

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

<b>Project Name</b>	<b>Infrastructure Reconstruction Financing Facility</b>
<b>Region</b>	East Asia and Pacific
<b>Sector</b>	Urban Development
<b>Project ID</b>	P101785
<b>Borrower(s)</b>	Government of Indonesia
<b>Implementing Agency</b>	Bureau for Rehabilitation and Reconstruction for Aceh and Nias (BRR)
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	10/11/06
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<b>Date of Board Approval</b>	12/15/2006 (Expected date)

### 1. Country and Sector Background

The tsunami and earthquake that struck the Indian Ocean in December 2004 caused devastation on a horrific scale. In Indonesia, the disaster killed or left missing more than 230,000 people, and destroyed communities, infrastructure and livelihoods. The total reconstruction and development program for Aceh and Nias is estimated to cost between US\$6-9 billion<sup>1</sup> (2005-2009), making it the largest reconstruction program in the developing world. In addition to the physical damage, the disaster caused enormous destruction to the economy and loss of institutional capacity. While it appears that peace may finally have been achieved in Aceh between the government and the Free Aceh Movement, the neglect to infrastructure and human development from thirty years of conflict adds to the reconstruction challenges.

Following the disaster, the immediate need was to put in place humanitarian and disaster relief programs; these were widely supported and successfully implemented by local and national governments, as well as numerous agencies, NGOs and individuals. The people of Indonesia and the international community have since shifted from the initial emergency phase to the recovery phase. In April 2005, the Government of Indonesia (GOI) created a dedicated Rehabilitation and Reconstruction Agency - *Badan Rehabilitasi dan Rekonstruksi* (BRR) - to provide leadership and management across all aspects of recovery. Given the magnitude of the losses suffered and the number of organizations currently involved in reconstruction efforts, demands on the technical and coordination capacities of BRR as well as of local and provincial governments are enormous. The first reconstruction priority was the provision of housing – this program is well underway, with 45 percent of the overall rebuilding needs in progress. The second reconstruction priority – which has made less progress – is to rebuild and restore essential infrastructure services, such as transport, roads, macro and local level drainage, water supply and sanitation, power distribution, and solid waste. Overarching these demands are the BRR's policy goals of rebuilding to improved standards (i.e., building back better), strengthening local governments, and working with communities.

**Sector overview.** As of March 2006, approximately US\$4.7 billion had been allocated by GOI, NGOs and donors (including MDF) to specific rehabilitation projects and an estimated additional US\$3.7 billion had been committed but had not been allocated to specific projects. Of this total of US\$8.4 billion, US\$535 million comes from the MDF<sup>2</sup>. This total of US\$8.4 billion appears sufficient given overall funding needs to: (i) cover the original loss assessment across all sectors from the tsunami and earthquake of US\$4.9 billion; (ii) cover anticipated cost increases of US\$ 1.2 billion resulting from inflation; and (iii) build back better (US\$2.3 billion) according to the GOI's stated objective. However, BRR, donors' and NGOs' interests and focus have varied across sectors according to their comparative advantage and

<sup>1</sup> *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*, December 2005

<sup>2</sup> *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*, December 2005

preference and this has resulted in some mismatch between available funds and financing needs. Infrastructure, in particular, currently shows a deficit of available funds for reconstruction of about US\$650 million.

Having suffered the most damage, the housing and social sectors have received the greatest attention in the post-tsunami reconstruction program in terms of the allocation of resources. The estimate of damage to the housing sector was US\$1.4 billion, with the demand for new houses now ranging from 93,000 to 120,000<sup>3</sup>. The housing program is moving rapidly (and generally in the absence of supporting infrastructure) – by the end of June 2006, an estimated 35,000 houses have been completed, with up to 22,000 under construction. Ensuring quality of finished works and providing sufficient supporting infrastructure are the key sector priorities.

Damage to infrastructure has been substantial and progress slow. To the extent that both physical infrastructure and staffing were limited before the tsunami (for e.g., in the water and sanitation sector, there were no sewerage systems and less than 30 percent of the population provided with piped water), building back better will require substantially more investment than simply replacing what was lost. Sectoral funding gaps resulting from a mismatch between available funds and financing needs further strain reconstruction efforts. Lack of sufficient funding is particularly severe in the transport sector, and to a lesser extent in flood control and irrigation. The funding deficit in the transport sector is a critical issue as an efficient transport network is vital for the delivery of rehabilitation and reconstruction assistance and for overall economic development.

The progress of spatial and infrastructure development planning is mixed. At the sub-district level, numerous donors, NGOs, and the government have produced community mapping and development plans but hardly any infrastructure planning. These efforts have succeeded in involving communities in the planning process, articulating community priorities and vision, and creating the foundations for the reestablishment of land rights. However, the early approaches were not standardized and quality varies. Many community maps/village spatial plans were made before the release of post-tsunami aerial photography, not developed on accurate base maps, and lack topographic details – thus limiting their utility for implementation. At the district level, the availability of updated spatial and infrastructure development plans is limited.

## **2. Objectives**

The objective of the proposed Infrastructure Reconstruction Enabling Program (IREP) is to support the BRR's strategy for district and provincial infrastructure reconstruction by providing high quality consulting services in infrastructure program management, planning, design, and construction management. To meet this challenge, the proposed technical assistance (TA) will: (i) assist the BBR in the strategic planning, programming and implementation of infrastructure development and reconstruction with a strategic Infrastructure Program Management (IPM) team; (ii) provide technical support and capacity building for local government staff on identification, design, commencing implementation, and monitoring of projects (including preparation of tender documents) in the West Coast of Aceh, and in Nias; (iii) give support at the provincial/national level for planning, design and implementation of strategic infrastructure projects not under the purview of local governments, such as ports, roads, and airports, major storm and drainage systems; and (iv) provide financial management advisory services to enable BRR to meet its fiduciary requirements.

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<sup>3</sup> Permanent Housing Brief, February 16, 2006, UN-HABITAT.

### 3. Rationale for Bank involvement

The BRR's approach of utilizing available resources from the MDF in the context of its overall rehabilitation and reconstruction strategy will yield three distinct benefits: (i) MDF will provide an additional and needed US\$100 million to partially fill the infrastructure funding gaps that have emerged as a result of the misallocation of resources<sup>4</sup> among sectors and across local governments in Aceh and Nias, as well as due to inflation; (ii) the US\$100 million of MDF resources (of which US\$82 million will be allocated to financing infrastructure subprojects) will leverage US\$191 million of BRR's monies to ensure that the investments under preparation, benefiting from high quality technical assistance provided by IREP, will indeed be financed; and (iii) MDF resources will be used to strengthen the sustainability of infrastructure reconstruction and facilitate the continuation of infrastructure development beyond the end of BRR's mandate in June 2009 by financing (a) subproject implementation till IRFF's scheduled closing in June 2010; (b) the extension of TA provided by IREP to local and provincial governments beyond June 2009 to continue supporting the implementation and construction supervision of subprojects financed by IRFF; and (c) TA activities specifically designed to facilitate the transition to the post-BRR era.

### 4. Project Description

**Objectives.** The objective of the Infrastructure Reconstruction Financing Facility is to assist the province of Aceh and 12 local governments in Aceh and Nias to reconstruct/rehabilitate strategic infrastructure and extend key infrastructure services of adequate quality standards that meet the needs of communities where infrastructure was damaged by the tsunami of 2004 and the subsequent earthquake. BRR has devised a consultative planning process that considers local needs as well as the overall strategic priorities of the reconstruction program to develop Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs) that contain a list of priority infrastructure subprojects to be undertaken. BRR is already receiving technical assistance from MDF under IREP in the strategic planning, programming and implementation of infrastructure development and reconstruction. The proposed IRFF will finance a subset of individual subprojects in the LGIPs and PGIPs totaling US\$273 million by utilizing \$82 million of MDF resources and \$191 million of BRR's funds. In order to provide adequate time to complete IRFF-financed subprojects by the scheduled completion date of January 2010, BRR plans to complete the allocation of US\$273 million to approved IRFF subprojects by April 30, 2008. In addition, MDF resources will be used to strengthen the sustainability of infrastructure reconstruction as mentioned above.

**Project components.** The proposed IRFF, co-financed by MDF and BRR, consists of two main components that will be implemented over the January 2007 – January 2010 period.

**Component 1 - Financing of Infrastructure Reconstruction and Rehabilitation Investments (US\$273.0 million)** will finance individual infrastructure reconstruction subprojects in 12 local governments – 9<sup>5</sup> of which are benefiting from IREP TA, and 3<sup>6</sup> of which are receiving technical advice from existing consulting arrangements, as well as strategic investments at the provincial level. Each individual infrastructure subproject will be co-financed by BRR and MDF, according to a 70:30 ratio.

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<sup>4</sup> The mismatch between available funds and financing needs has arisen somewhat inadvertently as a result of donors and NGOs contributing resources to specific activities they see themselves best suited to deliver. Although BRR coordinates the post-tsunami recovery and reconstruction program, its ability to address the funding mismatch across sectors by reallocating resources is limited given that the activities that it coordinates would themselves need to reflect donors' and NGOs' preferences. I.e., donors would not like to see their contributions finance activities in a sector outside their area of expertise.

<sup>5</sup> Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, and Simeulue in the West Coast and Nias and Nias Selatan in Nias.

<sup>6</sup> Aceh Besar, Banda Aceh, and Sabang.

This component will provide resources for civil works and installed equipment in subprojects in the following sectors: roads, ports, water and sanitation, drainage, flood control, coastal protection and restoration of major irrigation canals.

**Component 2 – Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (US\$3.0 million)** will provide TA (i) to Aceh Besar, Banda Aceh and Sabang that are currently receiving TA from existing consulting arrangements for subproject identification and design (till January 2007) for the period January 2007 to January 2010 (US\$2 million). This component aims at strengthening the ability of the Aceh Besar, Banda Aceh and Sabang local governments to improve the provision of infrastructure in their respective jurisdictions by providing technical experts to assist them in planning and subproject identification, subproject design, tender documents, procurement, safeguards compliance, implementation, construction supervision, and monitoring; (ii) to support performance and financial audit (over and above external audit) of the project financial statements (US\$0.6 million); and (iii) to provide technical assistance for transition to a post-BRR timeframe and institutional arrangements beyond June 2009, including extension of TA provided under IREP, and capacity building and infrastructure asset maintenance programs for local and provincial governments (US\$0.4 million).

**Unallocated funds (US\$15.0 million).** In order to mitigate uncertainty in the implementation of this project, a portion of the project funds is not allocated to any specific component. These unallocated resources may be used for one or more of the following: (i) extending IREP TA (a) beyond June 2009 to continue supporting the implementation, construction supervision and performance monitoring of subprojects financed by IRFF, and (b) to support BRR's mandate of supervision, performance monitoring and quality assurance of the infrastructure reconstruction program; (ii) financing TA activities necessary to help local and provincial governments prepare for the transition to a post-BRR era by undertaking greater responsibility of infrastructure program management based on the IREP-financed BRR transition strategy, detailing institutional arrangements beyond the scheduled expiration of BRR's mandate agreed by GOI and the Bank by June 2008, and regional economic development strategy<sup>7</sup>; and (iii) financing additional subprojects in the event the implementation of all subprojects proceeds as planned.

## **5. Financing**

IRFF will fund, among other things, individual infrastructure subprojects, each of which will be co-financed by BRR and MDF according to a 70:30 ratio starting on January 1, 2007. IRFF is therefore being processed under an accelerated schedule to ensure that project implementation can start before November 2006 when BRR's 2007 budget needs to be finalized and approved by Parliament.

The estimated costs of financing infrastructure subprojects and funding the technical assistance discussed above are displayed in the table below. The Infrastructure Reconstruction Financing Facility (IRFF) will combine US\$100 million of MDF and US\$191 million of BRR resources to finance individual infrastructure subprojects in 12 local governments of Aceh and Nias, provide targeted support to infrastructure subproject planning, design, supervision and implementation oversight, and set aside US\$15 million currently unallocated to specific project activities. The table below assumes that US\$273

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<sup>7</sup> IREP will finance a regional economic development strategy for Aceh and Nias to re-orient infrastructure policy from infrastructure reconstruction to rehabilitation of livelihoods and sustained economic growth by conceptualizing Aceh's long term development needs and identifying the strategic priorities to address them. This economic development strategy will inform the transition strategy being prepared by BRR (supported by IREP) that will articulate the actions to be taken to help local governments prepare for a post-BRR environment, including capacity building programs for local and provincial governments, maintenance by local governments of BRR-financed infrastructure assets, institutional arrangements for the post-BRR period, and potential support of the international development community to infrastructure development for the post-BRR period.

million (of the total project cost of US\$291 million) will be used to fund infrastructure subprojects by combining US\$82 million of MDF and US\$191 million of BRR resources in a co-financing ratio of 30:70.

### IRFF Costs and Proposed Sources of Funding

Component	MDF Request US\$m	BRR Co-financing US\$m	Local Gov't Co-financing US\$m
1. Financing of Infrastructure Reconstruction and Rehabilitation Investments	82.0	191.0	Local support costs
2. Targeted Support to Infrastructure Subproject Planning, Design, Supervision, and Implementation Oversight (i) TA support to Aceh Besar, Banda Aceh and Sabang (ii) Transition to post-BRR timeframe (iii) Performance and financial audit (over and above external audit) of project financial statements	3.0	Local support costs	Local support costs
Unallocated	15.0		
<b>Total</b>	<b>100.0</b>	<b>191.0</b>	

## 6. Implementation

**Institutional support to infrastructure reconstruction.** IRFF will use the management structure set up for IREP. The Project Management Unit (PMU) established under IREP will be responsible for managing IRFF. BRR has appointed the Deputy of Infrastructure as Head of the PMU. Located in the PMU is the IREP Secretariat, responsible for daily work to support the functions of the PMU. A full-time Chief of the PMU Secretariat has been appointed to administer the Secretariat work program and staff. BRR will be responsible for equipping the Secretariat with qualified staff. The PMU reports to the Chief Operating Officer (COO) of BRR.

At the BRR level, the progress of the project will be monitored by the BRR Infrastructure Board (IB), which is comprised of the Chief Operating Officer and the Deputies of Infrastructure, Housing, Finance and Planning, and Institutional Development. The IB will provide overall guidance related to donor and sectoral coordination, and monitor progress of the reconstruction program.

Joint Secretariats comprising representatives from local governments and from decentralized BRR offices will be established in each of the 12 districts covered by the project. The Joint Secretariats, assisted by IREP consultants, will facilitate a mechanism of coordination and consultation among multiple stakeholders, including the local governments, BRR, and NGOs. Discussions at the Joint Secretariats will be aimed at guiding the local/provincial planning process, formulating Local Government Annual Investment Plans (LGIPs) and Provincial Government Annual Investment Plans (PGIPs), and identifying individual subprojects therein to be co-financed by IRFF using BRR/MDF resources.

**Planning and implementation of infrastructure reconstruction subprojects.** IRFF will finance individual infrastructure reconstruction subprojects in 12 local governments as well as strategic investments at the provincial level. Local and provincial governments, with support from BRR and IREP consultants will prepare Local Government Annual Investment Plans (LGIPs), and Provincial Government Annual Investment Plans (PGIPs). IRFF will fund some of the infrastructure subprojects contained in the LGIPs and PGIPs. To avoid delays in making progress on the 2007 investment plan, IREP-financed IPM consultants will review the projects already under preparation by BRR and other donors and identify subprojects for IRFF financing. All subprojects financed by IRFF will be required to

meet eligibility criteria based on sector and geographic location, technical, economic and financial requirements, and environmental safeguards.

*Preparation and review of the Local and Provincial Government Annual Investment Plans.* The proposed project aims to finance key local investments embedded in strategic local development investment plans prepared by local governments with the assistance of IREP-financed consultants. Local governments will work with the Joint Secretariats and IREP-financed consultants to prepare a Local Government Annual Investment Plan (LGIP) and Provincial Government Annual Investment Plan (PGIP) in which prioritized local investment needs will be grounded. Once finalized, the Joint Secretariat and local government will send the LGIPs and PGIPs to the BRR PMU, through BRR's regional office, for discussion and confirmation of BRR's potential commitment to finance specific subprojects with IRFF funds in line with regional priorities. The BRR PMU will share the list of confirmed subprojects with the Bank every quarter as part of the Interim Financial Reports (IFRs) along with analyses justifying their confirmation. As part of the IFR review process, BRR PMU and the Bank will agree on a procurement plan for the forthcoming quarter that will contain details of confirmed subprojects and an explanation of their inclusion in IRFF.

*Preparation and approval of individual subprojects.* All confirmed subprojects will be notified to the local governments. Local governments, with the assistance of the IREP-financed consultants working at the district level, will be responsible for detailed subproject preparation, including preliminary design, analysis of alternatives, conducting feasibility studies (including required environmental and social studies), followed by detailed design and bidding documents<sup>8</sup>. Final subproject designs and tender documents will be submitted to the BRR PMU for review and tendering. Once received by the BRR PMU for final clearance and procurement, subprojects will be reviewed to ensure that they meet the technical, economic, financial, environmental and safeguards compliance criteria developed at the outset of the project.

*Subproject implementation.* It is expected that subprojects of approximately US\$150 million will be allocated during each of the 2007 and 2008 BRR budget cycles. Saters will be responsible for implementing individual subprojects and overseeing contractors with the support of IREP supervision consultants. These saters, traditionally work-groups established within an appointed line-ministry, are now organized by activities and sub-activities. Currently, saters function as work-groups to manage the implementation of a project or program. In 2007, these saters will be nominated by local governments and appointed by BRR. In later years, it is expected that saters will be nominated and appointed by local governments. Consultant teams will work alongside saters to assist in the procurement, implementation and supervision of infrastructure reconstruction. Saters will also be assisted by IREP consultants to manage the flow of subproject funds. In particular, the IREP supervision consultant will apprise the saters of the progress made by contractors, and put his/her signatures on the contractor's invoice on the basis of which saters will initiate payment.

**IRFF project financing and disbursement procedures.** BRR and KPPN (Regional Treasury Office) have established a very effective means of disbursing sater investment funds to contractors, other suppliers, and to saters to cover day-to-day operating expenses. The project will establish a Designated/Special Account (DA), and the KPPN will draw funds from the special account to meet project commitments as required. BRR and MDF will contribute to each subproject financed by IRFF according to a co-financing ratio of 70:30. KPPN will draw 30% of each claim's funding requirements from the Special Account and 70% from the BRR's approved budget (DIPA) resources.

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<sup>8</sup> Environmental studies (AMDAL, UKL/UPL) will be carried out in such a way as to inform the completed detailed designs. Therefore environmental mitigation should be integrated, as necessary, into finalized technical drawings and in the bill of quantities.

As subprojects come on stream, contractors will be paid 20 percent of the contract price (as stipulated in the contract) directly into their designated account on signing the contract. The advance will be secured by a bank guarantee as stipulated in the contract. To process the balance of the payments, the contractor will submit invoices, along with supporting documents, to the satker according to payment provisions included in the contract. The invoices submitted will be verified by, and bear the signatures of, the IREP/IRFF supervision consultant. Verification by IREP/IRFF supervision consultant will require his/her review and confirmation that the physical progress of works is in accordance with the contract and with the contractor's invoice. The BRR satker will not process invoices that do not have the IREP/IRFF supervision consultant's signatures attesting to his/her verification of the invoice. Satkers will review the claim and confirm that it is in accordance with the contract, that supporting documents are complete, and that the claim is in accordance with the approved satker budget. When all documentation is complete the satker will prepare an SPM-LS, which will be signed and stamped by both the satker manager and the IREP/IRFF supervision consultant. The SPM-LS will then be forwarded by the satker to KPPN for processing and direct payment to the contractor's bank account less any retention for guarantees or advances provided for in the contract and for any taxation obligations. After checking that all supporting documents are in order and that the claim has been correctly authorized by both the satker and IREP/IRFF supervision consultant, KPPN will draw payment from the satker budget held by treasury and special account according to the agreed apportionment and pay this directly to the contractor's specified account.

## **7. Sustainability**

Rebuilding infrastructure in Aceh and Nias so as to reverse the destruction caused by the tsunami, compensate for the under-development caused by years of political strife and unlock the medium to long term development potential of the province is a task of enormous magnitude. The risk that the efforts now underway might prove unsustainable is substantial. Compounding this risk is the expiration of BRR's mandate scheduled for June 2009, beyond which local and provincial governments will need to undertake greater responsibility for infrastructure reconstruction program management. BRR's exit in June 2009 and the need for new institutional arrangements to facilitate continued progress in infrastructure reconstruction require a well conceived transition strategy to prepare local and provincial governments for the post-BRR period. A number of steps in the context of both the IREP and the IRFF are being undertaken to ensure the sustainability of the reconstruction program for Aceh and Nias and to facilitate the transition of local and provincial governments beyond BRR's mandate. Each of these is briefly discussed below.

**Technical assistance.** Both IREP and IRFF include TA components that emphasize hands-on training of local government technical departments as well as of BRR staff. Such TA is an important tool that will contribute to ensure the quality of infrastructure subprojects undertaken during BRR's mandate and to prepare local authorities for the post-BRR era. These capacity building efforts will cover all aspects of subproject selection and implementation, including subproject selection, preparing detailed design and tender documents safeguards compliance, procurement, subproject supervision, anti-corruption measures and infrastructure asset maintenance.

**Ownership.** Steps will be taken to ensure that local governments develop a sense of ownership with respect to the infrastructure assets financed by BRR. For example, infrastructure investment plans that include subprojects to be financed by BRR/MDF resources as well as by local governments and other agencies will be developed through the Joint Secretariats by the local government themselves with support from BRR staff and in coordination with other relevant stakeholders. Once subprojects are selected and approved by BRR central for funding by BRR/MDF, project teams will be formed at the local government level to start subproject preparation. The key members of these project teams – in particular the satkers who manage subprojects – will generally be local government staff. In addition, BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity

with a view to progressively transfer implementation responsibilities, including procurement and financial management, to those local governments able to carry out such responsibilities. The capacity building measures mentioned above are designed to enable transferring increasing levels of responsibilities to local governments over time.

**Building institutional capacity.** The overall incentive framework under which local government officials operate in the context of IRFF is geared toward building lasting institutional capacity. For example, making IRFF resources available to finance well prepared local infrastructure subprojects is expected to prompt local governments to improve their ability to select and prepare such subprojects so as to gain access to IRFF financing. In addition, a transition strategy – to be developed with the help of IREP consultants to help local governments prepare for the post-BRR period – will propose institutional mechanisms aimed at facilitating exchanges of experience between all Aceh and Nias local governments involved in infrastructure reconstruction and development.

**Post-BRR arrangements.** The capacity building measures described above are designed to help local governments work together with BRR to select, design and implement high quality infrastructure subprojects, and will help local governments implement infrastructure development programs on their own after the end of BRR's mandate. Additional measures are specifically designed to ease the transition to the post-BRR period. For example, BRR with support from IREP consultants will develop institutional mechanisms, by June 2008 at the latest, for the post June 2009 period when its mandate is scheduled to expire. In addition, unallocated funds under IRFF are currently held in reserve to be used, for example, to extend the TA carried out under IREP beyond June 2009 if it proves desirable.

## **8. Lessons Learned from Past Operations**

According to the December 2005 report *Aceh and Nias One Year After the Tsunami: The Recovery Effort and Way Forward*, and from experiences implementing projects during earlier phases of the BRR Infrastructure Reconstruction Strategy, several pertinent lessons have been learned by those working to facilitate the recovery process. The design of the project takes into account the following:

- *The need to balance local level planning and overall reconstruction needs.* One the one hand it is critical to design a subproject planning process originating at the decentralized, local level so that the investments financed respond to community needs and local government planning capacity is strengthened. Yet, to ensure coordination and efficient management of available resources, it is essential that infrastructure subprojects reflect the overall reconstruction needs and priorities outlined in the BRR infrastructure development strategy. This balance is achieved by requiring that IRFF-financed subprojects (i) be selected by local governments through a consultative process described in section IV below; and (ii) be confirmed by BRR.
- *The importance of speedy reconstruction while upholding the quality of construction.* The magnitude of infrastructure service disruption to communities in Aceh and Nias calls for quick implementation and completion of high quality reconstruction operations. IRFF addresses the need for speed and quality in reconstruction by utilizing high quality expertise through IPM/IREP consultants who will support BRR and local/provincial governments to deliver infrastructure subprojects on an accelerated basis.
- *The need for local ownership of reconstruction efforts.* It is critical to ensure that local governments develop a sense of ownership with respect to the infrastructure subprojects financed by BRR so that they devote financial and technical resources to keep building and maintaining these infrastructure assets. IRFF addresses this issue in several ways. For instance, LGIPs and PGIPs, which include investments to be financed by BRR as well as by local governments and other stakeholders, will be developed by the local government themselves with support from BRR staff and IREP consultants. Further, project managers (or satkers) for BRR-financed projects will be designated by local governments and will generally be local government employees. In

addition, all local infrastructure assets financed by BRR will legally belong to the respective local/provincial governments.

- *The need for transition of overall infrastructure reconstruction management from BRR to local and provincial governments so as to sustain reconstruction activity beyond the duration of BRR's mandate in June 2009.* Local and provincial government capacity in Aceh and Nias had been compromised over years of political strife and the tsunami further reduced government capacity. Cognizant of the risk that infrastructure reconstruction may breakdown in the absence of BRR post-June 2009, IRFF has built-in mitigating measures. BRR will undertake, with the help of IREP consultants, an assessment of local governments' capacity with a view to progressively transferring implementation responsibilities to local/provincial governments; IRFF will finance TA to support local governments' capacity enhancement, if needed. Further, IREP will assist the BRR/GOI to design institutional mechanisms detailed in a transition strategy, by June 2008 at the latest, to ensure that Government bodies are able to keep meeting the obligations of BRR beyond the scheduled expiration of its mandate in June 2009. IRFF will finance additional TA, as and when needed, to help local and provincial governments transition to the new post-BRR institutional arrangements.

## 9. Safeguard Policies

Safeguard policies triggered by this project include environmental assessment, involuntary resettlement, and Indigenous Peoples. These policies are triggered by virtue of the fact that, taken together, IREP/IRFF will design and finance a range of infrastructure subprojects, and will therefore have had to consider a full range of safeguards issues as part of subproject preparation and detailed design. The environmental and social safeguards framework provides general policies and guidelines to serve the following objectives:

- Protect human health;
- Prevent environmental degradation as a result of either individual investments or their cumulative effects;
- Enhance positive environmental outcomes;
- Avoid or minimize land acquisition and involuntary resettlement, and where this can not be avoided, provide compensation at replacement value and assistance to rehabilitate livelihoods based on consultation with those affected;
- Avoid conflict among community members and strengthen community social cohesiveness.

The safeguard policies triggered include OP 4.01 on Environmental Assessment, OP 4.12 on Involuntary Resettlement and OP 4.10 on Indigenous Peoples.

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<a href="#">Environmental Assessment (OP/BP/GP 4.01)</a>	[x]	[ ]
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	[ ]	[x]
Pest Management ( <a href="#">OP 4.09</a> )	[ ]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[x]	[ ]
Indigenous Peoples (OP 4.10)	[x]	[ ]
Forests ( <a href="#">OP/BP 4.36</a> )	[ ]	[x]
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	[ ]	[x]
Projects in Disputed Areas ( <a href="#">OP/BP/GP 7.60</a> )	[ ]	[x]
Projects on International Waterways ( <a href="#">OP/BP/GP 7.50</a> )	[ ]	[x]

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