

Multi Donor Fund for Aceh and Nias RECOVERY ASSISTANCE POLICY

Purpose

The purpose of this document is to set out the assistance policy of the Multi-Donor Fund for Aceh and Nias (Multi-Donor Fund). It is intended to guide those interested in obtaining funding as well as the Multi-Donor Fund Steering Committee and Secretariat. The policy paper contains: i) background information; ii) approach using a Logical Framework; iii) Multi-Donor Fund Steering Committee expected goals and results; iv) the Multi-Donor Fund comparative advantages and disadvantages, v) financing policy; (vi) implementation policy; vii) sectoral policy; and viii) operationalization of the policies in the form of a mission statement and decision-making criteria for the Multi-Donor Fund Secretariat and the Steering Committee.

I. Background

Brief history. In response to the Government of Indonesia's request for coordination, several donor partners have, together with the Government, established a Multi-Donor Fund for Indonesia's earthquake and tsunami-related recovery program. Initial contributions are expected to amount to over US\$520 million. Private sector partners, foundations and non-governmental organizations are also welcome to contribute to the Multi-Donor Fund, subject to review by the trustee.

The Multi-Donor Fund supports the rehabilitation and reconstruction needs of Aceh and Nias in the wake of the earthquakes and tsunami. It may provide two types of support:

- a) financing of new projects or new components of existing projects (including the purchase of goods, services and equipment), including co-financing of existing or new projects supported by multilateral agencies or other financiers.
- b) assistance for Government programs that are part of the rehabilitation and reconstruction effort. This would support sectoral or multi-sectoral programs with funding in tranches that would be disbursed against the achievement of performance indicators.

Both types of financing are contingent upon a strong governance structure for the recovery program as a whole, including fiduciary, management, and stakeholder participation components. Rules and procedures acceptable to the trustee apply to both project and program financing. In both cases, most of the fund expenditures are intended to be primarily on the Government's budget with funds flowing through the Treasury using dedicated, monitorable and reconcilable accounts. Quick-disbursing resources outside of the budget can also be provided, where this would make the use of funds more effective. However, it is expected that over time the portion of funds utilized outside of the budget would become less and less.

Structure. The Multi-Donor Fund is governed by a Steering Committee (SC) consisting of Government, donors and representatives of civil society. The latter are nominated by the Supervisory Board of the Aceh Recovery Agency (BRR). Other key individuals, such as the United Nations Coordinator and a representative of the international NGO community are represented in the SC as observers for coordination purposes. The SC

meets on a regular basis probably monthly at the outset, quarterly later in Jakarta, Banda Aceh or Medan, to review and endorse proposals as well as to discuss donor coordination, recovery program policies and implementation progress. Endorsement and other procedures are specified in a set of operational guidelines approved by the Committee.

The SC is co-chaired by the Head of the Badan Rehabilitasi dan Rekonstruksi, the trustee and the largest donor contributor. The trustee also serves as secretariat for the SC to organize its agenda, minutes and disclosure of public information. Each of the donors who have contributed US\$10 million or more have a full seat on the SC, while smaller members can pool their contributions to reach or exceed the threshold and thus obtain a seat on the Committee.

Strategy. The Multi-Donor Fund SC will be guided by the Government's strategy. All activities of the Multi-Donor Fund will be consistent with and guided by the Government's Master Plan, and under the leadership of the BRR. The Master Plan, which is expected to be an evolving document, sets out a broad program and principles by which the recovery will take place, and the SC will be guided by these. The BRR is currently refining a detailed strategy for implementing the recovery program; the SC will seek to be a fully supportive source of funding and technical assistance in this process.

The Need For a Policy. While the SC strategy is clear, there is a need for a policy for several reasons. First, during the first few months of operation there is an inherent tension within the SC between the need for moving quickly to ensure a speedy recovery and the desire to prudently review funding proposals within a strategic decision-making framework. Second, the resources of the Multi-Donor Fund are finite and certainly less than the financing needs of the recovery program. Thus, the SC needs a policy that will provide rules and guidance for prioritizing investments to meet the urgent financing needs of the recovery process. This paper forges such a policy.

Recovery Assistance Policy Review Process. The policy set forth in this document represents the current state of knowledge about the rehabilitation and reconstruction program, the comparative advantages of the Multi-Donor Fund and the policy environment for development in Aceh and Nias. However, these are all likely to change over time, possibly requiring modifications in policy. This should be carefully monitored by the Secretariat and SC. It is proposed that the Secretariat's semi-annual progress report include an evaluation of the application and relevance of this policy document, identifying any areas for improvement. If warranted, the SC should then review the need for updating its policies and approve any necessary changes.

II. Use of A Logical Framework

Clear indicators to measure the expected results of the Recovery Assistance Policy have been generated through the development of a logical framework. The framework and its indicators will provide the overall vision (Goal) of the Multi-Donor Fund and will use a standardized format for easy stakeholder review, reference, monitoring and evaluation. It will help put the policy into a broader context that (i) focuses on verifiable results (both

immediate deliverables, and longer term effects and impacts), (ii) highlights assumptions and risks, and (iii) in view of the need to periodically modify the policy, permits a rapid review and examination of it. The logical framework has been presented to the SC for consideration and will be revisited on a regular basis to assure correspondence with the Multi-Donor Fund portfolio and its policy document.

III. Multi-Donor Fund Goal and Expected Results

The overall goal of the Multi-Donor Fund is to efficiently and effectively contribute to the reconstruction of a better Aceh and Nias following the earthquakes and tsunami. In this context, a “better” Aceh and Nias means not only improving infra-structure in accordance with the Government’s Master Plan, but also adhering social concerns such as reducing poverty, improving livelihoods, and increasing equity.

This overall goal will be accomplished by:

- *Pooling donor resources to support a mutually-agreed portfolio of projects and programs;*
- *Working through and within the Government’s Master Plan for recovery;*
- *Promoting bottom-up and demand-driven development of initiatives that are eligible for financing;*
- *Partnering with Government and non-government agencies;*
- *Serving as a forum for donor coordination;*
- *Supporting a policy dialogue between the international community, civil society and the Government on progress in the recovery process;*
- *Having funds flow through the Government budget wherever effective, and outside of the budget if the Steering Committee deems this more effective;*
- *Pursuing gender-sensitive activities;*
- *Seeking opportunities to support the peace process (conflict sensitivity); and*
- *Avoiding worsening regional disparities.*

The expected results from achieving the above goal would be:

- Communities/community infrastructure regenerated
- Poverty reduction
- Livelihoods restarted
- Larger infrastructure repaired
- Governance rebuilt
- Environment sustained

Several donors to the Multi-Donor Fund have advised that their main focus in supporting the fund is to achieve such results. Bearing in mind the expected diverse nature of the Multi-Donor Fund portfolio across several priority sectors, both on- and off-budget, with different supervising/ monitoring Partner Agencies, it is essential for the Secretariat to determine appropriate macro-indicators, baseline values, and deliverable outputs.

IV. The Multi-Donor Fund's Comparative Advantages and Disadvantages

The Multi-Donor Fund is unique in that it is characterized by: a) participation of key partners in the donor community, Government and civil society through its SC; b) substantial grant financing that is available over a five-year time period; c) a great deal of flexibility in being able to support projects as well as programs that are not earmarked in advance; d) a common concern with promoting good governance and combating corruption; and e) the accumulation of development experience that is available through the currently accepted Partner Agencies (World Bank, Asian Development Bank and the UN organizations), and other members of the Fund. These characteristics result in a distinct set of comparative advantages as well as limitations that have consequences for implementing the recommended policy.

Comparative advantages

Given this context, the comparative advantages of the Multi-Donor Fund include:

A capacity to access cross-country experience, and to see the big picture. Because of its unique composition and information resources, the SC and its Secretariat are able to draw on data, reports and analysis to obtain an overview of what is needed, what is happening and what remains to be done with the recovery process in Aceh and Nias. Members and currently accepted partner agencies can draw on knowledge well beyond Indonesia to identify models of good practice when it comes to post-disaster and post-conflict rehabilitation and reconstruction.

A capacity to respond directly to BRR guidance. The Multi-Donor Fund is unique among foreign funded support for Aceh and Nias, in that the head of the BRR co-chairs the Steering Committee and submits every request to the Fund. This should enable a rapid response in real time to the emerging views of the BRR.

Coordination with donors and other stakeholders. The SC can support the BRR in its efforts to bring donors, Government, and other stakeholders, together to discuss aid coordination in the recovery process. The SC should have the knowledge and policy commitment to ensure that its activities complement other donors' activities.

Links to Government. Donors who choose to fund the Multi-Donor Fund, while appreciating the supplementary role and potential advantages of off-budget funding, also recognize the legitimate role of the Government in key areas of the reconstruction. The decision to place funds on-budget is done so with a clear purpose. Such funds, linked to government activities and policies (at the central, provincial and local levels) can influence policy, and play a positive role in strengthening public sector capacity beyond the lifetime of the BRR.

Experience of on-the-ground community-driven development in Aceh. The currently accepted Partner Agencies and other members of the SC have been supporting projects and programs in Aceh over the past years, giving them a good sense of what does and does not work in the local context.

Commitment to good governance. The SBY administration has made clean government a priority and the donor members of the Multi-Donor Fund share a concern with transparent, accountable and participatory approaches to recovery, and several have

significant technical experience in designing anti-corruption measures.

These comparative advantages allow the SC to pursue its stated policies in several ways. It is well-positioned to identify and act on funding gaps because of its capacity to see the big picture of development needs and opportunities in Aceh and Nias as well as its special relationship with the BRR. It can foster activities that enhance the quality of the recovery process because of its access to inter-national good practice, its experience with community-driven development in the affected areas and its capacity for coordination with donors and other stakeholders. The SC is capable of supporting different implementation capacities over time because of its reliance on community-based approaches, its working relationship with the BRR and its common concern with good governance, particularly at the local level. Finally, the SC is able to utilize Multi-Donor Fund to contribute to environmentally and social sustainable development due to its accumulated experience and its links to the Government at a policy level.

Comparative disadvantages

The Multi-Donor Fund is designed to work through partner agencies to appraise and supervise projects as well as programs. Any international development institution (both bi-lateral and multi-lateral) may be designated as the partner agency for a particular activity so long as its own fiduciary framework and governance arrangements, policies and procedures, including audits and procurement procedures, are acceptable to the World Bank as Trustee and to the SC. Currently, only the World Bank, the ADB, and selected UN agencies are designated as Partner Agencies. These multilateral organizations have relatively expensive cost structures because they are international in nature. Thus, a limitation of the Multi-Donor Fund is that it would not be a cost-effective means of financing a large number of small grants.

V. Financing Policy

In view of the fact that, in the case of small grants, the costs of appraisal and supervision would likely be equivalent to a significant percentage of the grant itself, a corollary financing policy of the SC should be to focus on larger grants (for example, US\$1 million and up). This would not preclude creating a dedicated project in the form of a larger off-budget grant facility to a Partner Agency that has the structure and expertise to provide small grants in a cost-effective manner directly for smaller activities that meet pre-selected criteria.

The SC also recognizes that the development process in Aceh and Nias will be dynamic and subject to change over time. Needs are likely to emerge that have not been anticipated in the Master Plan. The outcome of the peace process will have a significant impact on the opportunities and pace of development. There will also be a need to support local government capacity in the longer term. This suggests another financing policy – that a portion of Multi-Donor Fund resources be retained to support financing needs that emerge after the second year of the recovery process. The actual portion, which may change over time, will be decided by the SC based on analysis provided on a regular basis by the Secretariat. At its fourth meeting on 28 July 2005, the SC decided to hold 10 percent of the pledged amount in reserve.

The Steering Committee, at its eighth meeting on February 17, 2006, endorsed a BRR strategy for the trust fund's remaining resources that is based on using MDF funds to leverage the substantial resources available to the BRR and local governments. The short-term consequence is that the BRR, local governments and the Multi-Donor Fund will seek opportunities to co-finance projects through the reallocation of the 2005 and 2006 GoI budgets for reconstruction. From 2007-2009, such co-financing will be incorporated into the BRR's annual budgets as well as those of focal governments, guided by a medium-term expenditure framework.

VI. Implementation Policy

This section outlines the key elements of the SC policy for assessing appropriate implementation arrangements.

Bearing in mind the comparative advantages of the Multi-Donor Fund listed above, all projects and programs that will be financed by the Multi-Donor Fund should: a) enhance the quality of the recovery process; b) use and build different capacities for implementation over time; c) reduce poverty d) support good governance; e) contribute to sustainable development; f) promote gender equity; (g) achieve, to the extent possible, a geographic balance throughout the affected areas; and (h) be conflict sensitive; and share the workload among Partner Agencies.

A) Enhance the quality of the recovery process. Working with the BRR, the SC can catalyze initiatives that are both efficient and effective in several ways. First, marrying international good practice with local knowledge can help to improve the design and implementation of initiatives financed by the Multi-Donor Fund. The marriage of global and local occurs in the Multi-Donor Fund process when international partner agencies work with local implementing agencies through participatory approaches in the appraisal of specific projects and programs. Next, the SC should finance activities that are the "centers of gravity" or model approaches in their sector or geographical area. Lastly, the Multi-Donor Fund can enhance quality by investing in projects and programs that maximize opportunities for coordination with other partners. Linking with other stakeholders working in the same area will increase synergies, decrease the potential for duplication, promote the sharing of knowledge, and improve the overall efficiency of resource utilization. All of these factors should help add to the quality of what is supported by the Multi-Donor Fund. It is also one of the key reasons why the Government requested that the Multi-Donor Fund be established in the first place.

B) Use different capacities over time. One of the special characteristics of the Multi-Donor Fund is that it can be utilized over a five-year planning horizon, using different capacities at different times. The Fund can thus invest in short, medium and long-term capacity building. In the first phase the Fund has sought to use whatever existing capacity could be found. In the case of Aceh, an important piece of social capital that remained relatively intact following the disaster was the network of community facilitators. Such a delivery mechanism embodies a community-driven approach. In the longer term, i.e. through to the end of the five-year planning horizon, it is essential to rebuild the local institutions that can deliver public goods and represent local interests in a sustainable manner into the future. The actors capable of doing so are local government and local

civil society organizations. These differentiated time horizons imply that the SC should invest in:

- community-driven development, especially in its initial activities, in order to utilize a delivery mechanism that is more or less still intact and strengthen its capacity;
- building the capacity of the BRR from the beginning so that the agency can be increasingly effective in coordinating recovery efforts and articulating an evolving development strategy for Aceh and Nias; and
- strengthening the capability of local authorities and civil society groups so that when the BRR closes its doors there remains a vibrant and accountable governance structure.

C) Reduce Poverty. Poverty is an unacceptable human condition in the 21st century. It is characterized by a lack of access to essential goods, services, assets, and opportunities to which every human being is entitled. Everyone should be free from hunger, should be able to live in peace, and should have access to basic education and primary health care services. Poor households need to sustain themselves by their labor and be reasonably rewarded and should have a degree of protection from external shocks, be they natural or economic. In addition, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives. In addition to being aligned with GOI's national poverty reduction strategy, the SC will invest in activities in Aceh and Nias that will (i) achieve pro-poor, sustainable economic growth; (ii) be inclusive of social development as well as infrastructure; (iii) use bottom-up community driven participatory approaches, and (iv) promote good governance. These are closely linked, mutually reinforcing, and are expanded on elsewhere in this Implementation Policy.

D) Support good governance. The concern with good governance is not just about corruption; it also involves transparency, accountability and participation.

The Multi-Donor Fund portfolio, as a program, should maintain a transparent decision-making process and both the SC and the Secretariat should maximize the availability of its documentation to the public. To ensure more effective participation in relief and reconstruction efforts and in the process of making decisions on issues which impact them, affected communities need accessible and understandable information about relief and reconstruction efforts as well as about relief and compensation benefits they are entitled to. The SC will implement a separate comprehensive and harmonized information policy that upholds internationally recognized access to information standards, and should encourage other donors and the BRR to do the same. The strategy will make use of appropriate formats and of local languages to ensure ease of access by local communities.

The SC will also be held accountable at variable levels – to contributors who are placing money in the Multi-Donor Fund, to the shareholders of the Partner Agencies that will be appraising and supervising each activity, and to the people of Aceh and Nias who are counting on it to deliver needed goods and services for the recovery. Individual activities

will also need to embody the principles of good governance.

Multi-Donor Fund -financed initiatives should use participatory processes for design and implementation. While stakeholder participation in project/program preparation and execution is widely accepted, it is particularly challenging in a post-disaster setting where communities have been decimated and traumatized. This suggests that, in addition to respecting and building on existing capacity for participatory planning and management, innovative and sensitive approaches will be needed.

The SC should seek to support the efforts of BRR and others to enhance the capacity of district governments to become powerful contributors to reconstruction. This is particularly necessary as – it is increasingly clear – a critically important gap is in the provision of meso-level infrastructure. Rebuilding the larger infrastructure will not be easy, but at root is relatively straightforward. At the other end of the scale, small infrastructure will be built through community-driven development approaches. The true weakness lies in the middle level, such as district-level roads and water/sanitation systems. These are beyond the scope of most NGOs and are the natural preserve of local authorities. However, in Aceh and Nias, the district governments do not have the capacity or, often, the motivation. The SC should support efforts to strengthen planning and implementation capacities, improving incentives for good performance and strengthening controls to guard against bad practices.

E) Pursue sustainable development policies. In the rush to reconstruct, lessons learned about environmental and social sustainability may be overlooked because they might be construed as impediments to rapid development. Short-term benefits are usually swamped by long-term costs when sustainability is ignored.

Questions of environmental sustainability abound in many of the key sectors for recovery such as housing, coastal zone management, road construction, agriculture, and water resource management. To ensure environmental sustainability in such sectors, the SC should support environmental assessments, as and when required in accordance with Government and Partner Agency policies, and the “Timber for Aceh” initiative, so as to avoid environmental degradation and deforestation.

Similarly, social sustainability is at the forefront in discussions about community development, gender roles, religion (e.g. shariah legal practices), and social capital. In particular, the SC should endeavor to maximize active participation of affected communities in relief and reconstruction decisions so as to minimize the risk of corruption in the delivery of aid. From the earliest stages of relief, through to the design, implementation and evaluation of long-term projects, such communities should be enabled to articulate their needs, assist in devising reconstruction plans, as well as evaluate end-results.

F) Gender. Although embedded in the pursuit of sustainable development policies in item D) above, special emphasis should be placed on gender roles. The SC should ensure that projects funded from the Multi-Donor Fund include special design features and strategies that (i) address the rootcauses of vulnerability, including gender and social inequalities, (ii) facilitate and encourage meaningful opportunities for women’s involvement i.e. are participatory in their approach, and (iii) ensure tangible benefits to women in the economic recovery process, while being sensitive to cultural issues Improving the status

of women and promoting their potential roles in the reconstruction effort is seen not just as an issue of humanrights or social justice, but as being a crucial element to achieving sustainable development.

G) Geographic balance and avoidance of regional disparity. It is appreciated that some activities funded by Multi-Donor Fund will, by their very nature, be spread throughout most of the affected region, whereas others may have a much more localized focus. In the case of the latter, and bearing in mind the finite resources of Multi-Donor Fund, the SC would like to ensure that, (i) when funding localized activities, they are not all focused in one affected area, and (ii) there is parity in terms of economic development across all regions of Aceh and Nias so as to avoid imbalances such as between urban and rural, and coast and hinterland and or conflict and/or non-conflict areas. This does not mean that the SC should necessarily restrict funding to only one activity in any given locality but rather, when examining the portfolio as a whole, the SC ensures that the Multi-Donor Fund support is not just supporting beneficiaries in localized areas but is spread among the needy to the extent possible.

H) Conflict sensitive approach. With positive developments in the peace negotiations with GAM resulting in the signing of the peace accord on 15th August 2005, the responsibility of the BRR may be extended to address and integrate GAM-influenced areas into the reconstruction program as well as those areas affected by the earthquakes and tsunamis. If the BRR's mandate is extended, then the SC would like to ensure that some of Multi-Donor Fund resources are also used to support development in these areas. In so doing, the SC would ensure that any Multi-Donor Fund financed activities in those areas would (i) use non-partisan and transparent coordination mechanisms, (ii) use independent implementing agencies, (iii) apply transparent external auditing, (iv) be community-driven, (v) integrate people, and (vi) promote dialogue in such a way that they do not unintentionally provoke further conflict or cause harm.

VII. Sectoral Policy

This section outlines the key elements of the SC policy for assessing current sectoral gaps and priority sector needs. The SC is well-positioned to respond to the needs of the recovery process that are not being adequately addressed by other sources of finance (Government, bilateral donors, multilateral institutions, international NGOs, and the private sector) and which are expected to have a measurable impact within the selected sector¹ in order to achieve the expected results as set out in Section II. The stocktaking exercise, "Rebuilding a Better Aceh and Nias," (June 2005) can be used as a starting point for identifying such sectoral gaps.

The Government's Master Plan estimates total reconstruction needs at US\$5.1 billion. While the amount is similar to the US\$5 billion of estimated damage and losses², the composition of the two sets of estimates differ significantly. The Master Plan allocates much less to compensate for private losses² and much more for public assets and infrastructure. This reflects the Government's desire to rebuild much higher quality services and infrastructure than before the earthquakes and tsunami. Thus, only about half of the Master Plan is for reconstruction in the strict sense; the rest is to build a *better* Aceh and Nias. Given this background, the stocktaking identifies three types of funding gaps:

Damage and loss – this is the difference between the existing (or agreed) financing available and the original calculation of damage and losses shortly after the disaster (January 2005)

Master Plan – this is the difference between the existing (or agreed) financing available and the financing needs identified in the Master Plan to partially compensate private losses and improve on pre-tsunami conditions

Core needs – this is the difference between the existing (or agreed) financing available and the minimum investment that would be required to build back Aceh and Nias to its pre-earthquake and disaster status.

The funding gaps emerging from each of these three scenarios is summarized for the various sectors in the table above. The policy of the SC should be to, at a minimum, address the substantial funding gaps that enable a full rehabilitation of Aceh and Nias to its pre-disaster situation. Once this has been achieved, remaining funds can be used to invest in improvements.

This implies an initial focus on the substantial core funding gap, which yields the following sectors that are listed in descending order, from greatest to least funding gap:

- Transport
- Housing
- Flood control and irrigation works
- Environment
- Energy

¹ Such impact can be assessed by means of clearly defined indicators and targets, achievable within the time frame of the activity, that are defined in the concept proposal.

² This includes additional estimated damage and losses for the Nias earthquake of March 26, 2005 of US\$400 million.

Funding Gaps in the Recovery

TABLE: Funding Gaps in the Recovery

	GAP		
	Damage & Loss	Master Plan	Minimum Core Needs
	(US\$ millions)		
Social Sector	612	-620	323
Education	176	-571	105
Health	258	129	130
Community, culture and religion	178	-179	88
Infrastructure and Housing	-895	-1,387	-466
Housing	-957	-88	-192
Transport	-128	-737	-337
Communications	3	-16	-2
Energy	-45	-440	-57
Water & Sanitation	195	-120	159
Flood control, irrigation works	-126	-106	-146
Other Infrastructure	163	120	109
Productive Sectors	-802	222	160
Agriculture & Livestock	-152	21	8
Fisheries	-413	6	-15
Industry & Trade	-418	24	22
Manpower and transmigration	28	26	25
Cooperative and SMEs	154	146	120
Cross Sectoral	-362	-355	-63
Environment	-495	-85	-109
Governance & Administration (w. land)	147	-270	62
Bank & Finance	-14	0	-16
TOTAL	-1,447	-2,141	-47

While there are also funding gaps in respect of Banking and Finance, Fisheries, and Communications, these are less significant. As a check, it is useful to compare these selected sectors with the previously-stated expected results indicated in Section III. The gap analysis results in a selection of sectors that is consistent with the pre-established focus of several key donors, with the exception of governance where there appears to be adequate core financing.

The sectoral investment policy of the Multi-Donor Fund should thus be to initially focus on the sectors where there are substantial funding gaps to meet core needs. This suggests that funding in the short-term should go to meeting financing gaps and/or resolving critical issues in: community infrastructure (particularly housing), repairing larger infrastructure (especially transport, energy, flood control and irrigation works), restarting livelihoods (fisheries and banking/finance could be included here although their funding gap is less significant) and the environment. In the medium term, the SC could also focus investment on the “building better” aspects of the Master Plan, including rebuilding governance. This will have an accumulative effect and will help reducing poverty.

The SC’s endorsement of the BRR strategy for using the trust fund’s remaining resources has further refined the sectoral investment policy. Specifically, from 2006 onwards, the following priorities will be pursued:

- Remaining Multi Donor Fund resources should be predominantly used for reconstruction and development of infrastructure at the level of the housing plot, the community and the district/province.
- Infrastructure provision should be closely matched with capacity building for local governments, including community participation to enhance governance.
- The initial focus of this approach should be on the areas most heavily damaged by the tsunami and earthquakes, especially Nias, but gradually extended to other areas of Aceh that have suffered from years of conflict and poverty.
- The considerable financial needs in these areas and limited sources of programmable funds will require closer integration between the BRR, local governments and the Multi Donor Fund, including co-financing where feasible (see Section V. Financing Policy).

This refinement is based on an update of the gap analysis that confirms earlier findings.

VIII. From Policies to Operational Guidance

This policy document will have three immediate operational uses. First, it will provide potential project/program proponents with guidance as to the eligibility of individual proposals. This can be done in a succinct manner by developing a mission statement to back up the Multi-Donor Fund brand. Second, it will assist the Multi-Donor Fund Secretariat with an initial assessment of project concepts that are received from the BRR. Third, it will help the Steering Committee decide on best use of funds between sectors and over time. These latter two uses of the policy document can be operationalized in a set of decision-making criteria used initially by the Secretariat and subsequently by the SC for evaluating proposals.

Mission statement. A mission statement clearly communicates the purpose and nature of the Multi-Donor Fund to a general audience. It also reminds the stakeholders in the Multi-Donor Fund about what we stand for.

“The Multi-Donor Fund for Aceh and Nias is a partnership of the international

community, Indonesian government and civil society to support the recovery following the earthquakes and tsunami. It contributes to the recovery process by providing grants for quality investments that are based on good practice, stakeholder participation, and coordination with others. In doing so, the Multi-Donor Fund seeks to reduce poverty, (re)build capacity, support good governance and enhance sustainable development.”

Decision-making criteria. Criteria are needed in order to evaluate proposals from the BRR and decide what should be funded on a priority basis. These decision-making criteria should reflect both the implementation and sectoral policies. Initially they will be used by the Secretariat and its “Ad hoc Committee” to both evaluate and screen concept proposals. Thus, the SC will know that concept proposals recommended to it by the Secretariat for potential endorsement, will either meet all, or most, of the following:

Responding to needs – the concept and appraised activity should either fill a financing gap or help resolve critical issues within the priority sectors initially identified in Section III above;

Enhancing quality – the initiative being considered for financing should tailor recognized good practice with local conditions, serve as a reference point for other similar efforts and increase opportunities for aid coordination;

Building capacity – the potential investment should have an explicit short, medium or long-term capacity building effect, or a combination of impacts, in order to utilize or strengthen institutional resources;

Reducing poverty – the proposal should demonstrate poverty reduction interventions that can be short term (such as sustaining basic services to the poor); medium term such as targeted interventions); or long-term (such as those that build human resources, stimulate pro-poor growth, and encourage expansion of the private sector).

Supporting good governance – the proposal should consciously seek to reduce opportunities for corruption while including measures to maximize transparency and accountability. The final (appraised) initiative should be prepared in a participatory fashion and be implementable with the involvement of stakeholders;

Pursuing sustainable solutions – the proposed activity should be assessed as to whether it will contribute to environmental and social sustainability. Greater weight should be given to proposals that improve sustainability rather than just mitigate negative impacts;

Gender – the proposed activity should, where possible and appropriate, include features and strategies to facilitate and encourage women’s involvement and ensure tangible benefits to women while being sensitive to cultural issues;

Geographic balance and avoidance of regional disparity.– if the proposed activity is not spread but focuses on one locality then a check should be undertaken to ensure that (i) there are not too many Multi-Donor Fund – financed activities in the same locality and (ii) the activity will not cause economic development disparities;

Conflict sensitive approach – if the activity is proposed to take place in areas affected by the conflict, then the activity would be checked so as to ensure that it will not unintentionally provoke further conflict or cause harm;

Partner Agency workload – a check should be made that the work of monitoring and

supervising Multi-Donor Fund -financed activities is shared more or less equitably among designated Partner Agencies.

These criteria have been employed to create the attached evaluation template that can be used by the Secretariat to evaluate and screen concepts for the Steering Committee. The template also presents statistical information on the implications of financing a particular proposal so as to better inform Steering Committee decision-making.

IX. Summary of the Policy

The key policies embodied in this statement to guide the Multi-Donor Fund are:

Financing policy – the Multi-Donor Fund should focus on financing larger grants and should retain a portion of its resources to meet financing needs that emerge after the second year of the recovery process.

Implementation policy – all projects and programs that will be financed by the Multi-Donor Fund should: **a)** enhance the quality of the recovery process; **b)** use and build different capacities for implementation over time; **c)** support good governance; **d)** contribute to sustainable development, **e)** consider gender issues, **f)** have a geographic balance over the affected areas, **g)** an equitable workload among acceptable Partner Agencies, **h)** be conflict sensitive, and **i)** avoid regional disparities.

Sectoral policy – respond to the needs of the recovery process that are not being adequately addressed by other sources of finance through financing and/or addressing critical issues. Such priority sectors may change over time and also when the SC decides to not only fund core needs but also improvements.

Evaluation of Concept Proposals Submitted for Multi Donor Fund Financing		
BRR Ref. No. :	Proponent:	
Date Received by BRR:	Project	
Date Received By Secretariat:	Name:	
Proposal would be ON/OFF the Government's budget		
Decision-making Criteria	0= Non-compliance 5= full compliance	Comments
<i>Responds to needs by either filling a financing gap or resolving critical issue(s) in a priority sector</i>		

<i>Enhances quality by tailoring good practice to local conditions, serving as a reference point and enhancing aid coordination</i>		
<i>Builds capacity in the short, medium and/or long term.</i>		
<i>Is the project driven by the community?</i>		
<i>Can the project be considered to alleviate poverty either directly, or indirectly? If directly, what are specific interventions?</i>		
<i>Supports good governance by controlling corruption, transparency and accountability, and stakeholder participation</i>		
<i>Supports environmentally and socially sustainable development</i>		
<i>Includes features/strategies that facilitate and encourage the involvement of women and provides them with tangible benefits</i>		
<i>If the activity focuses on one locality have there been any other Multi Donor Fund funded activities in the same locality? - If funded, how would the geographic distribution of the Multi Donor Fund portfolio change? - If located in a GAM-influenced area will it be conflict-sensitive? - Would the activity cause regional disparity?</i>		
<i>Corresponds with policies and procedures that are acceptable to the Trustee</i>		
<p>Additional Comments (where appropriate, include risks assessment, cost effectiveness, potential for rapid implementation, and list all issues that should be raised during appraisal if not covered above):</p> <p>If funded, activity would represent x% of approved Multi Donor Fund financing and x% of remaining resources</p>		
<p>Recommended for Concept Endorsement by Multi Donor Fund Steering Committee</p>	(Y/N)	Secretariat Endorsement
	Y	Signature Date

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