

MDF - JRF Knowledge Notes

Lessons Learned from Post-Disaster Reconstruction in Indonesia



The Multi Donor Fund for Aceh and Nias: A Framework for Reconstruction through Effective Partnerships

The Multi Donor Fund for Aceh and Nias (MDF), established to support the post-tsunami reconstruction of Aceh and Nias, is widely considered to be one of the most successful programs of its kind. The fundamental and core factors for this success have been the leadership of the Government of Indonesia (GoI) and the partnership of stakeholders to support the government's agenda. Many other factors and perspectives come into play, all of which reinforce and enhance the effectiveness of partnerships in delivering a remarkable result.

The MDF was established with the Paris Declaration as its backdrop. While operationalizing the aid

effectiveness principles of Paris—ownership, alignment, harmonization, results and accountability—was not a primary objective, the MDF program implementation exemplifies the Paris declaration in action. In the course of seven years of operation, the MDF has brought together partners spanning all levels of government (central, provincial, local), donors, partner and implementing agencies, non-government actors, and communities. Together, these partners have helped to move Aceh and Nias forward from conflict and fragility through post-disaster reconstruction to a platform for effective development.

Multiple Challenges, Multiple Needs

Aceh and Nias presented multilayered challenges. The magnitude of the disaster was unprecedented in terms of human losses and physical damage. Both Aceh and Nias faced serious governance challenges, and had weak and fragmented local capacities. In Aceh, the natural calamity added sorrow to a province that had been battered by civil war for the past 30 years. In Nias, difficulties of a fragile environment were compounded by years of isolation and neglect. Local administrations and disheartened citizens lacked skills to handle the massive reconstruction.

The partnership of national and international stakeholders needed a financing mechanism able to deal with delivering reconstruction in this complex context, and the MDF was established to meet this need.

Multi Donor Trust Funds (MDTFs)

MDTFs are financing mechanisms that pool together contributions from various donors and disburse them to a number of recipients under an administrator or Trustee. In post-crisis situations such as wars or natural disasters, the MDTF model can operate even if the government structure is weak, and can enable funds to flow quickly and coherently.

In coming together to support reconstruction, the motivations of the many stakeholders were varied, but complementary. For the government, providing leadership was essential. To this end, the government wanted to use its own systems and have a clear say in the choice of investments and instruments to respond to local needs. Donors needed accountability for funds, visibility of their contributions, and effective results. Other development partners, including international agencies and civil society, sought to contribute based on their comparative advantages to establish good operations and strong partnerships to support affected peoples. For the World Bank as Trustee, ensuring effective results and accountability of funds were of paramount importance. And the most important players in this arena, the communities themselves, needed to feel that peace and reconstruction dividends were forthcoming, and that they were part of the process to define local priorities. While they had no control over the disasters that had swept away their past, they needed to have some control over rebuilding their own future.

A Strategic Framework for Reconstruction

The framework for the MDF was based on three inter-related strategies of strong partnerships, effective implementation and cross-cutting, qualitative aspects. These strategies can elevate programs from being good to being extraordinary in fulfilling the hopes of affected people.

• Partnerships for Reconstruction

Government-Led Recovery: The most critical driver of the MDF success has been GoI leadership of recovery in Aceh and Nias. The Government of Indonesia took the lead to conduct and complete the Damage and Loss Assessment (DALA) within the first month of the tsunami. The Master Plan for Rehabilitation and Reconstruction was developed to prioritize results-oriented operational programs. A special agency with ministerial level authority was established, the Agency for Rehabilitation and Reconstruction of Aceh and Nias (BRR), to coordinate the reconstruction efforts and implement the Master Plan. In another, somewhat smaller disaster, the 2006 Java earthquake, Indonesia has relied on regular government systems to effectively manage and coordinate large-scale reconstruction efforts. These experiences show that the type of organizational structure should be designed to fit the nature and scope of a disaster, as long as the commitment and strength of the government's leadership role that is essential to the success of the reconstruction effort is maintained.

Support from Development Partners: With the government's leadership of the reconstruction agenda, other partners were able to align their support under one framework. The MDF was established to support the GoI's Master Plan and operate in alignment with its institutions and procedures. Over 70 percent of the MDF funds were channeled through the national budget, utilizing the country's public financial management system.

The MDF signified different things to different donors. To relatively smaller donors, it was the best way to help without requiring major operations. For many others, it was the best tool to support a multilateral approach,



Strong partnerships and effective government leadership were key to the success of the MDF. These partnerships were exemplified in the MDF's governance structure. This photo, from an early Steering Committee meeting in 2006, shows the three co-chairs representing the Government of Indonesia, the European Union as the largest donor, and the World Bank as Trustee.

as well as a vehicle for minimizing transaction costs and maximizing the impact of aid money, with assurance of high fiduciary management standards. The MDF provided a single platform for 15 donors to plan, fund, disburse, monitor, evaluate and report on MDF's activities.

The mix of partner agencies and implementing agencies under the MDF minimized fragmentation and provided the opportunity to use individual organizations' comparative advantages. Major multilateral organizations such as UNDP, ILO, WFP and the WB served as partner agencies. Implementing agencies included government line ministries and international NGOs. The partner agencies carried out the appraisal, supervision, monitoring and evaluation of MDF funded projects, and administered grants from the MDF to finance them, applying their own fiduciary framework and governance arrangements. The implementing agencies brought different strengths in terms of capacity and procedures. This arrangement led to a multi-pronged response to the government's recovery agenda, allowing greater speed and coverage than would otherwise have been possible.

An Inclusive and Effective Governance Structure: The success of the MDF was also due to an inclusive governance structure, with a Steering Committee comprised of representatives from BRR, Bappenas, Ministry of Finance, and Governments of Aceh and North Sumatra, the 15 donors to the MDF, as well as

representatives of Aceh's civil society, and observers such as the UN and the international NGO community. Voting members of the Steering Committee decide on policy and funds allocation, and a Technical Review Group supports its functions. The MDF also pioneered a multi co-chair arrangement represented by Gol, the Government of Aceh, European Union representing the donors, and the Bank as the Trustee, which supported efficient decision making, consensual working of the Steering Committee and effective implementation of the MDF. The Steering Committee meetings became a significant forum for discussion of a wide range of policy and operational issues for Aceh and Nias.

• Effective Implementation Strategies

Sequencing Implementation to Manage Expectations: The most useful strategy was that of phased implementation, which helped to manage expectations throughout reconstruction. In any post-crisis situation, there is a tension in balancing speed of implementation, quality and ownership of reconstruction, and long term sustainability. These competing goals do not move in tandem, and the inevitable trade-off was reduced by implementing in three phases. The first phase focused on immediate recovery of housing, small infrastructure, logistics and transportation links. The second phase took on major reconstruction of infrastructure and environment, such as roads, bridges, and ports. The final phase shifted to laying the foundation for economic development through livelihoods and targeted capacity building.

The principal driver for immediate recovery was speed to support implementation of urgent needs, while involving communities so that they were part of the process of reconstruction. This resulted in raising beneficiary satisfaction, enhancing social cohesion and contributing to the healing process of individuals and communities. In the reconstruction phase, focus was on implementation of projects and investments where quality and ownership are critical, when procurement and safeguards processes can be complex and outcomes will take time. This includes, particularly, investment in large infrastructure. For the final phase of transition to economic development, the driver was sustainability. This phase supported the transition to long term growth coupled with capacity building, so that the impact of reconstruction

and the sustainability of donor investments continue well beyond the reconstruction program.

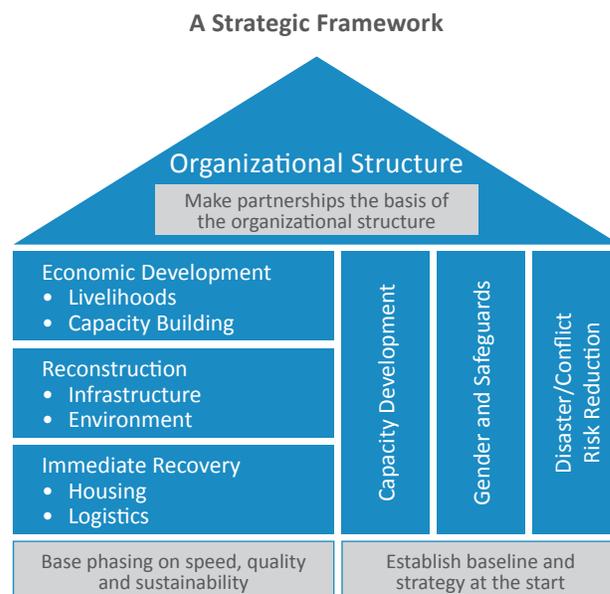
Project Design and Operational Principles: With an open menu approach, the MDF served as a flexible gap filling instrument, and provided support in areas not addressed by other donors or partners. Project selection was also geared towards speed by scaling up existing programs/projects wherever possible. The MDF’s experience shows that it may be more effective to choose projects with short duration implementation, given the limited time horizon for most reconstruction programs. A key design lesson learned from the MDF’s success is to have a clear exit strategy built into project design. The government and the World Bank also utilized internal approval processes that were streamlined and emergency focused, resulting in faster implementation. Streamlining government decision making and budget issuance were significant sources of efficiency. And strong supervision and implementation support by the partner agencies led to high quality and sustainable investments.

• **Some Cross-Cutting Considerations**

The scope of the MDF’s support was embodied in its Recovery Assistance Policy (RAP). The RAP specified that the MDF would provide support for investments based on good practice, stakeholder participation, and coordination with others. The RAP stipulated that attention should be given to cross-cutting issues such as gender equity, environmental sustainability, and building capacity for good governance in order to enhance the quality of the recovery process.

For the MDF, relevant cross-cutting elements were capacity development, gender, environmental and social safeguards, and disaster risk reduction. All projects were also designed to be conflict sensitive. These elements need to span across all aspects of the program. Challenges and solutions should be anticipated as early as possible in order to fully and credibly address them. The solutions need to apply to all projects across the program; the MDF addressed these through technical and institutional interventions, and specific and generic approaches. And finally, cross-cutting solutions need to apply at all levels of government or players. In practical terms, these need to be reflected in the Joint Assessment/DALA. Even if a “quick and dirty” analysis is done, it

is important to include these cross-cutting issues in the initial needs assessment to provide a baseline and understanding of challenges, so that an appropriate strategy and interventions can be designed.



• **A Strong Accountability Framework**

While quick delivery may seem paramount in a post-conflict or post-disaster situation, a strong and robust accountability framework is the foundation for good stewardship of reconstruction programs.

Monitoring and evaluation is critically important to measure and document results and lessons learned, and to ensure value for money. The challenge is to develop a Results Framework that captures program level results from cascading projects that are often undefined.

Regular reporting on program outcomes is key to establishing trust and confidence, and to inform citizens both in donor countries as well as in recipient countries regarding the good use of funds.

Strategic communications are essential for transparency and for managing expectations of all stakeholders. It promotes inclusiveness and allows stakeholders' engagement on critical issues.

Good funds management is a non-negotiable factor for success in any reconstruction program or MDF. This includes sound fiduciary management, as well as transparent and efficient use of funds.

Lessons Learned from the MDF for Aceh and Nias

1. Start with a strong organizational structure based on PARTNERSHIPS:

- Establish strong partnership with Government leading the agenda, supported by others
- Support the Government's reconstruction strategy, including providing help in framing/defining the strategy as needed
- Build an inclusive governance structure reflective of and sensitive to interests of all partners
- Have a tight decision making body, with broad consultative processes
- Use comparative advantages of each partner and at each level, promote participation of a wide range of stakeholders
- Timely, open and strategic communications with stakeholders is KEY to a successful program

2. Implement reconstruction in PHASES to manage expectations of peace or reconstruction dividends:

- Phase implementation to be appropriate to evolving context: immediate recovery should focus on need for SPEED, reconstruction on need for QUALITY and OWNERSHIP, and the transition to development on SUSTAINABILITY. It is important to specify the outcomes at each phase to manage expectations.
- Design projects for speed and closure by building on existing programs/projects, choosing projects with short duration, minimizing substantial design needs, and designing exit strategies
- Apply streamlined and emergency focused internal approval processes
- Use robust mechanisms for monitoring, evaluation and supervision with good baselines early

3. Identify CROSS-CUTTING ISSUES and establish baseline and strategy for these at the start:

- Cross-cutting elements need to span program: think about it from the start, apply to all projects and apply to all levels of government or reconstruction stakeholders
- Reflect cross-cutting concerns and assess initial conditions in the Joint Assessment/Damage and Loss Assessment

A Replicable Model for Reconstruction

The overall reconstruction of Aceh and Nias, in which the MDF played a strategic and significant role, is widely acknowledged as a successful model for post-disaster reconstruction. The MDF streamlined the government's recovery efforts by coordinating donor resources and providing a single voice and partner for supporting its reconstruction agenda. The strong relationships between government and partners have been a critical element of the MDF's success.

The MDF provides a model that can be replicated or adapted in other post-conflict or post-disaster reconstruction scenarios. This has already been proved through the Java Reconstruction Fund (JRF), set up in 2006 to respond to another set of disasters in Indonesia. Based on the MDF experience, the GoI requested the World Bank and donors to establish the JRF, adapting the MDF model to local

needs. The experience has successfully demonstrated the flexibility of the model in responding to multiple disasters of earthquakes, tsunamis, landslides, and the volcanic eruptions of Mount Merapi in 2010.

The MDF model and strategic framework is robust enough to be adjusted for situations where not all factors for success are fully met. The need for government leadership and stakeholder partnership around a local agenda is critically important, and these partnerships can be fostered if they are weak. A phased approach to reconstruction coupled with strategic selection of projects is a smart way to deliver peace and reconstruction dividends. And enhancing capacity and inclusion of communities and government agencies will ensure that a legacy of resilience and preparedness, born from conflict and disaster, will endure into the future.



About the Disasters

Between 2004 and 2010 Indonesia experienced a series of devastating natural disasters:

- **December 26, 2004:** A massive earthquake measuring 9.1 on the Richter scale hit Aceh and parts of North Sumatra, followed by the deadliest tsunami in history. In Aceh, 221,000 people were killed or missing. Over 500,000 were left homeless. The scale of physical devastation and human suffering was enormous.
- **March 28, 2005:** Another massive earthquake struck the Nias Islands and parts of Aceh, killing about 1,000 people and leaving thousands homeless. It caused severe damage, destroying about 30 percent of all buildings on the island of Nias.
- **May 27, 2006:** An earthquake in Yogyakarta Special Region and Central Java claimed more than 5,700 lives. Over 280,000 homes were destroyed and the local economy was severely affected, especially the large number of home-based industries.
- **July 17, 2006:** An earthquake triggered a tsunami causing widespread damage along the south coast of West Java. About 650 people died, and over 28,000 were displaced.
- **October 26 to November 11, 2010:** Mount Merapi, an active volcano located between Yogyakarta and Central Java, erupted repeatedly, causing serious damage to housing and infrastructure. About 750 people were injured or killed, and about 367,000 displaced.

About the MDF

The Multi Donor Fund for Aceh and Nias (MDF) was established in April 2005, in response to the Government of Indonesia's request to coordinate donor support for the reconstruction and rehabilitation of affected areas following the December 2004 earthquake and tsunami, and the subsequent March 2005 earthquake. The MDF pooled US\$655 million in contributions from 15 donors: the European Union, the Netherlands, the United Kingdom, the World Bank, Sweden, Denmark, Norway, Germany, Canada, the Asian Development Bank, the United States of America, Belgium, Finland, New Zealand and Ireland. The World Bank serves as Trustee of the MDF. Under the MDF portfolio, 23 projects were financed in six outcome areas: (1) Recovery of Communities, (2) Reconstruction and Rehabilitation of Large Infrastructure and Transport, (3) Strengthening Governance and Capacity Building, (4) Sustaining the Environment, (5) Enhancing the Recovery Process, and (6) Economic Development and Livelihoods.

About the JRF

Following a request from the Government of Indonesia, the Java Reconstruction Fund (JRF) was established to respond to the May 2006 earthquake which struck near Yogyakarta, and the tsunami that hit the southern coast of West Java province in July 2006. Seven donors supported the JRF, with contributions totaling US\$94.1 million. The donors are: the European Union, the Asian Development Bank and the Governments of the Netherlands, United Kingdom, Canada, Finland and Denmark. The World Bank serves as Trustee of the JRF. Following government's priorities, the JRF supports the recovery of communities and livelihoods and increasing disaster preparedness.

Cover Photo: A young girl amid the rubble of her school that was destroyed by the Java earthquake in May 2006. Credit: Rekompak Team



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