

The ETESP Experience

Presentation at the Workshop on
Learning from the Indian Ocean Tsunami:
ADB's Response in Indonesia

– ADB Headquarters –
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by

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OUTLINE

1. The Context
2. ETESP and Its Implementation
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4. ETESP's Implementation Issues
5. Lessons



1. The Context

The Context

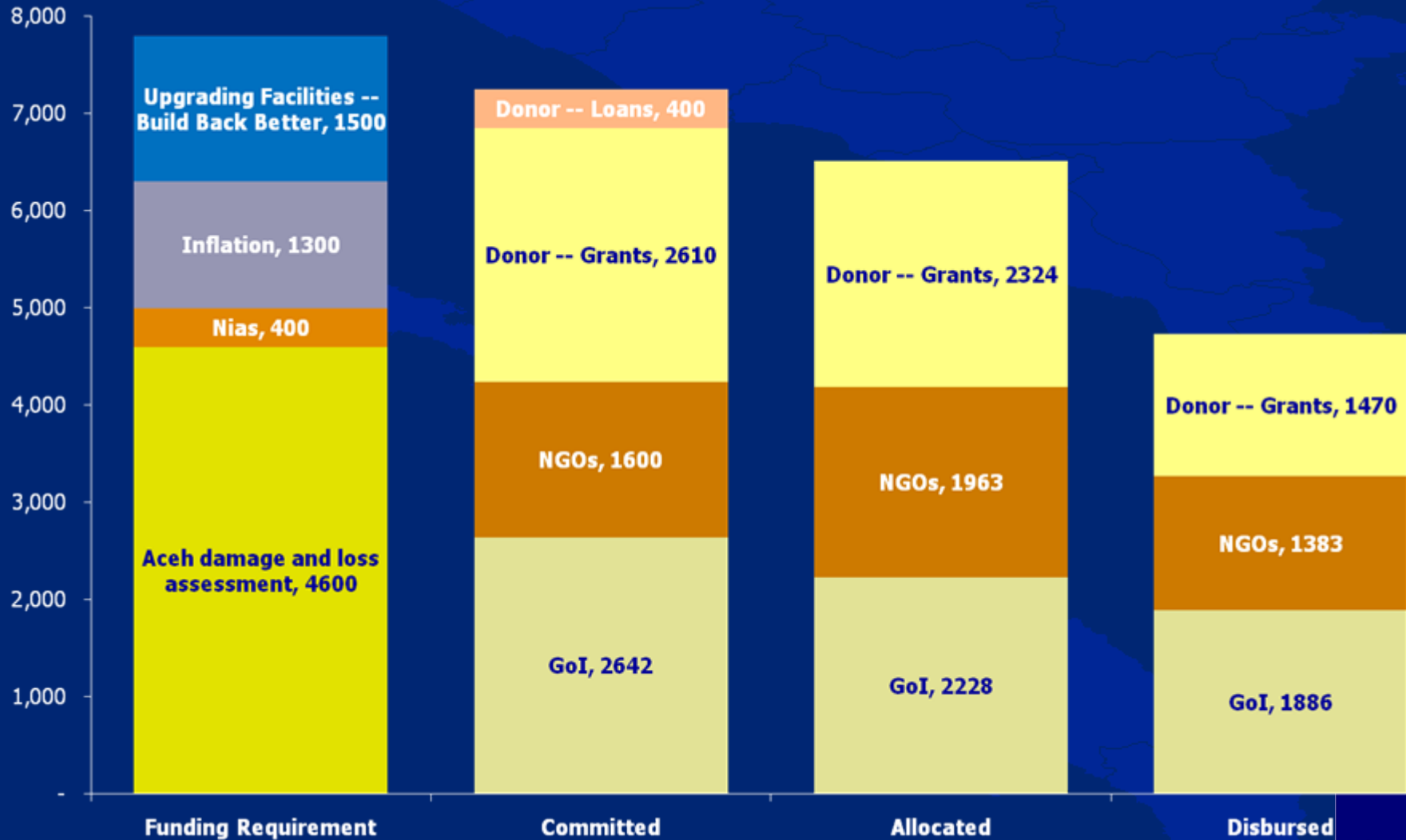
- Massive destruction in Aceh Province and Nias Island caused by the tsunami of December 2004 and the earthquake of March 2005
- Besides heavy loss of life, institutional capacity of provincial and local government agencies severely degraded
- Communities in coastal areas hit by the tsunami in shock
- Most tsunami affected communities also affected by decades-long conflict

- In response to the disaster, the Government established in April 2005 a new agency – the **Reconstruction and Rehabilitation Agency (BRR)** for Aceh and Nias– with a four-year mandate to lead and coordinate reconstruction program and also to execute projects

A unique agency with effective management reporting directly to the Indonesian President; greatly reduced bureaucracy >>> helped implement the massive reconstruction program in four years

- Overwhelming grant financing from national and international sources >> *allowed "building back better"*
- NGOs join bilateral agencies and development partners with financial and human resources
- Establishment of the \$676 million Multi Donor Fund with World Bank as Trustee
- ADB contribution totaling over \$325 million >> *ETESP with \$294.5 million is one of the largest disaster reconstruction projects ever*
- Unprecedented reconstruction program financed by government, international and bilateral agencies, and NGOs executed in less than five years

More than \$5 billion spent on rehabilitation and reconstruction (31 December 2008)



A faint, light blue map of the Philippines is visible in the background of the slide. The map shows the main islands and surrounding smaller islands, with a darker blue outline for the country's borders.

2. ETESP and Its implementation

ETESP and Its Implementation

- Original Schedule: Completion initially scheduled in June 2008, with grant closure in December 2008
- Revised Schedule: Current physical completion: 97% and full completion during Q1 2010; grant closure by September 2010 - over \$70 million yet to be disbursed
- Extended Mission in Sumatera (EMS) operational since July 2005; closed in June 2009; ETESP Management Office (EMO) moved to IRM
- Executing Agency (EA): BRR from June 2005 to April 2009, BAPPENAS after that
- Implementing Agencies: Line ministries until early 2006, thereafter BRR until April 2009 with 2 line ministries

Contract Awards and Utilization

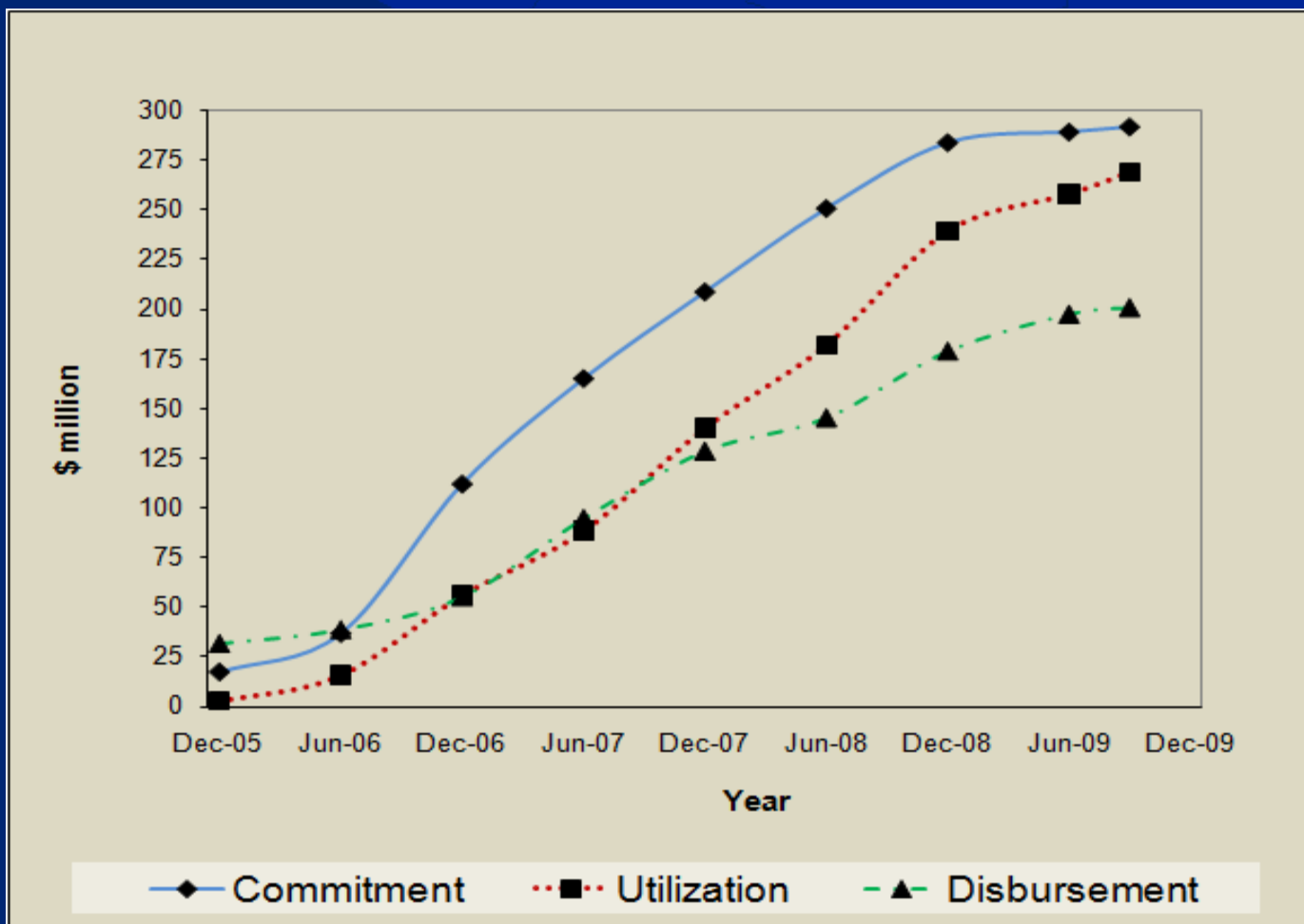
June 2005 – October 2009

Component	Allocation (\$ Million)	Contracts (\$ Million)	Utilization (\$ million)	Contracts (%)	Utilization (%)
Agriculture	31.67	32.92	31.91	103.95	100.77
Fisheries	27.19	27.40	26.47	100.76	97.36
Micro and Small Enterprises	14.48	14.27	12.16	98.56	84.01
Health	11.32	11.88	11.33	104.95	100.16
Education	16.50	15.96	15.25	96.70	92.42
Rural Water Supply and Sanitation	7.00	6.53	5.66	93.34	80.88
Housing	73.57	73.73	66.64	100.21	90.58
Irrigation	29.15	29.83	29.18	102.33	100.11
Spatial Planning and Environmental Management	17.50	17.25	14.33	98.58	81.86
Roads and Bridges	39.00	37.84	34.56	97.02	88.62
Power	9.63	9.68	9.57	100.55	99.38
Fiduciary Oversight (ATF)	14.00	12.76	11.52	91.14	82.31
Total (ETESP)	291.00	290.04	268.59	99.67	92.30
Fiduciary Oversight (The Netherlands grant)	3.50	3.63	3.50	103.85	100.00
Total	294.50	293.67	272.09	99.72	92.39

Utilization = payments made by government for on-budget expenditures + payments made by ADB for off-budget expenditures

Commitment, utilization and disbursement

June 2005 – October 2009



***Government prefinanced up to \$69 million
...this can partly be explained by the huge
number of contracts that need to be processed***

Item	Oct 09
Number of contracts awarded	6,808
Net value of contracts awarded (million)	293.7
Value per contract (\$,000 eq)	43



3. ETESP Innovations

ETESP has introduced well received and impactful innovations

- "...ADB decentralized its decision-making processes by creating an extended mission in Sumatera (based in Banda Aceh), and certain project decisions were reviewed post-facto. Subprojects could be implemented once approved by the Government and BRR, under the condition that ADB financing would not be provided in cases where Government or ADB procedures had not been followed.

This removed an entire layer of decision-making process, thus enabling quicker action from the project preparation and appraisal phases all the way through to execution."

BRR. April 2009. 10 Management Lessons for Host Governments Coordinating Disaster Reconstruction. Jakarta

- *"...it would be useful to evaluate the experience of the ADB....[why did a traditionally conservative organization like the ADB allow full decentralization of authority and ex-post review of contract awards? And why have only \$5 million of the \$300 million in contracts been disallowed ..."*

Decentralized ADB oversight and administration

- ADB established EMS - operational in July 2005 - with a Project Management Office (PMO) in Banda Aceh close to project sites
 - Team composed of 1 full-time ADB staff with consultants engaged during various stages of implementation (peak period: 11 international and 8 national consultants)
- PMO organized along component oversight, cross-cutting issues/safeguards and grant administration
- Component oversight delegated to EMS gradually, beginning in late 2005 and completed in 2007 with 1 component administered by IRM in tandem with Grant 0003 – CWSHP

Decentralization of subproject approval and implementation supervision to EMS proved effective and efficient >> should have been done earlier

Innovations throughout project design and implementation processes

Innovations:

- Post facto review of contracts by ADB
- Engagement of design and implementation consultants by ADB
- Thresholds and ceilings for procurement modalities adjusted to expedite contract awards
- Approx 4,000 community contracts

Innovation: Evaluation is being undertaken by component and other consultants engaged BEFORE project closure



Innovation: flexible sector modality

Innovation: simplified preparation and approval while maintaining environmental and social safeguards; review and approval delegated to EMS. Harmonized ADB and government environmental impact assessment procedures.

Innovation: on and off-budget modalities. Engagement of UN-Habitat, IOM and NGOs to undertake housing construction

Innovations: oversight delegated to EMS/PMO. ADB engaged consultants to assist in supervision

On-Budget and Off-Budget Modalities

(\$ million)
(October 2009)

Item	On-budget		Off-budget		Total	
	value	(%)	value	(%)	value	(%)
Grant	177.3	60%	117.2	40%	294.5	100%
Consulting services	0	0%	60.9	21%	60.9	21%
Capacity Building	20.7	7%	0	0%	20.7	7%
Housing projects	36.7	12%	36.3	12%	73	25%
Civil works	77	26%	0	0%	77	26%
Equipment	24.8	8%	10	3%	34.8	12%
Project Management	8.6	3%	10	3%	18.6	6%
Others	9.5	3%	0	0%	9.5	3%

Modality vs. ceiling – Civil Works

Modality	Regular Procedure (\$ million)	Under ETESP (\$ million)
Direct contracting	limited	< \$100,000
Limited local competitive bidding	n/a	< \$500,000
Local competitive bidding	< \$5,000,000	< \$5,000,000
International competitive bidding	> \$5,000,000	> \$5,000,000
Community contracting	< \$10,000	< \$30,000

Not used except for one international shopping package

Modality vs. ceiling – Consulting Services

Modality	Regular Procedure (\$ million)	Under ETESP (\$ million)
Biodata, QCBS	< \$600,000	< \$2,000,000
Simplified technical proposal, QCBS	< \$600,000	> \$2,000,000
Single source selection, SSS	limited	as required

Community Contracts/ Block Grants

- About \$40 million of ETESP funds channeled directly to some 1,000 villages through >4,000 community contracts and block grants
- Supported by community facilitators engaged under ETESP (through NGO and consultants)
- Main benefits:
 - reconstruction funds reached community groups directly, thereby creating immediate local-level employment
 - adoption of local knowledge and experience facilitated
 - ownership of reestablished assets by community members enhanced
 - lower-cost and better quality construction compared with that performed by contractors

Ceiling of \$30,000 for community contracts not efficient for some reconstruction works >> higher ceiling may need to be considered for future events

Engagement of consultants and administration of contracts (1)

- Because of BRR's limited implementation capacity, more consultants were needed for project preparation and implementation supervision than for "normal" projects

the cost of consulting services inclusive of capacity building reached 20% - \$69 million

more than 35 firms engaged by ADB through nearly 50 contracts; more than 40 individual consultants also engaged

- Streamlined procedures for tsunami operations approved in February 2005 helped early mobilization of consultants; engagement by ADB

Engagement of consultants and administration of contracts (2)

- For several components, single firm engaged to undertake subproject design, provide administrative and technical support for procurement, oversee and provide technical support for implementation and draft evaluation
- Flexibilities for contract variations >> numerous variations to reflect evolving realities on the ground; most contracts extended
 - *Because of staff constraint within EMS and COSO, finalization of numerous variations took time which sometimes affected implementation >> several firms had to pre-finance project expenditures*

A dark blue map of the Philippines is centered on the slide. The map shows the outlines of the major islands: Luzon, Visayas, and Mindanao. The text '4. ETESP's Implementation Issues' is overlaid on the map. A yellow vertical bar is on the left side of the slide.

4. ETESP's Implementation Issues

Issues across different stages of implementation process (1)

- Government did not use the retroactive financing option of up to 30% of the grant amount because of need to provide required documentation >> *difficult under disaster situation*
- Upfront allocation of grant proceeds among sectors and categories not helpful as this was considered too rigid >> *leading to preparation of some subprojects that were later abandoned by BRR*
- Complex government budgetary process made timely implementation difficult; *budget approval process took considerable time despite emergency conditions*
- GOI annual appointment and re-appointment of PIUs not helpful >> *limited responsibility, lack of ownership and commitment; repeating of learning process each year*

Issues in specific stages of implementation process (2)

Procurement

- Post-facto procurement review and approval process allowed implementation of most components within BRR's time frame.
 - For on-budget procurement: local procurement mostly following government procedures. However, following problems were observed:
 - i. Some PIUs reluctant to use ADB's fast-track procurement procedures as these were not in line with government procedures,
 - ii. Some PIUs did not fully comply with government's own procedures (lack of experience, etc)
 - iii. Some PIUs did not heed documentation and administrative aspects of the procurement process
- *As a result, procurement and post-facto review by EMS was time consuming as contracts or other documents necessary for review were not prepared in time or misplaced.*
- *And, some contracts became ineligible for ETESP financing (valued at \$6 million at the end of October 2009)*

Issues in specific stages of implementation process (3)

Implementation

- Off-budget engagement of NGO and other partners directly by ADB for housing construction was a “first” for ADB
- Most NGOs operated in remote and inaccessible areas that led to extended implementation period
- Special ADB-partner “Agreement” developed and applied for all off-budget partners on semi-turnkey basis

BUT

- *All partners faced difficulties in meeting project preparation requirements in terms of documentation and environmental and social safeguards*
- *Some partners performed well others had difficulties because of internal management and personnel issues.*
- *Unfamiliarity of off-budget partners with ADB procedures and guidelines delayed procurement of materials and execution of civil works subcontracts*

Issues in consulting services

Considering time required by the Government agencies to engage consultants, all consultants (and also the off-budget partners) were engaged by ADB

- Project implementation consultants engaged by ADB to “assist” the PIUs >>> *consultants could not, therefore, be assigned the role of “engineer” and had no or limited authority to instruct contractors*
- Project’s changing requirements and extended implementation period resulted in large number of contract variations, i.e. replacement of experts, new expertise, time extensions >>> *this put pressure on EMS and COSO; some consultants had to pre-finance expenditures to maintain project activities*

A stylized map of Indonesia is shown in a lighter shade of blue against a dark blue background. The map includes the main islands of Sumatra, Java, Sulawesi, and Irian Jaya, along with numerous smaller islands and archipelagos. The map is oriented horizontally and occupies most of the slide's area.

5. Lessons

Lessons: Project Design

1. Adopt a flexible sector modality with no subproject ceilings and general selection criteria facilitate design of need-based reconstruction projects through simplified documentation >>> *ETESP subproject appraisal and preparation process/ reports worked well*
2. Do not compete with others such as bilateral agencies or NGOs that can deliver early recovery support more quickly, but select a few early recovery activities to demonstrate on the ground ADB commitment >>> *off-budget mechanisms such as livelihood restoration through Mercy Corps under ETESP could be adopted. Recently established Asia Pacific Disaster Reconstruction Fund (APDRF) provides a vehicle.*
3. Remain selective, do not cover too many sectors, include sectors that are unlikely to receive support from other partners >> *under ETESP: support for Government audit agencies, the Special Treasury Office*
4. Consider off-budget execution when capacity of government has been eroded or stretched >>> *ETESP off-budget mechanisms for housing; "oversight" consultants deployed to supervise and monitor off-budget partners - kept distance between EMS and partners*

Lessons: Funding and Allocation

1. Consider ADB project/ funding of sizable reconstruction project, leaving smaller operations to be channeled through multi-donor funds (MDFs) where possible to minimize transaction costs
2. Consider partner agency role within MDF framework >>> *but Aceh-Nias MDF too complicated in terms of processes and documentation*
3. Need for retroactive financing should be carefully assessed and documentation requirements simplified >>> *not used under ETESP*
4. Grant allocations among components should not be fixed initially/ upfront >> *"mistake" under ETESP since it initially reduced flexibility to respond to evolving needs or "gap-filling"*
5. Avoid support for development-oriented activities >>> *ETESP examples: strengthening of finance institutions, mental health and nursing*

Lessons: Implementation

1. Adopt both on-budget and off-budget implementation arrangement for civil works (besides consultant engagement), with comprehensive assessment of project management capabilities of NGOs/ other off-budget partners
2. When off-budget modality for construction supervision is adopted, allow ADB engaged consultants to assume full responsibility for contract supervision and administration on behalf of EA
3. Off-budget modality: consider also turn-key EPC (engineering, procurement, construction) contracts for implementation of infrastructure works; ETESP off-budget "Agreement" to be reviewed to serve as "model"
4. Post-facto procurement review is feasible but for each new PIU, first few contracts should be reviewed on prior-review basis to ensure compliance and avoid ineligible contracts

Lessons: Institutional Aspects

- Establish field office immediately upon approval, delegate administration and supervision as soon as possible with more staff including from COSO (and CTL ?)



Thank you

For more information please visit:
www.adb.org/projects/etesp