



**MINISTER OF STATE FOR NATIONAL DEVELOPMENT PLANNING/
CHAIRPERSON OF NATIONAL DEVELOPMENT PLANNING AGENCY**

**UPDATE ON THE POST-TSUNAMI REHABILITATION AND
RECONSTRUCTION OF ACEH AND NIAS, NORTH SUMATRA ^{*)}**

By

Sri Mulyani Indrawati ^{)}**

Excellencies, Ladies and Gentlemen, and Friends,

It is a pleasure and honor to be here. On behalf of the Indonesian Government, let me say how much we value the opportunity to discuss how best we can work together with the private sector on the reconstruction of Aceh and Nias, North Sumatra.

Before I begin my remarks, I would like to express my special thanks to the Honorable George H. W Bush and the Honorable William C. Clinton for spearheading the global response and their important visit to Banda Aceh last March. Their visit helped lift the hopes of hundreds of thousands affected Indonesians. I would also like to thank and congratulate the Asia Society, represented by the

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Honorable Richard C. Holbrooke, The Asia Foundation, US-ASEAN Business Council, and The US Chamber of Commerce and with support from USINDO, for organizing this very important and impressive gathering.

It was on the morning of the 26th of December 2004 that the tsunami struck. Mothers, children, fishermen, and traders were engaged in their normal morning activities close to the sea. The devastating earthquake and resulting tsunami on that day resulted in 120,000 known victims and another 100,000 still missing. We will never know the full loss due to this tragedy, but we do know that it has challenged us profoundly as a nation, and that it has changed the future of Aceh.

The reconstruction task is a formidable one, but so is our resolve. The government is determined to rebuild a better Aceh and other affected areas – focusing not only on bricks and mortar, but also on community life and family livelihoods, and meeting the aspirations and expectations of the people for a better future.

The outpouring of generosity in response to this disaster has been unparalleled in human history. On behalf of the Government of Indonesia, I would like to express our deep gratitude for this generosity – both from your official pledges, and those of your individual citizens, corporations and NGOs.

Progress to Date

Everyone is well aware that the tsunami caused widespread loss of lives and physical destruction to the coastal areas of the provinces of Aceh and North Sumatra. As I mentioned, more than 200,000 persons were either killed or are missing and many more are homeless. All along the coast large parts of cities, entire towns and villages, shops, schools and infrastructures have been destroyed or severely damaged. Government administration and public services were brought to a standstill, as was the local economy. The loss of lives has gutted the local civil service administrative capacity and reduced the number of people with needed skills. Clearly, the economic impact on Aceh has been disastrous. The Indonesian Government/World Bank Joint Assessment estimates that five billion dollars in public and private losses and damages, or almost 100 percent of Aceh's GDP, resulted from this tragedy.

Our disaster management has been divided into three phases: emergency, rehabilitation, and finally reconstruction. These phases are not discrete but actually blend. The Indonesian government has made the best efforts to accelerate the rehabilitation and reconstruction phases. The communities in the affected areas have high expectations of the government delivering reconstruction quickly and creating a better future for the Acehnese. We see a growing impatience among the communities at the current pace of recovery. We understand this and over the last four months we have spent much effort in finalizing the blueprint for Aceh and worked hard putting in place the Rehabilitation and Reconstruction Executing Agency, or BAPEL, to implement the reconstruction strategy with concrete programs for the devastated communities.

We wanted to ensure that these efforts starting right now would be well-planned, coordinated, and done in a transparent manner.

Oversight and Coordination: The Authority for the Rehabilitation and Reconstruction of Aceh and Nias

Now with BAPEL in place we want to accelerate rehabilitation and reconstruction phases. The Agency's mission is to implement the Master Plan by designing and overseeing a coordinated, community-driven reconstruction and development program. It has its headquarters in Banda Aceh, the provincial capital, and branch offices in Nias and Jakarta to liaise with stakeholders.

The Agency is designed to accommodate the aspirations and concerns of stakeholders. It is clear that stakeholders, both in Aceh and among the donors, have concerns about managing the recovery process and monitoring the funds for Aceh. For example, the Aceh community has expressed concern about ownership of their future and whether programs are truly reflecting community needs and sensitivities rather than the priorities of donors or those of the central government. On the other hand, donors were concerned about governance in programs and their accountability for funds to their constituencies at home. The central government was concerned about the need to move quickly to rebuild communities affected by the disaster while recognizing that the administrative capacity of local government had been reduced.

The BAPEL will be responsible for matching donor funds with specific community needs in Aceh and Nias through a process that is rigorous, and sensitive to local concerns while also well

monitored. For example, projects at the community level can be modeled on the successful World Bank Village Development program or KDP. For transparency, the Agency will track and make publicly available the demand for projects submitted by affected regions and others, how donor funding is used, and the status of project execution. This will be done through e-Aceh, a website developed here at Bappenas, that will serve as the central entry point. Thus the BAPEL will be the focal point for the private sector in obtaining information on priorities and projects. In addition the BAPEL will be responsible for determining project priorities, optimizing the use of funds and eliminating bottlenecks to expedite the disbursement of funds. What BAPEL will not be doing is direct donor or NGO activities, or attempt to control all reconstruction funds.

To ensure full accountability and transparency, there will be independent Advisory and Supervisory Boards, each reporting to the President. The Advisory Board includes seventeen eminent persons, including government ministers appointed by the President and I will serve as the secretary. We will be responsible for broad policy direction and problem solving. The Supervisory Board consists of nine members, who have also been appointed by the President. They will be made up of community and technical representatives, including from donor organizations. The Supervisory Board will be responsible for governance oversight, including audit, monitoring, and complaint resolution.

Finally, I understand that the BAPEL envisions creating a private sector liaison officer with specific responsibilities for assisting and

coordinating private sector contributions. This would include advising firms on when concurrence and coordination are needed with line ministries and local governments and assisting them with this process.

Looking Ahead: the Role of the Private Sector in Reconstruction

Private firms, both local and international, have been extremely generous in their support for relief following the disasters in Aceh and Nias. We greatly value the contributions and appreciate the speed, imagination, energy and even patience that you have brought to addressing the aftermath of this overwhelming tragedy. Looking ahead, we see that our challenge is to continue to engage your support and assistance as we enter reconstruction.

We are in the unusual position of matching private sector contributions with public reconstruction priorities. This is a new challenge and we have few clearly defined answers or well-tested solutions. We will all have to build experience as we go and change courses as needed. Thus, I especially want to confirm that we are open to innovation, experimentation and learning in collaboration with you and your firms.

I believe you need four key things from us. *First*, you need a clear articulation of reconstruction priorities. *Second*, you need to have a source of potential projects that you can support with confidence. Such confidence is built on well-designed projects that are responsive to the needs of the people and that result in real improvements. *Third*, you need effective coordination, coordination

that includes the efforts of the Government of Indonesia, international donors, NGOs and international and domestic private sectors. You need to know who is in charge. And when there are the inevitable questions, snags and implementation challenges, you want to have an accessible and authoritative source of information, assistance and guidance to help you. *Fourth*, and finally, how will reconstruction efforts be operationalized and deliver real benefits at the local level. You want dependable mechanisms to channel resources into projects, knowing that funds are well-managed and reach their intended beneficiaries.

Let me try to address each of these briefly, recognizing that time is short and that each deserves extensive and in-depth examination. I hope that this will help provide a framework for a dialog that continues this afternoon and back in Indonesia.

Priorities and Projects: The Master Plan

As I mentioned earlier a core role of BAPEL is to implement the Master Plan. The President of the Republic of Indonesia has assigned the National Development Planning Agency or Bappenas with the responsibility for developing a rehabilitation and reconstruction plan. To develop this “Master Plan”, Bappenas has created ten working groups in Jakarta and linked them to parallel working groups in Aceh, and even by some of the affected local governments. Despite the time pressure, we have attempted to make this process as stakeholder/Aceh-driven as possible, culminating in the University of Syiah Kuala, a local university in Aceh, organizing a ten-day series of workshops to discuss ideas and

proposals of the working groups. Meanwhile, Bappenas has a website with continuously updated documents and information on the plan and related matters. I should also recognize the important inputs from donors including the World Bank, the Asia Development Bank, Australia, the U.S., and Japan.

One of the key challenges facing the government and donors has resulted from the unparalleled outpouring of generosity from both the international and domestic communities. While we need a common plan, common oversight and monitoring mechanisms and common standards of behavior, we do not want to impose a rigid blueprint on donors. The important thing is that all donors support a commonly understood and agreed reconstruction strategy, and adhere to some common standards for executing their programs in areas, including procurement, auditing, reporting, local pay standards, and monitoring and evaluation procedures. It is too hard for us – let alone the local governments in Aceh that have been so devastated by this crisis – to deal with the additional challenge of different standards and rules for so many different donors. “On” and “off” budget funds should be tracked on a common database, and coordinated within a common framework.

The blue print has a five-pillar strategy: (i) restoring purely public infrastructure (roads, schools and health facilities), (ii) restoring public infrastructure in support of private sector activities (markets), (iii) stimulating the local economy (jobs), (iv) restoring government and civic administration (local governments); and securing the environment from new natural disasters. While the blueprint is a comprehensive plan, it does not identify priority areas for private

sector contributions. However, we have now developed some initial priorities and these will be the subject of this afternoon's session. The role of the BAPEL will be to further define these priorities.

Options for the Private Sector: Management Mechanisms

I would now like to turn to what mechanisms are there for the private sector to channel their contributions to the reconstruction of Aceh and Nias. We recognize that most of the private sector is not organized to oversee and manage development projects. While some may have a separate philanthropic foundation or corporate capacity to manage projects, most are looking for reliable mechanisms through which they can channel their resources to reconstruction needs, but at the same time be assured that funds do flow to target beneficiaries.

No single approach can meet the requirements of all organizations. We need a range of options, allowing private sector firms to identify the mechanism that meets their specific needs. In this regard, our approach is to retain flexibility and choice with various options, offering different degrees of management responsibility and cost along with different levels of engagement in project development, oversight and accountability. However, I would like to point out that government, and especially local government resources for dealing with myriad donors with different procedures are limited. Thus, while each organization will have to make its own choice and we respect them all, I urge you to consider mechanisms that consolidate your financing and interaction.

Thus, at one end of the spectrum, there is a Multi-donor Trust Fund (MDTF) established and jointly managed by the Government and the World Bank. Private firms could simply join the MDTF gaining the benefit of improved coordination while leveraging project and oversight resources. When individual private resources are combined into larger programs, it should reduce our burden while allowing you greater reach and impact.

At the other end of this spectrum, there are a number of direct options. For example, some firms have established functioning corporate foundations. If you are willing to assume the higher management costs associated with direct engagement, you may prefer this option. Under this option the Indonesian government will permit foundations to set up their own private trusts for Aceh. Of course, projects selected will have to follow existing laws and regulations. If the private sector wants to build a fishing port, they would be subject to laws on ports, for example.

There is also a middle ground with options that offer some degree of choice in project selection, management oversight and direct attribution, but at a lower management costs. This middle range includes four possible options. *First*, private firms could opt for joint funding with international and bilateral donors by making a contribution to the donors project (managed by the donor and their project team). A *second* similar option involves parallel funding to expand or augment an ongoing donor supported, with a separate but parallel contribution to an NGO or contract with a consulting firm to work with the international donor. *Third*, firms may wish to combine forces and create a private sector trust fund to identify

projects, manage implementation, ensure accountability and report on results. *Finally*, firms may want to ‘outsource’ reconstruction assistance, with a grant to an NGO or management contract with a consulting firm to implement a separate project under your own direct oversight and management control.

I will be frank. This is new territory for us. We are still exploring and experimenting, and we know that we all have a lot to learn along the way. We recognize that this will create challenges on all sides – government, the international donor community, and the private sector. We will all need to develop and test new ways of working together.

I am pleased to say that some innovative efforts are already underway. You will hear more about some examples from USAID Mission Director Bill Frej, who will describe some of the public-private partnerships that his agency has developed. The experience of USAID may be a model or may inspire you to think of new mechanisms that we have not yet identified but which are better suited to the needs of your firm.

Before closing I would like to ask something from you. As I have stated a number of times, one of the key issues we face is coordination. For our part, we have been working hard to address this issue since the tsunami. I would request that you do the same. It is not going to be easy or maybe even feasible for the central government, the BAPEL, or the local authorities to deal with the numerous private sector donors, who are not just from the US but from all over the world. I believe it would help us a great deal if those of you here took the initiative to coordinate among yourselves as

well. Perhaps AMCHAM or USINDO or some other organization could request contributions to organize a central point of contact for American corporations that wish to assist us in Aceh. This organization would then be the parallel of the private sector liaison officer I suggested for our part. At the same time, the government will introduce incentives to the private sector that would eliminate any bottlenecks in implementing their projects.

Concluding Remarks

To conclude, I would like to reiterate three messages. *First*, we believe that the reconstruction strategy embodied in the Master Plan reflects the best elements of a stakeholder-driven program sensitive to the needs of the local community. We equally realize that it will have to be a living document as we all gain experience and events on the ground force revaluation. *Second*, we very much appreciate the support and assistance we have received from both governments and the private sector. Not only has the outpouring of financial support been truly unprecedented but I can personally testify to the great sacrifices that those working on your and your government's behalf have made over the last four months. In particular you have helped us to define a better strategy, improved oversight and in a breakthrough for Indonesia a new executing agency. *Finally*, we understand the important role the private sector will play in Aceh's recovery. This is new terrain but I have suggested a range of options depending on the degree of engagement and oversight. On behalf of the Government of Indonesia we will welcome your initiatives but urge you to consider both how best to

be effective and how best to minimize the burden on what are already overstretched systems.

Again, I would like to say we value the opportunity to discuss how best we can work together and I look forward to hearing your views on how we can best facilitate your needs in reconstructing Aceh and Nias. Thank you. ■

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