

MULTI-DONOR TRUST FUND FOR ACEH AND NORTH SUMATRA (MDTFANS)

DRAFT Minutes of Third Meeting of the Steering Committee (SC) held in Bromo Room, World Bank Office Jakarta, on Wednesday 29 June 2005 at 3pm

Attendees

1. The list of attendees is attached.
2. The meeting was co-chaired by Pak Kuntoro Mangkusubroto, Chairman of the Rehabilitation and Reconstruction Agency for Aceh and Nias (BRR), Ambassador Jean Breteche, Head of Delegation of the European Commission, and Andrew Steer, Country Director, World Bank.

Welcoming Remarks

3. On behalf of the World Bank (IDA), as Trustee, Co-chair Andrew Steer welcomed members to the third SC of MDTFANS. In addition to welcoming new representatives of various donors, there was a special welcome for Ms. Yanti Lacsana, Deputy Country Director, Oxfam, who joined the meeting as the observer representing the international NGO community.

I. Approval of Agenda and Minutes of Previous Meeting (June 15, 2005)

4. At the request of the European Commission (EC), the final paragraph of the previous minutes was altered to reflect the fact that, in addition to holding any new concept proposals in abeyance, the EC, while having no objection in principle to the appraisal report of the KDP, which is currently in the pipeline, wishes to withhold such no objection pending finalization of the policy for the MDTFANS. Subject to this change, the SC approved the minutes of the previous meeting.
5. Co-chair Jean Breteche confirmed the EC's strong commitment to the MDTFANS and wished to point out that the EC approach in causing a brief postponement to consideration of new concept proposals and withholding of no objection in respect of the KDP should not be interpreted as hesitation by the EC, but rather the need to ensure that the MDTFANS SC acts within a clear policy framework.
6. Members had no objection to the proposed agenda

II. Recovery Update

7. Co-chair Andrew Steer advised that while he had been honored to attend the six-month anniversary of the tragedy with Co-chair Kuntoro, the scale of the disaster is sobering and brings home the need for the MDTFANS SC to respond not only responsibly but also rapidly to the rehabilitation and reconstruction needs.

8. Co-chair Kuntoro advised that his presentation at the previous SC meeting may have created the impression that the BRR was operating in an ad hoc manner whereas it was, in fact, responding rapidly to urgent needs during its first two months since establishment while, at the same time, building its own policies and procedures in order to create a strong platform on which to operate in future. He cited a number of documents produced by the BRR that are now available publicly (some of which were provided through the Secretariat to those attending the meeting) and mentioned in particular an important policy document relating to technical implementation of projects. This document has been presented to all donors including NGOs and is currently being formally printed. In addition to this policy document he reminded members that all agencies either implementing or supervising projects would be required to sign a code of conduct.
9. Co-chair Kuntoro then referred members to a comprehensive document outlining the strategy of the BRR that would be finalized and adopted in the coming week. Rather than go through the document in detail, Co-chair Kuntoro emphasized the salient points in the strategy and referred to important pages in the document (see below). First the document outlines the stark reality of the tragedy in Aceh and Nias and the consequent challenges faced as well as amounts pledged for the rehabilitation and reconstruction effort to date. Page 8 outlined seven guiding principles for BRR's operations. Of these, he wanted to emphasize the following:
 - *BRR would not implement projects directly*
 - *All actions would be community driven (bottom-up)*
 - *Vigilance against corruption*
 - *The BRR will have a light structure*
10. Co-chair Kuntoro also stressed that it was not for the BRR to take over the role of local government. However, given the state of local government entities following the tragedy, he appreciated the need to build capacity in local governments and empower them. Hence, he stressed the need for the technical assistance support that would be presented by BRR staff later in the meeting. Such support was not just for the BRR but would flow to local government as well.
11. Co-chair Kuntoro then referred to Pages 10 -13 inclusive that outline the project cycle from the BRR perspective, the need to refine the Master Plan, and the approval process. In the case of the planning stage, he advised that the current GOI Master Plan prepared by Bappenas should not be regarded as a document "fixed in stone" but rather as a reference document that will be open to revision. i.e. it is expected to evolve and develop as a result of community participation and needs. He cited inputs from fishermen's and farmer's associations as an example. With the approval of BRR's strategy next week using the evolving Master plan as a reference and, having regard to community needs, individual sector strategies and policies, goals and outputs will be developed over a 4 year planning period. This will provide a clearer picture for donors. Even though BRR's role to date has been one of consolidation including recruitment of staff, BRR has still been able to undertake its coordination role with US\$ 1.9 billion in projects over all sectors having been approved by the BRR over this period. He felt that BRR was now moving into its second stage of development where some real construction would start. To emphasize this, he advised that for the first

time he was required to wear a hard safety hat when he visited Meulaboh harbor construction being funded by Singapore. In addition he expected construction of the new road from Banda Aceh to Meulaboh, which would be built to a better standard than the previous road, to commence shortly with the assistance of USAID.

12. Regarding the approval stage, Co-chair Kuntoro advised that the process was not only efficient, but also inclusive with local government and NGOs participating in the formal approval meeting. With a well prepared methodology, after the necessary evaluation, about 172 projects were formally approved in less than one day at last month's meeting. However, 40 percent of those presented to the BRR were turned down. About 70 more concepts will be considered this month. BRR's role was also to prevent overlaps and duplication.
13. Co-chair Kuntoro stressed that BRR will work with line ministries and local government (Page 16) because they will be the implementing agencies for on-budget projects and not the BRR. However, the projects must be implemented in accordance with BRR policies and guidelines.
14. He advised that just this morning he had held a meeting with the World Bank, ADB, and others to discuss how the USD446 million flowing through the BRR accounts and US\$480 million flowing through line ministry accounts can be absorbed in just five or six months. He estimated that he may struggle to absorb up to 60 percent of this and so he has asked the government for a time extension. He also needs to prepare for the 2006 budget.
15. While BRR has endeavored to move fast this year, while not compromising transparency, guidelines will be more strict next year. With a slim organization, the BRR plans to obtain external support for services such as information technology, legal, human resources etc. His staff will present more on this later in the meeting.
16. He reminded members that the BRR was developing a full anti-corruption policy (Page 32) and such guidelines must be adhered to by all stakeholders. This would be inherent in any capacity building of local government agencies. The strategy would include a pre-audit mechanism and BRR would have the power to halt projects if corruption is found.
17. Finally, Co-chair Kuntoro referred members to page 37 that indicated BRR's accomplishments in such a short period of time through working in partnership with other stakeholders.
18. Members asked how capacity would be transferred to line ministries and local governments bearing in mind that BRR is an interim agency and in four or five years time it will be the line ministries and local government that will need to take over the role of the BRR. Co-chair Kuntoro responded that the BRR's role is one of support whereas that of the line ministries and local government is "hands on". It would only be in exceptional circumstances that the BRR would intervene in what is seen as the role of line ministries and local government. He then stressed that there are three key areas as part of BRR's mission. They are:

- *Infrastructure (rehabilitate and reconstruct)*
- *Capacity building (includes line ministries and local government)*
- *Revitalize the economy (supporting local businesses)*

19. Members asked that in refining the Master Plan, when would the various sector policies become available because these could impact on MDTFANS policy. BRR staff responded that next week's meeting on strategy will lay the foundations but there are currently no deadlines for finalization. It will be a parallel process with sectoral policies emerging within the next 3 or 4 months. However, it is not necessary for donors to wait, rather they should participate in the discussions.
20. The international NGO observer inquired further on how BRR policies in respect of a community driven approach and anti-corruption would be implemented and applied. In the case of anti-corruption mechanisms, most NGOs have their own measures and approaches. In such circumstances, would BRR still have the power to stop and investigate? Co-chair Kuntoro responded that there are different community approaches. The BRR's main concern is that it does not want to receive any adverse reaction from the community in respect of any project it has approved. In the case of anti-corruption policies, BRR is inflexible on eliminating corruption but is flexible on the type of governance frameworks used by various institutions and NGOs. The BRR will not interfere in such governance structures and how they are applied so long as they follow the basic principles set down by the BRR.
21. Co-chair Andrew Steer inquired about financial transparency amongst donors. He cited as an example the different amounts being spent by different donors on housing. Some housing was more lavish than others. Co-chair Kuntoro's initial reaction was that he merely wants to count the number of houses being constructed and, so long as standards are met, he would not interfere in quality. BRR staff advised that the Rp 28 million for a standard 36 sq m house was simply for budgetary purposes and acknowledged that the actual prices of some constructed units were of the order of Rp 40-50 million or even more. In addition, post-disaster Aceh and Nias are facing inflation in price of building materials. Co-chair Andrew Steer expressed concern about potential inequalities with some villages being luckier than others if they were being provided with housing from a more wealthy NGO. BRR staff wondered whether the jealousy lay with the donors or the beneficiaries. Co-chair Kuntoro agreed that he would need to think about this matter further in case villagers chose to wait for better housing offers. One point he did make was that there cannot be more than one donor per village so that there will be the same standard throughout any particular village. Also the donor should give consideration to all village infrastructure including clinics, schools, mosques, utilities etc. and not just housing.

III. MDTFANS Strategy Discussion

19. The MDTFANS Manager, reminded the meeting that Co-chair Jean Breteche had correctly pointed out at the first meeting of the SC that it needed a road map to assist it in its deliberations and decisions when endorsing concept proposals. Since that meeting, the Secretariat had produced draft strategic principles and a strategy paper. Also informal meetings have been held with donors to discuss this prior to today's SC. A copy of the presentation made by the MDTFANS Manager, to the SC is attached to

these Minutes. In summary, MDTFANS strategy should be the Government's (BRR's) based on the evolving Master Plan. However, the SC needs a policy to (i) guide potential proponents seeking funding from MDTFANS through the BRR, (ii) enable the Secretariat to evaluate concepts, and (iii) assist the SC to decide on the best use of funds over time. In addition to the government's strategy, another key starting point should be the MDTFANS Mission Statement, which was both displayed and read out to members. Key policy pillars that are captured in the Mission Statement were also presented to the SC. Based on discussions held to date a series of preliminary comments/ suggestions have evolved. Like the government's strategy, it was agreed that the MDTFANS SC policy should not be static but be reviewed regularly and updated as the environment in which the fund operates changes. Among the preliminary thoughts were the following:

- *Should the MDTFANS SC focus on key sectors?*
 - *What does enhancing quality mean?*
 - *Should the MDTFANS SC be pro-active on specific issues? (e.g timber supply and potential damage to the environment)*
 - *Is there a preference for on-budget financing?*
 - *Identify weaknesses as well as strengths*
 - *Should the Secretariat engage in fundraising?*
 - *Should some funds be held in reserve? (future capacity building needs of local government, outcome of peace process etc)*
20. Some members pointed out that sectoral policy reflects the findings of the Table on Page 55 of the "Stocktaking" Report, which is very important and has future implications besides the MDTFANS policy. It was noted, however, that the MDTFANS policy can be subject to change just as sectoral financing gaps may change. The SC agreed to the proposed next steps whereby the Secretariat would circulate a revised policy by cob Friday 1 July for a smaller drafting committee to finalize next week. After that, the final policy paper would be circulated with a five day no objection period. If no objections are received by the end of that period then it is understood that (i) the EC would withdraw its objection to the KDP appraisal thereby enabling the grant agreement to be finalized and signed, (ii) the housing project appraisal documents may be submitted for no objection, and (iii) those new project concepts currently in the pipeline that the Secretariat deems worthy of SC consideration based on the agreed policy may be circulated for consideration by the SC at its next meeting.

IV. Grant Requests

A. Technical assistance support for the BRR

21. BRR staff referred the SC to the concept proposal circulated to members together with the Secretariat's recommendation. They pointed out the huge job required to accomplish BRR's mission and that international attention will be focused on the BRR so it is essential that it succeeds. In so doing, it needs to operate in accordance with international best practice. GOI regulations in respect of ceilings for consultancy rates preclude the BRR from being able to recruit technical experts of an acceptable international standard and caliber. Staff also advised that while the urgent need for

such flexible support from MDTFANS remained the same, recent events had overtaken the proposal somewhat. The GOI had firstly provided a budget of US\$ 20 million for the BRR operations. While core functions such as staff salaries, set up costs etc. were never included in the original proposal, estimates had been included for community meetings, workshops, and logistics. As a result of GOI's increased operating budget for the BRR, it now intended to fund these additional items from its own operating budget. In addition, staff acknowledged the contribution from the ADB that would now fund the BRR's finance and accounting packages/ internal controls. Despite these deductions from the estimated amount, there are now new and important additional needs. These relate to the fact that the Government has also allocated approximately US\$ 446 million equivalent in funds for rehabilitation/ reconstruction projects that would flow through BRR's own accounts. This is in addition to the on-budget funds of approximately US\$ 480 million equivalent that will flow through line agencies. Co-chair Kuntoro had already advised the BRR's role is that of oversight and coordination and that the BRR would not be an implementing agency. As a consequence BRR staff now see an urgent need for setting up a project management supervision system that will provide support to both line agencies and local government in implementation of projects. The BRR's response and approach to this urgent need is still being determined. Also, to assist in providing such support to line agencies and local government, BRR's information and technology and communications needs have expanded. Staff confirmed, however, that the proposed system would only include basic needs and not additional "bells and whistles". In view of all of the above, BRR staff advised that during appraisal they expected the ceiling amount for the two year time slice may still remain about the order of US\$ 15-16 million, but that reallocations within the budgeted amount would occur to accommodate the changed needs that have been explained above.

22. UNDP staff, as both the proposed Partner Agency and Executing Agency of the off-budget support fund, reiterated the presentation made by BRR staff. The concept for a coordinated approach was first raised jointly with BRR by the UNDP together with the World Bank and ADB. The flexibility that will be provided to the BRR through the provision of such a fund was stressed as well as its coordinated approach in respect of technical assistance resources. UNDP also appreciated the need to move quickly without compromising its own procurement procedures in the interests of good governance. Until such systems are in place, as the result of a competitive bidding procedure, UNDP advised that it was prepared to provide immediate coordination support in the interim to the BRR Technical Advisor's Appointment Panel and hoped that other agencies may also be able to respond to BRR's interim (i.e. short term) technical needs.

Discussion

23. Members asked whether other requests from the BRR for technical assistance would be superseded by this proposal or not. BRR confirmed that other donors have been contacted but, to date, there has been no certainty in respect of the response. Members also observed that different countries were already providing technical support and asked what coordination mechanisms would be put in place. Did the BRR want to tap into many different sources or have a "one-stop" shop? BRR responded that with a coordinator being proposed under the concept, which would be the counterpart of the BRR Panel (refer Page 27 of the BRR Strategy Outline), there would, in effect, be a "one stop shop" for coordination but that this would not prevent other donors from

complementing BRR's requirements. Indeed, the coordinator would be expected, where appropriate, to seek resources from other sources (preferably on a "pro-bono" basis if possible) before utilizing the fund. The concept is for a budgeted ceiling with the flexibility to draw on the fund if needed. As a consequence, it may not necessarily be fully utilized. In response to a question as to the expected length of the interim gap, UNDP confirmed it could be up to three months but UNDP would endeavor to speed up the process without compromising its integrity. Members also asked if the proposal also envisaged support to the other two components of the BRR being the Oversight and Steering Committees. Co-chair Kuntoro advised that, as a result of the GOI budget, there was no need to provide support to these Committees and that it is the operating entity, i.e the Bapel, which needs such support urgently. Co-chair Breteche advised that the EC supported the proposal in principle but he wondered whether the full amount would be needed immediately or whether it could be implemented progressively. It was suggested that the SC would be endorsing a ceiling amount for a two-year time slice and that likely tranche amounts would be considered during the appraisal.

SC Endorsement No. 05/05

The SC endorsed the concept proposal to utilize approximately \$15-16 million for a flexible fund to support the BRR on an off budget basis with the UNDP as both the designated Partner and Executing Agency, subject to satisfactory appraisal.

24. In so doing, the SC noted that the concept would contribute to the quality of the BRR for the benefit of both the beneficiaries and all donors and not just MDTFANS. Co-chair Kuntoro thanked members for endorsing the concept proposal for support to the BRR.

B. Status of project concepts received from BRR

25. The MDTFANS Manager, advised that there are seven concept proposals that have been submitted to the Secretariat by BRR, which are in the pipeline, but are currently on hold pending finalization of SC policy for MDTFANS. Details of these are shown in the Secretariat register attached. He advised that the BRR will shortly complete another round of approvals at which time the Secretariat would expect to receive more concepts.

V. Draft MDTFANS Operations Manual

26. The MDTFANS Operations Manual was approved without objection.

VI. Other Business and Next Meeting

Taking stock – pledges and disbursements

27. Co-chair Andrew Steer drew members' attention to the membership list, based on pledges received to date, that was provided in the distributed documents for the meeting. He advised that he would like to take stock and receive an update from donors both in respect of pledges and actual disbursements into MDTFANS. Finland confirmed a pledge of 6.5 million Euros. Immediately subsequent to the meeting, the Secretariat also received written confirmation from the Irish government pledging 1

million Euros from Development Co-operation Ireland. Co-chair Andrew Steer reiterated the urgent need for disbursements to be made into the fund in the light of no objection to the Land project appraisal report so that MDTFANS could respond rapidly. Norway advised that it would be able to disburse once the new standard provisions are circulated. The MDTFANS Manager confirmed that the revised provisions reflecting the required wording in respect of anti-corruption would now be circulated as there was no objection from any potential contributor. Norway then confirmed that, this being the case, it would be ready to disburse the next day.

Future meetings

28. Co-chair Andrew Steer also drew members' attention to the proposed meeting schedule, which is based on the third Thursday in every month. He appreciated that some representatives may be away on their northern summer vacation during July. However, he suggested that this should not stop the SC from responding to the urgent needs of Aceh and Nias. At the request of Co-chair Jean Breteche it was agreed that the next meeting would be held in Jakarta on Tuesday 19 July subject to agenda and likely quorum. Co-chair Andrew Steer suggested that it may be appropriate for the August meeting to be held in Banda Aceh to coincide with a proposed CGI meeting. He also suggested that it may be appropriate for about every third meeting to be held in Banda Aceh.

The meeting closed at approximately 5pm.

Attachments:

1. Attendance List
2. Roadmap for MDTFANS
3. Status of concept proposals