

**Progress Report
Indonesia: ADB's Emergency Assistance Program
for
Aceh and North Sumatra**

I. INTRODUCTION

1. Indonesia suffered the largest human loss and physical damage from the earthquake and tsunami that hit the Indian Ocean Rim on 26 December 2004. The broad strategic thrust of response from the Asian Development Bank (ADB) has been encapsulated in a Memorandum of Understanding (MOU) signed between the Government of Indonesia and ADB on 5 January 2005. The MOU envisages a multi-pronged approach: (i) reprogramming of ongoing projects, (ii) expanding the scope of projects at an advanced processing stage to add components focused on Aceh and North Sumatra, and (iii) processing a new project financed from the recently approved Asian Tsunami Fund (ATF). Requirements have also been identified for five small projects to be financed from the Japan Fund for Poverty Reduction (JFPR). Finally, a technical assistance (TA) program is being structured to facilitate the development of sector and participatory approaches and subproject proposals and their implementation. This paper describes the current status of ADB's overall support for Aceh and North Sumatra assistance. Management has approved (i) and implementation of this is being initiated. Under (ii), the 2005 project for Community Water Services and Health will be submitted to the Board in April 2005; and on (iii), the Government has signed a MOU with ADB for an assistance package of \$300 million.

II. BACKGROUND

2. The earthquake and tsunami destroyed large parts of the cities of Banda Aceh and Meulaboh; the coast of the districts of Aceh Besar, Aceh Jaya, Nagan Raya, Simeuleue, Aceh Utara, and Aceh Timor; along with areas in eight regions in North Sumatra Province, including the Nias island group. As of 3 February 2005, over 110,000 dead have been buried, 132,000 persons were missing and close to 500,000 persons have been made homeless. To estimate the material impact of this natural disaster, the Government and donors jointly undertook a comprehensive damage and loss assessment (DLA). The DLA exercise, which covered 15 sectors, focused on the damage to the pre-disaster stock of public and private infrastructure and on the loss of income stemming from the widespread destruction of productive assets and the environment.

3. Overall damages and losses, as estimated on a replacement basis by the joint DLA team, amount to about \$4.7 billion, representing 2.3% of the national gross domestic product and 97% of the regional gross domestic product of Aceh Province. Of this, 37% of the damage has been incurred in the social sectors (including housing, education, and health); 25% in the productive sectors (including agriculture, fisheries, and industry and trade); 19% in the infrastructure sectors (including energy, transport, communications, water and sanitation, irrigation, and flood control); and 19% across the environment, governance and financial sectors. Damage to personal property, particularly housing, has been pervasive. It has been estimated that \$1.4 billion will be needed to replace just the lost housing stock. Reconstruction needs may be significantly different and cost considerably higher if the Government and local residents decide to rebuild communities in different locations or to provide better public facilities and services than before.

4. The Government has swiftly responded to the earthquake and tsunami disaster. Its immediate emergency and relief efforts were coordinated by the National Coordination Board for Disaster Management under the Vice President's Office and the Coordinating Ministry for People's Welfare. The National Development Planning Agency (BAPPENAS) has been tasked with the formulation of a medium-term rehabilitation and reconstruction strategy for the restoration of normal life in Aceh and North Sumatra. The strategy consists of three phases: (i) immediate emergency and relief operations that are to be completed within the first 6 months (by June 2005), (ii) the rehabilitation phase that will last 0.5-2 years, and (iii) reconstruction activities that will be phased over a 5-year period. In the immediate aftermath of the disaster, ADB established a large multi-sector team to support the Government in the DLA work and strategy formulation, and to develop the ADB emergency assistance package.

III. REPROGRAMMING OF ONGOING PROJECTS

5. Using the DLA as a starting point, extensive discussions were held on project reprogramming by the ADB team with the executing agencies (EA) and relevant sector ministries. The implementation status of each project was reviewed, loan savings were verified, and individual MOUs were concluded with each EA for reprogramming of 11 projects.¹ On 14 February 2005, an "umbrella" MOU on the project reprogramming was signed with the two oversight ministries, BAPPENAS and the Ministry of Finance.

6. The basic data of the reprogrammed projects are summarized in Appendix 1. The 11 projects are financed by 7 Ordinary Capital Resources (OCR) and 5 Asian Development Fund (ADF) loans approved between November 1993 and December 2002. The loans are to be closed between March 2005 and December 2009. The implementation progress varies accordingly, from zero to 98%.

7. The combined cost for 11 projects is \$1,957 million, and the combined net loan amount after cancellations is \$1,131 million, of which \$563 million (50%) and \$408 million (36%) have already been committed for awarded contracts and disbursed, respectively. The surplus loan proceeds available for the emergency assistance total \$64.6 million (OCR - \$33.1 million; ADF - \$31.5 million). This is equivalent to 3.3% of the combined project cost and 5.7% of the combined net loan amount. Only one of the 11 projects is in the "at risk" category (Loan 1271-INO: *Power XXIII Project*).²

8. Agreements have been reached on the proposed use of loan savings totaling \$64.6 million, as well as the related changes in project scope and implementation arrangements. The 11 reprogrammed projects are in the agriculture, natural resources, health, education, transport, and power sectors. Consequently, they are highly relevant to the rehabilitation needs. The available loan savings will be used for a wide range of emergency assistance activities, which

¹ Discussions are still ongoing for two projects, under which surplus loan proceeds have been identified that could be used for Aceh and North Sumatra.

² All but one component under this project were completed or cancelled by the original loan closing date of 31 December 2000. Implementation of the Musi hydropower scheme has been substantially delayed because the originally envisaged bilateral cofinancing did not materialize in the wake of the 1997 financial crisis. For quite some time, cancellation of this last component was considered, but then the Government requested that surplus loan proceeds under the ADB loan be used as a substitute for the bilateral financing. Construction is now progressing satisfactorily, and Musi is expected to be completed in the second half of 2006.

are generally in line with the original project objectives, so that no use of the loan savings across projects and sectors is envisaged. As indicated in Appendix 2, the activities include:

- (i) formulation of coastal zoning plans for 13 districts and spatial plans for fishing settlements;
- (ii) reconstruction of housing for about 500 fishing families;
- (iii) repair and purchase of fishing boats and equipment and development of small-scale fish processing and marketing facilities;
- (iv) rehabilitation of about 6,000 hectares of farm land;
- (v) establishment of estate crop nurseries for replanting of about 7,000 hectares of land;
- (vi) development of 400-500 rural self-help groups and provision of start-up grants to these groups;
- (vii) purchase of equipment for agriculture extension services;
- (viii) rehabilitation and reconstruction of 32 community health centers and 30 community sub-health posts;
- (ix) rehabilitation of two universities, mobilization of senior lecturers and provision of special scholarships to students; and rehabilitation and reconstruction of 220 primary schools and 80 junior secondary schools; and
- (x) rehabilitation and reconstruction of about 20 kilometers of roads and bridges in and around Banda Aceh and rehabilitation of about 1,200 kilometers of power distribution lines in Banda Aceh, Meulaboh and Sigli.

9. A summary of the proposed changes in project scope and implementation arrangements is provided in Appendix 2. Most of the changes are minor, reflecting the small amount of loan savings to be used relative to the total project cost. For 10 projects, this ratio is well below 10%, and for one it is close to 15% (Appendix 1). Changes in the physical scope vary from project to project. They are considered minor for eight projects and major for three projects. The geographical scope has to be expanded in most cases as the original design of only three projects covered Aceh, while four projects included North Sumatra. For all 11 projects, the existing implementation arrangements in terms of executing and implementing agencies can be used also for the emergency assistance components. Minor modifications such as strengthening of the project implementation unit or engagement of local NGOs will be required in cases where provincial and district government staff levels have been depleted.

10. As requested by the Government and in line with ADB's *Disaster and Emergency Assistance Policy*, flexible arrangements will be followed for the use of the loan savings to expedite the rehabilitation work. These include:

- (i) 100% financing of eligible project costs by ADB,
- (ii) retroactive financing of up to 30% of the reallocated loan proceeds for expenditures incurred after 5 January 2005,

- (iii) local competitive bidding with a short bidding period for civil works,
- (iv) international shopping with a short bidding period for goods and equipment, and
- (v) direct selection or other simplified procedures for the recruitment of consultants.

11. The utilization of the loan savings of \$64.6 million for the urgent rehabilitation needs, the necessary changes in the scope and implementation arrangements of the 11 projects, and the related reallocation of loan proceeds and extension of loan closing dates were approved by Management on 4 March 2005.

IV. EXPANSION OF THE SCOPE OF RECENT PROJECT

12. Processing of the Community Water Services and Health Project (CWSHP) was nearly completed in 2004. The CWSHP is designed to enhance the health status of low-income communities in rural areas based on better hygiene behavior and sustained access to safe water and improved sanitation by (i) improving the capacity of local governments for facilitating, regulating, and delivering quality services in water and sanitation to target communities; (ii) strengthening the community capacity to design, cofinance, build, operate and manage community-based water supply and sanitation facilities; (iii) improving access to water and sanitation services through construction of adequate facilities based on community demand; and (iv) increasing hygiene awareness through information, education, and communication campaigns.

13. In the aftermath of the tsunami disaster, ADB has worked with the Government to include a specific grant-financed component for Aceh and North Sumatra within the CWSHP's overall framework. This component, which will cover the rehabilitation and reconstruction phases, will encourage communities to design, build, operate, and manage their water supply and sanitation facilities, thus helping prevent waterborne and water-related communicable disease outbreaks and providing disease control. The entire cost of the component of \$16.4 million will be cofinanced on a grant basis by the Department of Foreign and International Development of the United Kingdom (\$7.4 million), the Government of Netherlands (\$5.0 million), and the Canadian International Development Agency (\$4.0 million). The CWSHP is expected to be submitted for Board consideration in April 2005.

V. PROCESSING OF A NEW EMERGENCY ASSISTANCE PROJECT

14. ADB is formulating the Earthquake and Tsunami Emergency Support Project (ETESP). Given the substantial rehabilitation and reconstruction needs, it is envisaged that the ETESP will provide support for about \$300 million, to be drawn from the ATF. As the Government's strategy and support modalities of donors are still evolving, a flexible approach is adopted in designing the ETESP as a multi-sector operation to meet priority rehabilitation and reconstruction needs, alleviate constraints in the provision of public goods, and help restore private productive assets and livelihood. The ETESP is being processed for possible Board consideration in April 2005.

15. Support has been pledged by a number of countries and agencies for Aceh and North Sumatra, including resources committed from ADB. Given the urgent rehabilitation and reconstruction needs, substantial disbursements of funds are likely to take place within short periods of time. It is vital to ensure that sound governance, control and fiduciary norms are in place to procure goods and services and channel the funds in a proper, timely and effective manner. Against this background, ADB is finalizing a \$7 million proposal within the overall

framework of the State Audit Reform Sector Development Program (STAR-SDP)³ in ETESP to support sound fiduciary management and to oversee the utilization of funds in the rehabilitation and reconstruction work. Advanced discussions are underway with potential cofinanciers to support this component, which would also establish a special Treasury Office in Banda Aceh, to function as a key channel for moving donor funds from the central government to the local governments.

VI. EXTENDED MISSION IN SUMATRA

16. Management has approved on 17 February 2005 the establishment of the Extended Mission in Sumatra (EMS) that will be responsible for overall coordination and implementation of ADB's emergency assistance for rehabilitation and rebuilding of Aceh and North Sumatra. The functions of EMS include (i) approving subprojects; (ii) administering and close supervision of subprojects; (iii) project disbursements; (iv) appropriate financial management and fiduciary control; and (v) maintaining close contact and oversight of the executing agencies and other government agencies. It will be established for an initial period of 3 years in Medan with an extension facility in Banda Aceh. EMS will report to IRM and will work under overall guidance of DG SERD. EMS will coordinate effectively with the sector directors of SERD to ensure effective coordination with the ADB Headquarters in implementing the assistance package. EMS will be subject to ADB's standard administrative guidelines and procedures and to regular reviews and audit. ADB is entering into a MOU with Government on the legal provisions relating to its establishment, to extend the immunity and privileges of IRM to EMS. Efforts are underway to operationalize the EMS by mid-April 2005.

³

In December 2004, the State Audit Reform Sector Development Program (STAR-SDP) was approved (Loans 2126 and 2127-INO). The STAR-SDP aims to (i) strengthen the legal and regulatory framework for public sector audit, (ii) initiate the realignment of national auditing resources to enable audit institutions to fulfill their mandate, (iii) support measures to enhance the parliamentary oversight of public audit institutions, and (iv) provide strategies to increase public awareness of audit and audit institutions.

BASIC DATA OF THE REPROGRAMMED PROJECTS
(As of 31 December 2004)

| Loan No. | Project Name | Key Dates | | | Amounts (\$ million) | | | | Executing Agency | Project Progress (%) | Elapsed Loan Period (%) | Disbursement Ratio (%) ^{b)} | Aceh Component | |
|----------------|--|-----------|-------------|-----------|----------------------|-------------------------------|-----------------|---------------|---|----------------------|-------------------------|--------------------------------------|----------------|-------------------|
| | | Approval | Effectivity | Closing | Project Cost | Net Loan Amount ^{a)} | Contract Awards | Disbursements | | | | | \$ million | (%) ^{c)} |
| 1271 | Power XXIII | 25 Nov 93 | 26 May 94 | 30 Sep 06 | 601.6 | 184.2 | 178.0 | 137.9 | National Electricity Corporation (PLN) | 71 | 86 | 75 | 6.5 | 1.1 |
| 1469 | Integrated Pest Management for Smallholder Estate Crops | 26 Sep 96 | 7 Jan 97 | 31 Dec 05 | 72.7 | 38.2 | 21.7 | 27.3 | Directorate General of Estate Crops Production | 90 | 89 | 71 | 5.0 | 6.9 |
| 1570/1571 (SF) | Coastal Community Development and Fisheries Resources Management | 4 Nov 97 | 21 Apr 98 | 30 Sep 05 | 66.5 | 32.8 | 22.4 | 20.8 | Directorate General of Fisheries | 89 | 90 | 63 | 1.0 | 1.5 |
| 1583 | Rural Income Generation | 25 Nov 97 | 18 Jun 98 | 30 Sep 05 | 137.0 | 52.8 | 32.5 | 42.9 | Agency for Agricultural Human Resources Development | 98 | 90 | 81 | 6.1 | 4.5 |
| 1770 (SF) | Marine and Coastal Resources Management | 26 Oct 00 | 27 Sep 01 | 30 Jun 07 | 70.2 | 59.0 | 24.1 | 11.9 | Ministry of Marine Affairs and Fisheries | 42 | 63 | 20 | 5.0 | 7.1 |
| 1792 | Technological and Professional Skills Development (Sector) | 29 Nov 00 | 4 Jun 01 | 30 Jun 07 | 250.0 | 180.0 | 128.4 | 76.5 | Directorate General of Higher Education | 75 | 62 | 43 | 6.0 | 2.4 |
| 1798 | Road Rehabilitation (Sector) | 11 Dec 00 | 28 Sep 01 | 31 Mar 05 | 250.0 | 190.0 | 85.5 | 36.6 | Directorate General of Regional Infrastructure | 29 | 94 | 19 | 6.5 | 2.6 |
| 1810 (SF) | Decentralized Health Services | 14 Dec 00 | 25 Jun 01 | 30 Sep 06 | 87.0 | 76.2 | 36.6 | 24.3 | Ministry of Health | 46 | 70 | 32 | 13.0 | 14.9 |
| 1863 (SF) | Decentralized Basic Education | 29 Nov 01 | 20 May 02 | 31 Dec 08 | 125.0 | 118.1 | 28.6 | 26.5 | Directorate General of Primary & Junior Secondary Education | 29 | 44 | 22 | 10.0 | 8.0 |
| 1962 (SF) | Coral Reef Rehabilitation and ManagementII | 6 Dec 02 | 7 Nov 03 | 31 Dec 09 | 41.3 | 38.6 | 2.5 | 1.8 | Ministry of Marine Affairs and Fisheries | 18 | 29 | 5 | 3.0 | 7.3 |
| 1982 | Renewable Energy Development (Sector) | 19 Dec 02 | 27 Oct 04 | 30 Sep 08 | 256.0 | 161.0 | 2.4 | 1.6 | Directorate General of Electricity and Energy Utilization | - | 35 | 1 | 2.5 | 1.0 |
| | TOTAL | | | | 1,957.3 | 1,130.9 | 562.7 | 408.1 | | | | 36 | 64.6 | 3.3 |

- a) Approved loan amount minus cancellations.
b) Cumulative disbursements to net loan amount.
c) As a percentage of project cost.

OBJECTIVES AND SCOPE OF THE REPROGRAMMING

| Loan No. | Project Name | Reprogramming Objective | Scope/Components | Allocation (\$ million) | Proposed Changes | | | |
|---|--|---|---|-------------------------|------------------|-----------------------|-----------------------------|--------------|
| | | | | | Physical Scope | Geographical Scope a) | Implementation Arrangements | Closing Date |
| Basic Services (Social Sectors) | | | | | | | | |
| 1810 (SF) | Decentralized Health Services | To reduce the immediate to medium-term adverse impact on health, nutrition and medical status of affected populations | <ul style="list-style-type: none"> Strengthening health services infrastructure Building health services capacity for service provision Strengthening planning, monitoring and evaluation | 13.0 | Minor | None | Minor | 31-Dec-06 |
| 1792 | Technological and Professional Skills Development (Sector) | To ensure continued operations of higher educational institutions in the affected regions | <ul style="list-style-type: none"> Rehabilitation of two universities (Universitas Syah Kuala and Universitas Iskandarmuda) Mobilization of senior lecturers Special scholarships for affected students | 6.0 | Minor | None | Minor | None |
| 1863 (SF) | Decentralized Basic Education | To provide for rehabilitation and reconstruction of schools in the affected regions | <ul style="list-style-type: none"> Support rehabilitation and reconstruction of 220 primary schools and 80 junior secondary schools | 10.0 | Major | Major | Minor | None |
| Rural and Coastal Livelihood Support (Agriculture and Natural Resources Sectors) | | | | | | | | |
| 1469 | Integrated Pest Management for Smallholder Estate Crops | To support affected estate crop farmers | <ul style="list-style-type: none"> In-depth damage verification and needs assessment Rehabilitation of 6,000 hectares of farm land Rehabilitation of agriculture extension offices at provincial and district levels Establishment of estate crop nurseries to support replanting of 7,000 hectares of damaged crop areas Essential equipment for extension services | 5.0 | Major | Minor | Minor | None |
| 1583 | Rural Income Generation | To support sustainable and participatory systems for the poor to improve their livelihood | <ul style="list-style-type: none"> Development of about 400-500 self-help groups (SHGs) Provision of start-up grants to the SHGs; and grants to start internal lending and savings mechanisms within SHGs Equipping district extension services Reestablishing capacity of extension staff in affected areas Essential equipment for extension services | 6.1 | Minor | Major | Minor | 31-Dec-06 |
| 1570/ 1571 (SF) | Coastal Community Development and Fisheries Resources Management | To restore the livelihoods of fishing communities | <ul style="list-style-type: none"> Facilitating community participation and mobilization Provision of fishing equipment and facilities Development of small-scale fish processing and marketing facilities Through above, provision of direct livelihood support for about 400 households | 1.0 | Minor | Major | Minor | 31-Dec-05 |

| Loan No. | Project Name | Reprogramming Objective | Scope/Components | Allocation (\$ million) | Proposed Changes | | | |
|---|---|--|--|-------------------------|------------------|-----------------------|-----------------------------|--------------|
| | | | | | Physical Scope | Geographical Scope a) | Implementation Arrangements | Closing Date |
| 1770 (SF) | Marine and Coastal Resources Management | To improve management of marine and coastal resources | <ul style="list-style-type: none"> Formulation of coastal zoning plans for 13 affected districts Formulation of spatial plans for sites for settlement of fisherfolks, and livelihood support for about 1,500 fishermen Support for reconstruction of housing and settlement for 500 families | 5.0 | Minor | Minor | Minor | None |
| 1962 (SF) | Coral Reef Rehabilitation and Management II | To provide livelihood support for coastal communities | <ul style="list-style-type: none"> Restoration of livelihood through repair and purchase of boats and fishing gears Rehabilitation of small-scale coastal infrastructure Assessment of coastal ecosystems | 3.0 | Minor | Minor | Minor | None |
| Physical Infrastructure (Transport and Energy Sectors) | | | | | | | | |
| 1798 | Road Rehabilitation (Sector) | To meet the immediate road rehabilitation needs and help alleviate the access constraints faced by the affected population | <ul style="list-style-type: none"> Rehabilitation and reconstruction of about 20 km of road sections and bridges severely damaged in Banda Aceh city and on the Banda Aceh-Sigli-Lhokseumawe-Bts Sumut and Banda Aceh-Krueng Raya roads | 6.5 | Minor | Minor | Minor | 31-Jan-07 |
| 1271 & 1982 | Power XXIII & Renewable Energy Development (Sector) | To rehabilitate basic power distribution infrastructure | <ul style="list-style-type: none"> Rehabilitation of 900 circuit-km of medium-voltage lines in Banda Aceh, Meulaboh and Sigli Rehabilitation of 310 circuit-km of low-voltage lines in Meulaboh and Sigli | 6.5 | Minor | None | Minor | None |
| | | | | 2.5 | Major | Major | Minor | None |

a) No change required if the original scope covered Aceh; minor change required if the original scope covered North Sumatra; and major change required if the original scope covered neither Aceh nor North Sumatra.