own.

As it is important to clarify the roles of the IPM in the procurement process to all teams involved in procurement, a mechanism for carrying the procurement process has been agreed with BRR and is included in the flowchart at the end of this annex. In the interim, BRR is preparing several packages and intends to launch them prior to the mobilization of IPM. Interim arrangements will be in place to manage the process through the CPU and with the support of the IREP procurement advisor recruited by DFID to support BRR. The mechanism to be used as an interim and when IPM is mobilized is as follows:

<b>Tasks</b>	<b>Agreed mechanism for IREF</b>	<b>Interim Arrangement until IPM is mobilized</b>
Procurement Plan	Prepared by IPM and approved by BRR	Prepared by CPU
Bidding documents	Prepared by IPM	Prepared by BRR technical teams with support from CPU and IREP procurement advisor
Setting evaluation committees	Dedicated evaluation committees with members from satkar, kabupaten, BRR staff and two members from IPM (procurement and technical)	Three dedicated evaluation committees with members from satkar, kabupaten, BRR staff and two members from IREP procurement advisor (procurement and technical)
Advertisement	CPU supported by IPM	CPU
Evaluation of bids/ proposals	Carried by the dedicated committees	Carried by the dedicated committees
Approval of evaluation reports	BRR after IPM clearance	CPU
Contract Signature	Satkars	Satkars
Contract Management	Satkars assisted by IPM	Satkars assisted by IPM (when mobilized)
Contract Monitoring	IPM	CPU assisted by IREP procurement advisor
Seeking no-objections and communicating with the Bank	CPU	CPU

This mechanism will be reviewed periodically to assess its effectiveness. The interim arrangements will be assessed in January, to identify any issues that should be addressed/enhanced when IPM is on board, and shares lessons learned.

Below are some key issues facing the project and mitigating measures to address risks associated with the project:

Issue/Risk	Mitigating measure
<p><b>Low Capacity of the procuring unit in the selection process of these large contracts:</b> The procurement unit in BRR is still under development and requires strengthening.</p> <p>Capacity in procurement at the local level is weak to absent.</p>	<p>(i) On going recruitment process will strengthen the procurement unit at BRR.</p> <p>(ii) IPM consultants will support the BRR in carrying procurement.</p> <p>(iii) BRR, with the support of IPM, will carry an assessment and develop capacities of the local governments.</p>
<p><b>Procurement Delays:</b> selection process of consultants is usually lengthy in several projects in Indonesia due to low capacity and required approvals of the results of the evaluation by the relative authority (ies). This usually leads to problems in validities of proposals, availability of staff, proposed prices, delay in the investment phase and more importantly opening the process for potential intervention and manipulation.</p>	<p>(i) Enhancing of capacity by the IPM will help in expediting the process.</p> <p>(ii) The approval by the relevant authority will be expedited due to the fact that the structure in BRR is not complex, the evaluation committee(s) will be reporting directly to the deputy director who is managing this project.</p> <p>(iii) There is urgent need for these services and the leadership of BRR is highly committed to this project and the investment phase which is dependent on this.</p>
<p><b>Procurement planning and management:</b> this will also propose a major challenge to BRR. It will require a skilled and dedicated team to prepare the plan, manage the multiple procurement activities.</p>	<p>The IPM will act as technical advisor to the BRR in planning and managing procurement.</p>
<p><b>Capacity of Local Governments in procurement planning and implementation and coordination with BRR:</b> The capacity of local governments is a major risk and especially when the sakers begin to operate outside BRR.</p>	<p>(i) The capacity assessment and development measures will help in upgrading this.</p> <p>(ii) A detailed responsibilities matrix will be developed by negotiations to clearly specify the responsibilities of BRR, Local governments and the IPM consultants. This will also be reflected in the legal agreement.</p>
<p><b>Corruption and Collusive Practices:</b> This is a nation wide issue, which normally involves both bidders/consultants and the government officials. The general procurement environment is weak, and the practice of offering and accepting bribes and kickbacks is widespread. The low salary structure of government employees is also an enabling factor.</p> <p>BRR has a unique nature as it is an entity that is entrusted with carrying a very important humanitarian task. There is the expectation that its staff act with the highest integrity. BRR actions are under the scrutiny of the national government, local provinces, communities and donors.</p> <p>The salaries of BRR staff are also higher then the average government staff. Finally, BRR has set its own anticorruption team. Therefore, due to the nature of BRR and the added scrutiny that the size of these contracts will attract, corruption risks are assessed to be lower then average projects.</p>	<p>(i) There will be full disclosure of advertisement opportunities and contract awards. Upon completion of a procurement process, the BRR is required to publicize in public domain information related to the summary of evaluation report, the name of contractor/consultant (long list, shortlist, and the awardees whichever applicable), the description of services, and the amount of contract.</p> <p>(ii) BRR will publicize the complaint handling database for the project and the result of the performance of consultants/contractors, as well as sanctions on poor performance/corrupt/fraudulent practices.</p> <p>(iii) All consultants/bidders who intend to participate in any of the procurement packages under this project are required to disclose information upfront, if any of their members of the board of directors/commissionaires and/or their immediate family members, is a member of the respective procurement committee and/or is a director in BRR.</p> <p>(iv) All evaluation committee members will sign an integrity pact and will disclose any information if any of their immediate family members have any working relationship with the firms submitting proposals.</p> <p>(v) All procurement that will be conducted at the local governments will be monitored by BRR including having a representative in the evaluation committees and maintaining a record of all bids.</p> <p>An Anti Corruption Action Plan (ACAP) has been developed and is included in the PAD.</p>

Despite the enhanced measures by BRR, and support by IPM, the overall project risk for procurement is **High**.

**Procurement plan.** Due to the nature of the project and the fact that the pipeline projects are still in the process of identification, a tentative Procurement Plan for project implementation was developed by negotiations. The plan will be further developed after the start of the project. The Plan would be available in the project file. It will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the project team on a semi annual basis, or as required to reflect the actual project implementation needs, progress in identifying subprojects and any modification to the implementation of procurement arrangements due to improvements in institutional capacity and the role of local governments in procurement.

**Frequency of procurement supervision.** In addition to the regular prior review supervision to be carried out from Bank offices, supervision missions will visit the field to carry out post review of procurement actions twice a year.

#### **D. Procurement Arrangement Details**

International Competitive Bidding (ICB) will be used for all works packages estimated to cost more than US\$5 million each and goods packages estimated to cost more than US\$200,000 each. National Competitive Bidding (NCB) will be used for all other packages. Since the minimum size of a subproject is US\$300,000 there will be no need for shopping.

Selection based on Consultant's Qualifications will be used for assignments estimated to cost less than US\$200,000, while Quality and Cost Based Selection will be used for assignments estimated to cost more than US\$200,000. Least Cost selection will be used for the selection of the external auditor.

Short lists of consultants for services estimated to cost less than US\$400,000 equivalent per contract may be composed entirely of qualified national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Prior review by the Bank will be reflected in the procurement plan. In principle, the following will be subject to the Bank's prior review:

- Goods and Works: all ICBs and the first three NCBs for goods and the first three NCBs for works under the project;
- Selection of Consultants: all selection process for packages estimated to cost more than US\$200,000, and the first three selection processes using CQ.

## ANNEX 7. FINANCIAL MANAGEMENT AND DISBURSMENT ARRANGEMENTS

### A. Introduction

The Infrastructure Reconstruction Financing Facility (IRFF) is designed to, among other things, co-finance investments of US\$273 million, of which US\$82 million will be funded by MDF and US\$191 million by BRR. The project will be implemented over three years, from January 2007 to January 2010. IRFF will support and use the same management structure of IREP that provides technical assistance for infrastructure program management, planning, design and construction management.

This financial management assessment (FMA) should be read together with FMA of IREP. Since the project will use the same implementing agency and the financial management system. In addition, IREP will finance FM consultant who will provide technical assistance of IRFF implementation. The financial management assessment indicates several additional issues related to IRFF implementation and financial management that need attention:

- Implementation Arrangement.
- External Audit
- Internal Audit
- Budgeting.
- Flow of fund
- Accounting and Reporting

Some risk mitigation steps have been proposed through FM consulting contract to assist BRR on financial management, including payment verification, accounting and reporting. BRR internal audit should fully activate and include the project activities in their work program. In addition, the external audit is required to increase the audit sample of the project activities.

Overall, the project financial management risk is assessed as being **substantial**. This assessment has concluded that with the implementation of the action plan, the risks will be substantially mitigated, and the proposed financial management arrangements will satisfy the Bank's minimum requirements under OP/BP10.02 and are adequate to provide, with reasonable assurance, accurate and timely information on the status of the grant required by the Bank. More details of the financial management assessment are given below.

### B. Risk Assessment Summary

1. A detailed analysis of financial management risks arising from the country situation, the proposed project entities and specific project features and related internal controls has been completed during the assessment, and is summarized below. These risks have been rated on a scale from *High, Substantial, Moderate and Low*.

<b>Risks</b> <b>[High / Substantial /</b> <b>Moderate / Low]</b>	<b>Assessment</b>	<b>Summary Comments and Risk Mitigation Measures</b>
<b>A. Inherent Country Risks</b>		
1. Budgetary procedures	S	The government has a new budgetary system that has been implemented since FY 05. Implementation of a new system



		created delay on budget execution. MOF and executing agency need to speed up the process to issue all detail budget document and related circular letters.
2. Public accounting & reporting	S	Public sector follows single entry and cash basis with a partially computerized system. An Accounting Standards Board has issued accounting standards on modified accrual basis; these have been adopted by Presidential decree. Implementation of standards remains a challenge.
3. Audit arrangement	H	BPK has legal mandate as external auditor of the government budget. Overlapping assignment with internal auditor agencies exists. Risks arise from integrity and limited capacity of the BPK.
<b>Overall Country Risk</b>	<b>S</b>	
<b>A. Entity specific risks</b>		
1. Implementing Entity Organization	M	BRR is special agency established by PERPU 2/ 2005. A new structure is established in October 05, but decision to appoint director level and below, have not decided yet. Project management capacity needs to be strengthened.
2. Accounting capacity, staffing.	M	BRR follows government accounting system. Accounting capacity is adequate, Currently they have three staff in SPM unit and four staff in Accounting Unit. All staff has S1 bachelor degree in accounting and four of them are accountant. Due to sharply increasing transaction volume in FY 06, BRR's FM capacity will be constrained, and they need to hire additional qualified staff in SPM Unit.
3. Internal Control	H	The consultant outputs are diverse and not easily measurable. The contracts are complex and large. Therefore, the risk of weak internal control overpayment may arise, unless the contracts are clearly worded and BRR has strong project management.
4. Flow of funds	M	The flow of fund will follow budget documents decision. It uses GOI Treasury system for on-budget. Based on GOI regulation, except UP (petty cash) and small payment, payment above IDR 5 Million use bank transfers. BRR has two bank accounts for UP and spent IDR 600 million through both accounts (less than 3% of the total budget realization).
5. Internal Audit	S	BRR has established internal audit department in early 2006. Currently the internal audit department has 7 staff included the Department Director. Internal audit manual and department working plan has been prepared.
6. External Audit	S	BPK is external auditor for BRR budget. Currently BPK is conducting the first audit for BRR financial statement (FY 05). Risks arise from integrity and limited capacity of the auditors.
7. Information systems; Reporting and monitoring.	S	BRR use government system (SAI) to prepare the financial report. The first BRR report for FY 05 was submitted to MOF timely. SAI raw data basically is payment order (SP2D) as budget realization. Chart of account is established during budget preparation. However, SAI is not integrated system and does not have a feature on contract/committed budget. IBM has provided technical assistance to develop additional features on contract management.
<b>Overall Entity specific Risk</b>	<b>S</b>	
<b>B. Project Specific Risks</b>		
1. Flow of funds	M	Flow of fund system will follow normal government mechanism for on budget and all payments made through GOI treasury.

2. Budgeting	H	The project contracts will be on-budget. BRR need to prepare the budget document prior to negotiation and discuss with MOF.
3. Accounting & Reporting	M	SAI does not have a feature to report expenditures come from foreign donors. BRR will prepare a separate financial monitoring report and submit to the Bank on quarterly basis. Project financial report may develop through excel sheets.
4. Procurement	H	To Select and get quality consulting firm will be a challenge. High quality consultant will assist BRR to monitor and
5. Internal Audit	S	The Internal Audit department is new and untested, though a work plan is ready and pending approval. The internal auditor will review and verify payment validation, especially for payment on reimbursable expenditures.
6. External Audit	S	BPK may assign acceptable auditor to the Bank to audit the project financial statement.
<b>Overall project specific Risk</b>	<b>S</b>	

### C. Implementing Arrangements

BRR has established a separate project management unit under deputy of infrastructure for IREP as well as IRFF. Implementation of individual infrastructure subprojects at the local level will be the responsibility of satkers. In 2007, these satkers will be nominated by local governments and appointed by BRR. In later years, it is expected that satkers will be nominated and appointed by local governments. The project implementing unit in the centre and local level will be assisted by project management consultants. The deputy of infrastructure will oversee all project activities. IRFF activities will be reviewed by BRR infrastructure board every six months.

#### Budgeting

IRFF will follow a normal annual government budget mechanism. The budget authority (Satker) in local level will work under BRR supervision and oversight. Project Management Unit (Satker) in local level will be appointed by BRR through fit and proper test procedures. Satkers in local level will report and responsible to BRR.

As other government projects, funds under this project need be put in the government budget and follow existing government budgeting process. Each individual infrastructure subproject will be co-financed by BRR and MDF according to a 70:30 ratio, and will be recorded as such in the budget documents.

#### Accounting & Reporting

The project will use government accounting software (SAI) to record project transactions. An additional feature of monitoring contract commitments in the accounting software has been developed and will be used in the project implementation. A separate worksheet will be prepared to serve the reporting needs of the Bank outlined in the Interim Financial Reports (IFRs). The grant expenditures and activities will be reported to the Bank under the project IFRs on a quarterly basis. Satkers in local level will submit the project IFRs to PMU in Banda Aceh for report consolidation. The financial report may be prepared using a separate stand-alone spreadsheet. This would include information on procurement, physical progress of budgeted

activities and financial source and use of funds. Formats for these were agreed before negotiations.

Quarterly financial reports should be received at the Bank no later than 30 days after the end of each quarter. To ensure consistency of the IFRs with GOI reporting, the aggregates in the financial reports will be reconciled periodically with the aggregates in the SAI and Special Account. All financial transactions should be recorded properly supported with adequate evidence as intended according to the Grant objectives. The audited annual financial statements should be made publicly available to ensure transparency.

### **Internal Controls and Internal Audit**

The internal audit department will responsible also to review internal control at all Satker in local level that implement the project budget. The internal audit unit should recruit additional staff (if necessary) to supervise the project activities. The internal auditor should conduct a review on internal control system in the implementing Satker, including payment validation. Copies of these reports should be made available to the Bank upon request.

### **External Audit**

BRR will prepare special purposes project financial statements annually in specified formats. The financial report will be based on summary of financial transaction under this grant. The project financial report will be subject to a performance and financial audit by Supreme Audit Institution (BPK) which may sub-contract this work to a reputable auditor acceptable to the Bank. A copy of the project audited financial statements, along with the management letters issued by the auditors, if any, will be submitted to the Bank no later than six months after the end of fiscal year.

The Terms of Reference (TOR) for the project audit was agreed by the Bank with the Recipient before negotiations. The audit report will include an opinion on the reliability of the project financial statements, including the validity and eligibility of transactions through dedicated special account used for channeling MDF fund. The audit reports will be made accessible to the public.

### **Disbursement Arrangements**

The applicable disbursement methods include: 1) Advance; 2) Direct payment; and 3) Reimbursement.

Advance method would be used to facilitate disbursements for eligible expenditures. A Designated Account (DA) denominated in US dollars will be opened in the Central Bank (BI) or a commercial bank acceptable to the Bank under the name of MOF. The management of the DA would be under the responsibility DG Treasury, MoF and thus the application for applying for an advance and reporting on uses of the advances to the DA would be prepared by PMU and submitted to the Bank through DG Treasury, MOF. The ceiling of the advance provided to a Designated Account (DA) is \$10,000,000.

Application for applying for an advance and/or reporting on the uses of advances to the DA would be submitted, monthly or as required. Such an application would be supported by: (i) list payments for contracts under Bank's prior-review and records evidencing such expenditures, or (ii) statement of expenditures (SOEs) for all other expenses, and (iii) DA reconciliation statement. All documentation for expenditures submitted for disbursement will be retained at the

implementing unit and shall be made available to the auditors for the annual audit and to the Bank and its representatives if requested.

Another acceptable method of withdrawing funds under this arrangement is the direct payment method, involving direct payments to suppliers for works, goods and services upon request form. The Disbursement Letter will stipulate the minimum application value for direct payment.

When the PMU has the capability of producing timely quarterly Interim Financial Reports (IFRs), reporting on use of funds would be based on the IFR and advance to the DA would be made for six monthly projected expenditures. The Bank may issue a revised disbursement letter to inform the recipient of such a change of disbursement arrangement. Preparation and presentation of IFR will be required regardless of the selected disbursement (report-based disbursement).

Retroactive financing will be provided under the project for up to 20% of the MDF grant amount (i.e., US\$20,000,000) to finance eligible expenditures for project activities incurred after June 20, 2006. The services, civil works, and goods to be eligible for retroactive financing should be contracted following World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004. The Bank will review all procurement procedures used for retroactive financing.

Allocation of the grant proceeds and financing is as below.

#### **Allocation of Grant Proceeds**

<b>Category Description</b>	<b>Amount of Grant (US\$ eqv.)</b>	<b>% of expenditures to be financed</b>
1. Goods and Civil Works for Part 1 of the project	82,000,000	30%
2. Consulting service	3,000,000	100%
3. Unallocated	15,000,000	
<b>TOTAL</b>	<b>100,000,000</b>	

#### **Supervision Plan**

Supervision of project financial management will be performed on a risk-based approach at least once a year. The supervision will review the project's financial management system, including but not limited to accounting, reporting and internal control. The financial management supervision will be conducted by financial management specialist and Bank consultants.

#### **D. Action Plan & Conditionality**

Action taken prior to negotiations:

1. BRR submission of shortlist of FM Consulting firms
2. Financial report format to be agreed between BRR and the Bank

Action to be taken prior to disbursement:

1. BRR signing of contract with FM Consulting firm

**Actions to be followed up during implementation (To be reflected as Other Covenants in the Grant Agreement):**

1. BRR will appoint BPK as external auditor for this project and BPK may sub-contract work to private audit firms acceptable to the Bank; such contracts should be completed no later than 6 months after signing of the Grant Agreement. The project audit reports should be submitted to the Bank not later than six months after end of each financial year.

## **ANNEX 8. ENVIRONMENTAL AND SOCIAL SAFEGUARDS FRAMEWORK**

### **A. Introduction**

This safeguards framework covers two inter-related elements of Multi Donor Fund (MDF) support being provided to the Aceh and Nias Reconstruction and Rehabilitation Agency's (BRR) Strategy for district and province infrastructure reconstruction, namely: the Infrastructure Reconstruction Enabling Program (IREP) and Infrastructure Reconstruction Financing Facility (IRFF). The IREP provides world class consulting services in infrastructure program management, planning, design, and construction management. The IRFF provides further complementary TA to IREP as well financial resources to fill the financing gap in infrastructure reconstruction that has emerged as a result of inefficient allocation of resources for Aceh and Nias. Taken together these two projects will provide strategic planning, detailed engineering design and construction supervision support, as well as US\$273 million in subproject financing.

Given that both IREP and IRFF will be implemented by the same PMU and IPM team, it is logical that a single safeguards framework is developed covering both grant agreements. Accordingly, this safeguards framework is based on and replaces the framework already prepared, appraised and negotiated under IREP. It remains the same in intent and substance providing further clarifications only in terms of funding mechanisms and arrangements. It also takes account of the increased scope of support for infrastructure reconstruction being provided under IRFF to include: three new districts, including Aceh Besar, Banda Aceh and Sabang; as well as eligibility for IRFF financing of a number of strategic province level and other subprojects prepared by other donor agencies/organizations<sup>37</sup>.

### **B. Objectives of the Framework**

The environmental and social safeguards framework provides general policies and guidelines to serve the following objectives:

- Protect human health;
- Prevent environmental degradation as a result of either individual investments or their cumulative effects;
- Enhance positive environmental outcomes;
- Avoid or minimize land acquisition and involuntary resettlement, and where this can not be avoided, provide compensation based on market price and assistance to rehabilitate livelihoods based on consultation with those affected;
- Avoid conflict among community members and strengthen community social cohesiveness.

Mechanisms for implementation of the framework are built in to the project oversight structures, guidelines and tools, as well as the terms of reference for the proposed Infrastructure Program Management (IPM) team, and associated geographically focused teams (West Coast, Nias, Aceh Besar, Banda Aceh, Sabang and Province level).

It will be the responsibility of the IPM team to support the BRR in developing detailed social and environmental management procedures for this framework, to be integrated into the Project

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<sup>37</sup> UNDP (Ports) and DHV (Sea Defences).

Implementation Plan (PIP). The safeguard policies triggered include OP 4.01 on Environmental Assessment, OP 4.12 on Involuntary Resettlement and OP 4.10 on Indigenous Peoples.

### Safeguard Policies

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
<u>Environmental Assessment</u> (OP/BP/GP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03, being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Indigenous Peoples (OP 4.10)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP/GP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP/GP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### C. Environmental and Social Issues

**Environmental Issues.** The IREP/IRFF project entail the procurement of ‘services’ to support infrastructure reconstruction which will have the effect of programming significant levels financing both from the BRR’s own budget and additional financing made available through the Multi Donor Fund for Aceh and Nias. Consequently, the consultant teams that will be engaged under the project will need to have a good understanding of related environmental and social impacts and how such impacts can mitigated via appropriate planning, design, and implementation measures.

Assessment of the impacts of infrastructure reconstruction first needs to be set within the context of existing environmental conditions, particularly along the West Coast and in Nias. It is important to understand, for example, that reconstruction will be impacting on already stressed environmental conditions. Many coastal areas have been severely damaged by the tsunami both in terms of marine and terrestrial environments. In many places coastlines have been physically altered, particularly the inter-tidal zones. Shallow coral reefs have been affected resulting from the large amounts of solid waste, silts and clays generated by the waves. Mud laden residues have infiltrated both man made and natural water sources, and blocked drainage lines. Many of the heavy clay soils that predominate in the coastal region have been inundated with salt water. In Nias large tracts of coastal land have been lifted up and an estimated 250 ha of coral reefs are reported to have been destroyed. With the loss of sea defenses previously built up areas have been reclaimed by the tides leading to coastal inundation and the recreation of marshy areas juxtaposed with human settlement.

Furthermore it should be recognized that existing conditions are being further impacted by the reconstruction process that has been underway since early 2005 – now increasing in scope and intensity. As indicated in the initial drafts of on-going SEA work carried out by Bappenas, existing critical pressure points include:

- impacts of housing construction through extraction of raw materials including wood, sand, coral and clay, leading to multiple effects on surface water features, coastal geomorphology, protected areas and watershed protection areas;

- impacts of housing construction overwhelming capacity of water and sanitation services to keep up with demand;
- spill over waste from existing dump sites and establishment of new sites without due consideration of externalities;
- relaxation of environmental controls and building standards associated with road construction, leading to ponding, landslides and other localized construction type impacts;
- urgent needs of livelihood recovery leading to overexploitation for sea and pond-based aquaculture;
- illegal logging achieving social legitimacy in the interests of rapid reconstruction, while actually targeting markets outside of Aceh;
- social conflict over land expropriation (housing, road reconstruction, mangrove reforestation) with insufficient compensation and due process.

Consequently infrastructure reconstruction, along with ensuing environmental impacts, takes its place among many other efforts underway all of which will leave their mark on the natural systems that must also sustain the future economic growth of the region.

**Social Issues.** In general the infrastructure subprojects that will be designed and implemented with support from IREP/IRFF will entail replacement of pre-existing infrastructure. As a result, the level of associated social risks is likely to be limited. However, it is important for planning processes, including prioritization of infrastructure needs, to reflect community needs and specifically those of vulnerable groups (such as women and the poorest in society).

In some cases land acquisition and resettlement will be unavoidable leading to a range of challenges associated with clarifying land titles and ensuring that adequate and timely compensation is provided. Thousands of people still remain missing after the tsunami while others still live in the camps/barracks or have moved to other regions. Although most intend to return to their holdings, the timing varies. Therefore in many cases landowners are not available to discuss land acquisition issues leading to project delays or later conflicts during project implementation relating to disputed land claims.

A further challenge is in dealing with the tenure rights defined under the customary and traditional codes, particularly in Nias which is dominated by traditional tenure systems. For example traditional codes do not clearly define rights for women to inherit land, and a challenge may be how to ensure that female heads of households retain rights to receive compensation that is due.

Ensuring that infrastructure reconstruction addresses the particular needs of women remains a critical issue for consideration. Women were the most directly affected group by the tsunami and earthquake, while at the same time having critical roles to play both in the immediate challenges of physical reconstruction and in ensuring sustainable and equitable social and economic recovery in the longer term. Strategic planning work undertaken under IREP will need to ensure that the specific concerns of women in relation to infrastructure reconstruction are taken account of, while at the subproject level related public consultation will need to ensure that women are given a strong voice in choices to be made over siting and design, as well as the relative prioritization of subprojects to be funded under each district management plan. For example, under certain circumstances, water supply and sanitation may be considered to be a greater priority than road rehabilitation.



Although the people of Aceh are a broadly homogeneous group, there are indigenous people living in Nias requiring specific measures to be undertaken by the project to ensure that they are meaningfully engaged in consultation processes associated with the planning, design and construction of proposed infrastructure.

#### **D. Environmental and Social Management Framework**

**Screening.** The Government of Indonesia's environmental review procedures, which include specific procedures for Aceh and Nias<sup>38</sup>, are broadly consistent with those of the World Bank, and will form the framework for the project's approach to environmental screening and mitigation. IRFF is considered to be equivalent to World Bank "Category A", recognizing that while it will largely involve reconstruction of pre-existing infrastructure, with average subproject size of about US\$3-5 million, there could be subprojects that warrant a stricter environmental rating. Subprojects being prepared, designed and implemented under IREP/IRFF (including any subprojects not prepared under IREP but submitted to IRFF) will be subject to eligibility criteria at subproject identification stage (to be developed by BRR) and further screening during subproject preparation as follows:

- full environmental assessment (AMDAL) required;
- environmental management and monitoring plan (UKL/UPL) required;
- Land Acquisition and Resettlement Action Plan (LARAP) required;
- standard operating procedures (SOP) only.

All subprojects (being funded by IRFF) will be required to complete a standardized screening form providing basic information, according to infrastructure sub-sector (roads, irrigation, drainage, coastal defenses, etc.)<sup>39</sup>. Table 1 provides screening criteria for infrastructure subprojects (generally for new alignments/land take) that will require full environmental assessment, drawn from Decree 308/2005. Table 1 provides a selection of criteria only. In applying the framework the relevant annex to the Decree should be referred to directly. The criteria represent 'maximum' thresholds only (for example 2000 ha for a new irrigated area).

Full AMDALs may be required for subprojects even if they are within the maximum thresholds, based on a technical discussion between the IPM team and local environmental authorities (for example a new irrigated area of 500 ha). The WBOJ safeguards staff will review screening decisions for all subprojects and may require additional full AMDALs to be carried out as appropriate.

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<sup>38</sup> Ministry of Environment Decree No. 308/2005 on Implementation of Environmental Impact Assessment, Environmental Management Measures and Environmental Controlling Measures for Rehabilitation and Reconstruction Activities of Nanggroe Aceh Darussalam and Nias Islands of North Sumatra.

<sup>39</sup> GTZ is in process of preparing standard screening formats for discussion with Province Bapedalda. The project will review these formats as a basis for preparing appropriate internal screening procedures.

**Table 1: Selected Screening Criteria for Infrastructure SubProjects Requiring AMDAL**

<b>Transportation Sector</b>	
Harbor construction with one of the following facility	
<ul style="list-style-type: none"> <li>a. massive construction jetty <ul style="list-style-type: none"> <li>- Length</li> <li>- Or area</li> </ul> </li> <li>b. Harbor Infrastructure support (terminal, storage, container, etc.) <ul style="list-style-type: none"> <li>- area</li> </ul> </li> </ul>	$\geq 200 \text{ m}$ $\geq 6.000 \text{ m}^2$  $\geq 5 \text{ ha}$
Dredging : Capital dredging - Volume	$\geq 250.000 \text{ m}^3$
Reclamation - Area - Or volume	$\geq 25 \text{ ha}$ $\geq 500.000 \text{ m}^3$
<b>Infrastructure in the Region</b>	
Irrigation area	
a. New construction area	$\geq 2.000 \text{ ha}$
b. Intensifying by adding area	$\geq 1.000 \text{ ha}$
Swampy area development, marsh land reclamation for irrigation needs	$\geq 1.000 \text{ ha}$
a. Highway construction	All units
b. Flyover and subway road construction	$\geq 2 \text{ km}$
Road construction and/or improvement by widening out side of	
<ul style="list-style-type: none"> <li>a. Big city/metropolis <ul style="list-style-type: none"> <li>b. Length</li> <li>c. Or area</li> </ul> </li> <li>b. Middle city <ul style="list-style-type: none"> <li>d. Length</li> <li>e. Or area</li> </ul> </li> <li>c. Village <ul style="list-style-type: none"> <li>- Length</li> </ul> </li> </ul>	$\geq 5 \text{ km}$ $\geq 5 \text{ ha}$  $\geq 10 \text{ km}$ $\geq 10 \text{ ha}$  $\geq 15 \text{ km}$
Trash handling	
a. Trash handling by control sanitary landfill systems	
<ul style="list-style-type: none"> <li>f. Area</li> <li>g. Or total capacity</li> </ul>	$\geq 10 \text{ ha}$ $\geq 10.000 \text{ ton}$
b. Last trash Discarding Location (TPA) at tide	

area	
h. landfill area	≥ 5 ha
i. Or total capacity	≥ 5.000 ton
c. Transfer station construction	
j. Capacity	≥ 1000 ton/day
d. Open dumping Last Trash Discarding systems	
- Area or total capacity	All units

The requirement for an AMDAL may also be triggered if a subproject is likely to impact on sensitive sites either by being located in close proximity to a sensitive site, or if the nature of the subproject activity could directly impact on a sensitive site. Key sites or areas that will be considered 'sensitive' under this framework include:

1. National park
2. Forest park
3. Wildlife reserve
4. Protected flora area
5. Conservation forest
6. Watershed protection forest
7. National cultural preserve
8. Traditional/religious buildings
9. Marine reserves
10. Coastline and dune systems
11. Mangrove and wetland areas
12. Isolated Vulnerable People (IVP)
13. Steep slopes (>40%)
14. Commercial/residential areas
15. Productive land
16. Other areas as identified by BRR during the course of implementation.

Under Decree 308/2005 there are no criteria in place for determining whether a UKL/UPL is required. The general approach is that for all but very low impact subprojects a UKL/UPL is required. A clear procedure for determining the need for UKL/UPL will be negotiated with Provincial Bapedalda during the early stages of the subproject. All subprojects, irrespective of whether an EA is required or not, will apply standard operating procedures for environmental management covering basic (commonly occurring) construction and operation type impacts.

**Screening process.** IREP/IRFF will provide consulting services to seven districts along the West Coast of Aceh, two districts in Nias, Aceh Besar, Banda Aceh, Sabang and the Province of Aceh. Consulting support teams located in these areas will help local governments to prepare draft Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs) containing lists of subprojects, each having taken into account BRR eligibility criteria covering technical, economic, financial, social and environmental issues. Eligibility criteria will be prepared with support from the IPM team. Environmental and social criteria will be designed to help local governments to screen out high risk subprojects at an early stage, based on the outputs of the environmental orientation study (see below). For example subprojects will not be deemed eligible if they likely to: significantly impact on environmentally or culturally sensitive sites; result in inter-basin transfer of water resources; significantly alter

coastal zone morphology and processes; result in large scale land-clearance; use or emit toxic and/or hazardous wastes; or result in large-scale resettlement.

LGIPs will be discussed at the district level through the consultative mechanism facilitated by Joint Secretariats comprising representatives from local government, BRR, and local stakeholders. These discussions will yield a list of candidate subprojects for funding under IRFF based on BRR eligibility criteria. These LGIPs will be submitted by district BRR offices to the BRR/IPM team for approval for IRFF financing. The final list of subprojects will be shared with the Bank for its review and statement of no objection. A similar procedure will be applied at the Provincial level, assisted by a Province level Joint Secretariat.

A further window (or pipeline) will be provided at the Province level for selected 'strategic' subprojects prepared by other donor agencies for funding under IRFF. Some subprojects from Aceh Besar, Banda Aceh and Sabang may also have been 'pre-prepared' by other organizations<sup>40</sup>. Such subprojects will only be considered 'ready' for IRFF funding if required social and environmental screening and review has been completed. It is the responsibility of relevant donor agencies to ensure that social and environmental screening and review is satisfactorily completed.

Local and Provincial Governments, with support of IREP and IRFF consultants will then prepare the selected subprojects for IRFF funding. Environmental and social screening of 'approved' subprojects will be carried out at this point in order to determine if a LARAP, AMDAL or UKL/UPL is required. Screening will be based on completion in advance by local governments of a standard screening format for each subproject, to be developed by the IPM team based on KepMen 308/2005<sup>41</sup>.

Based on this information, the BRR/IPM team will screen each subproject to be funded by IRFF involving: (i) comparison of subproject information against Annex 1 of Decree 308/2005, (ii) assessment of likelihood of impact on sensitive sites, (iii) comparison against World Bank criteria for LARAP. Further information will be requested of the respective local government, as necessary, in order to complete screening. A representative from the relevant local environmental authority will be invited participate in the screening process. Screening results will be formally communicated to the respective local governments, to the relevant local environmental authority and to WBOJ safeguards staff.

**Environmental and social studies.** The IPM team will be responsible for engaging additional and specialist consulting support to prepare all required social and environmental studies (AMDAL, UKL/UPL, and LARAP). The IPM team will award and oversee implementation of an annual renewable contract to a firm(s) with a proven track record in carrying environmental and social assessments to GOI and World Bank standards. While such firms are most likely to be found in Java, they will be encouraged to establish partnerships with local organizations (NGOs and academic institutions) to carry out field research functions. The selected Consultant (or consortium) will carry out environmental and social studies at the request of the IPM team, on the basis of a request for assistance received from respective local governments for subprojects that have been approved for IRFF funding.

It is expected that approximately 10-15% of a total of approximately 80 subprojects prepared under IREP/IRFF will require AMDAL and/or LARAP, and that a further 40-50% will require

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<sup>40</sup> Sogreah is currently providing technical assistance in project preparation for these three districts.

<sup>41</sup> GTZ is providing assistance to Provincial Bapedalda in preparing screening formats in four sub-sectors. The IPM team will assess the validity of these formats.

UKL/UPL and/or abbreviated LARAP. The resulting cost estimation is presented in Table 2, requiring approximately \$1.0 million to cover costs of the studies (not including costs of compensation). Should this figure prove to be insufficient (for example if there should be a significant increase in the volume of funds available in the IRFF), additional resources for studies will be made available as part of the financing to be provided under the IRFF.

**Table 2: Cost estimation for required environmental and social studies (\$ 000)**

Type	Unit cost	Year 1	Year 2	Year 3	Total No.	Total cost
AMDAL	40-50	0	5	3	8	320-400
UKL/UPL	5-7	10	15	15	40	200-280
Full LARAP	10-15	1	5	2	8	80-120
Abbrev. LARAP	5-7	5	20	25	50	250-350
<b>Total</b>		<b>16</b>	<b>45</b>	<b>45</b>	<b>106</b>	<b>850-1,150</b>

The procedures for preparation and completion of AMDALs and UKL/UPLs are set out under Ministerial Decree 308/2005. For AMDALs, a Province or local government 'Tim Teknis' prepares and approves the AMDAL ToRs, consultants carry out the studies and final review and approval is carried out by a Province Level AMDAL Commission. Given acknowledged lack of capacity within local environmental authorities to undertake this workload, the IPM will submit draft AMDAL ToRs directly to the Tim Teknis for approval. The IPM team will negotiate and agree this arrangement with Province Bapedalda in advance.

A basic format for completion of UKL/UPLs is provided in Annex 2 to Decree 308/2005. Completed UKL/UPL forms are submitted to the local environmental authority for review and approval. Where land acquisition and compensation is required, the World Bank's standard approach to the preparation of LARAP will be applied, as further detailed in below.

**Review and approval of studies.** Completed environmental and social studies will be reviewed by safeguards specialists within the geographically located consultant teams (West Coast, Nias, Aceh Besar, Banda Aceh, Sabang, Province) prior to submission to the BRR/IPM team for secondary review and comments. The BRR/IPM team will provide consolidated comments to the consultant for revisions to be made as necessary.

Environmental studies (AMDAL, UKL/UPL) will be submitted for formal approval to the relevant local environmental authority. During the first year of implementation of this TA, this is likely to be the Provincial Bapedalda. With time, the review and approval function may be transferred to local governments in line with existing practices elsewhere in Indonesia, with the exception of province level infrastructure which will continue to be reviewed and approved at province level<sup>42</sup>. The standard practice at present is for local environmental authorities to provide approval/and or comments within 14 days. However, this remains an informal arrangement which will be negotiated between Province Bapedalda and the IPM team during the initial stages of the project. A sample of AMDAL and UKL/UPL will be submitted to the WBOJ for review and approval, at least one for each participating local government. All LARAPs will be submitted to the WBOJ for review and approval, as further detailed in Section E.

Review and final approval of all required environmental and social studies will be a precondition for completion of detailed designs (DDs) and preparation of tender documents (TDs) by local

<sup>42</sup> A capacity assessment of local and provincial governments (to include environmental management capabilities) will be conducted by the end of Year 1.

governments. Local governments will have to demonstrate how social and environmental mitigation has been handled, and when required, integrated into detailed subproject designs and bill of quantities. The BRR/IPM team will review and sign off on all completed DDs and TDs, including further safeguards review to ensure key impacts identified have been adequately addressed. This could include one or a mix of the following: structural measures to be incorporated into detailed engineering design; non-structural measures to be listed in specific conditions of contract; and Standard Operating Procedures for social and impact management integrated into bid documents and contracts. The WBOJ will review a sample of completed DD/TDs, at least one for each participating local government.

**Figure A: Overview of Safeguards Screening and Review procedures (IREP/IRFF)**

<u>SUBPROJECT PREPARATION AND ELIGIBILITY FOR IRFF</u>	<u>ENVIRONMENTAL AND SOCIAL PROCEDURES</u>	<u>FORMAL REVIEW AND APPROVAL REQUIREMENTS</u>
SUB PROJECT ELIGIBILITY	<ul style="list-style-type: none"> <li>Application of criteria to screen out high risk sub-projects</li> </ul>	
PREPARATION OF LOCAL AND PROVINCIAL GOVERNMENT ANNUAL INVESTMENT PLANS		
SELECTION OF SUBPROJECTS FOR IRFF FUNDING	<ul style="list-style-type: none"> <li>Environmental and social screening of selected sub-projects</li> </ul>	<ul style="list-style-type: none"> <li>Local environmental authority engages in screening</li> <li>Screening results sent to local environmental authority and WBOJ</li> </ul>
PREPARATION OF SELECTED SUBPROJECTS	<ul style="list-style-type: none"> <li>Implementation of AMDAL, UKL/UPL and LARAP studies as required</li> </ul>	<ul style="list-style-type: none"> <li>Province Bapedalda reviews and approves UKL/UPLs</li> <li>Province AMDAL Commission reviews and approves AMDALs</li> <li>Local government formally agrees on all LARAPs by letter</li> <li>WBOJ reviews and approves all LARAPs + a sample of AMDALs and UKL/UPLs</li> </ul>
SUBPROJECT APPROVAL	<ul style="list-style-type: none"> <li>Integration of study results into DD/TDs</li> <li>Compensation provided in advance of award of contract</li> </ul>	<ul style="list-style-type: none"> <li>WBOJ reviews a sample of DD/TD packages</li> </ul>
PROCUREMENT AND CONTRACTING OF WORKS		<ul style="list-style-type: none"> <li>Project completes Land Acquisition and Resettlement Monitoring Forms</li> </ul>
CONSTRUCTION SUPERVISION AND SUBPROJECT MANAGEMENT	<ul style="list-style-type: none"> <li>Social and environmental and monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Submission of bi-annual monitoring reports to BRR/IPM and WBOJ</li> </ul>

**Environmental orientation study and overall strategic infrastructure planning.** One of the main objectives of IREP/IRFF is to provide strategic level advice to the BRR on infrastructure planning, focused on immediate reconstruction needs but set within the context of a 5-10 year development horizon. In providing strategic planning advice, the IPM team will be structured according to the existing BRR divisions of: transportation, water and waste, sea defenses and drainage, and spatial planning. The IPM team will review and consolidate existing plans, identify gaps and introduce additional variables as necessary to ensure that infrastructure planning in Aceh and Nias is founded on principles of sustainable development and social inclusion. This will require a significant input from social and environmental advisers to be included in the IPM team.

Accordingly, one of the initial tasks of the IPM team will be to carry out an environmental orientation study based on a pressure/state/response methodology, to determine how infrastructure planning can best take account of key environmental challenges. The paper will identify and characterize key environmental impacts of reconstruction along the West Coast, Aceh Besar, Banda Aceh, Sabang and in Nias, provide generic guidance on suitable mitigation measures and identify how existing environmental guidelines and standards should be revised or added to under IREP/IRFF. The paper will draw on existing Strategic Environmental Assessment work that has been underway in Aceh and Nias since mid 2005. It will be drafted in a 'policy brief' style of no more than 12 pages and will be translated into Bahasa Indonesian.

The paper will be used as a basis for consultations both within BRR and all participating local governments in order to identify key implications for infrastructure planning in terms of: general direction, prioritization, suitability of different types of investments, institutional organization for environmental management, capacity building needs, and resourcing. This process will be completed within the first 6 months of the project feeding into the broader work of the IPM team on strategic infrastructure planning.

**Standards, guidelines and codes of practice.** Implementation of this framework is dependent upon the establishment not only of clear procedures of social and environmental review, but also clear guidance and standards of performance. Some of this material is already available from GOI sources and can be readily adapted, while in other areas there are gaps. Table 3 summarizes the existing status of some of the guidance and standards of environmental and social review that will be required. The IPM team is responsible for establishing systems and procedures for effective implementation of this framework, to be integrated into the PIP.

**Table 3: Required project documentation providing guidelines and standards**

Guidance/standards needed	Status	Required actions
Subproject eligibility criteria (technical, economic, financial, environmental and social) for selection of subprojects for IRFF funding	Not available	IPM team to support BRR in preparing
Standardised environmental screening formats (for 3-4 key infrastructure sub-sectors)	Currently being prepared by GTZ on behalf of Province Bapedalda	IPM team to immediately review status of the preparation of these screening formats and incorporate as appropriate into the PIP
Screening criteria for subprojects requiring AMDAL	Available (KepMen 308/2005)	None
Screening criteria for subprojects requiring UKL/UPL	Not available, but may be developed during course of the TA or replaced by the GTZ supported screening formats	IPM to maintain close contact with Provincial Bapedalda to monitor progress
Standard format for completion of UKL/UPLs	Available (KepMen 308/2005)	None
SOPs for environmental management of infrastructure subprojects	Available for road projects only	IPM team to compile additional SOPs covering other infrastructure sub-sectors
Standard tender documents for infrastructure subprojects	Available	IPM team to integrate SOPs for environmental management into standard tender documents
Field-based environmental monitoring	Not available	IPM team to develop tailored to

protocols for infrastructure subprojects		infrastructure sub-sectors. More detail required for monitoring of AMDALs and UKL/UPL, as opposed to SOPs.
Monitoring Form for Land Acquisition and Resettlement	Available from World Bank Jakarta	None
Format for 3 and 6 month reporting on environmental monitoring results	Not available	IPM team to develop tabular format indicating frequency of monitoring events, problems identified and corrective actions taken
Guidelines on EIA and SEA	Six guidelines produced by the BRR environment Department-	None

#### E. Land Acquisition, Resettlement and Indigenous People Policy Framework

**Principles.** Activities associated with subproject preparation, design and implementation will trigger OP/BP 4.12 on involuntary resettlement. The existence of indigenous minorities in Nias will trigger OP 4.10 for this area. This Framework provides general guidelines in relation to application of these policies. The following provides overriding principles of how land issues will be dealt with:

- **Maximizing community consultation as a mechanism to inform on the market price of assets, clarify land tenure, resolve complaints and minimize resettlement.** The process of reconstruction will apply transparent and participatory procedures to ensure that all eligible and affected persons agree on any option that involves land acquisition and resettlement. In most areas covered by this TA, there are community-driven development mechanisms (for example KDP, UPP structures) in place which will provide valuable inputs into subproject planning, design and consultation. Specifically public consultation will be carried out at the following three points during the preparation and implementation of infrastructure subprojects:
  - during the planning phase of the proposed investments, as a means of minimizing impacts and informing people of their compensation entitlements and options, as well as the grievance redress mechanism – a thorough consultation process has the advantage of minimizing the potential for land speculation problems by providing access to information on benefits to all;
  - following the census of affected people and inventory of assets lost in order to get feedback on preferences regarding compensation options;
  - during implementation of the subproject to assess whether adequate compensation has been provided.

Consultation will be carried out within the context of applicable Bank and GOI standards, such as the Basic Agrarian Law which provides for equal rights between men and women in relation to land tenure.

- **Sensitivity to the local culture and the traditional regulations where appropriate.** Land acquisition and resettlement will take into account relevant local or traditional regulations/laws where appropriate, and this will be reflected during the community consultation processes associated with development of LG annual plans. Where traditional laws and the Bank's policies or GOI laws conflict (for example on the rights of women in relation to land tenure), these will be highlighted during consultations and every effort made to resolve such conflicts through traditional decision making structures.



- **Minimizing adverse impacts on assets.** The BRR will ensure that no real decline in income will take place because of displacement and that all project affected persons will be compensated for their losses at market value or replacement cost, as well as provided with rehabilitation measures to assist them to improve, or at least maintain their pre-disaster living standards and income earning capacity.

**Land Acquisition and Resettlement.** At the appraisal stage of the Infrastructure Reconstruction Enabling Program, it is not possible to identify the intensity of the potential social issues and impacts that may arise as a result of the TA provided. Nor can the project assess the land acquisition and resettlement needed until specific subprojects are put forward for financing. However, in case the need for land acquisition or for involuntary resettlement does occur, the following provisions will apply:

- The local government that needs to acquire land for public good purposes will negotiate with the private landowners, as well as other categories of project affected people (renters, share croppers, squatters). The agreement on the type and level of compensation is made through a participatory and transparent process to be further detailed in the IREP/IRFF PIP, based on existing practices under other World Bank projects. Consultations will need to be thorough and widespread in order to eliminate the tendency towards profiteering from land speculators.
- Agreement between the local government and project affected people will be set out in the LARAP, with clear land plots demarcation, an inventory of the type/quantity of assets to be acquired and the corresponding type and amount of compensation (both if it is in cash or kind, e.g. replacement land), the timing of payment, and the funding sources for the compensation.
- Compensation will be paid by local government for land acquired and assets/income lost as a direct result of reconstruction activities.
- Compensation for land and assets/income will be provided at their replacement or market cost. Existing World Bank practice in Indonesia to refer to databases held by local commercial banks in assessing replacement and market costs, rather than to use independent assessors.
- The process of consultation associated with land acquisition and compensation will ensure that widows and other marginalized/vulnerable groups receive equal treatment, and it will be the responsibility of the geographically located social safeguards staff to ensure that this is the case. The IPM and WBOJ safeguards staff will also review all LARAPs with this issue in mind.
- Where voluntary contribution of land or other assets are indicated, either in the new site or in the existing site where the reconstruction works will be located, there will be documentation of proof of ownership and a clear agreement between the contributors and the recipients, including the names, land plots with clear demarcation, and the details of the terms of the contributions. The usage of the contributed land will be defined through community consultation and be made transparent to the community. Land donation is acceptable only if: a) the land donator gets direct benefit from the project/subproject and they are not poor people; b) project affected peoples have been informed clearly their right on compensation based on market price and they still willing to donate without any pressure. BRR and the Bank should ensure that there is no pressure or intimidation on the project affected peoples in the process of land donation.
- If the local government acquires land from private landowners through cash compensation or other compensation scheme, it will be paid/provided prior to the implementation of works.

- Local Governments are required to demonstrate that sufficient funds have been allocated in their DIPAs to cover costs of compensation before any proposed investments can be considered for funding. *The effect of this requirement may be that subprojects for which financial compensation is necessary cannot be prepared and financed within the same budget year.*
- Other means of obtaining land, which would not trigger OP 4.12 but for which documentation would still be required to be reviewed by the project, include willing-seller-willing-buyer situations, donation of community land and use of vacant government land.

Any reconstruction activities involving involuntary resettlement or land acquisition of more than 40 households or 200 persons will only be approved after preparation by the respective local government of a full Land Acquisition and Resettlement Action Plan (LARAP) acceptable to the World Bank. Several issues are likely to increase the complexity of land acquisition – the availability of reliable land records, the inability of people to document ownership, the demise of occupants and subsequent uncertainty about transfers of title.

LARAPs will spell out measures to implement the principles of compensation and livelihood restoration for any Project Affected Person (PAP). This includes any person who, on account of the execution of a subproject, has experienced or would experience direct economic and social impacts caused by the involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location, resulting in adverse impacts on the livelihood of such person. The format of the full LARAP will contain:

- description of proposed subproject activities that require land (together with alternative means used to acquire this land);
- a census of persons affected/displaced by involuntary land acquisition including an inventory of lost assets;
- valuation of land to be acquired and lost assets
- detailed description of the compensation and other resettlement assistance to be provided;
- description of consultations held with persons affected about alternatives for compensation and other related assistance;
- institutional responsibilities for implementation and procedures for grievance redress;
- arrangements for monitoring and implementation;
- time schedule for the implementation and budget;
- clear written agreement between the government and project affected people on extent, type and timing of compensation to be provided.

Any reconstruction activities involving involuntary resettlement or land acquisition of less than 40 households or 200 persons will only be approved after preparation by the respective local government of an abbreviated LARAP acceptable to the World Bank<sup>43</sup>. The abbreviated LARAP contains the same essential information as a full LARAP but requires a less detailed survey of project affected people.

Consultants engaged by the IPM team will carry out the LARAPs on behalf of respective local governments who will be responsible for mediating consultations on land acquisition and compensation, supported by safeguards specialists located within the geographically located

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<sup>43</sup> Based on an initial review of 3-5 abbreviated LARAPs, the WBOJ may decide to transfer authority for review and approval to the IPM team.

consultant teams. The conclusions and implications of LARAPs must be agreed with respective local governments in advance of submission to the IPM and World Bank Office (Jakarta) for review and approval.

**Indigenous Peoples' Framework.** In view of the existence of distinct indigenous communities on Nias, an Indigenous Peoples' Planning framework is required, based on World Bank Operational Policy 4.10 – as further elaborated in Annex 9a. The basic approach to be taken will entail ensuring that the views of Nias based indigenous people are meaningfully reflected in the preparation and implementation of reconstruction subprojects in their areas. This will require consultation measures to be tailored to their specific socio-cultural setting, involving identification and use of appropriate means of communication and use of vernacular language. Complaints and grievance procedures will need to be adapted to ensure that affected people are able to effectively exercise their rights. During the initial stages of TA implementation, a workshop will be held in Gunung Sitoli to discuss infrastructure reconstruction needs and implications for local NGOs, indigenous leaders and representatives from the local museum of ethnography. A repeated annual workshop will be held thereafter as a basis for identifying and responding to concerns.

#### **F. Consultation and Disclosure**

This environmental and safeguards framework has been discussed with BRR and other relevant authorities at the provincial and local government levels. The BRR will disclose this framework in NAD Province and Nias. The IDA will ensure that the framework is published in Infoshop and the IDA Indonesia Public Information Center. The framework will be available also on the E-Aceh website (<http://www.e-aceh.org>). All LARAPs and full environmental assessments (AMDAL) will be made available in Indonesian language on the e-aceh website, with English language versions published in Infoshop.

The preparation of local and provincial government Annual Investment Plans for infrastructure will be carried out in a participatory and transparent manner. All subprojects involving significant levels of re-design above and beyond simple replacement of infrastructure will be supported by community consultations to take account of project-affected people. The principles mechanisms for ensuring an appropriate level of community consultation are embedded in GOI procedures for AMDAL and World Bank requirements for LARAP.

For example, the processes of acquiring land by the local government will involve consultation with all landowners (private and public), facilitated by the geographically based consultant support teams. The resulting agreements including maps of the land plots and owners will be disclosed to the public by local Dinas PU. The consultation process and the results agreed by the community members will be made available to the public through websites, meetings, newsletter, public postings, and other means.

In relation to AMDAL, local environmental organizations and representatives of community groups participate in the formal process of AMDAL review through the Province AMDAL Commission and, where available, district level AMDAL Commissions. Formal review is carried out at the ToR stage and at Draft Final report stage. The Project will ensure that AMDAL commission meetings have the required local community representation and will provide facilitation/coordination to this effect, including necessary briefings in advance so that local community representation at such meetings is meaningful.

## **G. Mechanisms for Complaints and Grievance Redressal**

Each member of the community has the right to file complaints should there be any concerns that remain unsolved during community consultations. Complaints can be conveyed in the form of written documents, in person, through e-mail, media, etc. Complaints can be addressed to the office of the Bupati and/or Dinas PU. In consultation with Dinas PU, the geographically based consultant teams will respond to the complaints within a specific period of time. Unresolved complaints at the city/district level will be brought to the existing Complaints Handling Unit at the BRR. All complaints and responses will be documented at the respective LG and/or province level specifying: (i) type of grievance; (ii) date of complaint; (iii) status of complaint (pending or resolved); and (iv) level at which the complaint was resolved/by whom. Operational elements of the complaints handling mechanism are further elaborated in Annex 11 (Anti-corruption Action Plan) and in the PIP.

## **H. Monitoring and Evaluation**

**Environmental monitoring.** Implementation of EMPs and SOPs is the responsibility of contractors, as set out in bid and contract documents. Field-based environmental monitoring of SOPs to ensure contractor compliance is the primary responsibility of the supervising engineer assigned for each subproject by the relevant Dinas PU. Additional support and spot-checking will be carried by the safeguards specialists assigned to the geographically based consultant teams funded under IREP/IRFF, in coordination with local environmental authorities.

Field based environmental monitoring of EMPs associated with UKL/UPL and AMDALs is the primary responsibility of local environmental authorities. As current capacity to fulfill these tasks is extremely low, monitoring will be carried out by safeguards staff assigned to the geographically based supervision teams. However special attention will be given to ensuring that local environmental authorities are able participate. For example, the geographically based safeguards specialists will coordinate their monitoring missions closely with local environmental authorities ensuring that adequate transportation is available.

The IPM team will develop a monitoring and reporting system, to be further detailed in the PIP. This will include field based environmental monitoring protocols tailored to subproject type, a budget for the purchase of monitoring equipment and usables, and clear procedures for dealing with non-compliances. One of the initial tasks to be carried out by the IPM environmental specialist will be to develop the monitoring protocols, and provide related training to Dinas PU supervising engineers, local environmental authorities and the geographically based consultants.

The results of environmental monitoring will be collated on a three monthly basis by geographically based safeguards staff and submitted to the IPM team on a biannual basis. Significant non-compliances will be noted in these reports, whether issues raised have been resolved and what corrective actions were taken. Six monthly monitoring reports will be submitted by the BRR to the WBOJ as an input to supervision missions.

Routine IDA supervision missions will assess the overall implementation of the framework and, if required, recommend additional support.

**Social monitoring.** Monitoring and evaluation will be done to ensure that the social issues and impacts have been addressed properly and in a participatory, fair, and transparent manner, in particular where land acquisition, compensation and resettlement processes take place. The geographically based social safeguards staff will carry out data/information collection to monitor

the progress and impacts, consolidate this information, advise on necessary follow up actions, and provide status reports to the BRR/IPM team. Reporting on compensation received and resettlement assistance provided in required in advance of construction. The Bank applies a standard format for reporting on compensation for its subprojects, as further detailed in the PIP. Additional independent social monitoring focusing on implementation of LARAPs will be carried out by the BRR/IPM on a spot checking basis. A suitable local academic institution or NGOs will be engaged for this work, based on ToRs to be drafted by the IPM team.

## I. Responsibilities, Capacity Building and Indicative Budget

Under the overall coordination by the BRR, each project implementing entity at the province and local government level is expected to take responsibility in ensuring that this framework is supported. The key tasks, responsibilities, related management actions required in supporting the framework are listed in the following table.

Tasks	Responsibility	Required actions
Detailed social and environmental management procedures for integration into the PIP	IPM safeguards specialists	A detailed set of procedures for screening, review, approval, monitoring and reporting will be developed within the first three months of the project, for discussion with local governments, and BRR approval. The procedures will be based on this safeguards annex.
Development of training modules and materials, required standards and guidelines	IPM safeguards specialists	Training materials prepared in Indonesian for joint social and environmental training in three modules including: <ul style="list-style-type: none"> <li>• General introduction to the safeguards framework (3 days)</li> <li>• Specialist training for project staff (2 days)</li> <li>• Specialist training for contractors (2 days)</li> </ul> Guidelines and formats for screening (including basic information required when local governments submit their Annual Investment Plans), review, monitoring and reporting.
General environmental and social safeguards orientation training for Project staff, and key local government counterparts (Bappeda, PU and Bapedalda)	IPM safeguards specialists and geographically based safeguards specialists	Delivery of 3x3-day training events to be held in Banda Aceh, Meulaboh and Nias. Approximately 50 people attending each event.
Specialist environmental and social training in screening, review and supervision procedures, for project staff and field supervision engineers	Geographically based safeguards specialists	Year 1 delivery of 3x2-day training events to be held in Banda Aceh, Meulaboh and Nias. Approximately 100 people attending each event Year 2 delivery 1 or 2 training events for newly recruiting staff.
Specialist environmental and social training for	Geographically based safeguards specialists	Rolling training program to be provided for all contractors. Contractors to be

contractors focusing on implementation of EMPs, LARAPs and SOPs		issued with a certificate for renewal every 3 years.
Specialist training for consultants engaged in carrying out LARAPs	IPM social safeguards specialist with support from WBOJ	All local consultants carrying out LARAPs will require 3 day training in World Bank procedures for land acquisition and resettlement.
Orientation paper on environmental issues and strategic infrastructure planning	IPM environmental safeguards specialist	Study will be completed within the first 6 months of effectiveness of this TA.
Safeguards screening	IPM safeguards specialists, in consultation with local environmental authorities	3 step screening process applied to all subprojects approved for funding by BRR/IPM team
Commission environmental and social studies (AMDAL, UKL/UPL, LARAP) as necessary, including drafting of ToRs	IPM safeguards specialists on basis of formal requests from respective local governments. Geographically based safeguards specialists draft TORs, reviewed by IPM. LARAP ToRs to be additionally reviewed by WBOJ	The Infrastructure Reconstruction Financing Facility (IRFF) is expected to fund approximately US\$250-300 million for a total of 60-80 individual subprojects. 10-15% are of these subprojects are expected to require full EA and/or full LARAP. 40-50% of subprojects are expected to require UKL/UPL or abbreviated LARAP.
Review and approval of AMDAL and UKL/UPL	Local environmental authority (Province level during Year 1) WBOJ to review at least one from each participating local government.	Formal review and approval of ToRs and draft AMDAL by Provincial AMDAL Commission Formal review and approval of UKL/UPL by local environmental authority
Review and approval of LARAPs	WBOJ, with prior-review and acceptance by respective local governments	Geographically based social safeguards consultants to ensure study conclusions are agreed with local governments, prior to submission of draft reports to WBOJ for approval, via IPM team.
Provide compensation for land acquisition and lost assets/livelihoods	Local Governments	Form and rate of compensation to be negotiated with Project Affected People by Local Government with assistance from geographically based social safeguards staff. Compensation delivered in full by LG, prior to award of contract.
Monitoring and reporting	For SOPs, field based supervising engineers supported by geographically based safeguard specialists	Supervising engineers complete field protocols Monitoring data compiled by local safeguards specialists into 3 monthly reports for IPM team/WBOJ
	For AMDAL and UKL/UPL, local environmental authorities supported by geographically based safeguard specialists	Geographically based safeguards consultants will carry out routine inspections with a focus on subprojects requiring AMDAL in coordination with local environmental authorities.

	For LARAPs, geographically based safeguard specialists, and via independent organizations	Individual reports submitted to IPM team and WBOJ, as necessary, for each subproject
	For Isolated Vulnerable people, geographically based safeguards specialists	For Nias only. Individual reports submitted to IPM team and WBOJ as necessary.

The main capacity needs and related budget items required to support implementation of this framework are provided in the following table.

Item	Needs	Indicative budget under IREP	Additional budget required under IRFF
Environmental and social safeguards support to the IPM (also covering province level infrastructure investments)	1 Senior (international) Environmental Specialist 1 Senior Social Specialist	18 months, including 12 months continuous during year 1. 24 months, including 12 months continuous during year 1.	None
	Facility to hire consultants for social and environmental studies	Initial US\$1million in funds to cover costs of environmental and social studies. Additional resources to be made available as necessary via the IRFF.	As necessary from IRFF
Environmental and social safeguards support to the Nias TA Team	1 safeguards specialist (social and environmental)	36 man-months	None
Environmental and social safeguards support to the West Coast TA Team	2 environmental specialists 2 social specialists	50 man-months (total) 50 man-months (total)	None
Environmental and social safeguards support to the Province level TA Team	1 environmental specialist	-	18 months, including 12 months continuous during year 1
	1 social specialist	-	18 months, including 12 months continuous during year 1
Environmental and social safeguards support to the Aceh Besar, Banda Aceh, and Sabang TA Team	1 safeguards specialist (social and environmental)	-	36 man-months
Environmental and social safeguards training	Development and delivery of modules to be prepared by IPM safeguards specialists	No additional cost	None

	Training budget required for an estimated 15 training events over the course of the TA	US\$7,000 per training event to cover costs of travel, accommodation for participations, room hire, consumables)	None
Capacity building for local environmental offices	1 environmental specialist to be provided to Provincial Bapedalda to assist with routine subproject screening and review functions.	Full time (36 months) at local government fee rates for a mid to senior level official	Potentially to be funded by BRR
Monitoring and reporting	Travel costs	US\$25,000 to be allocated to each of the following contracts – IPM, West Coast, Nias (Province level to be covered under IPM contract)	Additional \$25,000 to cover Aceh Besar, Banda Aceh and Sabang.



## **ANNEX 8A - INDIGENOUS PEOPLES PLANNING FRAMEWORK FOR TREATMENT OF INDIGENOUS OR ISOLATED VULNERABLE PEOPLE**

### **A. Objectives**

The design of this project is structured to ensure the participation and inclusion of various groups within communities in local level decision making over resource allocation. However, the project recognizes that Indigenous Peoples from a particular group that merit a different approach and specific support. Therefore, in accordance with OP4.10, the following framework for addressing indigenous people will be adopted for the project.

The Objectives of this framework are to:

- (i) Ensure that indigenous peoples are involved in free and informed consultation on planned project activities;
- (ii) Ensure that indigenous peoples participate in and benefit from the project; and
- (iii) Avoid or minimize potentially adverse effects of the project on indigenous people.

### **B. Definition**

“Isolated vulnerable peoples” (IVP) is the term used officially by the Indonesian Government to describe groups that have the characteristics of “indigenous peoples” as used in OP 4.10. This document will hereafter use the term “isolated vulnerable people”.

For the purposes of this project, isolated vulnerable peoples are defined as those that present varying degrees of the following characteristics:

- (iv) a close attachment to ancestral territories and to the natural resources in these areas;
- (v) self-identification and identification by others as members of a distinct cultural group;
- (vi) an indigenous language different from the common regional language (e.g. Javanese);
- (vii) the presence of customary social and political institutions; and
- (viii) primarily subsistence-oriented production.

### **C. Framework**

The IVP will be the beneficiaries of the project/subproject and no projects/subprojects with adverse impact to the IVP will be approved, including involuntary land acquisition affecting 200 or more people.

Isolated vulnerable peoples are not prevalent in all the project sites –they are only found in the islands of Nias and not in the Province of Aceh. The following steps will be taken to ensure that, where isolated vulnerable groups do exist, the project caters to their specific needs.

- (i) For the areas where isolated vulnerable groups are identified (parts of Nias), social safeguards specialists will organize orientation training for relevant staff within the local administration (Bappeda, Dinas PU and Bapedalda) in how to work with isolated vulnerable groups in a useful way to identify mechanisms for effective participation, and address specific challenges in working with such

- groups, for example, how to deal with groups that may be in conflict with the larger community, etc.
- (ii) Opportunities will be provided for IVPs to be consulted independently, out of the non-IVP group in a language/dialect familiar to them
  - (iii) Appropriate media and means of communication will be identified and applied, potentially different from consultations processes applied in non-IVP areas
  - (iv) Where the isolated vulnerable group speaks a language different from Bahasa Indonesia, relevant brochures and documents will be translated in the appropriate language.

These steps will be aimed at ensuring that isolated vulnerable peoples participate fully in the project, are aware of their rights and responsibilities, and are able to voice their needs during the participatory planning process.

#### **D. Monitoring and Grievance Procedures**

Where isolated vulnerable peoples are identified, the safeguards specialists within the geographically located TA teams will be required to report on their participation in the project, both to the IPM and to the World Bank.

The project has a complaint system that allows community members to raise issues or complaints at various levels- at the community level (through community leaders), at the district level (through the respective Dinas PU), and at the BRR level (through the Complaints Handling Unit). Where isolated vulnerable people are concerned, the relevant safeguard specialists will ensure that grievance redress mechanisms are developed in culturally appropriate ways in close collaboration with the relevant group.

Project evaluation studies will include monitoring and evaluation of the impact of the project on isolated vulnerable people.

The IVP-NGO will be part of the monitoring team and involve in facilitating the participatory planning process in the program.

## **ANNEX 8B – FRAMEWORK FOR MAINSTREAMING GENDER IN INFRASTRUCTURE**

### **A. Background**

For the tsunami survivors, the impacts have been disproportionately borne by women and children. There is evidence in Aceh of an increase in violence against women, early marriages of girls, decline in the quality of health care and limited access to financial resources and ownership of assets such as land and housing<sup>44</sup>. Events of this scale weaken the status of women and girls and their ability to negotiate both within and outside the family. The loss of productive assets, homes, and family members all contribute to increased gender inequality. In addition women's access to rehabilitation and reconstruction resources are constrained, as those efforts often rely on existing structures of resource distribution that reflect the local patriarchal structure<sup>45</sup>. Attempts to address gender and women's concerns during relief and reconstruction have been fragmented, and the impacts modest.

### **B. GoI and BRR Mandates on Gender Equality**

The 1945 constitution outlines the Government of Indonesia's commitment to the principle of equality which guarantees equal rights between men and women in education, health, economy, and political participation. Indonesia has also ratified several international conventions including the Convention on the Elimination of the all forms of Discrimination Against Women. This commitment has been complemented by the issuance of Presidential instruction on gender mainstreaming strategy {Instruksi President (INPRES)} No. 9/2000}, which is accompanied by "Guidelines for Gender Mainstreaming in National Development". This legal framework outlines that all heads of government institutions at the national and sub-national levels are responsible for applying the gender mainstreaming strategies.

The BRR gender policy was developed in 2006, recognizing the need to identify effective ways to integrate gender-responsive actions into the development and reconstruction process with donors, and throughout all levels of government. The policy was accompanied by sector strategies to mainstream gender perspectives into the formulation, planning, and implementation throughout the BRR's sectors – including housing, infrastructure, economic development, health, education, women's empowerment, social & religious, and institutional development. The gender policy and sectoral strategy was signed by the BRR's Executive Director and will be effective in September 2006.

### **C. Mainstreaming Gender & Infrastructure**

To date, infrastructure reconstruction projects have been implemented in a top-down process, focused more on technical targets than attention to gender considerations or wider social factors. There is increasing awareness within the BRR on the urgency of improving delivery of gender sensitive infrastructure services for the community, as women and men have different priorities and needs. As the primary users, women are affected the most by water and sanitation investments – where design, tariffs, and access can have either positive or negative impacts on

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<sup>44</sup> A report on documented findings on the status of women IDPS' human rights in Aceh, Indonesian National Commission on Violence against Women (Komnas Perempuan), April 2006. "Sexual violence accounts for nearly 74% of all the cases of violence toward women IDPs in Aceh-41% of which occurred in family domain. In the public domain, 41% of the perpetrators were not known to the victims. The group most vulnerable to sexual attacks were found to be young women aged between 18-25 (53% of case)".

<sup>45</sup> Tsunami's Women Survivors Demand Greater Role in Recovery and Reconstruction Efforts. Aceh, Asia Pacific Forum on Women, Law and Development, 2006.

health. The impacts of road investments can open opportunities to women through new markets and decreased travel times, but have potential to increase risks to exposure to HIV.

Addressing these concerns, IREP/IRFF is structured to ensure equal representation and increased participation of women and men in decision-making regarding provision of infrastructure services and resource allocation. The project recognizes this goal cannot be achieved unless efforts are made to identify gender-differentiated preferences, roles, responsibilities and needs on patterns of usage of infrastructure. A review of criteria applied in prioritizing design and implementing infrastructure provision, development of framework and outreach plan under IREP/IRFF, will assist in identifying areas of gender bias, and will underline the need to ensure that sectors are defined in ways which take account of women (as well as men's) needs and priorities.

The extent to which gender issues are integrated into the project varies depending on the nature of the service. Consultation will be held to ensure that women are given a strong voice in choices to be made over location and design, as well as the relative prioritization of sub-projects.

#### **D. Objectives of the gender Framework**

- Ensure women and men's equal access, presence and influence in consultation process of sub-project activities.
- Ensure that the project design and implementation plans are responsive to local community' needs, by differentiating, prioritizing and addressing those needs on the basis of gender.
- Avoid and minimise potential adverse effect of the project (spread of HIV/Aids, contract marriage, land rights, imbalance in gender role on local community (women and men, boys and girls).

**Approach.** The demand of gender-sensitive approaches in this project focuses on core interlinked aspect of infrastructure provision:

- Access and appropriateness
- Sustainability and effectiveness

#### **E. Implementation Framework**

It will be the responsibility of the IPM and PDCS TA teams to assist BRR to develop relevant procedures, guidelines and checklists to ensure mainstreaming of gender into the IREP/IRFF project cycles. In this process BRR gender advisor will consult closely with IPM consultants, while local expertise will be mobilized under IREP/IRFF IPM to be positioned at district level.

**Eligibility criteria & Prioritization.** Under the IREP/IRFF project cycle management, all subprojects are required to be selected according to BRR eligibility criteria. In this case, IPM team will assist BRR in formulation of gender review/criteria guidelines. Such guidelines will be disseminated to local government and BRR regional offices through PDCS teams in the field. This will help local governments identify the potential social impacts of the sub-projects and address entry points at the start of the project. The IPM team (with support from the BRR Women's Empowerment Unit (WEU) will develop an outreach plan (including mapping of civil society organization active in the field of gender, to be provided by the BRR WEU) to ensure representation and participation of women in the process of selection and priority list of multi-year investment plans. Draft LGIPs and PGIPs are required to be discussed with civil society

organizations<sup>46</sup> through consultative mechanisms by PDCS TA. Consultative mechanisms might consist of community forums, sex-segregated meeting, media campaigns etc.

**Review and Approval.** PDCS team and gender focal points will be responsible to present the outcomes of civil society organization's recommendations and related gender concerns of LGIPs and PGIPs to the joint secretariat for further consideration. The final list of subprojects will be then shared with the BRR WEU.

**Design & construction supervision.** The IPM team is responsible to engage gender expertise to develop sectoral guidelines for integrating gender concerns into implementation phase including design and construction supervision. Guidelines will include practical checklists on gender by major infrastructure sectors. The guidelines will be approved jointly by BRR Infrastructure Unit, with guidance from the BRR WEU. The PDCS team is responsible to ensure all subprojects comply with IPM gender sectoral guidelines. The PDCS team is responsible for implementation of the outreach plan developed by IPM TA.

The BRR WEU in coordination with relevant stakeholders will design and implement gender – infrastructure risk reduction program to minimize the risks are associated with construction implementation. The program will include reproductive health and HIV/Aids campaign, livelihood, community awareness-raising on contract marriage, early marriage, trafficking and awareness raising on women's rights on land and implication of land acquisition. PDCS team will coordinate with relevant stakeholders at the field to complement and help support BRR WEU risk reduction program.

**Monitoring and Evaluation.** IPM consultants, with the assistance of the BRR WEU, will be responsible for developing a gender sensitive monitoring and reporting system for the project. Appropriateness and gender responsiveness of the project will be measured and evaluated against performance indicators created by the BRR WEU and IPM team.

Gender report will be incorporated in IREF project reporting schedule (quarterly& annually). The PDCS team is responsible to report on gender impacts in their quarterly reports. Gender impacts will be reported in the quarterly and annual reports of the IPM and PDCS consultants.

**Capacity Building.** IPM team is responsible to organize training on gender, general guidelines and sectoral guidelines to train PDCS consultants. This can be integrated in overall training that PDCS consultant are required to receive.

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<sup>46</sup> According to Asia-Pacific Forum, "more than 70%<sup>46</sup> of the local civil organizations working in the affected areas are women's groups or groups mostly staffed by women". 36 women organizations also have been identified by BRR as leading agencies in the field of gender with expertise in different sectors. Saying that there are limited experiences on implication of gender into infrastructure projects and engagement of women organizations in this field.

## ANNEX 9. ANTI-CORRUPTION ACTION PLAN

### A. Introduction

This Anti-Corruption Action Plan has been prepared for the Infrastructure Reconstruction Financing Facility (IRFF). It depends on strong support from the BRR through its PMU and also on the support of BRR's Anti-Corruption Unit (*Satuan Anti-Korupsi*, or SAK). A small Ethics Team will be established within the BRR, as advisors to the PMU. This Ethics Team would work closely with the IPM consultants, hired under the MDF, providing timely and advice to the PMU on issues **such as**:

- Adapting and adopting procedures acceptable to the MDF and the government for hiring and managing consultants and contractors;
- Ensuring that parliament and civil society groups are properly informed and engaged within an appropriate "third-party" monitoring system.

The Ethics Team should include representatives from the SAK and from the Internal Audit unit of BRR. It would greatly benefit from having access to a fulltime **Advisor** on operational aspects, including the MDF and government disbursement, procurement and financial management guidelines.

It is important that the plan is "operationalized" and therefore all Manuals and training materials related to the project should reflect the aspects of the ACAP that are relevant to their subjects.

To ensure success, it is vital that sufficient funds are made available for the activities outlined in this plan. Most of these activities are already mainstreamed as procedures under financial management, procurement and monitoring, but some aspects such as information dissemination and complaint handling may require a small additional budget. This will not be a significant restraint, but it is very important that budgets are MADE available as needed for this investment phase.

### B. Systems Needed to Protect the IRFF from Corruption.

Three somewhat parallel systems are needed to help ensure that the IRFF construction phase of the program is protected:

First, the program needs a sound contract management structure. This is reliant on the BRR being able to engage staff with high capacity and integrity from local government to act on its behalf. The BRR itself voices concern that it may be difficult to find people with the required dedication, skills and experience. In areas where management and technical support are inherently weak there will be a need to strengthen through provision of BRR staff and/or consultants.

Second, it requires a sound routine supervision and monitoring structure, launched out of the BRR's base in Aceh. It is hoped that the provision of the IPM will help to provide this. This part of the system is to ensure that no location operates in isolation without effective management supervision. Aside from observing the processes at each location, this input should also ensure cross-fertilization of best practice examples between locations. Both routine monitoring and spot-checks are crucial, as are the linkages to BRR's established complaint handling system.

Third, it requires objective auditing and oversight. This third leg seems to be particularly weak. The internal auditor of the BRR is currently tasked with auditing a wide array of different activities, covering a large geographic area with a small number of personnel. At the same time it does not seem to be reasonable to build up capacity for this temporary unit very much. The alternatives, such as the local government Bawasda are also known to be weak. For this reason, it is proposed that external audit resources be strengthened and linked back to the BRR HQ, particularly the BRR's internal auditors and ensure that case referral involves the SAK.

### **C. The Six Elements of the IRFF Anti Corruption Action Plan**

The following notes look at the project from the perspective of the six key elements that have been identified by the World Bank's ACI as being essential to preventing corruption, namely:

- Enhanced Disclosure of Information
- Civil Society Oversight
- Protection from Collusion
- Protection from Forgery and Fraud
- Complaint Handling System
- Remedies and Sanctions

In addition, at the request of the BRR itself, there is a short section on the involvement of local parliaments.

#### **Enhanced Disclosure of Information**

With advice from the SAK and from the project-related Ethics Team, the IPM must design a simple but effective system that uses different mechanisms for sharing public information (e.g.: posting full audit and progress reports on the project internet websites; sending summary reports on a monthly basis to the press and civil society forums; having full documents available in public information centers, etc).

The BRR already has quite a comprehensive website ([www.e-aceh-nias.org](http://www.e-aceh-nias.org)), which is a user-friendly, open portal to a lot of useful information. This can be a major vehicle for the dissemination of information related to the IRFF. Linked to the BRR are two main development-related newsletters: Seumangat and Ceureumen. Both of these would be ideal as conduits of IRFF information to civil society groups.

The project will hold routine public forums called Public Accountability Meetings. These meetings, hosted by the local government, will be open to the public and provide an opportunity for civil society to hear about the project from related contractors and consultants in person. Each level of the project will hold such meetings before construction takes place (e.g. a public launch), during construction (e.g. progress reporting) and on completion. The aim is for the people implementing the project to explain progress to date and plans for the period to come.

The PMU must further ensure that all consultant and contractor packages promote effective transparency. For example, all subproject sites must have information boards, the standards for which must be established by the BRR with advice from the IPM and the BRR's Ethics Team.

The PMU must also ensure that sufficient resources are available for disclosure measures and that these are reflected in the TORs/contracts for the subprojects.

### **Civil Society Oversight**

To broaden informal oversight coverage and further reduce the problems related to misinformation, the PMU will ensure that “socialization” of civil society oversight begins as soon as possible, so that civil society becomes aware of any forthcoming bidding and so that local governments can see that BRR fosters coordination with key external groups, such as the local parliament and higher education institutions, both of which should be encouraged to send representatives to witness the procurement process and comment on progress.

As mentioned above, the project (supported by the IPM and other design consultants) must hold Accountability Meetings, where civil society groups can hear about the project, including information on contracts and progress. These meetings should allow participants to pose questions concerning, *inter alia*: timing, finance and quality issues. The IPM should help BRR to organize these meetings and ensure that a wide range of actors are invited.

Methods for ensuring the effective inclusion of members from civil society and parliament in the bidding committees and monitoring of implementation must be discussed and agreed. This becomes increasingly difficult as the contracts themselves are to be implemented in several dissimilar districts over Aceh and Nias: “Local” groups need to be involved appropriately without this becoming an undue burden on the project. Plans for achieving effective third-party monitoring of procurement and implementation must therefore be defined by the BRR with assistance from the IPM and the Ethics Team. Some flexibility to these plans will be needed in order for them to be appropriate in the various locations. The minimum goal will be that local civil society groups are aware of the project and understand that they have a right to observe implementation.

All consultant/contractor contracts must include clauses that ensure disclosure of information and the inclusion of the firm concerned in Accountability Meetings at the appropriate level.

### **Protection from Collusion**

Special attention must be given to the planning and preparation of procurement processes, as this may entail very different package types and sizes, different levels of responsibility (e.g. shared between BRR and local governments), and different local capacities in terms of process management and oversight (internal and external). The preparation of materials and schedules must reflect the reality of each situation, including special measures to protect against collusion as necessary for each subproject type and area. For example, it could be that some areas or subproject types may only require some basic briefing materials for third-party observers to monitor procurement whilst for other areas special observers may have to be brought from Banda Aceh or from elsewhere.

Sensitive but practical systems need to be designed and put in place to allow appropriate collusion mitigation for each contract type. The Ethics Team and the SAK should be fully consulted concerning the methods to be used for each location. At a minimum, the measures outlined in the procurement and financial management sections of the PIP must be closely followed at each stage and any deviation from the agreed rules must be carefully investigated with appropriate sanctions strictly applied.



## **Protection from Forgery and Fraud**

These measures will include strict payment validation procedures that will be rigorously enforced. Project filing/bookkeeping will be tightly controlled and subject to strict reviews. Internal and external audits will be held to ensure that fiduciary management is in accordance with the agreed procedures. Special attention will be given to aspects that have proven vulnerable in previous projects, such as “soft” categories like information dissemination. Internal audits will be carried out by the BRR, and external audits by the Supreme Audit Board (BPK), which may outsource the task to a professional audit company acceptable to the Bank. It is understood that the capacity of the BRRs internal auditor is low, and so the focus will be on external audits, including a reasonable sample of interim performance and financial audits.

The IPM consultants hired under the first phase of the program will be tasked with assisting the BRR in supervisory work, including routine and *ad hoc* reviews of other contracts, etc. As with the previous section, it is necessary to stress that the measures outlined in the procurement and financial management sections of the PIP must be closely followed at each stage and any deviation from the agreed rules must be carefully investigated with appropriate sanctions strictly applied.

## **Complaint Handling System**

A sufficiently independent and credible system is already available within the BRR that feeds into the SAK. The PMU will make full use of this system throughout the life of the program. This will form the backbone of the complaint handling system for the program. If the number or severity of the complaints becomes too extreme for the unit to handle then this may require strengthening, but at the present time this is thought to be unlikely. Routine assessments should be made by the IPM to ensure that there are no immediate needs for strengthening the complaint handling system.

The overall approach of the project is to support the SAK as an independent unit within the BRR, to carry out most anti-corruption activities for IREP/IRFF. To enhance SAK’s capacity, the IPM consultants have staff to support the SAK. However, SAK will continue to report directly to the BRR, and not the PMU, to maintain the integrity of the unit.

## **Remedies and Sanctions**

This is a high risk project in a high risk environment, so there are likely to be several cases of abuse found during the implementation phase. The BRR will follow up on each case appropriately, taking into consideration the size and nature of the case as well as the level of evidence available. The PMU will ensure that proven cases of corruption get high publicity so that they will act as a social (“name and shame”) deterrent. Depending on the case, sanctions may be imposed by on individual offenders, companies or other entities.

A step-by-step process for sanctions will be devised by the IPM with advice from the Ethics Team. This process must be agreed and incorporated into related manuals/contracts prior to the start of any major works procurement.

The follow up to cases found in audit or through other channels, such as the complaint handling system, must be to launch some form of investigation. The current strategy of the BRR is to carry out pre-investigations aimed at creating case files. These case files should provide enough “meat” for the relevant legal agency to then follow up with a proper forensic investigation. In some cases

the next stage might be handled by the Corruption Eradication Commission (KPK), in others perhaps by the attorney general or the police.

Clearer BRR sanctioning steps need to be established and widely disseminated to firms and local officials. In relation to firms it is essential that sanctions such as fines and debarment be laid down prior to contracts being issued, so that the companies understand and agree to the BRR's rules. Similarly, it is currently unclear how BRR can sanction the staff seconded from local government in bidding committees, Satker and so on. Such rules need to be simple, fair and strictly adhered to. At the present time there is still a need to prove that BRR can take effective action against such offenders.

The project design should build in some awareness-raising functions targeted at the contractors (esp. for small contracts) so that they fully understand the rules and the sanctions that will be applied in relation to these specific works – e.g. ensure that they know that this will not be “business as usual” and that automatic investigations will be launched whenever serious suspicions of corruption arise. The IPM and the Ethics Team will prepare materials for this on behalf of the BRR.

The BRR needs to ensure that there will be a mechanism whereby disbursements will cease to flow to offending units or subprojects until corruption cases are appropriately dealt with. Depending on the case, this might be at the level of individual contracts, or entire administrative units (e.g. districts). Again, a clear, step-by-step process must be followed.

### **Effective Involvement of the Local Parliament**

The PMU will ensure that the local parliament (DPRD) is actively involved from the beginning by insisting that they are properly involved in the strategic planning stage. It will also invite representatives from the relevant commission to observe the procurement process on the condition that conflict of interests is avoided. Later on, the PMU will ensure that DPRD are invited through the relevant commission to all Accountability Meetings. All of these activities will require planning inputs from the Ethics Team and the IPM.

Because the DPRD have a mandate to monitor development, and to allocate local development funds, they need to be aware of all significant infrastructure works in their area. However, they may need some briefing or very basic training to fulfill their related functions in an optimal way. Under the guidance of the PMU, the TA packages must identify training needs in each area and design the packages needed for the second phase. A design is needed to minimize the risk of conflict of interest (particularly when involving DPRD in observing procurement processes) and undue politicizing of the development agenda. One option that should be considered is to ask SPADA to help identify specific local training needs and ask a local university to provide the training personnel, perhaps after some TOT from the IPM working alongside the Ethics Team.

### **Anti-Corruption Action Plan - Actions Matrix**

<i>Enhanced Disclosure</i>
The annual work plans and the Procurement Plan, with any revisions will be published on the official website and made available to the public as a part of the public disclosure policy of this project.
A quarterly newsletter will be prepared to report progress to national level and to local NGOs and the local media and will be put on the official website. Salient information concerning contractor contracts, implementation progress, key project-related workshops and other activities will be included in these

reports. The site will also include basic data related to the number, typology and status of complaints for each district.

Recapitulated project data, including problems and solutions, will be included in IFRs and presented to civil society (e.g. NGO) forums in hardcopy at the national, province and (where they exist) district levels every three months.

Guidelines on disclosure of information to the public on project and procurement activities shall be incorporated in the PMM, and will include the following key actions:

- a. The BRR will and the World Bank may make publicly available, promptly after completion of a mid-term review of the project carried out in accordance with the loan agreement, the mid-term review report and the aide-memoire prepared for this purpose. BRR will also post this on their official website within 2 months of the completion of the mid-term review.
- b. The BRR will and the World Bank may make publicly available promptly after receipt all final audit reports (financial or otherwise, and including qualified audit reports) prepared in accordance with the loan agreement and all formal responses of the government in relation to such reports. BRR will also post this on their official website within 1 month of the report being accepted as final.
- c. The BRR will and the World Bank may :
  - Make publicly available promptly after finalization all annual Procurement Plans and schedules, including all updates there to; BRR will also post this on the official website within 2 months of the end of the fiscal year.
  - Make available to any member of the public promptly upon request all bidding documents and requests for proposal issued in accordance with the procurement provisions of the loan agreement, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of bidding document from the interested bidders for goods and works and request for proposals from the interested bidders, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made available until a year after completion of the contract entered into for the goods, works or services in question;
  - Make available to any member of the public promptly upon request all shortlists of consultants.
  - Actively encourage representatives of civil society groups to attend the public bid openings and other key procurement steps. Representatives of civil society will be included as witnesses/members of the Procurement/Selection committees.
  - In line with the Procurement Guidelines, within two weeks of contract award (Bank's no objection) publish in UNDB online, dgMarket, on BRR website, and send to those who submitted bids, contract award information identifying the bid and lot numbers and the following information (a) name of each bidder who submitted a bid (b) bid prices as read out at the bid opening, (c) name and evaluated prices of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reason for their rejection; and (e) name of the winning bidders, and the price it offered, as well as the duration and summary scope of the contract awarded.
  - Make available, promptly upon request by any person or company, a list of all contracts awarded in the three months preceding the date of such request in respect of a subproject, including the name of the contractor / supplier / consultant, the contract amount, the number of bidders / proposes, the procurement method followed and the purpose of the contract
  - The BRR will establish a webpage within the BRR official website that provides monthly updated information on project activities. This *up-to-date* information would include, for each project-related kabupaten or kota, inter alia: nature of contracts awarded (estimated cost, scope of works, contractor details); current estimate of the progress of implementation (e.g. gross estimate of completion as a percentage of works to be carried out); other project-related activities such as workshops; data concerning complaints and remedial actions.

<ul style="list-style-type: none"> <li>The BRR will establish another webpage within the BRR official website that provides information on <i>forthcoming</i> project activities such as workshops and training. This page will also be updated on a monthly basis.</li> </ul>
<i>Civil Society Oversight</i>
<p>Civil society oversight of procurement and implementation is to be encouraged.</p> <ul style="list-style-type: none"> <li>Procurement observers may be invited from local universities or institutions such as the independent national “watchdog” groups (e.g. Indonesia Corruption Watch, Indonesia Procurement Watch and the Muhammadiyah Anti-Corruption Team) or smaller groups acting locally (e.g. GeRAK, SAMAK, Muhammadiyah University). Experience in other projects strongly suggests that the unit being monitored should <u>not</u> control the selection and briefing of such representatives, therefore it is suggested that the Ethics Team will advise the project on these matters. Details concerning the selection and briefing of representatives must be recorded at the national level.</li> <li>The project design also requires a degree of independent, 'third party monitoring'. This may be provided by a firm or firms or NGOs that can provide good external oversight. This arrangement will be clearly established and approved prior to implementation so that the third party can assist in the monitoring of planning, procurement, implementation procedures and impacts. The personnel from the third party organization(s) will be briefed regularly. Though this third party may be a firm, it may also be a civil society organization. Their monitoring of the project will include discussions with the local government, community, supervising engineers and contractors. Reports from this entity are expected to include recommendations to the national level office and the Bank for improvements to the ACAP. Guidance on appropriate procedures will be provided Terms of Reference and PMM.</li> <li>The BRR will establish a mechanism whereby the media and civil society groups can become involved in monitoring the progress of the project including implementation. This mechanism will include regular sharing of information with the media. Copies of press clippings (etc.) will be sent to the national level for discussion and filing.</li> <li>Regular (e.g. annual) Accountability Meetings will be held to enhance accountability and sharing of information.</li> </ul>
<i>Mitigation of collusion risks</i>
<p>BRR will hire a Procurement Advisor to support the management of procurement processes in the project.</p> <p><b>Goods/Works contracts.</b></p> <ul style="list-style-type: none"> <li>BRR will use “semi” e-procurement and publish on its official website for all works and equipment contracts: <ul style="list-style-type: none"> <li>all Invitations to Bid,</li> <li>bidding documents and drawings,</li> <li>clarification of bids,</li> <li>bid opening minutes,</li> <li>information on contract award.</li> </ul> <p>The manual system that has been used in the past will continue to run in parallel for contractors/suppliers who wish to use it.</p> </li> <li>Bidding documents will be available for download on-line. No charge for electronic documents.</li> <li>Procurement Advisor to certify the documents are on-line prior to the issuance of the Invitation to Bid and remain available to bid opening.</li> <li>No pre-qualification</li> <li>List of bidders remains confidential until bid opening.</li> <li>No pre-bid meetings.</li> <li><i>All bids to be submitted within a predefined say 4 hours time "Bid Submission Period" and to be opened within 15 minutes after that in the same room.</i></li> <li><i>Bids to only be submitted in person by the Authorized Representative who signed the bid - his ID to be checked on submission.</i></li> <li>The Procurement Advisor must be present to observe the bidding process and bids to be under his control during the "Bid Submission Period".</li> <li>One sealed copy of the bid submitted to be kept by Procurement Advisor</li> </ul>

- Procurement Advisor to immediately check the bids for any signs of collusion (using tracking software) and to certify the minutes.
- *Bid Evaluation Report to be complete and submitted within 1 week and prepared by Procurement Advisor*
- Bids awarded within 1 month. Bid validity period= 60 days and no bid validity extensions permitted. If not met, subproject is not eligible for financing.
- Rebidding will be subject to World bank approval.
- BRR to use FIDIC arrangements with the independent supervision consultant having responsibility as the "Engineer" in the works contract.

#### **Consultant services.**

- A narrative justification of each short listing will be required for proposing shortlists for prior review contracts. Guidelines on preparing these justifications will be prepared as required for all contracts
- Request for Proposals. Only the CVs of key personnel with be requested and evaluated up to about 10 staff.

#### **NCB procedures.**

The clarification of NCB procedures following Keppres 80/2003 to be acceptable by the Bank is included in the Legal Agreements. Following such clarifications, the implementation plan includes:

- Advertisement in national newspapers
- Removal of geographic and other restrictions
- The use of post-qualification which allows participation by bidders without any restriction

#### **Advertisement of bids.**

The BRR will employ a standard agreed format of advertisement and place in the nationally circulated *Kompas* (or similar national) newspaper, on the BRR official website, and on the UNDB and dg Market websites.

#### **Public Notary**

A public notary will (A) attend public procurement events such as the opening of bids for selection of consulting firms, and certify the related Minutes, and (B) keep in a safe place one copy of the sealed bids and other procurement-related documents.

#### **Project Managers.**

Commitment makers (PPK) should be a staff from within the SATKER, and should at least be of an equal or lower level with the staff conducting verification of payment at the finance unit.

#### **Guidelines**

- Guidelines for preparation of specifications /selection criteria in the Bidding Documents / request for proposal will be prepared to ensure compliance with Bank guidelines. This will include suggestions to conduct simple surveys on available products in the market and the alternative of hiring consultants for procurement of complex goods / equipments / services to define the specification / terms of reference.
- Guidelines to prepare owner estimates, particularly for consultancy work will be defined. This will include the requirement to provide a detailed breakdown of estimates, suggestions to conduct simple market price surveys, maintaining data base of survey results and previous purchases, which will be accessible to all Implementing Units
- Guidelines on preparing shortlist justifications will be prepared
- If pre-bid meetings for procurement of simple goods and small works are to be conducted, it will not be compulsory for bidders to attend the meeting. The specifications shall be defined clearly in

the bidding documents. Clarifications can be sought through written correspondence and replies will be sent to all bidders / short listed firms. Appropriate guidelines providing for this will be prepared.

- The BRR will provide guidelines and training on how to conduct clarifications /negotiations that are in line with the Bank guidelines.
- The BRR will prepare guidelines and training on monitoring contract implementation.

#### **Other issues**

- Public openings for all bids of procurement and consultant selection will be attended by the Procurement Officer / Treasurer / civil society representatives and representatives of the Internal Auditor.
- The reports / records of public openings for all prior review contracts shall be submitted promptly to the Bank (2 x 24 hours)

#### ***Mitigation of Forgery and Fraud Risks***

- Performance of key officials will be monitored and reported by the project. Criteria and performance indicators for the Project Manager, Treasurer, and Procurement Committee will be prepared by the BRR and agreed by the Bank and will be used as the basis of the annual performance review of the relevant staff.
- Each Project Implementation Unit (PIU) will include a qualified procurement specialist / officer and financial management specialist / officer
- Guidelines for submission of complete documentation required for requests for payments (SPP) to KPPN will be also be prepared by the BRR.
- The BRR will establish procedures to maintain proper project and procurement filing including filing of advertisements, bidding documents, evaluation reports, contract award and final contract documents.
- Timelines for procurement decisions will be agreed between GOI and the Bank to establish service standards and avoid procurement delays to reduce opportunities for corruption. These will be clearly stated in the PMM.
- The BRR shall conduct regular interim audits by third parties, which will include review of procurement process and procurement results (end use checks, quality and quantity of acquired goods / works / services, verification of payments, price comparison between contract price and market price, etc.).
- The BRR shall conduct training as needed to improve the capability of key personnel at all levels. This will include, as necessary, aspects of procurement, financial management, design, and supervision of implementation. The design capability and the quality of design will be improved in order to avoid any design review in post contract signing.
- The BRR shall delegate the authority for supervision of works by stating clearly and in detail the bidding/contract document the authority for Engineer's and Engineer's Representative.
- The clarifications on NCB procedures following Keppres 80 / 2003 acceptable to the Bank will be included in the Legal Agreements. Substantial deviations from such clarifications may be subject to mis-procurement

#### ***Complaint Handling System***

A complaints handling mechanism, which includes maintaining a project complaint log and filing to monitor status of follow up of each received complaints, will be established by the BRR and the Bank. The mechanisms will include provision for follow up investigations of substantial complaints by the internal Auditors, or third party audit to ensure independency and reliability of the system.

- All complaints received shall be responded to within 7 days of receipt, with copy to the World Bank and the Inspectorate.
- For the complaint mechanism to function, it is essential that information concerning the alternative conduits for complaint (telephone hotline', dedicated email ad+ and PO Box) is widely disseminated.
- Strict procedures to ensure anonymity of informants will be enforced.
- Recording and appropriate referral of all incoming complaints will be undertaken by the Complaint Handling Unit of the BRR, with each case generating an automatic, standard format report to the

<p>Bank.</p> <ul style="list-style-type: none"> <li>Tracking of the status of investigations and measures taken will be reported in monthly reports to management and the Bank. Complaints deemed possible serious infringements may be further investigated by the Bank.</li> <li>Statistics from the complaints handling system will be included in the website to be established for the project. This will be updated on a monthly basis.</li> </ul>
<p style="text-align: center;"><b><i>Sanctions and remedies</i></b></p> <p>Remedies for non-compliance with agreed time-lines for procurement decisions / service standards will be established and will include the following remedies :</p> <ul style="list-style-type: none"> <li>An Evaluation report must be submitted to the Bank within six( 6) weeks of bid/proposal submission. Failure to do so will be deemed to be a failure of due diligence; timely and appropriate action acceptable to the Bank will be required to remedy the situation.</li> <li>Request for extension of bid validity for 8 weeks beyond the original validity will require the Bank's prior approval. Unless strongly justified, such approval will not be given and may be subject to mis-procurement.</li> </ul> <p>The BRR will establish the remedial actions and sanctions for cases of fraud and corruption that are reported and for which evidence is found. This will include sanctions to staff proven to be involved in such cases.</p> <p>In all procurement contracts, evidence of fraud, corruption, collusion and coercive practices will result in termination of the relevant contract, possibly with additional penalties imposed (such as fines, blacklisting, etc. in accordance with Bank and Government regulations. Disbursement of funds to provinces or districts may be suspended in cases where there appears to be significant misuse of funds. Any entity that is found to have misused funds, or not effectively carried out key elements of the anti-corruption plan, may be excluded from subsequent funding. Information regarding such cases, where lessons are learned and funds are retrieved, will be widely disseminated.</p> <p>Disbursement to any given contract/location can be suspended or stopped completely if cases of corruption are not dealt with effectively.</p>

#### **D. World Bank Supervision of the Anti-Corruption Action Plan.**

The Bank's Task Team will monitor implementation of the six elements, through *inter alia*:

- Disclosure of information will be supervised mainly through (a) checking the frequency and comprehensiveness of website updates and, (b) checking the distribution of materials to key civil society groups and communities on a sample basis in participating districts.
- Mitigation of collusion risks will be supervised mainly through (a) tracking key data related to procurement (e.g. unit costs, schedules) and (b) periodic analysis of all bids that have suffered from collusion, to identify weaknesses in the system.
- Mitigation of forgery and fraud risks will be supervised mainly through (a) reviewing the findings of strong technical and financial audits, to be held during (interim audits) and after (post audits) each year for a significant sample and (b) reviewing incoming remarks from third party observers/monitoring.
- Civil society oversight will be supervised mainly through (a) reviewing the attendance of civil society groups in Public Accountability Meetings and (b) reviewing the reported inclusion of CSOs in project activities, particularly their roles in monitoring procurement.
- The complaints handling system will be supervised mainly through (a) periodic review of statistics based on problem typology, severity and location, and (b) field level checks to ensure that problems are being reported and acted upon.

- The system of sanctions and remedies will be supervised mainly through (a) periodic review of the sanctions that have been enforced by the project based on typology, severity and location, and (b) periodic review of sanctions enforced by agencies external to the project such as the police, attorney general and Corruption Eradication Commission.



## ANNEX 10. SUSTAINABILITY OF INFRASTRUCTURE RECONSTRUCTION PROGRAM

### A. Introduction

Rebuilding infrastructure in Aceh and Nias so as to reverse the destruction caused by the tsunami, compensate for the under-development caused by years of political strife and unlock the medium to long term development potential of the provinces is a task of enormous magnitude. The risks that the efforts now underway might prove unsustainable are substantial.

**When it comes to selecting and implementing individual infrastructure subprojects, public authorities in charge of the reconstruction program are facing serious capacity constraints that may undermine the quality of reconstruction efforts. BRR has worked to improve its technical capability and has substantially increased its personnel which now numbers about 600 staff. Still, the capacity of BRR remains uneven and the tasks ahead cannot be successfully undertaken without further significant capacity strengthening. For their part, local governments (at the district and provincial levels) are key actors in the reconstruction process and they face capacity constraints that tend to be even more severe than those of BRR. This issue is compounded by the fact that BRR's mandate is expected to end in April 2009 and that, after that date, local governments will likely shoulder most of the responsibility for maintaining newly rebuilt assets and for developing new infrastructure.**

In order to ensure the sustainability of the reconstruction program for Aceh and Nias, a number of steps are being taken - in the context of both the IREP and the IRFF - to tackle the issues outlined above.

### B. Technical Assistance

Both IREP and IRFF include TA components that emphasize hands-on training of local government technical departments as well as of BRR staff. Such TA is an important tool that will contribute to ensure the quality of infrastructure subprojects undertaken during BRR's mandate and to prepare local authorities for the post-BRR era. These capacity building efforts will cover all aspects of subproject selection and implementation:

- *Subproject selection.* Under IREP and IRFF, consultants will assist local governments in designing annual investment plans and in prioritizing individual subprojects that meet local development needs, are in line with local government capacity, and are consistent with BRR's strategic plans. Subprojects to be financed under IRFF will have to meet technical, economic, financial and environmental eligibility criteria to be designed and published, *ex ante*, by BRR.
- *Detailed design and tender documents.* The quality of individual subproject preparation - in particular the drafting of detailed designs and tender documents - will be supported by IREP and IRFF consultants. These consultants will help relevant government bodies with subproject preparation. IPM consultants under IREP will also assist BRR in spot checking the quality of subproject documents.
- *Safeguards.* Safeguard policies triggered by this project include environmental assessment, involuntary resettlement, and indigenous peoples. A range of safeguards specialists will be hired under IREP and IRFF. One of their initial tasks will be to conduct an environmental orientation study in order to determine how overall infrastructure planning can best take account of environmental challenges. Other key tasks include development of detailed operational procedures for implementation of the safeguards framework for agreement with

local environmental authorities and integration into the PIP, as well as delivery of a program of training for BRR, local governments, and contractors.

- *Procurement.* A central procurement team will be established within BRR to facilitate the process of procuring the various infrastructure subprojects identified and prepared under IREP. The IPM consultants will be responsible for assisting this central procurement team to ensure that Government and Bank standards (as appropriate) are followed. As mentioned below, procurement responsibilities will, over time, be passed on from the central procurement team in BRR to local governments' procurement units.
- *Subproject supervision.* The IREP and IRFF consultants will assist with subproject supervision at the local level. The IPM consultants will further assist BRR to set qualification standards for project managers and to prepare draft TORs for supervising engineers. The IPM team will also assist BRR's quality control and inspectorate to spot check and undertake technical audits during subproject implementation and hand-over.
- *Anti-corruption.* The IPM consultants will support BRR's already well-developed anti-corruption efforts. The IPM will work with BRR to improve the standard bidding documents as needed to give proper incentives to the contractors and to provide for independent supervision of works.
- *Maintenance.* The IPM team will review and prepare options for simplified asset management systems to support management of reconstruction assets after June 2009.

### **C. Ownership**

Steps are taken to ensure that local governments develop a sense of ownership with respect to the infrastructure assets financed by BRR. For example:

- Joint Secretariats are being set up in each district to facilitate the process of selecting infrastructure subprojects and BRR will provide assistance to those Joint Secretariats. The Joint Secretariats comprise a number of local government staff, along with representatives of the bappeda district office and the BRR decentralized office. The Joint Secretariats will coordinate the subproject selection process with all interested parties, including BRR, NGOs, etc. BRR staff, from the newly deconcentrated offices of BRR set up at the regional and district level offices, will provide assistance to the Joint Secretariats and help them perform their subproject selection functions effectively.
- BRR will also assist local governments in preparing and implementing selected subprojects. Once subprojects are selected and approved by BRR central for funding by BRR/MDF, project teams will be formed at the local government level to start subproject preparation. The key members of these project teams – in particular the satkers who manage subprojects – will be chosen by local governments and will generally be local government staff. They will however be appointed by BRR and they will benefit, in the performance of their functions, from assistance by BRR staff from the relevant local or regional BRR offices.
- BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity with a view to progressively transfer implementation responsibilities to those local governments able to carry out such responsibilities (and the capacity building measures mentioned above are intended to enable transferring increasing levels of responsibilities to local governments over time). As pointed out above, procurement responsibilities will thus be progressively transferred to local governments and the same is true of financial management responsibilities for example.

#### **D. Building institutional capacity**

The overall incentive framework under which local government officials operate in the context of IRFF is geared toward building lasting institutional capacity. For example:

- During the IRFF cycle, it is anticipated that local governments will share some of the implementing responsibilities (procurement, financial management, etc) of IREP TA – this will be determined on a case-by-case basis after capacity assessments are conducted by IPM and the district/provincial based IREP TA, and with NOL from the Bank.
- Making IRFF resources available to finance well prepared local infrastructure subprojects is expected to prompt local governments to improve their ability to select and prepare such subprojects so as to gain access to IRFF financing.
- A transition strategy – to be developed with the help of IREP consultants to help local governments prepare for the post-BRR period – will propose institutional mechanisms aimed at facilitating exchanges of experience between all Aceh and Nias local governments involved in infrastructure reconstruction and development.

#### **E. Post-BRR arrangements**

The local governments' capacity building measures described above are designed to help local governments work together with BRR to select, design and implement high quality infrastructure subprojects. Such capacity building measures will help local governments implement infrastructure development programs on their own after the end of BRR's mandate. Additional measures are specifically designed to ease the transition to the post-BRR period:

- BRR/GOI will develop institutional mechanisms, by June 2008 at the latest, for the post April 2009 period when its mandate is scheduled to expire.
- IRFF, which has a completion date of January 2010, will be restructured in line with the new institutional arrangements.
- Unallocated funds under IRFF are currently held in reserve to be used, for example, to extend the TA carried out under IREP beyond June 2009 if it proves desirable.

## **ANNEX 11. INFRASTRUCTURE SUBPROJECT PIPELINE**

### **A. Infrastructure Investment Plan and Pipeline of Candidate Investments**

The BRR has formulated a phased infrastructure program to reconstruct and provide essential economic services for Aceh and Nias. Several of the key multilateral and bilateral agencies, donors, and NGOs have been involved in supporting infrastructure reconstruction – the former involved in some of the larger-scale items, and the latter supporting housing reconstruction and social facility reconstruction. An initial pipeline of prioritized infrastructure programs and subprojects has been prepared by BRR for financing by different sources. Subprojects in the pipeline cover the ports and harbors, sea defense and macro-drainage, roads and transportation, water supply, sanitation and solid waste management, and urban and town essential municipal services sectors. Some of these subprojects may be potential candidates for MDF/BRR funding under IRFF. Criteria to select subprojects to receive funding under IRFF are set out in detail in Annex 4. The complete list of subprojects in the initial pipeline prepared by BRR is presented below.

### **B. Investment Subproject Preparation to Date**

A pipeline of infrastructure investments and subprojects has been prepared by several agencies in coordination with BRR through a number of different initiatives. It comprises a mix of subprojects and programs designated for implementation in the immediate term (2007) and those which will require more detailed and rigorous preparation work and then be ready for subsequent implementation (2007 and beyond, through 2010). Preparation of infrastructure investments of different kinds has been undertaken by many different agencies, including the following:

- National Government authorities led by BAPPENAS in Jakarta;
- National Line ministries in particular Public Works, and Transport;
- Various Provincial ministries, including Public Works, Transport and Water Resources;
- BRR, through adopting traditional budgeting approaches to project programming, with proposed projects/investments based principally on administrative and geographic allocation and distribution;
- BRR, through BRR-managed specific bilaterally supported infrastructure preparation programs (at this stage supported mainly by Holland and France);
- NGOs such as CRS and ESP who have focused mainly on either sector specific activities or on preparing programs supporting their core activities (such as their housing programs);
- Bilateral agencies such as GTZ (supporting technical assistance programs including some investment subproject preparation), USAID (the West Coast Road Japan/JICS (preparation of investments for Japanese funding), and KfW Australia (preparing programs supporting their core activities such as housing programs);
- Multilateral agencies, including UNDP, UNICEF, the ADB and the MDF.

In particular:

- The BRR and related government agencies have arranged for design and planning teams to undertake a series of “detailed design” assignments, which are prepared at a limited level of detail, generally insufficient to enable fully competitive bidding and quality implementation;

- The bulk of the subproject pipeline envisaged for the 2007 budget is for investments intended to meet the immediate, short term, dispersed and somewhat fragmented demands of local governments;
- The ADB as one of the major donors in the reconstruction effort has allocated significant resources to development planning, and it is expected would finance subprojects identified and prepared through these programs;
- The Government of Japan has focussed on the preparation and financing of a limited portfolio of reconstruction investments;
- BRR has with MDF support through the IREP begun to put in place arrangements for the program management and detailed preparation of the main content of the infrastructure reconstruction program. These IREP-originated investments will be prepared to the standard required for possible IRFF funding, and could begin implementation in early CY 2007, with the majority being available for identification, selection and financing from mid to end 2007;
- BRR has with support of technical teams financed by the Governments of France and Holland, commenced preparation of detailed infrastructure reconstruction programs for beginning the provision of shelter-related essential services, and sea defence systems. These could begin implementation in early CY 2007, with the majority being available for identification, selection and financing from mid to end 2007;
- BRR has with MDF support, facilitated the UNDP to prepare an important program to rehabilitate four of the main ports and related facilities. These could begin implementation in early CY 2007, with the majority being available for identification, selection and financing from mid to end 2007;

The next key steps will be to enable a rationale selection to be made of possible programs and subprojects, assess their readiness and relevance, prepare a balanced and least risk pipeline, and develop an overall financing plan for their implementation and delivery, considering both MDF/IRFF resources, and other funding mechanisms. This would need to be updated, balanced and prioritized on a regular basis, as funding opportunities are realized and content adjusted in response to findings during detailed preparation. A key responsibility of the MDF-supported IPM team once mobilized will be to manage this process.

## **C Candidate Pipeline**

An initial candidate pipeline is set out below, by sector. Two main categories of candidates have been identified, namely A and B. **Category A** subprojects are those which have a defined preparation program and firm funding arrangements (there are in some cases minor additional minor unfunded activities identified). Based on the assessment of the status of preparation, they can be expected to be suitable candidates for IRFF funding. **Category B** subprojects are those which will clearly be required as part of the infrastructure reconstruction process, but for which preparation (either timing or funding) is less clearly defined; hence their status as IRFF potential candidates is less well defined.

**IRFF Candidate Investment Pipeline Category A Subprojects: Preparation status Defined**

**Sector: Ports, Harbours and Fishing Ports**

<b>Port or Activity</b>	<b>Description</b>	<b>Estimated Construction Cost - \$m</b>	<b>Source &amp; Status of Preparation</b>	<b>Additional Prep. Req'd &amp; Cost</b>	<b>Issues</b>	<b>Safeguards Req'd.? &amp; additional cost</b>	<b>Possible IRFF Candidate &amp; FY</b>
<b><u>Construction Works</u></b>							
Sinabang (CW Contract # 1)	General Cargo	\$15m	<b>UNDP/MDF Ports</b> Program: DED and BD by 09/06 (W&B contracted)	ConSpn \$0..75m	Safeguards pending	Yes: \$0.2m	<b>IRFF- Yes FY 07</b>
Calang (CW Contract # 1)	General cargo & Ferry	\$20m	<b>UNDP/MDF Ports</b> Program: DED and BD by 09/06 (W&B contracted)	ConSpn \$1.0m	Safeguards pending	Yes: \$0.2m	<b>IRFF- Yes FY 07</b>
Meulaboh (CW Contract # 1)	Ferry, Landside facilities for cargo, Existing wharf and general cargo facilities to be repaired	\$15m Total Contract CW #1 of \$50.0m	<b>UNDP/MDF Ports</b> Program: DED and BD by 12/06 (W&B contracted)	ConSpn \$0.75m Total SPN: Contract GS #1 of \$2.5m for 3 ports	General cargo section already built with Singapore finance; Safeguards pending	Yes: \$0.2m	<b>IRFF- Yes FY 07</b>

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

Gunung Sitoli (Contract # 2)	Major Hub port ; General Cargo, Wharfing extension	\$20.0m Contract CW #2	<b>UNDP/MDF Ports Program:</b> F/S, DED Review and BD by 01/07 (DHV contracted)	ConSpn \$1.0m Contract GS #2 of \$1.0m for port	Outline concept prepared through BRR; full review needed, plus scope rationalization; Safeguards would be required	Yes: \$0.2m	<b>IRFF- Yes FY 07 or early FY 08</b>
<b>Technical Assistance</b>							
Three Ports (Sinabang, Calang, Meulaboh) reconstruction program construction supervision	Ferry, Landside facilities for cargo, Existing wharf and general cargo facilities to be repaired, Site level operational construction supervision	SPN of Contract CW #1 \$2.5m	<b>UNDP/MDF Ports Program</b>	ConSpn \$2.5m GS Contract #1 of \$2.5m	Managerial level supervision provided through GS Contract #1		<b>IRFF- Yes FY 07 or early FY 08 through 09</b>
Gunung Sitoli Port construction supervision (GS Contract #2)	Major Hub port ; General Cargo, Wharfing extension Site level operational supervision	SPN of Contract CW #2 \$1.0m	<b>UNDP/MDF Ports Program:</b>	ConSpn \$1.0m GS Contract #2 of \$1.0m	Managerial level supervision provided through GS Contract #2		<b>IRFF- Yes FY 07 or early FY 08 through 09</b>

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

MDF/UNDP Port Supervision Team	3 Year Port Program Oversight Team	\$2.0m	Draft TORs under preparation (BRR & UNDP/MDF Team)	GS Contract #3	Port Program will require overall coordination	n/a	<b>IRFF – Yes FY07 through 09</b>
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**Sector: Sea Defence and Main Drainage**

Infrastructure, Location or	Description	Estimated Construction	Source & Status of Preparation	Additional Prep. Req'd &	Issues	Safeguards Req'd. &	Possible IRFF Candidate &
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Activity		n Cost - \$m	Cost	additional cost	FY
<b>Construction Works</b>					
Coastal Works in 10 areas (CW contract #3)	Sea walls, revetments, groynes & river mouth training	\$24.7m CW #3	Included in SD assignment	In SD assignment	IRFF – Yes FY 07 - 09
Flood Protection & Urban Drainage(CW contract #4)	Banda Aceh Main drainage and 3 zone secondary systems	\$12.0m CW #4	Included in SD assignment	In SD assignment	IRFF – Yes FY 07 - 09

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;



Flood Protection & Urban Drainage(CW contract #5)	6 Town Drainage, flood protection and upgrading systems	\$10.0m CW #5	FS/DED/BD: Sea Defense team	Included in SD assignment		In SD assignment	<b>IRFF</b> – Yes FY 07 – 09
TEWS #1(Tsunami Early Warning System ) (CW contract #6) Banda Aceh Refuge & Escape Systems Program	Zoning, Refuges, refuge areas, and escape routes, Banda Aceh urban area	\$10.0m (CW contract #6)	FS/DED/BD: Sea Defense team	Included in SD assignment TEWS #1		In SD assignment	<b>IRFF</b> – Yes FY 08 – 09
Sea Defense Construction site supervision (GS contract #5)	Field level on-site supervision of construction program ( estimated at \$57m) during phased implementation	SPN for program \$2.3m (GS contract #5)	Coordination: Sea Defense team	Coordinating SPN provided through SD assignment. Field SPN through (GS contract #5)		n/a	<b>IRFF</b> – Yes FY 07 – 08
Early Warning TEWS #2,3 & 4( GS Contract #6)	public warning equipment, and information systems Pilot	\$1.25m(GS contract #6)	FS/DED/BD by Sea Defense team	Included in SD assignment TEWS #2,3&4		In SD assignment	<b>IRFF</b> – Yes FY 07 – 08

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpr= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

Technical Assistance Assignments									
Risk Management Outreach and information Programs (GS contract #7)	Multichannel public outreach and communication systems for coastal areas, Drills, awareness campaign & training program	\$1.0m (GS contract #7)	FS/DD/BD by Sea Defense team	Included in SD assignment TEWS #5 & 6	In SD assignment	IRFF – Yes FY 07 – 09			
Impact Data Base (GS contract #8)	Database system with pre calculated tsunami impacts as part of the regional Aceh /BMG Early Warning System.	\$2.2m (GS contract #8)	FS/DED/BD by Sea Defense team	Included in SD assignment TEWS #7	In SD assignment	IRFF – Yes FY 07 -- 09			

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpr= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

**Sector: Urban and Town Essential Municipal Services**

Infrastructure, Location or Activity	Description	Estimated Construction Cost - \$m	Source & Status of Preparation	Additional Prep. Req'd & Cost	Issues	Safeguards Req'd. & additional cost	Possible IRFF Candidate & FY
<b>Construction Works</b>							
Banda Aceh: Village Infrastructure Services Program 1: Meurexa	Roads, access, local drainage and water reticulation for 2 Meurexa Villages	\$6.0m	DED, BDs for 2 Villages under prep SOGREAH (Ph 1)	Engineering survey completed	Site Supervision needed	Undertaken by BRR & SOGREAH	BRR funded
Banda Aceh: Village Infrastructure Services Program 2: Meurexa CW Contract #7	Roads, access, local drainage and water reticulation for 5 Meurexa Villages	\$12.0m (CW Contract #7)	DED, BDs for 5 Villages under prep SOGREAH (Ph 1)	Limited engineering Survey needed	Site level Supervision needed (management level provided by SOGREAH (Ph 1) BRR to allocate	To be Undertaken by BRR & SOGREAH	BD s ready by Nov 2006 <b>IRFF – Yes</b> FY07 & FY08 implementation

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

Banda Aceh: Village Infrastructure Services Program 3: Jeulinke Village CW Contract #8	Roads, access, local drainage and water reticulation for Jeulinke Village	\$7.0m (CW Contract #8)	DED, BDs for Jeulinke Village under prep SOGREAH (Ph 1)	Limited engineering Survey needed	Site Supervision needed	Urgently needed; To be Undertaken by BRR & SOGREAH	BD s ready by August 2006 <b>IRFF – Yes</b> FY07 & FY08 implementation
Banda Aceh: Village Infrastructure Services Program 4 (CW Contract #9)	Roads, access, local drainage and water reticulation for 9 Meurexa Villages	\$22.0m (CW Contract #9)	DED, BDs for Villages under coordination for preparation by SOGREAH (Ph 1)	Engineering Survey will be needed. BRR funding	Support needed from French Government for SOGREAH Phase 2 assignment.	Urgently needed To be Undertaken by BRR	<b>IRFF – Yes</b> FY07 for preparation/DED, FY07 & 08 implementation
Banda Aceh /Aceh Besar Village Infrastructure Services Supervision of Construction (GS Contract #9)	Field level on-site supervision of Banda Aceh & Aceh Besar construction program (estimated at \$120m) during phased implementation	SPN for program \$4.8m (GS Contract #9)	Cordination: BRR & SOGREAH Ph 1 & 2	Coordinating SPN provided through SOGREAH Phase 1 & 2. Field SPN through (GS contract #9)	Support needed from French Government for SOGREAH Phase 2 assignment ( Phase 1 currently in place)	n/a	<b>IRFF – Yes</b> FY 07 – 08
Banda Aceh & Aceh Besar Regional Sanitary Landfill & Collection System (CW Contract #13)	Construction of regional sanitary landfill, plus collection and landfill management equipment	\$20.0m plus PPP concession contract to operate solid waste systems (CW Contract #13)	FS/DED/BD under preparation by GTZ. Possible Design Build operate concession Contract	Limited Engineering Survey will be needed	Support needed from French Government for SOGREAH Phase 2	To be Included in Phase 2 program	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation

Calang Municipal Services Phase 1 (CW Contract #14)	Roads, access, local drainage and water reticulation for main township area	\$20.0m (CW Contract #14)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 03/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Calang Municipal Services Phase 2 (CW Contract #15)	Main link roads, main drainage and bulk water supply and treatment for main township area	\$30.0m (CW Contract #15)	IREP West Coast Consultants Team (WCCT) DED/BD. BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Meulaboh Municipal Services Phase 1 (CW Contract #16)	Roads, access, local drainage and water reticulation for main township area	\$25.0m (CW Contract #16)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 03/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Meulaboh Municipal Services Phase 2 (CW Contract #17)	Main link roads, main drainage and bulk water supply and treatment for main township area	\$40.0 (CW Contract #17)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Singkil Municipal Services (Phase 1) (CW Contract #18)	Roads, access, local drainage and water reticulation for main township area	\$3.0m (CW Contract #18)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 03/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation

	area (Phase 1 – most damaged areas)			supported contract			implementation
Singkil Municipal Services (Phase 2) (CW Contract #19)	Roads, access, local drainage and water reticulation for main township area (Phase 2-remainder)	\$6.0m (CW Contract #19)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Nias Bridge and Highway Reconstruction Program (CW Contract #22)	Reconstruction of priority roads & bridges	\$40.0m (CW Contract #22)	IREP Nias Consultants Team (NCT) DED/BD BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for NCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation
Nias Municipal Services Program (CW Contract #23)	Roads, access, local drainage and water reticulation for main township area	\$15.0m (CW Contract #23)	IREP Nias Consultants Team (NCT) DED/BD BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for NCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 for preparation/DED, FY08 & 09 for implementation

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**D. IRFF Candidate Investment Pipeline Category A Subprojects: Sample Summary Assessment**

**Reference Designation:** Civil Works Contract #1, (comprised of #1A, 1B, and 1C)

**Subproject Name and Description:** **Three Primary Ports Reconstruction Program for Sinabang, Calang and Meulaboh.**  
**Calang Component # 1B**

The work would include reconstruction of jetties, wharves, breakwaters, groynes, protection arrangements, communications, access, and handling, storage and related facilities as needed. It would comprise the following. a) Sinabang: Reconstruction of the general cargo port; b) Calang: reconstruction of the general cargo port, and ferry terminal; c) Meulaboh: Reconstruction of landside facilities for cargo, ferry terminal, repair and renovation of existing general cargo facilities and wharfs.

**The Calang Component** The proposed development in Calang would comprise the following: New Commercial Port with facilities on the north west side of the existing township, including the commercial port , with a bulkhead wharf of 200 meters in length; approach channels; Ramp for RoRo cargo and ferries; 15 hectare port yard; transit storage sheds and fuel depot and other facilities; Office and security buildings; Ferry Terminal with related facilities for passenger and vehicle handling; and Offices for port management and administration. The criteria and design proposals would be reviewed in detail by the Department of Sea Communications. The design vessel for the commercial port would be a mixed cargo freighter with the following characteristics: Size: 10,000 DWT; Overall Length: 160 m; Beam: 24 m; Draft: 9 m.

**Estimated Cost:** \$50m (#1A - Sinabang: \$15m; **#1B – Calang: \$20**; #1C - Meulaboh: \$15m).

**Calang Component \$20m**

**Context and Rationale:** Sea transport is one of the vital components in the economic infrastructure of Aceh, for both the transport of goods and passengers, and for vital support to the fishing industry. The earthquake and Tsunami caused major damage to most coastal facilities in Aceh, exacerbating the huge damage to the economy and loss of human life. The reconstruction process has been made more difficult and costly in part due to the damage to this vital part on the transport infrastructure of Aceh. The road network was poorly developed before the tsunami, and in part due to the destruction of the port systems, has further deteriorated, due to overloading and poor maintenance.

Prior to the Tsunami, Calang was a township of regional importance on the west coast of Aceh Province. A large percentage of the population was killed and virtually all of the buildings were destroyed in the earthquake and tsunami of 26 December 2004. The port facilities were also destroyed. The township is slowly being rebuilt and is to be restored as a regional centre. At present, a large number of internally displaced people (IDPs) from the surrounding district are housed in tents and temporary accommodation on the hillsides adjacent to the original township. The Province intends is to rebuild suitable port facilities in Calang so that it can act as a regional port able to take medium sized international cargo vessels as well as cargo and passenger vessels plying the west coast of Sumatra. The facilities will also serve for ferry transport to the island of Simeuleu and possibly Nias. Calang is being developed as a strategic port because it has

relatively deep water and it is possible to provide a sheltered berth that would be able to withstand another earthquake and tsunami without being destroyed. In the unfortunate situation of another earthquake and tsunami of the same magnitude as the December 2004, would act as a regional rehabilitation and distribution centre.

**Status of Preparation:** Consultants engaged through UNDP for DED, with MDF financing. Feasibility, site investigation and design work well advanced. DED and BD could be available for most of works by 09/06. It is intended to bid these three ports as one large contract, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed

**Possible IRFF Candidate:** Yes: for FY 07

**Next Action to enable Implementation:** a) Safeguards pending. These need to be incorporated into consultants work plan in the immediate future FUNDING may be needed for these; b) seek agreement with UNDP to instruct consultants to prepare bid documents in format suitable for IRFF funding ( procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national ports authority; d) design proposals to be reviewed by BRR team and UNDP supervisory consultants to in particular reflect recent Tsunami concerns, and sea defence modelling findings; e) arrangements to be consolidated for long term port management and maintenance; f) funding and Consultant contracts needed for Port oversight GS Contract #3 (\$2.0m) and Three Primary Ports Construction supervision GS Contract #2 (\$2.5m).

**Reference Designation:** Civil Works Contract #6

**Subproject Name and Description:** **Banda Aceh Refuge & Escape Systems Program.**

This would comprise establish a zoning plan, a refuge plan for Banda Aceh and implementing a comprehensive construction and management program of refuges and escape routes, linked physically and through communications channels with the remainder of the Tsunami Early Warning System (TEWS) program. It would result in defined evacuation zones and defuge facilities connected to the Banda Aceh, Aceh, and national warning infrastructure. This is Item # 1 in the TEWS program.

**Estimated Cost:** \$10.0m

**Context and Rationale:** The urgent need for robust and community-focussed hazard management policies supported by appropriate physical measures, including refuges, escape routes, and a linked early warning system has become increasingly evident, as the geo hazard activity in Aceh, Sumatra, and Indonesia has been increasing in recent times. JICA-prepared risk maps of Banda Aceh provide an initial foundation for refuge planning and escape route planning, proposing possible locations of escape routes, refuge locations etc; a start has been made towards implementing road reconstruction and the construction of three escape buildings. This needs to now be expanded city wide, considering refuge capacity and locations, escape route design and linkages to the warning systems and awareness campaigns. Special consideration also is needed for appropriate Indonesian escape building and refuge design criteria.

Banda Aceh and Aceh Besar are the most heavily populated areas of Aceh, with an urban and peri-urban population of some 300,000. These are the core areas at risk, and are their



sustainability is vital to the social development and economy of Aceh. Comprehensive planning leading to an integral program would be essential building blocks to Aceh recovery. This should be implemented in the immediate future, together with the other TEWS components

**Status of Preparation:** Consultants engaged through Royal Netherlands Government support. Planning, feasibility assessments (building on existing work undertaken with JICA support), site investigation, and initial design work has commenced. DED and BD would be available for works in phases, commencing in 01/07. It is intended to bid activities in larger packages to the extent practical, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed.

**Possible IRFF Candidate:** Yes: possibly FY 07, certainly FY08.

**Next Action to enable Implementation:** a) Safeguards pending. These are incorporated into consultants work plan, and funded through existing commitments; b) seek agreement with BRR to instruct consultants to prepare bid documents in format suitable for IRFF funding (procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national and local governments; d) design proposals to be reviewed by BRR team and other agencies involved with urban/township planning and renewal; e) arrangements to be consolidated for local government management and maintenance; f) supervision of implementation would be supported by ongoing Sea Defense consultants. Implementation would be through Satkorlak, in conjunction with Banda Aceh and Aceh Besar local governments.

**Reference Designation:** Goods & Services Contract #6

**Subproject Name and Description:** **Early Warning Pilot, Awareness & Drills Program**

This would comprise the following 3 components: a) **Tsunami Early Warning System (TEWS) pilot program**, providing warning equipment, refuge facilities, training/awareness for selected communities of Lhoong and the desa Tibang (Banda Aceh), implementing warning system hardware in limited scale urban area pilot; b) Design and implementation of an **awareness campaign, through information transfer** by developing provincial level awareness activities and subsequent implementation on local level; and c) **Designing and implementing drill procedures** during a 2 year period in Aceh coastal regions. This would develop a standard methodology for tsunami emergency drills for dissemination on local level. It would include know-how transfer (train the trainer) to provide local level experience for community based continuation of the drills. This comprises Items # 2, 3 and 4 in the TEWS program.

**Estimated Cost:** \$1.25m

**Context and Rationale:** The need for robust and community-focussed early warning systems has become increasingly evident, as the geo hazardous condition of Aceh, Sumatra, and Indonesia has been seen in recent times. The hazards are from a wide range of different conditions. Following the Tsunami and related devastating earthquakes, the people of Aceh have embarked, with Government and donor support, on a major large scale house reconstruction program, vital to meeting basic social needs, but seriously at risk of damage for natural hazards, in particular for the sea and local flooding. The need to mitigate this risk is clear to the National Government and the BRR. Community awareness of this issue and possible responses and

mitigation options is vital. An initial tsunami early warning pilot program, implementing systems on a limited scale in urban areas will bring experience of local conditions to enable effective and responsive systems to be implemented on a larger scale. An initial assessment found in one pilot area found that escape roads and natural refuge hills are partly available but need reviewing. Resettlement locations are planned or ongoing in low-lying areas; inundation maps would show vulnerable areas which can be utilized as part of the strategy. Awareness materials need to be developed on a provincial level and have to be disseminated over the whole coastal area, through multi-channel mass media including radio, tv and newspapers, highlighting the need for an awareness team to develop an appropriate methodology and the materials.

This needs to be complemented by broad based public awareness raising, aiming to build an experience base in the communities which should be done practically through conducted drills in populated areas of coastal Aceh and transfer of knowledge on how to organize drills on community basis.

Benefits of these investments would accrue to the entire coastal population of Aceh, and also to adjacent provinces of Sumatra. Communication linkages would be made to the national authorities, adding value to national hazard management efforts

**Status of Preparation:** Consultants engaged through Royal Netherlands Government support. Feasibility, site investigation and design work has commenced, DED and BD would be available for works in phases, commencing in 01/07. It is intended to bid activities in larger packages to the extent practical, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed

**Possible IRFF Candidate:** Yes; possibly FY 07, certainly FY08.

**Next Action to enable Implementation:** a) Safeguards pending. These are incorporated into consultants work plan, and funded through existing commitments; b) seek agreement with BRR to instruct consultants to prepare bid documents in format suitable for IRFF funding (procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national and local governments; d) design proposals to be reviewed by BRR team and other agencies involved with urban/township planning and renewal; e) arrangements to be consolidated for local government management and maintenance; f) supervision of implementation would be supported by ongoing Sea Defense consultants. Implementation would be through Satkorlak, in conjunction with local governments.

**Reference Designation:** Civil Works Contract #3

**Subproject Name and Description:** Coastal Works protection, rehabilitation and management program.

Located in 10 areas most effected along the coast, this would consist of construction and management measures to address a) flood protection structures against sea damage; b) flood protection structures against storm water and river flow damage; c) actions to combat chronic beach and coastal erosion; d) select reconstruction of coastal structures and roads; and e) greenbelt and "soft" initiatives (see Annex 4 for details of Initial Analyses).

**Estimated Cost:** \$24.7m (may need to be divided into two or three contracts, depending on timing)

**Context and Rationale:** The damage done by the Tsunami to coastal infrastructure and existing terrain and land forms was enormous. Since the majority of the population of Aceh lived along the coastal plain, the costs were huge, with massive loss of life and destruction of assets and livelihoods. Human loss of life among these coastal communities was frequently over 25% (Calang) and even up to 47% (Lhoong), which has had a devastating social and economic impact. The destruction of housing and physical infrastructure was in most cases over 60% and often over 70%. In recent surveys, beach and dune erosion was found to have been serious, almost all coastal roads and marine structures were damaged or destroyed, and flooding from local rivers and normal rainfall was found to be significantly worse than before. Many of these problems are made worse by the flat terrain of the coastal plains and the lowering of natural ground levels caused by the various earthquakes. In addition, most of the river mouths have been blocked following these events, exacerbating flooding and causing widespread environmental damage and deterioration. The mountainous terrain of Aceh has necessitated the need for sea transport, and the construction of roads along the coastal regions; these vital economic links were substantially destroyed, together with the extensive aquaculture industry. At the same time, the people of Aceh have embarked, with Government and donor support, on a major large scale house reconstruction program, vital to meeting basic social needs, but seriously at risk of damage for natural hazards, in particular for the sea and local flooding.

The clear and present need to begin to address these difficulties was recognized by the BRR, and the Royal Government of the Netherlands has supported a team of specialists, to analyse options, develop sea defence and early warning strategies and mitigation measures, and move ahead with detailed subproject preparation. The recent spate of geological events in Indonesia highlights the need to rigorous technical analysis, followed by high quality implementation and construction of appropriate sea defence measures.

Benefits of the proposed investments work would accrue initially to to the entire coastal population of Aceh, and also to adjacent provinces of Sumatra. Communication linkages would be made to the national authorities, adding value to national hazard management efforts

**Status of Preparation:** Consultants engaged through Royal Netherlands Government support. Feasibility, site investigation and design work has commenced, DED and BD would be available for works in phases, commencing in 01/07. It is intended to bid activities in larger packages to the extent practical, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed

**Possible IRFF Candidate:** Yes: possibly FY 07, certainly FY08.

**Next Action to enable Implementation:** a) Safeguards pending. These are incorporated into consultants work plan, and funded through existing commitments; b) seek agreement with BRR to instruct consultants to prepare bid documents in format suitable for IRFF funding (procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national and local governments; d) design proposals to be reviewed by BRR team and other agencies involved with urban/township planning and renewal; e) arrangements to be consolidated for local government management and maintenance; f) supervision of

implementation would be supported by ongoing Sea Defense consultants. Implementation would be through BRR, in conjunction with local governments.

**Reference Designation:**            Civil Works Contract #9

**Subproject Name and Description:**    **Banda Aceh Village Infrastructure Services Program #4: 9 Villages:**

This would comprise the construction of roads, drainage, water reticulation and connecting on-site and local-level off-site infrastructure services. Services need to be provided for 9 villages in Meuraxa Kecamatan. These 9 villages have a total area of some 540 hectare, needing about 55 kilometres of roads and local streets, and some 60 kilometres of storm drains and 55 kilometres of water mains. (Program #1 is services for 2 Meuraxa Villages, already under construction; Program #2 is for 5 Meuraxa Villages, in final design; Program #3 is for Jeulingke Village in Kecamatan Syiah Kuala). Infrastructure services would connect to adjacent existing or planned services, aiming to complete Meuraxa Kecamatan (the most damaged area in Banda Aceh) as an integral program. (see Annex 4 for details of Initial Analyses).

**Estimated Cost:**            \$22.0m (may be divided into two or three contracts, depending on timing). Additional funding may be required, once the related interconnection secondary and primary services have been defined more clearly

**Context and Rationale:**            The damage done by the Tsunami to coastal infrastructure and existing terrain, infrastructure and housing was particularly extreme in Banda Aceh and parts of adjacent Aceh Besar. Loss of human life in some villages in Meuraxa in particular was up to 80%, as was much of the housing stock in some areas. House reconstruction has with donor, government and individual support gathered pace, but the provision of essential services has lagged behind. In the 16 villages, some 3,400 houses were destroyed, of which 2400 are planned to be rebuilt as part of the current ongoing donor and Government supported programs. It is expected however that in time, most if not all of the available house plots will be rebuilt on, stressing the need for and importance of fully functioning infrastructure services. The local level infrastructure reconstruction needs in the 16 Meuraxa villages, with a total area of some 820 hectare, are for about 135 kilometres of roads and local streets, and some 115 kilometres of storm drains and 132 kilometres of water mains. To these would be added plot access, sanitation and water connections. The importance of the related sea defence and early warning programs are fully recognized by BRR, to safeguard, in particular in the Banda Aceh case, the large scale house reconstruction program underway, followed by the provision of essential infrastructure services; Meuraxa in particular is seriously at risk of damage from natural hazards, in particular from both marine and storm water local flooding.

The need to begin to address these difficulties was recognized by the BRR, and the French Government has supported a team of specialists, to analyse reconstruction options, and move ahead, in conjunction with local level leadership, with a phased program for the design of appropriate infrastructure services.

Benefits of the proposed investments work would accrue initially to the Meuraxa communities in Banda Aceh, and also to adjacent areas in Banda Aceh, as implementation proceeds. The benefits would derive both from the practical physical improvement of living conditions in Meuraxa and

adjacent villages, and from the technical assistance team demonstrating a methodical approach to implementation.

**Status of Preparation:** Consultants SOGREAH engaged through French Government support, are working together with national consultants financed by BRR. Feasibility studies and community planning is substantially complete; topographical survey, site investigation and design work has commenced. DED and BD would be available for works in phases, commencing in 01/07. It is intended to bid activities in larger packages to the extent practical, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed. Safeguards and local level construction supervision provisions need to be made, as part of possible IRFF support.

**Possible IRFF Candidate:** Yes: possibly FY 07, certainly FY08.

**Next Action to enable Implementation:** a) Safeguards pending. These are incorporated into the consultants timing work plan, but need to be funded; b) seek agreement with BRR to instruct consultants to prepare bid documents in format suitable for IRFF funding ( procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national and local government; d) design proposals to be reviewed by BRR team and other agencies involved with urban/township planning and renewal; e) arrangements to be consolidated for local government management and maintenance; f) supervision of implementation would be supported by arrangement yet to be made by BRR with possible MDF support. Implementation would be through BRR, in conjunction with local government.

**Reference Designation:** Civil Works Contract #8

**Subproject Name and Description:** **Banda Aceh Village Infrastructure Services Program #3: Jeulingke Village:**

This would comprise the construction of roads, drainage, water reticulation and connecting on-site and local-level off-site infrastructure services. Services need to be provided for Jeulingke Village in Kecamatan Syiah Kuala. This village has a total area of some 950 hectare, needing about 17 kilometres of roads and local streets, and some 20 kilometres of storm drains and 17 kilometres of water mains. (Program #1 is services for 2 Meuraxa Villages, already under construction; Program #2 is for 5 Meuraxa Villages, in final design; Program #3 is for Jeulingke Village in Kecamatan Syiah Kuala). Infrastructure services would connect to adjacent existing or planned services, aiming to complete Jeulingke Village in Syiah Kuala Kecamatan, second most damaged area in Banda Aceh. (see Annex 4 for details of Initial Analyses).

**Estimated Cost:** \$7.0m. Additional funding may be required, once the related interconnection secondary and primary services have been defined more clearly

**Context and Rationale:** The damage done by the Tsunami to coastal infrastructure and existing terrain, infrastructure and housing was particularly extreme in Banda Aceh and parts of adjacent Aceh Besar. Loss of human life in parts of Jeulingke Village particular was about 25%. House reconstruction has with donor, government and individual support gathered pace, but the provision of essential services has lagged behind. Some 425 houses were destroyed, and are planned to be rebuilt as part of the current ongoing donor and Government supported programs.

It is expected however that in time, most if not all of the available house plots will be rebuilt on, stressing the need for and importance of fully functioning infrastructure services. The local level infrastructure reconstruction damage in the adjacent areas and villages especially towards the north was especially bad, and the reconstruction of services in Jeulingke will facilitate the effective construction in these badly deprived adjacent areas. As with Meuraxa, the importance of the related sea defence and early warning programs and the need to develop these in the exposed villages are fully recognized by BRR, to safeguard population and the large scale house reconstruction program underway. The provision of essential infrastructure services will enable this to be done more rationally. These coastal villages (part of Banda Aceh) are seriously at risk of damage from natural hazards, in particular from both marine and storm water local flooding.

The need to begin to address these difficulties was recognized by the BRR, and the French Government has supported a team of specialists, to analyse reconstruction options, and move ahead, in conjunction with local level leadership, with a phased program for the design of appropriate infrastructure services.

Benefits of the proposed investments work would accrue initially to the Jeuligke communities in Banda Aceh, and also to adjacent areas in Banda Aceh, as implementation proceeds. The benefits would derive both from the practical physical improvement of living conditions in their village and adjacent villages, and from the technical assistance team demonstrating a methodical approach to implementation.

**Status of Preparation:** Consultants SOGREAH engaged through French Government support, are working together with national consultants financed by BRR. Feasibility studies and community planning is substantially complete; topographical survey, site investigation and design work has commenced. DED and BD would be available for works in phases, commencing in 01/07. It is intended to bid activities in larger packages to the extent practical, to ensure procurement and management efficiencies, facilitate construction supervision and quality assurance, and seek the economic efficiencies to be gained through sharing mobilization costs of the large scale equipment that would be needed for the works. Bid documents not as yet prepared; format yet to be agreed. Safeguards and local level construction supervision provisions need to be made, as part of possible IRFF support.

**Possible IRFF Candidate:**                      **Yes: possibly FY 07, certainly FY08.**

**Next Action to enable Implementation:**                      a) Safeguards pending. These are incorporated into the consultants timing work plan, but need to be funded; b) seek agreement with BRR to instruct consultants to prepare bid documents in format suitable for IRFF funding ( procurement to be in accordance with World Bank Guidelines); c) proposals to be reviewed and cleared with national and local government; d) design proposals to be reviewed by BRR team and other agencies involved with urban/township planning and renewal; e) arrangements to be consolidated for local government management and maintenance; f) supervision of implementation would be supported by arrangement yet to be made by BRR with possible MDF support. Implementation would be through BRR, in conjunction with local government.

**IRFF Candidate Investment Pipeline Category B Subprojects: Preparation status yet to be fully Defined**

**Sector: Ports, Harbours and Fishing Ports**

Port or Activity	Description	Estimated Construction Cost - \$m	Source & Status of Preparation	Additional Prep. Req'd & Cost	Issues	Safeguards Req'd. & additional cost	Possible IRFF Candidate & FY
<b><u>Construction Works</u></b>							
Kreung Mane Fisheries Port	General fisheries port. Reconstruction of jetty and landside facilities	\$5.0m	Part of BRR-supported Ports Program. F/S, DED & BD required. Consultants for final prep. Not yet appointed.	Estimate: ConSpn \$0.25m	Safeguards would be required	Reqd. Additional \$0.2m needed	IRFF- Possible, depending on preparation status: FY 07 or 08
Teutom	Fisheries port	\$5.0m	BRR Designers appointed, DED,BDs by October 2006	ConSpn \$0.20m	BRR to arrange	BRR to arrange	BRR Direct funding
Remaining Nias Ports (Lahewa, Teluk Dalam, others TBD)	Variety of port works	Up to \$25m	DED prepared thru local consultants. BRR to finance directly. Probably several contracts	BRR ConSpn to be allocated	Initial Design Completed by BRR. Safeguard status under review. Funds needed for DED & BD if to be IRFF.	BRR	BRR direct Funding <b>IRFF</b> - Possible if preparation developed. Possible FY 08 or FY09

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

Lamno	Fisheries	\$3.0m	DED/BD by local consultants, due 09/06		Safeguard status under review	BRR	BRR direct funding or possible French funding of implementation
Malahayati	Reconstruction &				Bilateral funds,		

	dredging underway. Landside facilities still required	\$3.0m	DED & BD required. IREP Contract #4 Candidate	DED/BD/ConSpn funding \$0.3m. IREP # 4 Candidate	work well underway Safeguards would be required	Yes: \$0.2m	<b>IRFF- Yes FY 08 or 09</b>
Sabang	Temporary works under consideration	TBD	TBD	TBD	Ongoing support for Dublin Port Authority	TBD	Other/BRR
Ulele	Program underway, and fully funded. Breakwater protection and main sea wall may be required. See Sea Defense below						Australian support
Secondary Fishing Port Rehabilitation Program	3 year program for repair of some 12 secondary ports/fishing facilities	\$20.0m	DED/BD reqd. TORs under prep. (BRR). IREP Contract #4 Candidate	DED/BD/ ConSpn \$2.0m. IREP #4 Candidate	Safeguards would be required	Yes: \$0.2m	<b>IRFF – Yes FY07: preparation/DE D/BD FY08/09: implementation</b>
<b><u>Technical Assistance</u></b>							
Geohazard & Disaster Risk Mapping	Preparation of Aceh & Nias Geohazard & Disaster Risk Map & Implementation Policies	\$2.0m	Draft TORs under preparation (BRR)	GS Contract #4	Essential proactive technical input for all medium investment planning and infrastructure design	n/a	<b>IRFF - Yes FY07 through 09</b>



**Sector: Sea Defence and Main Drainage**

Infrastructure, Location or Activity	Description	Estimated Construction Cost - \$m	Source & Status of Preparation	Additional Prep. Req'd & Cost	Issues	Safeguards Req'd. & additional cost	Possible IRFF Candidate & FY
<u>Construction Works</u>							
Technical Assistance Assignments							

**Sector: Urban and Town Essential Municipal Services**

Infrastructure, Location or Activity	Description	Estimated Construction Cost - \$m	Source & Status of Preparation	Additional Prep. Req'd & Cost	Issues	Safeguards Req'd. & additional cost	Possible IRFF Candidate & FY
<u>Construction Works</u>							

Banda Aceh / Aceh Besar Village Infrastructure Services Program 5 (CW Contract #10)	Roads, access, drainage and water reticulation for 10 Villages	\$30.0m (CW Contract #10)	DED, BDs for 10 Villages under prep SOGREAH (Ph 2)	Engineering Survey will be needed. BRR funding	Support needed from French Government for SOGREAH Phase 2 assignment	To be Included in Phase 2 program	<b>IRFF – Yes</b> FY07 for preparation/DED FY08 & 09 for implementation
West Banda Aceh / West Aceh Besar Village Infrastructure Services Program 6 (CW Contract #11)	Roads, access, drainage and water reticulation for 8 Villages	\$20.0m (CW Contract #11)	DED, BDs for 8 Villages under prep SOGREAH (Ph 2)	Engineering Survey will be needed. BRR funding	Support needed from French Government for SOGREAH Phase 2 assignment	To be Included in Phase 2 program	<b>IRFF – Yes</b> FY07 for preparation/DED FY08 & 09 for implementation

Banda Aceh Urban Drainage & Solid Waste Clean Up Program (CW Contract #12)	Clean up and interim disposal of random garbage, and select repair of BA Urban Drainage system	\$15.0m (CW Contract #12)	DED, BDs for 5 Villages under prep SOGREAH (Ph 2)	Engineering Survey will be needed	Support needed from French Government for SOGREAH Phase 2 assignment	To be Included in Phase 2 program	IRFF – Yes FY07 for preparation/DED FY08 & 09 for implementation
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**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

Singkil Municipal Roads and Drainage Program (Phase 3) (CW Contract #20)	Principal drains, waterways and highway reconstruction or renewal.	\$10.0m (CW Contract #20)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 09/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	IRFF – Yes FY07 for preparation/DED FY08 & 09 for implementation
Simeulue Municipal Services Reconstruction Program (CW Contract #21)	Roads, access, local drainage and water reticulation for main township areas	\$15.0m (CW Contract #21)	IREP West Coast Consultants Team (WCCT) DED/BD BD ready approx 06/07	Engineering Survey will be needed. Included in WCCT IREP-supported contract	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	IRFF – Yes FY07 for preparation/DED FY08 & 09 for implementation

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

#### Sector: Roads and Transportation

Infrastructure, Location or Activity	Description	Estimated Construction Cost - \$m	Source & Status of Preparation	Additional Prep. Req'd & Cost	Issues	Safeguards Req'd. & additional cost	Possible IRFF Candidate & FY
<u>Construction Works</u>							

West Coast Link Roads to new National Section A Banda Aceh to Calang (CW Contract #24)	Roads to connect new USAID-supported road to settlements	\$18.0m (CW Contract #24)	IREP West Coast Consultants Team (WCCT) DED/BD plus USAID-supported consultants. BD ready approx 03/07	In IREP-supported WCCT assignment, incl. SPN	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 possible implementation commencement; FY08 & 09 for implementation
West Coast Link Roads to new National (USAID & Japan - supported) road Section B Calang to Meulaboh (CW Contract #25)	Roads to connect new USAID-supported road to settlements, plus upgrading 20 km of Meulaboh northern access road	\$18.0m (CW Contract #25)	IREP West Coast Consultants Team (WCCT) JICs & USAID-supported consultants. BD ready approx 06/07	In IREP-supported WCCT assignment, incl. SPN	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF – Yes</b> FY07 possible implementation commencement; FY08 & 09 for implementation

**Notes:** F/S = Feasibility Study; DED = Detailed Engineering Design; BD= Bid Documents suitable for bidding in accordance with Bank procurement guidelines; ConSpn= Construction Supervision; Safeguards= Environment Assessment, Social Assessment, Land acquisition and resettlement in accordance with Bank and Indonesian procedures; TBD = to be decided; CW = Civil works contracts; GS = Equipment, goods & services contracts;

West Coast Link Roads to new National road Section C Meulaboh to Sinkil (CW Contract #26)	Roads to connect new national road to settlements	\$10.0m (CW Contract #26)	IREP West Coast Consultants Team (WCCT) DED/BD plus JICs & USAID-supported Parsons. BD ready approx 06/07	In IREP-supported WCCT assignment, incl. SPN	Mobilization time for WCCT may delay	Incl in IREP-supported WCCT assignment	<b>IRFF</b> – Yes FY08 & 09 for implementation
<b>Technical Assistance Assignments</b>							

**Sector: Water Supply, Sanitation and Solid Waste Management**

<b>Infrastructure, Location or Activity</b>	<b>Description</b>	<b>Estimated Construction Cost - \$m</b>	<b>Source &amp; Status of Preparation</b>	<b>Additional Prep. Req'd &amp; Cost</b>	<b>Issues</b>	<b>Safeguards Req'd. &amp; additional cost</b>	<b>Possible IRFF Candidate &amp; FY</b>
<b>Construction Works</b>							
<b>Technical Assistance Assignments</b>							
Banda Aceh/Aceh Basar Regional Water Resources, Water Supply and Sanitation Master Plan & Feasibility Study (GS Contract #10)	Develop strategic options for long term Banda Aceh Regional urban water and waste management. Complete FS and Conceptual designs of proposed follow on investments.	\$1.50m (GS Contract #10)	TORs under preparation by BRR.  RFP out to bidders by 09/06				<b>IRFF</b> – Yes FY07 possible implementation commencement; FY08 complete Study

## ANNEX 12. SUMMARIES OF IRFF TECHNICAL ASSISTANCE TERMS OF REFERENCE

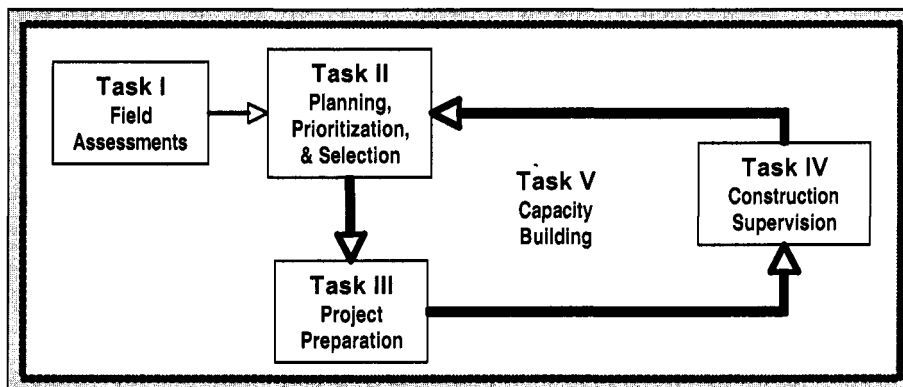
### A. INTRODUCTION

This annex provides the detailed scope of work and key tasks from the draft terms of reference (TOR) prepared for Aceh Besar, Banda Aceh and Sabang that are currently receiving support from existing contractual arrangements with Sogreah financed by the French Government until January 2007, but will be supported by IRFF henceforth between January 2007-January 2010. These three districts collectively form the North Coast logistical area. The North Coast TOR illustrates tasks to provide assistance to the local governments in strategic planning, subproject design and implementation, and institutional development support and training. The draft TORs for the two project components are in the project file.

### B. North Coast Infrastructure Planning, Design, and Construction Supervision (US\$2 million)

**Detailed scope of work.** Implementation of priority works should start as soon as feasible upon the Consultant's mobilization. The Consultant's first 6 months may not rigidly mirror the proposed project cycle (see Annex 1) as Consultants will utilize preexisting resources (plans, studies, project documents, etc) to deliver investments that are recognized as strategic priorities. The consultants will need to adopt flexible, creative, and pragmatic approaches. To the extent possible, specific responsibilities of the consultant are described below.

The program is divided into *preparation* (Tasks I, II, & III) and *investment* tasks (Tasks IV & V).



#### Task I – Field Assessments

##### *Data Collection*

The Consultant shall immediately collect and vet data that are relevant to the assignment. The BRR will provide the Consultant with copies of progress/stocktaking reports, all available base maps and aerial photography (digital form). Some topographic mapping may be available. The consultant should identify all communities that already have spatial and infrastructure plans, and examine their status and quality of the materials. The Consultant team should also examine existing natural hazard maps to determine whether the project will be implemented in an area vulnerable to natural hazards, such as floods, earthquakes, landslides, etc.

The Consultants will coordinate with and obtain information on the relevant programs of the key NGO/donors already working in the project area, especially those involved in housing settlements

and infrastructure. All of this data should be cataloged, and findings shared with the BRR and IPM consultants.

The Consultant will need to assess the availability, obtain copies of, and review key district government planning documents, where feasible and when available. Results will be cataloged and shared with the BRR. Important documents the Consultant should target include; *Renstra Strategis* (Five-year Strategic Plan), *PPJM-Perencanaan Pembangunan Jangka Menengah* (Medium-term Development Plan), *Polā Dasar Pembangunan* (Twenty-Development Framework), and *Rencana Pembangunan Satahun* (Annual Development Plan). Many of these documents were made before the tsunami. Although most of the materials will be outdated and with varying quality and utility – the Consultant will determine which aspects (district vision for development, priority investments, etc) of these documents are still applicable in the current context. The local government counterparts will assist the Consultant to verify that existing plans still have ‘buy-in’ from community stakeholders. By the time of consultant mobilization, some district level project prioritization work may be advanced. The Consultant should draw on existing work and established systems when still applicable, but will realistically have to fill in gaps to implement the program. The Consultant should provide professional advice to local governments on areas such as the overall feasibility and priorities of subprojects based on technical, economic, and sustainability criteria.

#### *Institutional Assessment*

The consultant will undertake a preliminary institutional analysis of each of the local governments in the project area. The assessment will evaluate current capacity for infrastructure delivery, on-going activities, and obvious areas requiring further support. This assessment will be at outline level, only in order to (i) provide a first view of the scale of capacity building needs of individual districts and as a group, (ii) determine strategies and approaches for best interacting with each local government, and (iii) identify the relative strengths of local governments and how they can be integrated with implementation of the TA program. After the consultants first 6 months, the Institutional assessment should be updated and prepared in more detail to form the basis for preparation of *Phase V – Capacity Building* works.

### **Task II – Planning, Prioritization, and Selection**

Upon mobilization the Consultant will work on two initiatives in parallel, the (i) Immediate Infrastructure Project Plan (IIPP) and the (ii) Annual Investment Plan (AIP). The Consultant will use findings from Task I (Field Assessments) and work closely with local governments and the BRR to develop criteria, prioritize, and select subprojects. Both the local government and the BRR must approve all subprojects within the IIPP and AIP before they can be implemented. IIPPs and AIPs will be made for each district government in the project area – both may be submitted to the BRR on a rolling basis upon completion (as opposed to bundling all district plans together) to expedite the process.

#### *Immediate Infrastructure Project Plan (IIPP)*

The Consultant will use its field assessments and selection criteria to quickly identify subprojects that are priorities of local governments, and BRR, and local stakeholders for inclusion into an *Immediate Infrastructure Project Plan* (IIPP). Many subprojects will already have been identified by earlier work conducted by Sogreah, funded by the French Government.

The intention of the IIPP is that the Consultant will immediately start preparation of select strategic subprojects for construction start with the first 6 months of mobilization. Both the local governments and the BRR must agree on the subprojects. The Consultant shall provide

professional guidance and review existing planning, subproject selection, and preparation works of the local governments, the BRR, or other organization. Selected subprojects should be non-contentious (low safeguards risks, widespread acceptance by local stakeholders, etc), ideally be priority investments supporting the housing and shelter programs, and/or provide immediate relief to communities still suffering from damages from the disaster, and meet the eligibility criteria for subprojects to be financed by IRFF outlined in Annex 4. The IIPP shall be developed in close coordination with the local governments.

The IIPP will contain an initial estimate of the cost of the works, subproject descriptions, rational for inclusion in the IIPP, schedule of works, and expected impacts/benefits. The consultant will submit the IIPP to the local government for approval, then to the BRR. Once cleared by the BRR, procurement of contractors for IIPP subprojects can begin. The first IIPP should be submitted to the BRR for review 2 months after mobilization.

#### *Annual Investment Plan (AIP)*

The consultants will work closely with the district governments (Office of the Bupati, Bappeda, Public Works, and other relevant agencies) and BRR to analyze alternatives, prepare feasibility studies, and identify priority investments for each of the district governments in the AIP.

The AIPs identify and evaluate the districts' priority infrastructure investments to support *Initiative 1* infrastructure. Infrastructure under Initiatives 2, 3, 4, & 5 are under the scope of other consultancies under the IREP framework<sup>47</sup>. The AIP will recommend the investments best suited for funding support from the BRR, and those, which should be developed and financed by the local government, province, or other sources of support such as NGOs or donors. AIP subprojects supported by the BRR must be coordinated with, and fit within the BRR's IREP framework.

AIP subprojects should be at the kabupaten level, but in some cases it may be sensible and cost effective to include some sub-district investments. In these cases, sub-district investments will need to be coordinated closely within the BRR with the Office of the Deputy of Housing and Settlements.

The BRR (through the Chief of the IREP PMU) and IPM consultants will develop the format and a guideline of the AIP, as well as the general criteria for AIP subprojects to be funded by the BRR. In general, the expected content of the AIP will be to provide all agreed infrastructure locations, key levels, proposed layout of services (roads, water distribution system, drainage system, IT and electricity distribution system etc.) as well as (i) design parameters to be used in the DED, (ii) details of any recommended phasing, showing clearly the first phase works, (iii) recommended procurement and implementation proposals and schedules, (iv) initial capacity building needs for sustainable operation and maintenance of the systems (v) an updated capital cost estimate of the recommended works and an estimate of the recurrent annual operation and maintenance costs, and (v) a feasibility study when required. The AIP is submitted to the district government for approval, and then to the IREP PMU.

Environmental and social screening of 'approved' AIP (and IIPP) subprojects will be carried out by the IREP PMU in order to determine what technical documents are required. The BRR will be responsible for screening supported by IPM team safeguards specialists reviewing all subprojects submitted. Screening results will be formally communicated to the respective local governments

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<sup>47</sup> The Infrastructure Rehabilitation Enabling Program (IREP) consists of the Infrastructure Program Management, PDCS-Nias, and Strategic Infrastructure consultants.

and to relevant local environmental authority. The Consultant (supported by the local governments) will be responsible for preparing required technical documents (LARAP, AMDAL, DED, etc). It is expected that approximately 10-15% of the subprojects prepared under this TA will require AMDAL and/or LARAP, and that a further 40-50% will require UKL/UPL and/or abbreviated LARAP.

The BRR's Infrastructure Board within the IREP PMU will review the AIPs (with support from the IPM consultants). The first round of AIPs (already approved by local governments) should be submitted on a rolling, 'as ready,' basis within 3 months of mobilization. AIPs will be updated every six months to adjust for changes in the implementation schedule, or to initiate new programs. The Chief Operating Officer of the BRR will approve the individual subprojects to be supported. Once subprojects are approved, the BRR Infrastructure Procurement Committee will initiate procurement (expressions of interest, etc) in a parallel process, while the consultant prepares the detailed engineering designs and tender documents (DED&TD).

### **Task III – Subproject Preparation**

#### *Detailed Engineering Designs and Tender Documents (DED & TD)*

The Consultant will be responsible to prepare detailed engineering designs and tender documents (DED & TD) for all of the approved works in the IPPs and AIPs supported under IREP. This includes preparation of detailed specifications, bill of quantities for civil works, schedule of requirements for goods, tender drawings and contract documentation in accordance with Indonesian National, Provincial and other relevant standards guidelines and instructions. The IPM consultant will support coordination and harmonization of standards and technical solutions to facilitate operations and maintenance, considering the tradition of poor maintenance.

Review and final approval of all required environmental and social studies will be a precondition for completion of detailed design, which will have to demonstrate how social and environmental mitigation has been handled, and possibly integrated into detailed subproject designs. The BRR will review and sign off on all completed DED & TDs, including further safeguards review to ensure key impacts identified have been adequately addressed.

During detailed engineering design, the consultant will undertake the necessary field studies and document preparation activities, including refinement as needed to the proposed list of IIPP & AIP approved subprojects, required environmental and social work, and preparation of detailed engineering and bidding documents. These activities should be carried out by field supervision teams in the most cost-effective manner. The activities to be covered during the detailed engineering phase of the assignment include:

- a. review and finalization of IIPP and AIP works plans, including review and updating of preliminary engineering reports, economic evaluation, and social and environmental screening of approved subprojects;
- b. preparation of environmental/safeguards documents, including LARAPs and AMDALs,
- c. social assessment and preparation of resettlement action plans (RAPs) and ethnic minority development plans (EMDP/IPDP), as determined are needed
- d. topographic surveys,
- e. for roads, material source surveys locating sites of borrow pits and aggregate quarries and identify sufficient quantity and quality of each fill and aggregate materials at economic haul distance, and carry out laboratory testing as required to ensure that identified materials meet design specifications.



- f. geological and soil investigations; including foundation investigation as required for design for bridges and culverts, soil sampling and testing for roads and other tests as needed for professional detailed engineering design of works;
- g. hydrological investigations and calculations as required for bridge, culvert and drainage design including review of existing hydrological data, meteorological data, and carrying out additional hydrological survey if necessary.
- h. detailed, safe, economic, complete engineering design for IREP supported roads and short bridges (<25 meters), including detailed design of vertical and horizontal alignments, cross sections, , pavement structures; drainage, culverts and other structures such as retaining walls, causeways, river training and river bank protection and approaches; and preparation of all related detailed engineering drawings and setting out data,
- i. preliminary preparation of construction methods and schedules as bases for cost estimates, and identification of critical equipment/personnel needs for quality works, packaging of works, and schedules,
- j. preparation of detailed cost estimates, including preparation of detailed analysis of inputs and prices for items such as labor, materials, equipment, tax, overhead, profit, etc, breakdown of the foreign currency and local currency requirements, and preparation of the related disbursement schedules,
- k. preparation of complete bidding documents following applicable World Bank or National Standard Bidding Document specifically detailing how design standards will be met and quality assured by the contractor
- l. prepare an updated capital cost estimates of the DED works and an estimate of the recurrent annual operation and maintenance costs,
- m. prepare a DED Report (i) summarizing the main points of the DED, including any variation(s) from the AIP recommendations with justification for the variation(s) (ii) recommendations for the provision of local technical support for supervision of construction of the works giving details of staff time inputs, level of experience required and terms of reference,
- n. coordination with the IREP PMU for tendering of works as required.

#### **Task IV -- Construction Supervision**

The Consultant will be responsible for construction supervision of the civil works under IREP, and specifically to act as the “Engineer/Contracts Manager” as defined in the construction contract documents. The Consultants broad responsibilities include;

- a. provide documents and support as required for the efficient competitive procurement by BRR / IPM consultant of studies, equipment and construction works following World Bank Procurement Guidelines or BRR’s Procurement Guidelines, whichever is applicable,
- b. ensure contractual establishment of contractors and supervision consultants on sites including appropriate staff, equipment, laboratories and other facilities for contractual work capacity and quality. Subprojects will be supervised directly by the Consultant.
- c. develop a format for a Monthly Construction Progress Report (MCPR) to monitor the physical and financial progress of the works. The BRR and IPM consultants shall approve the MCPR format, and the Consultant shall train appropriate personnel how to prepare and submit the report,
- d. participate in monthly meetings arranged and attended by the BRR, the local government, and the construction contractor(s) to discuss progress of each contract package and other

- issues to be addressed. The Consultant shall prepare and submit meeting minutes for each monthly meeting,
- e. establish appropriate quality monitoring and reporting procedures and develop contractors' quality assurance/ quality control systems,
- f. review each contractor's MCPR and prepare a summary for all contracts,
- g. prepare Final Engineering Reports; including review for accuracy the 'As Built' drawings prepared by the Contractor for all the works prepare progress reports for each contract in a form acceptable to the BRR. These reports will include, as a minimum, details of the physical and financial status of each contract, details of delays and the budgetary effect of particular problems with suggested solutions,

During construction supervision the Consultant will supervise a team consisting of the appropriate professional skills as mentioned in the job descriptions. Their scope of activities generally follows;

- j. provide such information as is necessary for the Contractor to set out the works and check that the setting out is correct,
- k. review and approve the Contractor's work proposals, working drawing drawings etc. to the extent, required by the contract, advise modifications where necessary and approve these proposals,
- l. review and approve the Contractor's work program and, where necessary, request revisions of these to account for the current status of the works, ensure adherence to the construction schedule,
- m. agree with the Contractor on systems of measurement for interim payment certificates and verify the quantities for such certificates,
- n. make recommendations to the BRR on the Contractor's claims for additional payment, extension of time and other matters, based on the Consultant's interpretation of the Contract documents, the relevant site conditions and the Contractor's detailed submissions,
- o. in the event of variations to the works being required, prepare the necessary documents, negotiate these with the Contractor and submit these to the BRR for approval,
- p. through inspectors of works and other site staff as may be required, supervise the day-to-day operations of the contractor to ensure quality of workmanship and compliance with the contract, including day-to-day monitoring of environmental compliance,
- q. maintain detailed daily diaries, photographs and documents concerning relevant events and activities, call and keep minutes of routine site meetings between the parties to the Contract,
- r. carry out final inspections of the works and recommend the issue of completion certificate,
- s. check the Contractor's final accounts and certify them correct for payment,
- t. prepare completion reports in a form acceptable to BRR,
- u. provide any other specialized services as may be necessary and agreed upon.

Quality management is required to ensure that the proposed investments are economically, financially, and institutionally sustainable and have positive health and social impacts. The overall BRR (and specifically IREP) program execution shall be monitored with the support of a Management Information System (MIS) administered by the IREP IPM consultant. The Consultants will work closely with the BRR and IPM consultant on all aspects of quality control, including:

- ensuring infrastructure components included in the Annual Investment Plan follow the BRR and IPM consultants guidelines on meeting economic, social, and environmental criteria, and

also equitable distribution between districts, connectivity, and integration with the housing program, peach process, and economic development,

- ensuring that appropriate bidding documents for civil works and goods, and ToRs for consultant services are used,
- introduction of quality assurance systems, incentives, penalties, technical audit, extended guarantee and maintenance periods, and performance based maintenance contracts, and
- establishing appropriate quality monitoring and reporting procedures.

### **Task V – Capacity Building**

The current capacities of the district governments in the project area are low, and vary between districts. It is anticipated that at the beginning of this project, the consultant and BRR will play a greater role in provision of the district level infrastructure. Local governments have expressed the importance and need for increasing capacity. It is a goal of the BRR and the IREP program to incrementally transfer greater responsibilities (in planning, budgeting, procurement, construction management, and operations and maintenance) from the BRR to the local governments in preparation of BRR's departure. The capacity building program will be divided into three tasks, (i) 'teaming-up' transfer of knowledge, (ii) capacity building preparation, and (iii) implementation.

Due to the urgency of expediting subprojects (to support the escalating housing program), the consultant will adopt a pragmatic 'learning by doing' approach for increasing the capacity of local governments. The Consultant will use the *Outline Institutional Assessment* (prepared in Task I) to find opportunities to 'team-up' with local government staff, utilizing their existing skills to engage them (however feasible) into the subproject. For example, staff from the district public works office could work with the consultant's design team to prepare subprojects and while transferring skills and knowledge from the Consultant on current best practices. The Consultant should highlight in its *Monthly and Annual Status Reports* collaborative 'teaming-up' arrangements it has developed. The Consultant should seek ways of engaging local government at the start, and increasing activities throughout the project.

The Consultant will use the *Final Institutional Assessment* to identify the relative strengths and weakness of district governments to prepare a program for capacity building training and organizational strengthening. Based on the expected IREP works program, and anticipated needs after the BRR's departure – the consultant will recommend areas for targeted training. These recommendations will be submitted (as an annex to the *Final Institutional Assessment*) to the BRR and IPM consultants. The Consultants will coordinate with the BRR/IREP consultants to develop local government capacity building programs. Where key gaps exist, The Consultant will recommend specific programs in the areas of planning, budgeting, revenue improvement, procurement, safeguards preparation, operations and maintenance, for example.

The Consultant will coordinate and implement the capacity building training programs. Programs should start within 9 months of the Consultants mobilization. Local governments will be expected to contribute budget for trainings, with other sources of funding from provincial and central government. The Consultant should develop partnerships with NGOs and donors already involved in local government capacity building. Programs should be conducted locally to maximize IREP program funds.

### ANNEX 13. PROJECT PREPARATION AND SUPERVISION

	<b>Planned</b>	<b>Actual</b>
Project Concept Review by MDF	6/20/06	6/20/06
Initial PID to PIC	8/10/06	8/10/06
Initial ISDS to PIC	8/10/06	8/10/06
Appraisal	7/27/06	7/27/06
Board/RVP approval	9/15/06	
Planned date of effectiveness	10/15/06	
Planned closing date	6/30/12	

Key institutions responsible for preparation of the project:

1. Agency for the Reconstruction of Aceh and Nias (BRR)
2. World Bank

Bank staff and consultants who worked on the project included:

<b>Name</b>	<b>Title</b>	<b>Unit</b>
Aniruddha Dasgupta	Lead Urban Planner, (Task Team Leader)	EASUR
Michel Kerf	Infrastructure Policy Advisor	EASIN
Dean Cira	Senior Urban Specialist	EASUR
Imad Saleh	Lead Procurement Specialist	EAPCO
Unggul Suprayitno	Financial Management Specialist	EAPCO
Steven Burgess	Senior Social Development Specialist	EASSD
Melinda Good	Senior Counsel	LEGEA
Andre Bald	Infrastructure Specialist (consultant)	EASUR
Angus Mackay	Environment Advisor (consultant)	EASEN
David Sislen	Senior Infrastructure Economist	LCSFU
Geoffrey Read	Municipal Infrastructure Spec. (consultant)	EASUR
Anders Bonde	Transport Adviser (consultant)	EASTR
John Cameron	Financial Management Specialist (consultant)	EASUR
Kalpana Seethapalli	Infrastructure Economist (consultant)	EASIN

Bank funds expended to date on project preparation:

1. Bank resources: US\$120,500<sup>48</sup>
2. Trust funds: US\$ 0
3. Total: US\$120,500

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$50,000
2. Estimated annual supervision cost: US\$450,000

<sup>48</sup> Surplus funds from IREP BB (Bank Budget) resources were used for IRFF preparation.

## MAP SECTION



INDONESIA

INFRASTRUCTURE RECONSTRUCTION AND  
REHABILITATION PROGRAM FOR ACEH AND NIAS

PROJECT AREAS

NATIONAL ROADS

PROVINCIAL ROADS

RAILROADS

SELECTED CITIES AND TOWNS

KABUPATEN CAPITALS

PROVINCE CAPITAL

KABUPATEN BOUNDARIES

PROVINCE BOUNDARY

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