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Anti-corruption efforts in the Post-tsunami Reconstruction of Water and Sanitation Infrastructure and Services in Aceh, Indonesia

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The December 2004 tsunami and earthquake that caused massive loss of human life and devastated widespread areas of the province of Aceh in Indonesia hit a country with an extended history of endemic corruption. Rated at 133 out of 146 on the Transparency International corruption index², along with many of the post-conflict and transitional countries of Africa and Eastern Europe, Indonesia is considered to be one of the most corrupt nations in the world.³ Corruption⁴ is a very obvious part of everyday life throughout the country. The press and most citizens provide lucid illustrations of how corrupt practices work in service delivery sectors, the police, the judiciary and the legislative branches of government.

The election of Susilo Bambang Yudhoyono as President of Indonesia in 2004 signaled a change in the political, high-level acceptability of corruption in public office. Since taking on the presidency, he has driven a highly visible anti-corruption campaign to all levels of government. It is in this shifting national context that any discussion on corruption and anti-corruption efforts must be positioned, and with this firm leadership that accountability measures in Aceh are being developed.

The unique political context of Aceh and the chronically inadequate state of the water and sanitation sector in the country together make the study of accountability in sector reconstruction critical. The tsunami also hit a province in the midst of severe conflict and in which there was a strong military presence.⁵ While it is difficult to rank, many would argue that Aceh, given significant oil and gas revenues and the years of conflict, was amongst the most corrupt provinces in the nation.⁶ It is noticeable that Aceh, like many other remote areas, missed many of the reforms benefiting other parts of Indonesia. The impacts of decentralization, for instance, were only slowly reaching the provincial office and were not manifest in local service delivery. Many have noted too that civil society grew more tentatively in Aceh than elsewhere in the country because of the conflict, the period of martial law and later the civil emergency. Despite this, some political reforms had clearly touched Aceh, and along with Papua, the province was awarded special autonomy status when decentralization laws were passed. The December 2002 peace deal was a sincere attempt to stop the conflict, and the first visible anti-corruption effort of the newly elected government was the investigation and subsequent legal proceedings against the Aceh Governor over the misappropriation of public funds.

Prior to the disaster of December 2004, access to formal water and sanitation services in Aceh was low by any standards. It is estimated that only 9% of households were formally connected to PDAM piped water supply.⁷ The majority of the people obtained water directly from wells constructed either by households with their own funds, or by communities/villages with access to project financing, but many

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² Transparency International, *Global Corruption Report, 2005* Pluto Press, 2005 p238.

³ It is argued that this ranking not only reflects the levels of perceived corruption but the levels of openness about corruption, increasingly prevalent throughout the country. See World Bank, 2003, *Indonesia: Combating Corruption in Indonesia* p16.

⁴ The World Bank definition of corruption as 'abuse of public office for private gain' is used throughout this paper.

⁵ The Government of Indonesia and *Gerakan Aceh Merdeka* (GAM, the Free Aceh Movement) signed a peace accord in Helsinki on 15 August 2005, aimed at ending the conflict in NAD (*Nanggroe Aceh Darussalam*).

⁶ See Burke, A and Afnan, *Aceh: Reconstruction in a Conflict Environment Views from Civil Society, Donors and NGOs*, Unpublished report, p29.

⁷ ADB estimate used in the development of the first Aceh Loan package, 2005. This compares with the national average of 16-17% which is also extremely low when compared with other developing countries. See World Bank, 2004, *Indonesia: Averting an Infrastructure Crisis in Indonesia*, p196.

householders obtained water from military tankers.⁸ All urban and rural sanitation in Aceh was on-site – mainly in the form of septic tanks and pit latrines, often constructed adjacent to wells. There was limited sludge collection, no wastewater treatment, and no urban sewerage in Aceh prior to the tsunami. This reflects low levels of sewage treatment typical of Indonesia in which an estimated 1% of the total population is currently connected to a sewerage system.⁹

Low water and sanitation coverage rates are a significant cause for concern in national planning, health and public works departments.¹⁰ In the economically successful nineties, the inadequate distribution systems, lack of bulk water supply to many cities, low expectations on the part of consumers, growing concern about the corrupt foundations of a few private sector participation (PSP) initiatives, and the lack of a government strategy for radical improvement, all characterized the water and sanitation sector. By the time of the tsunami, signs of change in the sector were visible at the national level but, with notable exception,¹¹ were yet to be manifest in any fundamentally significant improvement in services to the poor, or in the capacity of local service delivery institutions. This was most notable in urban areas where the utilities (PDAMs)¹² generally did not see it as their responsibility to extend services to the poor.¹³

The tragic events in Aceh have, perhaps ironically, provided enormous opportunity to fundamentally improve basic services and change service delivery norms in the province. The government has seized this opportunity with an ambitious reconstruction plan that *builds back better*. But in the context of corruption and severe infrastructure deficiency, the estimated USD 350 million funding proposed for the reconstruction of water and sanitation infrastructure and services in Aceh is inevitably a cause for significant donor and public concern. The actions of a significant group of anticorruption advocates have however brought confidence that a sound anti-corruption strategy has been, or is being, developed.

The purpose of this case study is to disaggregate the problem of corruption in the water sector in pre-tsunami Aceh and to outline the anti-corruption mechanisms that have been developed to mitigate against corruption in the reconstruction process. It seizes the emerging interest in accountability, takes advantage of public willingness to speak about problems prevalent before the tsunami, and builds on the climate of change and hope for improved accountability in post-tsunami reconstruction. This paper will first consider the context of service delivery and associated accountability in the pre-tsunami Aceh, highlighting the nature of the corruption and the institutional idiosyncrasies of the province. Second, it will consider the key factors emerging since the disaster and discuss the influence of key issues on the development of accountable service delivery. The third section will propose a framework for considering the anti-corruption measures proposed. It will highlight the *governance* and *strategic* measures that are proposed to combat corrupt practices from dominating the reconstruction process, and the *sector* and *project* specific measures that are slowly emerging to mitigate against corruption in the water and sanitation sector specifically.

There is a climate of hope, caution, opportunity and risk in Aceh. The World Bank report produced six months after the tsunami noted that *'[k]eeping graft away from reconstruction funds will require a concerted, determined effort of vigilance and control, especially since the construction industry itself has been traditionally among the most prone to collusion, kickbacks and other leakages.'*¹⁴ We have already seen decisive and emphatic efforts to introduce anti-corruption measures, but it is clear that the potential still exists for leakage of reconstruction funds on an unprecedented scale. This paper argues that despite the history of endemic

⁸ It is likely that this water supply was both official and unofficial. Information based on interviews with households, the military and utility staff carried out during May and June 2005. See further discussion Section I.

⁹ *Indonesia: Preliminary Damage and Loss Assessment, December 26, 2004 Natural Disaster*. A Technical Report prepared by Bappenas and the International Donor Community; ADB, 2005, *Community Water Services and Health Aceh-Nias/North Sumatra Project*, Project Proposal document, July 2005. As formal sanitation services in Aceh are extremely limited, information on the corruption affecting this part of the sector is also limited. The paper includes sanitation in relation to rural services but focuses mainly on water supply in urban areas. It does so in the knowledge that much greater attention should be placed on sanitation in the future.

¹⁰ Since the late nineties, Bappenas and the inter-ministerial WASPOLA Working Group have been formulating and disseminating policy reform under an AusAID funded project.

¹¹ One notable example is Medan, south of Aceh on the island of Sumatra, which provides a successful model for institutional development. Staff from Medan also provided much needed support to Aceh PDAMs following the tsunami.

¹² *Perusahaan Daerah Air Minum* (Local Water Supply Enterprises).

¹³ This is the case generally in Indonesia and was most recently noted in an unpublished *Poverty Benchmarking Study* funded by the World Bank in 2004 in which PDAMs were asked to provide poverty indicators to benchmark service delivery to the poor.

¹⁴ World Bank, 2005, *Rebuilding a Better Aceh and Nias*. p24.

corruption in Aceh and elsewhere in Indonesia, we now see government, donors and NGO stakeholders responding sincerely to the issue, acknowledging it openly and putting in place strong foundations that will improve accountability and reduce the risk of potential corruption. It is now up to all stakeholders, including communities, to give substance to this framework and ensure its implementation and enforcement.

In order to limit the scope of the case presented in this paper, and to recognize that the national and provincial governments are in the midst of a complex, ongoing and dynamic process, the study is limited to a discussion on corruption and anti-corruption efforts in Aceh (and not the broader water sector for Indonesia). Initiatives to improve sector accountability are currently being undertaken in many cities in Indonesia. This is documented elsewhere.¹⁵ This paper does not attempt to cover this ground again unless these mechanisms have been taken up in Aceh. Instead, the scope is limited to the discussion of the pre-tsunami situation in Aceh and the reconstruction approaches currently proposed.

I. THE PRE-TSUNAMI ACCOUNTABILITY CONTEXT

The foundation of an anti-corruption framework

Fighting corruption is at the heart of Indonesia's reform agenda.¹⁶ The second democratic election held in 2004 was the culmination of 5 years of transition from an authoritarian regime to a democracy: political and administrative institutions were reformed, an ambitious program of decentralization was implemented and an anti-corruption legislative framework was introduced to support the changing institutional and political landscape. Administrative law reform also produced a range of new rules for decentralized civil administration and legislative branches to greatly increase accountability to local communities and higher levels of government. This emerging but still immature accountability framework is reflected in an array of legal instruments aimed at fighting corruption. It includes acts defining criminal corruption and establishing procedures for prosecution, requiring public officials to declare wealth, addressing money laundering, and providing for the establishment of a National Anti-Corruption Commission.¹⁷ Civil society throughout the country is said to have flourished and has become an important vehicle for improving accountability.

Despite this climate of change and the sound principles and strategies for reform, systemic blockages are yet to be removed. Many now argue that these reforms were only tentatively applied at the highest level of government at the outset, and that that the severity of the corruption and the dysfunctional nature of so many institutions will take time to change to any significant degree. Strengthening the resolve for a new era, on taking up the Presidency in late 2004, Susilo Bambang Yudhoyono established a new set of government priorities. Amongst these were the cessation of the conflict in Aceh by peaceful means, the reform of the military, and decisive efforts to combat corruption.¹⁸

But in Aceh, political accountability was limited in practice

In contrast to the targeted reforms elsewhere, the reforms in Aceh suffered frequent violent disruptions related to the separatist struggle and its suppression, and many argue that some of broader political and institutional reforms passed Aceh by.¹⁹ Under decentralization, local governments in Aceh at *kabupaten* and *kota* level²⁰ performed all service delivery functions including water and sanitation services. Since the

¹⁵ See for instance World Bank, 2005, *Enabling Water Utilities to Serve the Urban Poor*; McLernon, A., 2005, *Review of Water Supply, Issues, Institutions and Initiatives in Indonesia*, Unpublished report.

¹⁶ World Bank, 2003, *Indonesia: Combating Corruption in Indonesia*, p16.

¹⁷ These acts flow from the 1999 MPR decree, setting the reform for a state apparatus *to provide services to the people that are professional, efficient, productive, transparent and free of corruption, collusion and nepotism*. The acts include: the Clean Government Act (28/1999) requiring public officials to declare their wealth and agree to periodic audits; Law 31/1999 on the Eradication of Criminal Acts of Corruption, which defines criminal corruption and establishes charges and procedures for prosecution; the Amendment to Law 20/2001 that places the burden of proof on the accused; an anti-money laundering Law passed in March 2004; and a law providing for the establishment of a National Anti-Corruption Commission with powers to prosecute and investigate corruption cases. These laws are described throughout World Bank's *Combating Corruption* report. *Ibid*.

¹⁸ Susilo Bambang Yudhoyono quoted in *Jakarta Post* 23 September 2004, see *ACI Update* September 2004.

¹⁹ The special autonomy granted to Aceh was a milestone in the political reform of the Province, but the true extent of the reform was limited in practice by the ongoing conflict.

²⁰ *Kecamatan* (sub-district) and *Kota* (city)

first democratic election in 1999, elected provincial and local parliaments were each given the authority to elect their leaders: the Governors, District Heads (*bupati*) and Mayors (*walikota*).²¹ As is common in other decentralized environments, these bodies and their leadership functioned with little experience of delivering services or governing the sectors for which they were responsible. The role of the District House of representatives (DPRD) in water supply affairs was especially limited.²² The real power lay in the hands of the Mayor or the District Head, and the DPRD was reportedly only involved in ‘unpopular’ decision-making (e.g. tariff increases, financing of expansion).²³ This is still largely the case.

Research into the electoral process at the provincial and district level has shown that bribes were commonly paid in order to acquire the position of governor, *bupati* or *walikota*. Candidates are reported to pay between Rupiah 2-8 billion²⁴ to selected parliament members in order to assure a majority vote on the DPRD. The prices paid are a function of the size of the local government. The appointment of the utility (PDAM) director or directors (depending on the size of the PDAM) is also political and ‘by custom’ is closely linked to any change in the *bupati* or *walikota*, as the case may be. Long precedence suggests that this is a strong but sometimes destructive relationship that can compromise accountability in decision-making over urban water services, and irrespective of the procedures in place, the position and decision-making of the PDAM Director(s) requires on agreement with the Mayor.

Fiduciary risks were well known

*‘Fiduciary risks are particularly high in Aceh province which has a long history of weak governance and a more recent history of alleged high level and pervasive corruption. Furthermore, Aceh has received substantial inflows of public funds following decentralization and the transparency and accountability for the use of these funds is less than satisfactory compared to prevailing standards in the rest of Indonesia. This makes it even more imperative to quickly develop and implement effective fiduciary safeguards for the management and use of reconstruction funds.’*²⁵

The main fiduciary risks existing prior to the tsunami were considered to emanate from:

- a. an incomplete regulatory framework to address fiduciary concerns
- b. a weak public financial management and institutional environment
- c. persistent inefficiencies in budget formulation
- d. delayed budget execution and weak monitoring arrangements
- e. procurement processes prone to corruption and collusion
- f. accounting and reporting are fragmented and not always reliable
- g. the mandates of government audit entities are not yet clearly defined.²⁶

Services were chronically inadequate

Water supply and sanitation services were the responsibility of District Governments in Aceh. PDAMs, as elsewhere, were legally mandated to function as autonomous water enterprises and normally managed and operated the urban water supply in the main cities as well as the smaller *kecamatan* centers. In practice however the PDAMs served less than 50% of the residents of these centers, the network and facilities were poorly maintained, supply was intermittent and of poor quality, pressure was low and the system suffered high levels of unaccounted for water (estimates suggest 48% unaccounted-for-water in Banda Aceh).²⁷ The existing water treatment plants had seen little maintenance for some years and were operated by only a few staff untrained in maintenance regimes.²⁸ The Department of Public Works was responsible for human settlements, water supply and sanitation and at the District level would provide

²¹ Like elsewhere in Indonesia the first direct election of these positions will take place this year, but it has been postponed in Aceh until October because of the Tsunami.

²² McLernon, A. 2005, *Op Cit*.

²³ Feedback from interviews with local government and PDAM staff, reported in the Background study by NCG, *Op Cit*, p12.

²⁴ Equivalent to 240-950,000 USD (USD1 = 8.4 Indonesian rupiah). Estimate quoted in a World Bank consultants study on Planning and Budgeting in Three Kabupatens in Indonesia, Unpublished Report, 2004.

²⁵ *Notes on Reconstruction: the December 26 Natural Disaster*, World Bank and GoI, January 2005, p158

²⁶ *Ibid*, pp166-7.

²⁷ *Badan Rehabilitasi dan Rekonstruksi (BRR)-World Bank Aceh Infrastructure Redevelopment Group (BAIRG) interviews*, Minutes EASUR, World Bank, September 2005.

²⁸ AUSAID 2005 *Water and Sanitation Sector Preliminary Assessment* prepared by Mike Ponsonby, WSSLIC2 Project Team Leader, 23 January 2005, p16; CH2M Hill, *Observations of the Aceh Water Situation*, 9 February 2005, Unpublished report.

technical support to local government in relation to the planning implementation and operation of water supply and sanitation services. The Health Department took responsibility for water quality surveillance and in practice had responsibility for water supply and sanitation improvement programs in villages and rural areas.

Institutional arrangements in the sector were weak and fraught with difficulty

Discord between the agencies and departments responsible for service delivery, as well as a chronic lack of capacity, all characterized the institutional setting of the pre-tsunami province. Most relationships between the national, provincial and local actors involved in water and sanitation prior to the tsunami were problematic and provide illustration of potential areas of leakage in the water sector. Despite the statements of government that the utilities (PDAMs) were autonomous agencies of local government and technically responsible for their own financial health, in Banda Aceh, the PDAM had little or no role in the decisions taken over capital investment in infrastructure and facilities or the debt they subsequently accumulated. Reports provide different views on the potential causes of this, some suggesting that this may be due to autocratic Provincial government decision-making, while others emphasizing PDAM inaction and incapacity to serve their populations (especially the poor).

In Aceh prior to the tsunami, the provincial level Public Works Department took responsibility for capital investment and expansion of water infrastructure and facilities. Accordingly, it was this level of government that saw the increased flow of funds after the economic and political crisis in 1997 when national government supported development efforts in Aceh. The lack of communication between Public Works and the PDAM as to works planned and implemented was frequently reported by the PDAMs, while the Public Works departments stressed the lack of skills and qualifications in PDAMs to run large scale operations.²⁹ In one instance, new pipe work laid in one PDAM service area, was reportedly connected to the water treatment plant of another PDAM. An illustration of decision-making which created the opportunity for rent seeking was seen well prior to the tsunami in the decision of the provincial level Public Works Department to invest heavily in water treatment plants at a time when the existing plants were not functioning at full capacity.³⁰ The reason for this decision is not now clear, but it was reported that the lack of coordination with and involvement of the PDAM in the design or procurement or financial management of the contracts, disbursements, monitoring of quality of works, and the unusual technical decisions made were all indicators of processes which enabled corrupt practices to thrive.

Another reported practice was the need for a payment to be made from provincial to national government to ensure funds moved smoothly from the central to the provincial level of government. The resulting delays in fund transfers combined with the common problem of *'use it or lose it'* annual budgetary allocation led to significant misallocation of resources and leakage. Planned projects could not be implemented and then *'late'* projects were identified and executed rapidly, without the time for proper assessment or coordination, often chosen because they were doable within the financial year.³¹

Local government capacity is particularly weak across Aceh (as it is in most outlying areas). Although there is little systematic data available to describe pre-disaster conditions, it is widely accepted that even prior to the tsunami and earthquake, *the human resource capacity in most district governments was thin; operating and management systems were frail; fiduciary safeguards were weak and bottom-up accountability systems were attenuated.*³² Although the Indonesian utility is typically considered a *'cash cow'* for local government across the country,³³ no evidence of this was found in Banda Aceh and only to a limited extent in Lhoksumawe. However, while formal payments by the utility to the local government may have been limited, many reports were received that a parallel system of payments existed between individuals in the two institutions and reports suggest that many of the income-earning opportunities taken up by lower-

²⁹ BAIRG interviews, Minutes EASUR, World Bank, September 2005.

³⁰ NCG, 2005, Background Working Paper, *Op Cit.* p25. BAIRG interviews, Minutes EASUR, *ibid.*

³¹ This was also illustrated by the construction of three WTPs in Banda Aceh and Aceh Besar, built despite a large under-utilized WTP. Reports received by informants involved in this process from all sides in June 2004, suggested that the tendering and contracting followed *'normal'* collusive processes. BRR staff also used this example as justification for increased transparency in the tendering process. See also the *Fiduciary Review of the Second Sulawesi Urban Development Project, Overview Report.* World Bank

³² World Bank, 2005, *Rebuilding a Better Aceh and Nias.* p32ff.

³³ World Bank, 2004, *Averting an Infrastructure Crisis in Indonesia.* p203.

level PDAM staff would have been done with the collusion and support of senior PDAM and Local Government staff.³⁴

Sector finances were mismanaged locally

As with the majority of utilities in Indonesia, a number of utilities in Aceh ran at a loss and were considered bankrupt.³⁵ Tariffs were low and collected in a haphazard way, and overall PDAM revenue was insufficient to cover costs. Staff were paid low salaries (as elsewhere), operation and maintenance was not adequate to sustain assets, and loans and interest were not being regularly repaid. Formal auditing suggests the PDAM in Banda Aceh, for instance, lacked basic financial management and accountability. In an Auditor's report of September 2004, four months prior to the tsunami, the primary conclusion was that the PDAM accounts were so incomplete and inconsistent that the Auditor was unwilling to give an opinion. This was articulated as follows: *"because of the very significant problems concerning the financial position and the results of the enterprise in the year ending 31st December 2003, our audit scope does not make it possible for us to say anything, and we are therefore unable to provide an opinion on the Financial Statements of the PDAM at 31st December 2002 and 2003"*.³⁶

This Auditor's report noted numerous inadequacies in financial management including many mistakes and inconsistencies which are typical indicators of corruption within a public agency. For instance: entries regarding fixed assets were not supported with evidence of ownership; invoices and accounting for materials purchased were not verifiable and did not include all materials known to be in the possession of the PDAM; estimates of accounts receivable and debts to be written-off were not consistently justified; advances were not reported on a daily basis; cash books and supporting journals were not completed; transactions were not correctly filed; and bank statements, bank accounts and daily cash reports were not reconciled.³⁷

In conjunction with low tariffs, in two PDAMs researched in Aceh, meter reading and revenue collection were found to be irregular - resulting in much lower than expected revenues. While Accounts Departments reported they provided a routine billing and collection system, reports from consumers suggest that meters were not read on a regular basis, bills were not prepared or sent out on a regular basis, there was no enforcement for late or non-payment, and payment at the PDAM office was difficult.³⁸ Customer bad debts and slow collection of revenue were particularly prevalent in Banda Aceh.³⁹

Informal services were widely available

The inadequate service provided by the PDAMs in urban areas however did not result in consumers voicing their concerns. The service was low, the tariff was low, and the consumer expectation was also low. Furthermore there was no established stakeholder participation or complaint mechanisms enabling consumers to demand accountability. Instead, reports suggest that some PDAM staff provided services 'informally' and on a regular basis (e.g. water on-selling, cash repairs, falsified meter reading and illegal connections). In one city, the reported practice of connecting new consumers outside the formal system is thought to have involved collusion between individuals and various departments within the utility (and the military on occasions). It also provided a monthly income to those involved as regular cash-tariffs were paid to those who had provided the connection. Few if any sanctions were applied if these activities came to the attention of management – it was considered normal for staff to supplement their salary in this manner and some higher level officials were themselves part of the upward circulation of these bribes.⁴⁰

³⁴ AUSAID, 2005 *Op cit.* p16. NCG, 2005 *Op Cit.*, interview reports. BAIRG interviews, Minutes EASUR, World Bank, September 2005. This is not the case with the PDAMS in Aceh Besar or Meulaboh where there is no long term debt.

³⁵ McLernon, A. 2005, *Review of Water Supply, Issues, Institutions and Initiatives in Indonesia*, unpublished report

³⁶ *Audit Report 2002-2003, PDAM Banda Aceh*. BPKP, 2004. Unofficial translation.

³⁷ *ibid.*

³⁸ NCG, *Op Cit.*, p16; BAIRG interviews, Minutes EASUR, World Bank, September 2005.

³⁹ BAIRG interviews, Minutes EASUR, World Bank, September 2005.

⁴⁰ This was consistently described in detail by informants in the fieldwork, from government, PDAM, NGOs and consumers. *Op Cit.*, pp16-18; and interview reports.

Procurement processes were prone to corruption and collusion

*Corrupt and collusive practices are deeply entrenched in public procurement.*⁴¹ A vast number of legal instruments regulated different aspects of public procurement and limited competition. The formulation of procurement policy, the monitoring of compliance, and the development and enforcement of clear sanctions was not mandated to a single agency. At the same time, the low capacity in staff responsible for the tender committees made them vulnerable to undue and improper influence. Both World Bank and ADB assessments, as well as the government's own statements indicate that procurement systems in Indonesia were not functioning well, were *not market driven, prone to misuse and abuse and reduce value for money for public funds*⁴² – they are the main source of leakage from the budget. Earlier work on corruption by the World Bank focused on the importance of an effective procurement system to ensure competitive, cost effective purchasing of goods and services.⁴³

Systematic flaws and collusion between bidders found in two major project reviews prior to the tsunami provide detailed and substantiated feedback on common practices in the sector. The findings are instructive to illustrate the forms of corruption prevalent in Aceh prior to the tsunami and the steps that need to be taken to mitigate against such practices in reconstruction.⁴⁴ The following practices were exemplified in the cited reviews and subsequent court cases, and were backed-up by consistent consumer and staff feedback. They included:⁴⁵

- *Falsified Bids.* In the falsification of bids, officials obtained the requisite number of quotations from one supplier (but used the names of several firms) leaving all but one artificially high. This allowed for a percentage to be included which was then shared (between paying and authorizing individuals) after the payment of invoices. (There was no evidence of earnest money, or other certification, which would suggest this practice was mitigated).
- *Falsified Quotations.* In the falsification of quotations, similarly, officials negotiated bribes and prices from one supplier and obtained falsified quotations from others.
- *Collusion.* Collusion occurred when a group of suppliers or contractors bidding for a contract jointly agreed to rig the pricing and pre-select the lowest tenderer (typically on a rotating basis). Public officials' turn a blind eye, in return for a payment. The World Bank *Country Procurement Assessment* refers to a number of collusive arrangements involving officials: restrictive specifications, splitting of contract packages, noncompetitive bidding, limited advertising, shortened bid periods and breach of confidentiality. The loss of tender documentation is typically an indicator of collusion in the procurement process although there was no firm evidence of such practices.
- *Bribery.* Public officials requested or waited to be paid money or given a favor in return for a service that they were obligated to provide in their public role. The need to pay an official is often indicated by slow service, inaction and/or misplaced documents. Instances of officials playing one village off against another to create opportunities for bribery and preferential treatment were also reported. In many cases too, the bribe is instigated by the private actor whose main goal is to move things along smoothly.
- *Falsified Claims.* Contractors or suppliers invoices for payment were fraudulently prepared or did not represent works carried out and costs incurred. Officials were paid to turn a blind eye.
- *Non-adherence to specifications.* Similarly contractors substituted lower quality materials, or changed the design to minimize their costs, but claimed the cost of the higher level specification. This was illustrated in the laying of substandard pipe work in Banda Aceh. Collusion between client and contractor for the payment of these claims was widely practiced.⁴⁶

⁴¹ World Bank *Notes on Reconstruction: the December 26 Natural Disaster*, World Bank and GoI, January 2005. Technical Annex 1

⁴² World Bank, 2003 *Combating Corruption in Indonesia*. p63; see also the World Bank's *Country Procurement Assessment*.

⁴³ World Bank, 2003 *ibid.* p76.

⁴⁴ ADB, *Sumatra Urban Development Sector Project*; World Bank, *Second Sulawesi Urban Development Project*.

⁴⁵ *ibid.* See also Woodhouse, A. 2002, *Village Corruption in Indonesia*, World Bank

⁴⁶ World Bank, 2003 *Op Cit*, p80; NCG, 2005 *Op Cit* and interview reports conducted in Aceh, May 2005.

And the military was a dominant actor

One of the primary relationships affecting accountability and existing prior to the tsunami and remaining influential in the development of anti-corruption efforts in the reconstruction process is the interaction between the military and provincial government. Before the tsunami the provincial governor was the senior most political official in Aceh, but in practice his role and decision-making required authorization from the military. When in 2001, the Special Autonomy legislation allocated 40 and 55% of revenue from natural gas and oil reserves respectively to the provincial government,⁴⁷ the increased bureaucratic opportunities for corruption in provincial and local government were inevitably shared by the military (which only received a portion of the budget needed to run its operations from the national government, the rest it generated locally).⁴⁸ The declaration of martial law in 2003, is also said to have provided increased opportunities for military personnel to profit from corrupt behavior.

Like most government departments obtaining services from poorly managed utilities, the military did not pay for all the water obtained from PDAMs in Aceh,⁴⁹ but there is evidence that it on-sold some of this PDAM water. One of the great differences noted between Banda Aceh and other cities in Indonesia is the limited extent of local private provision (in a city with such low network coverage this entrepreneurship would be expected). There is increasing evidence to suggest that intermediate water vendors, especially tankers, did operate in selected areas, but they were in fact military personnel and used military water tankers.⁵⁰ Whether this supply was official or unofficial is not clear. It is likely that the conflict between the armed forces (TNI) and the separatists (GAM)⁵¹ made it too dangerous for civilians to operate in some areas, and the military, whether officially or not, were providing a much-needed, relatively efficient service to areas neighboring the bases. The role of military personnel in the pre-tsunami delivery of water is widely and openly discussed (as it is in a number of other sectors) and is not necessarily seen in a negative light,⁵² but examples were also reported in rural and urban areas of Aceh which suggested collusion between the military and contractors in destroying partially-built infrastructure, fraudulently claiming for payment of the completed works, and the involuntary payment of protection money to military personnel to guard against potential attacks from GAM. The GAM are also said to have demanded a similar type of payment.⁵³

II. THE POST-TSUNAMI SITUATION

The relief effort immediately following the tsunami saw an unprecedented local, national and international humanitarian effort motivated to support the victims of the disaster. Basic needs were accommodated, including emergency water and sanitation services. Despite some gaps and ongoing problems of coordination, the massive contribution of a range of public (including military), private, international and NGO actors prevented the predicted outbreak of water and faecal-borne disease.⁵⁴

The true extent of damage to the water and sanitation sector will probably never be accurately estimated. What was lacking before has now been completely wiped out in many rural areas.⁵⁵ The preliminary damage and loss assessment estimated the total damage in Aceh at USD 40m. Preliminary donor estimates suggests that damage in rural areas was significant - about 80,000 shallow wells were damaged requiring cleaning, rehabilitation or replacement at a cost of USD 20m. In urban areas, damage to existing networks was significant in a number of cities. In Banda Aceh, the PDAM lost about 65% of its physical operating assets to tsunami and ensuing theft, and customer connections reduced from 25,000

⁴⁷ World Bank, 2005, *Rebuilding a Better Aceh and Nias*. p34.

⁴⁸ NCG, *op cit*. Sec 3; McCulloch, L. *Op cit*; Barron, B, S. Clark, and M. Daud, 2005, *Conflict and Recovery in Aceh*, World Bank.

⁴⁹ The PDAM in Banda Aceh reported that military bills were not paid on the basis of consumption, and were frequently paid through Perpamsi (the association of PDAM directors), not directly to the PDAM.

⁵⁰ Feedback from informal review of pre-tsunami and post-tsunami small scale water providers operating in Banda Aceh carried out by Hydroconseil, Feb 2005. Burke and Afnan, *Op Cit*. p31.

⁵¹ *Tentara Nasional Indonesia* (TNI), *Gerakan Aceh Merdeka* (GAM, the Free Aceh Movement)

⁵² All informants from the case study showed this understanding, be they from the local government, PDAM staff, military and consumers, and from local NGOs.

⁵³ Interview reports from informants both in the military and in peri-urban areas. See NCG *op cit*. p15. Reports from the interviews indicate that most of the contractors came from outside the province.

⁵⁴ The efforts of UNICEF supported by a large number of international and local NGOs, all able to access funds and move quickly were vital to the support provided for water and sanitation services.

⁵⁵ *Preliminary Damage and Loss Assessment*, Bappenas and the International Donor Community, January 2005; ADB, 2005.

customers in December 2004 to only 8000 after the tsunami. In Aceh Besar, 60% of the connections were lost in the disaster.⁵⁶

The transition to the rehabilitation and reconstruction phase three to six months after the Tsunami, started taking place within the former, struggling institutional context. The challenge of creating new institutions (with officials who have surrendered their right to kick backs from construction contracts, bribes from consumers and patronage from managers) is considerable, especially when the level of funding is unprecedented, and the pressure from private actors and the incentive for corruption significant. In a situation where corruption has been the norm for an extended period and has gained a certain level of acceptability, the turnaround needed is unparalleled.

A number of factors further influenced the landscape of reconstruction efforts. In particular we see concern about political appointments of senior government officials, a complex donor response that is difficult to coordinate, and doubts over the current and future military role.

Changes to the political leadership

At the time of the tsunami, the Governor of Aceh and the Mayor of Banda Aceh were both in prison on charges of corruption.⁵⁷ In the months that followed, arguably to provide leadership in an emergency situation, the provincial government took a number of steps that diverged from the path of democracy and citizen accountability. The newly-appointed Governor, without consultation with the elected parliament (DPRD), appointed a new Mayor in Banda Aceh, and the Mayor then appointed a new PDAM Director (a former high ranking military officer), removing the old Director also without discussion with the local DPRD. Reports suggest that this series of external appointments has created a lack of accountability to the local parliament, as these leaders are not politically elected officials.⁵⁸ The practical impact of these decisions and the changes planned in the immediate future not yet known.

Unprecedented levels of donor funding

The factors that affect accountability in the post tsunami situation do not all rest with government decision-making, capacity or the behavior of officials. The outpouring of donor aid in the aftermath of the tsunami and earthquake has resulted in the greatest voluntary mobilization of funding in the history of development assistance. While this generosity is welcome and laudable, the sheer level of funding available for reconstruction in Aceh is alarming for anti-corruption activists, and nowhere more so than in the capital-intensive infrastructure sectors where precedence suggests corruption is ubiquitous.⁵⁹

Although there is much talk of fiduciary control and a number of donors are supporting the processes being adopted,⁶⁰ the initial and heightened concern regarding corruption in the reconstruction process has to some extent subsided. While Government has fulfilled promises to work towards an anti-corruption strategy, donors are under increasing pressure to spend, and spend quickly, and the lack of progress in Aceh six months after the tsunami seems now a more dominant concern.⁶¹ Another issue however is that there is little experience in government to deal with this level of expenditure, be it by sector, by geographical area or political district and the opportunity for untoward private gain by officials at all levels is significant. One illustration of the perverse incentives created by grant funds occurred in Aceh Besar where budget discussions in the local parliament led to the cancellation of a Rp.15 billion allocation to purchase land for Internally Displaced Persons (IDP) camps. Instead the parliament proposed that these funds be used to purchase ten new vehicles for parliament members.⁶² This high level diversion of resources for private gain is typically symptomatic of grand corruption in decision-making processes.

⁵⁶ BAIRG interviews, Minutes EASUR, World Bank, September 2005.

⁵⁷ The Mayor died in the tsunami. Notes from Field visit Feb 2005.

⁵⁸ Elections are planned for October 2005. On the appointment of the new PDAM Director see Burke and Afnan, *Op. Cit.* p31.

⁵⁹ Transparency International *Global Corruption Report 2005*.

⁶⁰ The ADB is providing support to the treasury in the MoF; and a range of donors are supporting the Reconstruction Agency.

⁶¹ World Bank, 2005, *Rebuilding a Better Aceh and Nias*. pxiix, p48.

⁶² *ibid.* p36.

The issue of donor coordination and harmonization, high on the agenda immediately following the tsunami, is still a key issue for government and is essential if accountable and transparent processes are to be created. While reports of donor behaviour post-tsunami are similar to that seen in other disaster response situations, from the outset confusion arose (and to some extent competition) over who was funding what in the sector, because agreements were being made at different levels of government and efforts to encourage transparency in donor decision-making were somewhat futile unless all donors participated. In many cases the support offered (and accepted) for the same facilities and infrastructure varied enormously and was not based on any agreed criteria or defined reconstruction approach.⁶³ The donor (and government) manoeuvring in the water and sanitation sector suggested that there was too much money in the system. While the situation has now settled somewhat, donor support in water and sanitation is not finalized. Moreover, most *sector working groups are large, cumbersome and have shifting compositions; they might serve for sharing information and basic tactical coordination but not for strategic planning.*⁶⁴ The risk of overlaps and double counting, intentional or not, is significant.

More recently the logistics of coordinating so many donors is becoming apparent. There is a need to map proposed activities and fully document who is doing what and where on an ongoing basis.⁶⁵ While the bilateral donors provide big money in a strategic way, smaller NGOs tend to work at the micro-level with a practical approach suited to context and communities. According to Public Works and the Reconstruction Agency, understanding and working with the different characteristics of these approaches, as well as government is a challenge – and the lack of clarity is bound to create incentives for corrupt behaviour.

High levels of funding off government budgets

Within the water sector then, as with many other construction sectors, many donors and NGOs have kept their expenditure off-government budgets, preferring to retain control over its use and oversight.⁶⁶ While this does not necessarily signal a lack of confidence in government fiduciary control – the level of on-budget funding is still significant and unprecedented – it does mean that sector reconstruction is bound by a large set of varying fiduciary rules, financial controls and accountability requirements. This counters the early recommendations for the 'budgetization of aid' recommended in the joint fiduciary strategy produced in January 2005.⁶⁷

The government has stressed that all procurement processes are in need of oversight, and the efforts of the government Reconstruction Agency, described in the next section, are intended to promote integrity and transparency for all donors, funders and implementers. It is incumbent on the donor community to heed the calls from the Reconstruction Agency for information and openness. To date this has not been entirely achieved and many local NGOs involved in anti-corruption efforts have voiced concerns about the lack of transparency from donors and international NGOs.⁶⁸

And a military adjusting to the transparency and new power structures

Evidence also suggests that the military took some time to adjust to the new Aceh – an Aceh that may be destroyed and suffering enormous loss, but is now open to international presence, scrutiny and public concern. The preliminary stocktaking report produced by the World Bank six months after the tsunami was relatively silent on the military role and impact. However, an overview prepared by an NGO and supported by various reports in the media, suggest that while the military was immediately on hand and strongly supportive of the emergency effort, as time has passed a degree of profiteering has reemerged

⁶³ In urban areas it is suggested that some communities were not adequately consulted as to the type of urban services they would prefer. The drive seems to show a preference to network services for all, when the sheer level of self-provisioning (through wells and springs which provide free water) prior to the tsunami suggests that there is a question as to whether or not these improved water sources should not in fact play a greater role in sustainable water supply in the province. The question of accountability in early decision-making was raised by Aceh-based technical advisors in July 2005. In rural areas however the extension of highly successful World Bank and ADB rural water programs will ensure this early community decision-making.

⁶⁴ World Bank, 2005, *Rebuilding a Better Aceh and Nias*. pxix.

⁶⁵ BAIRG interviews, *Minutes EASUR*, World Bank, September 2005.

⁶⁶ Various donor representatives articulated this viewpoint. See also Burke and Afnan, *Op Cit*. p31.

⁶⁷ Lessons from other post-disaster situations point to the importance of donors relinquishing control over their 'own' funds – conditional on adequate reporting and accountability mechanisms being established and used. World Bank and GoI, *Notes on Reconstruction: the December 26 Natural Disaster*, January 2005, p158

⁶⁸ World Bank, 2005, *Rebuilding a Better Aceh and Nias*. p25.

on the agenda of some personnel.⁶⁹ Precedence suggests that the reemergence of some pre-established patterns of behavior is bound to occur, be it in the military or other public offices.

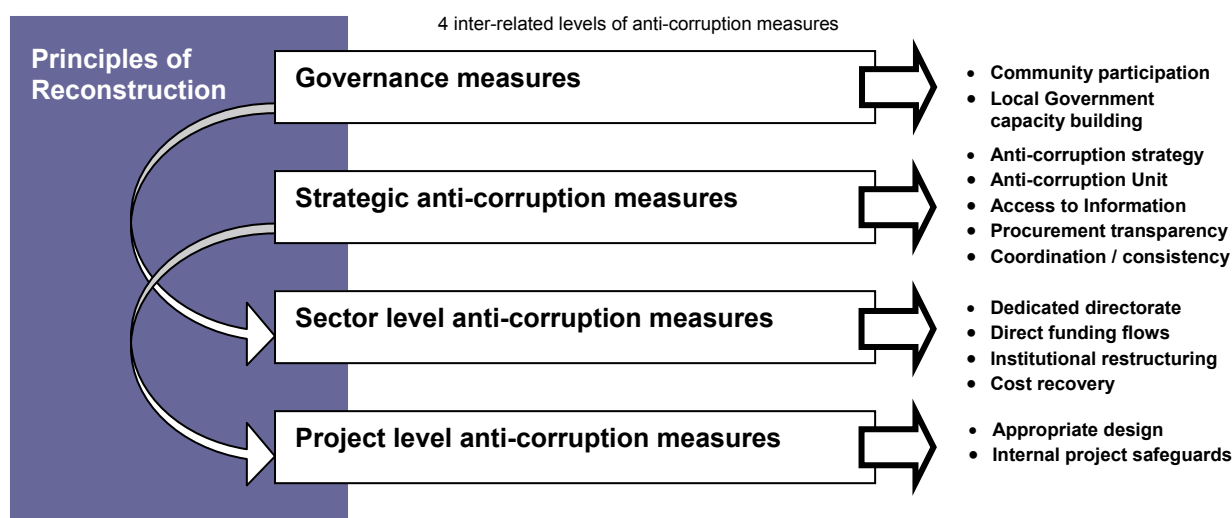
III. ANTI-CORRUPTION MEASURES

A clear message that the misuse and mismanagement of funds will not be tolerated

In this highly politicized, visible and complex post-disaster setting, government and supporting stakeholders have developed a plan and management strategy for the rehabilitation and reconstruction of Aceh and Nias. The following section proposes a framework for understanding the various types of anti-corruption measures being proposed. It suggests that anti-corruption measures applicable to the water and sanitation sector can be defined at four distinct levels. It details the objectives and scope at each of these levels, providing a means to understand both those measures already put in place and those emerging as projects and sector-specific efforts are consolidated. The four levels are:

- (i) **Governance** measures (that embrace the core principles of reconstruction outlined by government);
- (ii) **Strategic** measures (that lie at the core of the government’s anti-corruption plan and support accountability in all sectors);
- (iii) **Sector** measures (that are specific to addressing corruption in the water and sanitation sector – these often reflect sector governance measures); and
- (iv) **Project** measures (that lie within the scope and execution of specific approved projects).

Figure 1
Levels of action to institutionalize anti-corruption efforts



I. Governance measures

A community based approach to reconstruction interventions

One of the primary features of the Government's reconstruction master plan is the emphasis on community participation in decision-making, prioritizing, monitoring and controlling finances.⁷⁰ The

⁶⁹ McCulloch, L. 2005, *Aceh: Then and Now*, MRGI; E.g. Reports from aid workers delivering aid to Meulaboh.

commitment to this Community Driven Development (CDD) approach⁷¹ not only has the President's directive and the wholehearted support of all donor agencies, but evidence also suggests it is now being put into practice. Empowering communities to oversee reconstruction and to play a role in the village level planning and construction disaggregates the massive reconstruction task and places the oversight with those whose lives will be affected by leakage of resources. Although CDD is typically promoted for the purposes of sustainability and appropriateness of development funding, if adequately supported by skilled civil society organizations, it can be a powerful anti-corruption measure. Community presence 24 hours a day looking out over its own interests provides an intensive and inescapable level of oversight in reconstruction activities.

This is not to say that community level development is without problems⁷² or the risk of corruption itself. The Community-based Settlement, Rehabilitation and Reconstruction Project prepared by the World Bank⁷³ has produced a corruption mapping index, which identifies levels at which the corruption can take place, the types of potential problems and the degrees of risk.⁷⁴ Community level activity has the lowest risk category (low to medium) but is dependent on the role and the level of funds flowing. Other projects have indicated signs of donors/NGOs trying to establish 'monopoly rights' over the reconstruction of villages⁷⁵ and paying more than the going rates to secure the services of skilled facilitators.⁷⁶

Despite the hurdles, a number of coordinating and mitigating measures have been established to try to address the potential of double counting and other unaccountable behavior. One such measure is the CDD Working Group under the leadership of the provincial government that has, among various initiatives, pooled experience of facilitators, coordinated training efforts, established standards and coordinated salaries, to remove unconstructive and potentially corrupt practices out of the CDD approach. Government is now also formulating guidelines for community based mapping to attempt to standardize the approach.

Linked to improved accountability and capacity of local government

A second core principle of the reconstruction strategy is capacity building of local government administrations. The need for a strong and accountable local government to meet the challenge of decentralization and deliver much of the reconstruction effort, occurs at a time when capacity is at its weakest: inadequate financial control systems, government structures and law enforcement pre-tsunami have been weakened further by the impact of the disaster. Nevertheless, the government has recognized that in the context of sub-national governance, the need for accountability close to the people and the need for strongly integrated development, local government (*kabupaten and kota*) must play key planning, implementation and financing roles in reconstruction activities, and they must be given the support to do so. *If funds are to be provided to local governments to undertake development – particularly if these local governments are to exercise significant planning discretion in the investment process, and if local procurement and financial management systems are to be used to manage the funds – resources need to be directed at building capacity in respect of these functions and of monitoring usage and project performance.*⁷⁷

⁷⁰ In the World Bank KDP and UPP projects for instance it includes village planning, quality assurance, governance and participatory monitoring.

⁷¹ This is contained within the 'Common Operating Principles and Guidelines for Tsunami Reconstruction' Annex to MDTF paper R2005-0074

⁷² For instance, participation tends to lengthen the process of construction as communities work together to agree their requirements, civil society is less developed in Aceh than elsewhere, community participation has developed into a field of development with many different techniques and tools, and the process does not mean the same thing to all organizations. There is also a need to monitor to ensure the elite do not capture the benefits.

⁷³ This project builds on the earlier World Bank *Kecamatan Development Project (KDP)* and *Urban Poverty Project (UPP)* projects, and uses the corruption mapping approach developed for the analysis of corruption in KDP proposed by Woodhouse in *Village Corruption in Indonesia*.

⁷⁴ World Bank, 2005, *Proposed NAD-Nias Settlement Rehabilitation and Reconstruction Program Appraisal Report*, p58.

⁷⁵ The issue was raised in working group meetings in May by a number of NGOs, and interviews with BRR confirmed they are aware of the problem and have taken steps to counter this sort of NGO behavior.

⁷⁶ Interviews with local consultants during fieldwork in Aceh hired by an international NGO on a large contract with no competitive selection/ procurement process. NCG, 2005.

⁷⁷ World Bank, 2005, *Proposed NAD-Nias Settlement Rehabilitation and Reconstruction Program Appraisal Report*.

In the current environment of local government however, the risks to the effective, efficient and non-corrupt usage of funds are intrinsic and substantial. In order to manage these risks, the reconstruction effort will assist local authorities to establish sound management, develop rapid plans, program and implement projects, improve the management of funds, and monitor progress and performance. Significant resources are being allocated to ensure local institutions understand the participatory processes described above and make them eventually able to provide accountable services to their populations.

The systematic strengthening of local governance is planned to address the chronic incapacity of district and city government, to develop capacity and incentives, and to establish performance measurement systems and accountability mechanisms. It is also recognized by central government, especially the Ministry of Home Affairs, that this will take time, and the phasing-in of local government roles must match the development of capacity. Until these competencies are in place, the Reconstruction Agency (BRR) proposes to play a strong supporting and oversight role to local government.

Consistent with best practice in efforts to improve accountability elsewhere,⁷⁸ the government and supporting stakeholders appear to have approached the accountability question from both sides, making every effort to achieve a balance of conventional civil service reform issues (better wages, enforcement of rules, definition of roles) with governance measures external to the administration (support for stronger citizen voice, transparency etc).

II. Strategic anti-corruption measures

Anti-corruption mechanisms in reconstruction planning and management

The institutional structure and strategic plan proposed by the Government of Indonesia for the management and delivery of the reconstruction lies at the heart of the anti-corruption strategy, and the development of good governance systems more generally. The key vehicle, established in April 2005, is the *Rehabilitation and Reconstruction Agency*⁷⁹ (hereafter the Reconstruction Agency) which reports directly to the President of Indonesia.⁸⁰ The appointed Director has ministerial rank and broad authority to set standards of integrity and performance from his team and all stakeholders of the reconstruction process, and has a reputation as an honest and effective administrator.

The Reconstruction Agency, envisaged as a small and strategic vehicle, has three bodies (i) the *Implementing Agency* (*Badan Pelaksana* abbreviated to *Bapel*) responsible for coordination, some program reconstruction, capacity building and oversight, and communications; (ii) the *Advisory Board* which sets out the policy directions for the BRR; and (iii) the *Oversight Board*. Each reports directly to the President. Each has responsibilities to ensure accountability in the reconstruction process. The *Oversight Board*, an independent entity, which will have primary responsibility for auditing, monitoring and evaluation, and handling a public complaints procedure. It will also enlist active civil society support for tackling corruption and report on a biannual basis. This body will provide the main tracking of project progress to understand impacts and this will be linked to the monitoring of fund flows to prevent corruption.⁸¹

Notwithstanding the critical importance of this oversight role, it is the entire core process from planning to approval, facilitating implementation, disbursing funds and monitoring as well as the basic principles of reconstruction that guide this process and provide the foundation of the anti-corruption strategy for Aceh. Openness and enforcement are the key elements of the Reconstruction Agency strategy. A key goal of the president is that the Reconstruction Agency *'will adopt a policy of complete transparency, and work closely with external stakeholders to achieve results. In all its activities, the (Reconstruction Agency) aims to maintain the highest professional and ethical standards, and adopt a zero tolerance policy towards all forms of corruption.'*⁸² The Reconstruction Agency will also ensure that its core tasks (planning, approval and monitoring) reinforce the peace process.⁸³

⁷⁸ Kaufmann, D, G. Mehez and T. Gurgur, *Voice or Public Sector Management?* World Bank Draft Report 2002

⁷⁹ The Rehabilitation and Reconstruction Agency - *Badan Rehabilitasi dan Rekonstruksi* (BRR)

⁸⁰ Since taking office Yudhoyono has shown a strong commitment to address systemic corruption.

⁸¹ World Bank, 2005, *Rebuilding a Better Aceh and Nias*, p21.

⁸² BRR Update *Working Draft MDTF* Powerpoint Presentation given to the MDTF steering committee. 28 July 2005

⁸³ *ibid.*

Donors have taken considerable effort to support the Government of Indonesia mitigate against the obvious risks of corruption. The World Bank has provided advice at all levels of government and the ADB has established a project aimed at supporting the Ministry of Finance to improve the Treasury's financial controls, and to strengthen the Supreme Audit Agency capacity for the external audit of emergency assistance funds. This work at the national level is supplemented with support to local NGOs to perform an external monitoring role.

NGO Monitoring is emerging as a key element in the overall anti-corruption strategy for reconstruction in Aceh, and a strong role for civil society is being actively pursued by the Reconstruction Agency. This includes the work of SAMAK which has been carrying out anti-corruption work in Aceh for 5 years and has established a district level monitoring program across the province through a broad network of rural and urban NGOs. GeRAK Aceh established just prior to the tsunami with the support of the provincial and national levels of the Partnership for Governance Reform has also launched investigations and monitoring in various districts, and has already focused on the leakages and irregularities in the construction of IDP camp buildings. The Emergency Humanitarian Committee coordinated by the Indonesian Corruption Watch) will establish an office in Aceh and focus on national funding and monitor the performance of the legal institutions and local NGO networks. A Memorandum of Understanding that has been proposed by local universities between many of these stakeholders: the Oversight Board, police, prosecutors, judiciary, Indonesian Corruption Watch and community organizations, is intended to develop clearer scope and greater efficacy in these anti-corruption activities.⁸⁴

A comprehensive anti-corruption strategy

On its formation, the Reconstruction Agency immediately established an anti-corruption strategy. The strategy establishes a zero tolerance policy, sending a message that officials are not entitled to the benefits of reconstruction funds and that the agency wishes to tackle the *culture* of corruption. The strategy lays out the accountability that is expected of those in public office, the intention to use integrity pacts to promote accountability, to build capacity at the local and national levels for good governance, and to enforce these mechanisms by punishing those found guilty. The five key goals are:⁸⁵

1. Set *strict guidelines* for all stakeholders, including the Reconstruction Agency itself, and require adherence through an internal *code of ethics* and an external *anti-corruption declaration* with a particular focus on *procurement*.
2. *Partner with and build capacity* in implementing agencies, civil society and central as well as local government to *prevent, detect and investigate* corruption.
3. Create a *complaints handling system* to receive, investigate, refer and track all complaints and suggestions.
4. Utilize an anti-corruption investigation team to *respond to severe complaints* and spot check projects to ensure compliance, and engage anti-corruption agencies (e.g. KPK) to formally punish cases of impropriety.⁸⁶
5. *Maximize transparency* through an IT-enabled solution.

This strategy is owned at the highest level of government and is not donor imposed. While it is largely focused on establishing and enforcing rules, it has been balanced by other governance efforts that fundamentally focus on the motivations to follow the rules. The stated goal of government is to turn the past around, make corruption an unacceptable dimension of the reconstruction of Aceh, and to win international approval through the process.

An Anti-corruption Unit

Central to the operationalization of this strategy is the formation of an anti-corruption unit reporting to the Director of the *Bapel* (the executing arm of the Reconstruction Agency). The Unit will invite and

⁸⁴ World Bank, 2005, *Rebuilding a Better Aceh and Nias*, p26.

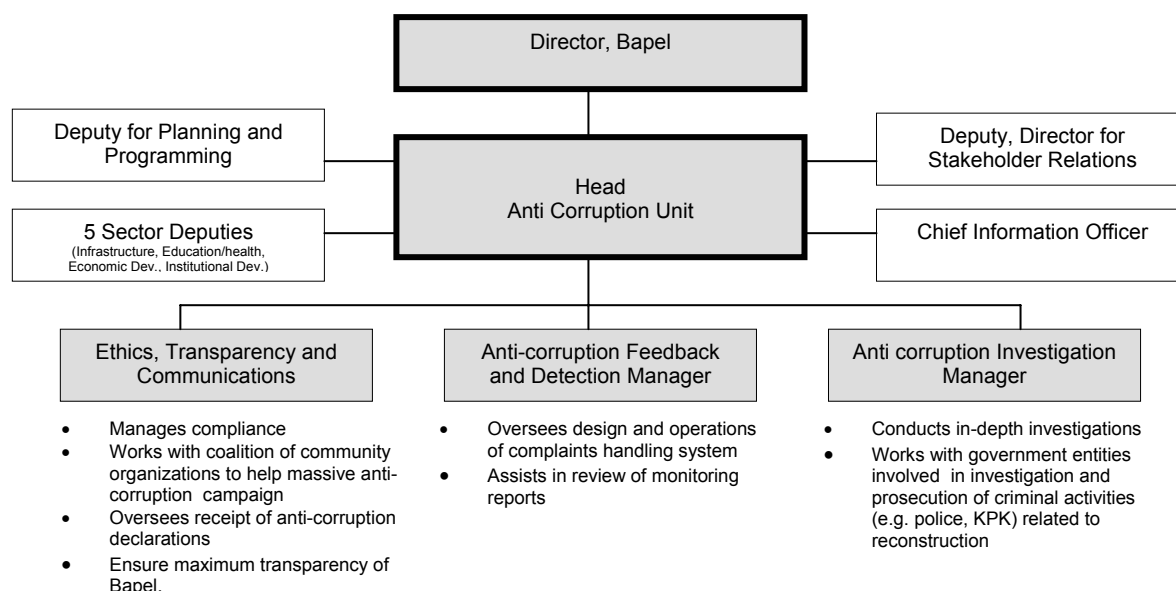
⁸⁵ BRR *op cit*.

⁸⁶ According to the BRR, the Anti-corruption Commission (KPK) has the jurisdiction to take over the investigation and/or prosecution of cases of high priority or where there are concerns over the performance of the police or prosecution.

elicit feedback from the public, civil society organizations, faith based organizations, donors, government employees, and all other stakeholders throughout the 4 year life of the Reconstruction Agency.⁸⁷ The Unit aims to give all stakeholders a voice and to ensure complaints are heard, channeled and adequately addressed. It will be supported by a *public charter* outlining the scope of responsibilities for the unit and authorizing it to have full access to all parts of the agency. Its functional structure reflects the need for (i) communication and transparency of information; (ii) complaints and redressal systems; and (iii) investigation and prosecution.⁸⁸ Still in its early days, the implications of the structure and location of the Unit, and the best way forward within the BRR, are all elements that are still unfolding.

The anti-corruption unit will be supported by external organizations which include provincial universities and an informal alliance of anti-corruption NGOs.⁸⁹ The Complaints Handling Unit, led by the Anti-corruption Feedback and Detection Manager can draw on a number of resources including the State Auditors (BPKP), and the Aceh-based branch of the Indonesian Anti-Corruption Commission (KPK).

Figure 2
Anti Corruption Unit in the Reconstruction Agency (BRR)



Source: BRR Update Working Draft MDTF 28 July, Presentation given to the MDTF steering committee.

Promoting access to information

The Reconstruction Agency's plans to create an anti-corruption unit will be supported by an alliance that aims to improve access to information for the empowerment of citizen (and other stakeholder) monitoring. To support communication and access to information, the Reconstruction Agency will embrace the opportunities of IT-enabled transparency by supporting web-based information,⁹⁰ enabling communication between civil society and development agencies through the medium of the Internet.⁹¹ (It is also recognized that support will need to be provided to those organizations not familiar or comfortable with this new level of transparency).

⁸⁷ The intention is that this facility be taken over by Achenese universities and/or Aceh-based anti-corruption NGOs after the Reconstruction Agency is folded.

⁸⁸ At present there is some overlap between the Oversight Board mandate and the practical activities of the Bapel. This support is necessary as the Oversight Board is still developing capacity. While this is currently workable, there is an inherent danger that the BRR will not be able to sufficiently strengthen the Supervisory and Oversight foundations. A clear example is that the Complaints Handling Unit is mandated to the Badan Pengawas but being put in place by Bapel. The situation with the BRR is very dynamic and donors are watching, waiting and supporting to try to ensure its mandate and promises can be fulfilled.

⁸⁹ Aceh Universities are planning to create a Centre for Rehabilitation and Reconstruction Information (PIRR).

⁹⁰ Banda Aceh will become a WiMAX broadband wireless access technology hot spot. This work is already well advanced.

⁹¹ Many of the IDP camps have already been linked to the internet allowing rapid transmission of survey information. See www.acehmediacenter.or.id referred to in NCG, 2005 *op cit.*, p41.

It is intended that the local media, civil society and religious leaders will be mobilized and active participants in information exchange. Donor-assisted plans include support to create (project) monitoring teams in the anti-corruption NGOs and the creation of an independent website at the universities.

One of the primary vehicles that should deliver this transparency is the website established by the GoI and funded by a number of bilateral and multilateral donors. *e-Aceb-Nias.org* is the on-line portal for information sharing on the rehabilitation and reconstruction of Aceh and North Sumatra.⁹² Information from all government agencies, international institutions, bilateral donors, international NGOs and local organizations participating in the rehabilitation and reconstruction of Aceh will be made available on the site. This website will achieve a number of objectives:

- *e-Aceb-Nias.org* represents a commitment by the GoI to transparency and accountability in the utilization of government and donor resources for the rehabilitation and reconstruction process.
- *e-Aceb-Nias.org* provides a mechanism to track government budget resources, on-budget donor funds as well as off-budget and private fund flows and link them to information on disbursements, outputs and outcomes. This will enable public analysis of the effectiveness and efficiency of programs and projects in achieving their objectives.
- *e-Aceb-Nias.org* enables exchange and communication of relevant information which is of the essence for effective collaboration and coordination.
- *e-Aceb-Nias.org* supports community participation in the planning, implementation and monitoring of rehabilitation and reconstruction activities to empower people with knowledge and information.

Creating transparent procurement processes

The need for an overhaul to procurement systems has been addressed and is taken seriously in the reconstruction process, while recognizing the need for speed in processing. The government has endorsed the need for the basic elements of a good procurement system including a clear, comprehensive and transparent legal framework, clarity on functional responsibilities and accountability as well as the need for organizational responsibility, skilled staff and proper enforcement.

In particular, the Reconstruction Agency has underlined the importance of transparency⁹³ throughout the entire procurement process and has proposed strategies to simplify and open-up the process for on-budget funds and to create oversight mechanisms for off-budget funds. At this stage, the need to clean up the procurement process is being discussed openly, a tracking system is being developed, citizen feedback is being facilitated and the government shows a commitment to 'naming and shaming' and enforcing the standards set. The proposed approach has been modified as follows:

- For on-budget (including the Multi-donor Trust Fund established to channel and harmonize donor funds) financing, the agency has setup a process to expedite procurement at province and district levels, and keep tight control on its execution. The principle of competition is encouraged. Tenders are to be widely advertised in the local and national press and on the *e-aceb* website. The ADB reported that they thought the positive and unusually high response to a recent tendering process for rural water was largely due to this measure. Donors are also proposing to fund external tender evaluations.⁹⁴
- For those funds channeled off-government budgets through donors and NGOs in which procurement is independently managed, the Reconstruction Agency has proposed an oversight and benchmarking process involving the monitoring of larger donors, requirements for information on prices and rates, and an equal level of transparency and access to information as that required for on-budget funds.

⁹² Launched on the 26 January 2005.

⁹³ Transparency refers to both the degree of openness of the decision-making processes and the extent of disclosure of the interactions that could influence those decisions. Kaufmann, D. et al. *Op Cit.* 2002.

⁹⁴ Reportedly, an ADB housing loan package tender briefing was attended by 72 contractors instead of the 'normal six' '*who have already agreed in advance who will win*'. To ensure openness and fairness to the procurement process, one donor (DFID) have proposed to support an external tender evaluator (Crown Agents) to carry out evaluations.

Despite these laudable efforts, there is still a concern that this evolving system could, in itself, create opportunities for more rent-seeking. In the past, activities related to permits and oversight seem to have been badly abused,⁹⁵ and the capacity (and revised approach) of the Reconstruction Agency in this regard is yet to be proven.

Developing a committed and coordinated donor effort

Ensuring that the large range of donors operating in Aceh coordinate and share common principles is not only important for efficient and effective sector reconstruction, but is also vital for efforts to minimize corruption in the reconstruction process. Not all donors in Indonesia over recent years have taken up an anti-corruption mandate with the same vigor or follow-up. In the reconstruction process however it is vital that the government is given full support for its efforts, and donors must send a common message and reinforce this with an ongoing anti-corruption approach. This coordination and concerted effort needs to be backed up by transparency in donor's own processes. While donors are accustomed to launching their activities publicly, they are less familiar or comfortable with the need for full public disclosure of project activities and finances. It is vital that donors practice what they preach. Government is pursuing this.

A key part of this effort is making sure that donor personnel and national consultants are not ignoring, contributing to, instigating or supporting corrupt practices in Aceh. While bribery and fraud by consultancies is not sizeable when compared with contractors in overall project cost terms, they often work at a key stage in the process – one which facilitates others and sets up the standards and norms for contractors. In recognition that they are obliged to support government efforts, some donors are (saying they will) send strong messages to their consultants, suppliers and contractors that new rules are being established and positive actions are needed throughout the project cycle (such as sanctioning those who do not comply).

III. Sector anti-corruption measures

The anti-corruption measures being adopted to promote accountability in the reconstruction of Aceh are general and widely applicable to all sectors, including the water and sanitation sector. Participation, local government capacity building (including stronger incentive structures), information and transparency, and procurement reform are all strongly applicable to water sector development. Accountability lessons might also be learnt from experience elsewhere in Indonesia, but government and donors directly involved are grappling with the trade-offs between capacity building that take time and the need for speed of reconstruction.⁹⁶ At the same time some of the more specific measures being adopted for the water sector are similar to other construction sectors. This is particularly the case with respect to housing reconstruction, given that an integrated approach to housing and infrastructure is being adopted at the local level.

While few sector-specific anti-corruption mechanisms have emerged to date, a number of concerns have arisen with respect to reconstruction planning. One of the most notable aspects of water and sanitation sector reconstruction planning process is the enormous difference between the damage and loss assessment figures⁹⁷ and the estimated cost of reconstruction. No other sector shows such a significant difference between the *preliminary estimate* (USD 40m), or the later *build back* estimate (USD 45m), and the *master plan* budget (USD 355m), 9 times higher than the estimated cost of replacing the pre-tsunami infrastructure. While it is well accepted that the initial damage assessments in all sectors were provisional and may be very low, what we see in the watsan sector particularly is an unparalleled strategy to *build back better*, much better. The master plan proposed in late March established a principle of 100% coverage to be achieved by 2010.⁹⁸ The justification for this increase is to provide Aceh with reasonable

⁹⁵ Interviews with multi-lateral representatives involved in the reconstruction process.

⁹⁶ World Bank officials suggest that various accountability mechanisms being promoted elsewhere in Indonesia are also applicable in urban areas in Aceh. These include for instance, mechanisms for competitive and professional selection of PDAM directors, transparency in PDAM corporate planning, posting of accounts, use of customer satisfaction surveys. Comments from EASUR September 2005. Many of these are in line with or subsumed in many of the efforts described.

⁹⁷ *Indonesia: Preliminary Damage and Loss Assessment, December 26, 2004 Natural Disaster*. A Technical Report prepared by Bappenas and the International Donor Community; World Bank, 2005, *Rebuilding a Better Aceh and Nias*.

⁹⁸ This does not include for on-site sanitation which is included in housing estimates.

(very high) levels of water and sanitation service coverage. A large group of donors supported this coverage target by proposing on- or off-budget support to the sector.⁹⁹ The level of *projects agreed* (USD 175m) and the target (USD 242m) would not be possible without this unparalleled interest in supporting water sector reconstruction. There must be some doubt on the part of donors as to the wisdom of aiming for such high levels of coverage without the strategies and institutional capacity for future sustainability - especially in areas where for many generations communities have relied on local sources (such as springs and wells) for their water supply.¹⁰⁰

It is recognized by donors and key government stakeholders that it will take time to develop accountability mechanisms in the enabling environment for reconstruction and development of the water sector in Aceh. In the medium term the water sector should see structural change in governance arrangements, especially in the emergence of an independent body regulating performance, as well as the development of sector-specific accountability mechanisms such as PDAM integrity pacts, and a stronger supervisory board. In the shorter term many of the anti-corruption mechanisms however are envisaged through more formal institutional mechanisms or stronger incentive structures within service delivery institutions.

A dedicated directorate in the Reconstruction Agency

The Directorate of Housing, Water and Sanitation (DHWS) located in the executing arm of the Reconstruction Agency has been given the mandate to coordinate and harmonize donor efforts in the water and sanitation sectors. The World Bank has agreed to strengthen the DHWS as a key part of the proposed NAD-Nias Rehabilitation and Reconstruction Program so that it can more effectively provide the leadership and oversight to coordinate government, Multi-Donor Trust Fund (MDTF), off-budget donor and NGO programs. A key part of this capacity building effort is to provide tools and techniques to monitor project finances.

Direct funding flows

A two-step transfer is envisaged for MDTF monies. Funds will flow from the World Bank MDTF Account to a special account in the Aceh provincial branch of the state owned BRI Bank, and thence directly to the consultant, supplier or contractor. Funds for water and sanitation related community grants will be channelled to community group accounts in the same Bank. The National Treasury will establish an MoU with the Head Office of the BRI Bank undertaking to ensure accountability and timely transfer. The instructions for payment will be delegated to the provincial level; the contractor request will be approved by the PMU (in Banda Aceh) and communicated to the Provincial Treasury office who will then approve payment by the Provincial Branch of the BRI. Reporting and accountability lines have been explained in detail in the Project Appraisal document for the World Bank Settlement Rehabilitation and Reconstruction Project. Expenditure tracking will be employed to track flows through the financial expenditure system and the overall system will be overseen by the Oversight Board of the Reconstruction Agency.

Improving capacity and changing attitudes in local government

Improving capacity of local and district government and utilities to deliver water and sanitation services implies a new ethos of service delivery and a sense of accountability to consumers. A phased, incremental capacity building program is envisaged for local government and utilities alike.¹⁰¹ In utilities

⁹⁹ World Bank 2005, *Rebuilding a Better Aceh and Nias: Stocktaking of the Reconstruction Effort*, Brief for CFAN, October 2005 p85; Support is proposed by the French, Japanese, Dutch, US, Danish, UNICEF, ADB, World Bank (through the Settlement Project), CARE International, ICRC, World Vision, Save the Children and Oxfam to name a few. UK DFID and Canadian CIDA are providing support through the ADB *Water Services and Health Project. Bappenas Draft Masterplan*, presented to the Donor Working Group March 2005.

¹⁰⁰ While the reconstruction process includes institutional capacity building of district and local governments and PDAMs it is unlikely that the capacity levels needed to sustain this level of coverage could be achieved in the 5 year timeframe. The 100% target is of course questioned by many, especially given that few places in the country have coverage levels greater than 50%, and many argue that the lack of institutional capacity is the basic cause of low coverage. This points towards the need for an unprecedented institutional development and capacity building effort if the proposed funding is not to be through corrupt and other forms of commercial and physical leakage.

¹⁰¹ World Bank 2005, *Rebuilding a Better Aceh and Nias: Stocktaking of the Reconstruction Effort*, Brief for CFAN, October 2005; BAIRG interviews, Minutes EASUR, World Bank, September 2005

such as Banda Aceh the development of operating and management capacity needs to focus first on operational capacity (production, finance, administration and supervision and audit) and then on strategic management to prepare medium and long term business plans. Changing attitudes however is critical. Within the water sector, most corrupt practices are derived from organizational norms in local and district government and PDAMs and are propagated by the chain of command and peer group pressure and obligation. Few local government and utility officials are able to ignore the pressure placed upon them by others. The sector-specific anti-corruption strategy needs to be based on an understanding of the range of financial and non-financial pressures, incentives and disincentives in which actors perform their functions.

A primary disincentive for public officials is the low level of salary. Supplementing official wages with bribes and kickbacks is not considered a luxury but a necessity. Typical salaries of Project Managers responsible for reconstruction vary between Rp.1,045,000 and Rp.1,400,000 per month and Section Heads on tender committees between Rp.790,000 and Rp.980,000. Salaries of similar positions in the private sector are more than four times higher.¹⁰² In order to change attitudes in PDAMs it is necessary to revise human resource management strategies (not just increasing salaries), providing proper structures and incentives for staff at all levels to perform. The reconstruction approach in the smaller Aceh PDAMs is to twin skilled operators and build skills and organizational capacity. The aim is to reconstruct the institutions: to inculcate rights and responsibilities on workers, backed up by proper salaries and the enforcement of sanctions on those conducting themselves improperly. The development of a complaints and redressal system described in the previous section may, when functioning, provide an important deterrent for petty corruption in both urban and rural areas.

More accountable delivery agencies in urban and rural areas

Activity focused on the sector is beginning to show signs of developing accountability mechanisms in the context of institutional development and organisational change of the urban water setting. The dysfunctional nature of the PDAMs and the unaccountable relationships with local and provincial government, mentioned in section I, highlighted the need for sector reform. Although it is still unclear what steps will be taken, the need to create stronger institutions is recognized for example by the restructuring proposals being discussed and outlined below.¹⁰³

a. Sub-regional 'multi-municipality' urban water supply utilities?

One approach currently being proposed by the Reconstruction Agency is the amalgamation or 'bundling' of utilities in Aceh to make them viable and autonomous.¹⁰⁴ While potentially controversial with local government, the Reconstruction Agency (i) has the power to enforce such organizational change in the interests of a sound reconstruction strategy, and (ii) is proposing a method that has proven successful in the area of Medan, also in North Sumatra.¹⁰⁵ This approach would not only achieve economies of scale and promote efficiency and effectiveness, but it would delink the local government from the utility and thereby remove one of the key accountability blockages in urban service delivery. It could of course also reduce the responsiveness of the provider to customer needs.

b. A new level of provider?

While consideration is being given to amalgamation in urban areas, in rural (and peri-urban) areas the organizational change for the delivery of water services is focusing more on the need for a new level of provider below the municipality, closer and more accountable to the public. This is being articulated in the form of a 'parish level provider', be they community, non-governmental or

¹⁰² ADB, 2005

¹⁰³ This case study suffers from the immaturity of all these initiatives, what is proposed today with enormous commitment, might not be taken up at all, as priorities and ideas change.

¹⁰⁴ Regional PDAMs could be formed from Banda Aceh, Aceh Besar and neighboring peri-urban *kecamatan*; and similarly for Lhokseumawe, North Aceh and Biereun. See NCG, 2005; BAIRG interviews, September 2005. This proposal to bundle inefficient utilities is not limited to Aceh, and has been discussed in various documents including World Bank, 2004, *Averting an Infrastructure Crisis in Indonesia*, p210.

¹⁰⁵ PDAM Medan is owned by the Provincial Government of North Sumatra, and serves 9 cities/municipalities and is generally thought to be one of the better managed PDAMs in Indonesia. One reason suggested for its effectiveness is the "checks and balances" introduced between provincial and local overseers, which ensure it acts more autonomously than most PDAMs, it not being captured by a sole owner.

privately-operated. This approach follows that recommended in the World Development Report 2004 which focuses on developing stronger accountability relationships, including the importance of separating the provider from the regulator of a service. The success of this approach would nevertheless be strongly affected by military behaviour in remote rural areas.

Restructuring solutions, are key to the development of accountability in the sector.¹⁰⁶ Solutions will be dependent on the benefits that can be gained from economies of scale (if such economies are to be found) or the benefits of disaggregation and lower levels of accountability, and the ways these are worked out and captured, to ensure accountability to the communities they serve.¹⁰⁷ The unfolding of structural arrangements is being keenly watched by some central government agencies (for example the Ministry of Home Affairs, which has overall responsibility for ensuring the institutional effectiveness of the sector) and to judge their applicability elsewhere in the county. The 'Medan model' is thought to have achieved both economies of scale and better governance, with the local governments of Medan and the smaller adjoining rural areas all benefiting from the restructured multi-jurisdictional utility. The Reconstruction Agency representatives see this model as being applicable and appropriate in Aceh, but recognize the importance of support to any regionalization process.

Strategies that strengthen the sustainability and viability of delivery agencies

Cost recovery is a key aspect of sustainable effective and well-managed water and sanitation services. A key aspect of the planned sector reconstruction being undertaken in the urban areas is to ensure that cost recovery strategies are put in place at the outset. In the context of so much grant funding, the temptation to continue providing water free of charge needs to be kerbed, and the reform and capacity building of metering, billing and revenue collection units developed as a key part of sector reconstruction.¹⁰⁸ There is also a very real danger that systems, especially sewerage systems, will be constructed that consumers and service delivery agencies cannot afford to operate and maintain. More traditional approaches of carefully assessing community willingness and ability to pay for services before building may be being disregarded given the need to rebuild and *rebuild better*. The way that local officials will be held accountable for the upkeep of public assets created in urban areas is yet to unfold, and the importance of tariff increases, to achieve cost recovery is an essential aspect of the incentives for reform.

IV. Anti-corruption measures at the project level

The accountability strategies emerging at the project level are closely linked to the governance measures described at the beginning of this section. Both community driven development and local government capacity building are seen as important determinants of project outcomes, and are emerging in a range of appraised or yet-to-be appraised water and sanitation projects, (or projects with substantial water and sanitation components). In addition to this, a number of the planning tools developed at the national level will be implemented within the project context.

Appropriate design of projects

One of the lessons of the pre-tsunami setting is the need for more oversight and justification of the projects proposed such that individual government officials are not encouraged to set up opportunities that later enable later private gain. The processes proposed by the Reconstruction Agency to some extent guard against this problem but must be taken down to the project level in the details and delivery mechanisms defined. To date, the two primary rural projects including water and sanitation proposed by the ADB and the World Bank have significant community involvement and build off the back of these other successful projects and methodologies.¹⁰⁹

¹⁰⁶ There is of course serious concern about the institutional impacts on municipalities and districts, and the need for a sound governance strategy, promoting trust between owners. Interview with Andrew McLernon, August 2005.

¹⁰⁷ E.g. Production and transmission could be consolidated, smaller providers could be allowed to enter and operate within a competitive market.

¹⁰⁸ The PDAM in Banda Aceh has proposed free connections, but once the emergency has 'cleared' that tariffs be paid for water again. JICA has pledged funds and TA for the construction of the distribution network and these connections. The issue of the bulk water supply is yet to be resolved. BAIRG interviews, September 2005

¹⁰⁹ It should also not be forgotten that a significant proportion of district reconstruction activities will take place in the context of development projects and processes which pre-exist (or which were planned before) the disaster, such as KDP and UPP.

Ensuring the appropriate design of projects in urban areas where communities are invited to contribute to strategic decision-making provides a greater challenge to government, the PDAMs and the donors. The urge to provide levels of technology which are not sustainable, levels of network coverage which institutions do not have the capacity to manage simply because the finance is available, is a cause for concern. Not only will this render the reconstruction of the urban sector unsustainable, it creates greater opportunity for corruption. Peer review of the appropriateness of proposed project design should be encouraged, as should open, public consultation and frank discussion of the long term impacts of any proposed changes including future fees and allocation of responsibilities.

In the community-driven KDP and UPP projects (and the corresponding ADB water services project) launched in rural and urban areas the streamlined and participative processes are expected to greatly reduce the risks of funds being leaked in transmission to the groups that need them. At the same time, the projects recognize that the post-disaster setting brings anti-corruption challenges that will be met with more frequent monitoring and supervision activities. Acting with those already in place, and significant transparency as to the levels of grants and funding, there is some confidence that communities will use the complaint mechanisms available to them, if their entitlements are delayed or misappropriated.¹¹⁰

And internal project safeguards

Mechanisms which address corruption risks in design, procurement, implementation are being incorporated into project management systems. The ADB Water and Health services project for instance will enhance governance through a parallel support project which focuses on developing strict financial management,¹¹¹ with strengthened government monitoring, independent monitoring by consultants, regular independent performance auditing, and random and independent spot checks by the ADB itself. The monitoring envisaged will be both internal and external, at many levels. In relation to quality, process monitoring consultants operating at the district level will focus on establishing Community Implementation teams and the quality of design and construction. Facilitators will receive monitoring training to enable them to make judgements of the quality of construction as well as their role in mobilizing the communities.¹¹² Communities will participate through the Community Implementation teams, and be given basic training to monitor and articulate their concerns.

In the World Bank *NAD-Nias Settlement Rehabilitation and Reconstruction Program*, the financial management risks have been rated as high and an anti-corruption plan has been agreed with the government to promote transparency and accountability. The risks itemized at the project level include organizational structure, budgetary procedures, funding flows, selection of consultants, procurement procedures for materials, grant implementation, payment validation and audit arrangements. The project will rely on a combination of 'traditional' fiduciary controls and carefully facilitated community participation to safeguard against fund leakages through contractors and officials during implementation, and is based on models well established by the Bank in Aceh and elsewhere.¹¹³ The anti-corruption plan maps potential risks and presents a program of activities to address these risks. The mapping exercise will be repeated twice during the lifetime of the project. The anti-corruption plan is made up of components which:

- enhance disclosure provisions and transparency
- involve civil society in oversight
- mitigate against collusion, fraud and forgery
- promote the complaints handling mechanisms, and
- promote sanctions and remedies in a context of zero tolerance.

These projects provide established mechanisms, particularly at sub-district levels, which can be used to make allocation decisions and channel funding for investment at the local level. The Local Development Grant funding flows, including those for additional water and sanitation services, need to supplement these mechanisms and build mutually supportive relationships with them.

¹¹⁰ World Bank, 2005, *Proposed NAD-Nias Settlement Rehabilitation and Reconstruction Program Appraisal Report*.

¹¹¹ ADB Earthquake and Tsunami Emergency Support Project

¹¹² ADB, 2005, *op cit*. pp19-20

¹¹³ see note 48.

Besides the anti-corruption plan, the project includes several other mechanisms to address confront corruption – such as channelling funds for water and sanitation block grants to community group bank accounts, providing TA to government management teams, providing for independent monitoring by facilitators, and adapting proven management tools from other CDD projects. Auditing is both internal, through the government's National Audit Agency and independent annual audits.¹¹⁴

IV. CONCLUSION

The disaster in Aceh has presented an opportunity for the emergence of a more efficient and effective water and sanitation sector that meets the needs of the Acehnese people. It has resulted in the funds, space, momentum and enabling environment to establish coverage levels higher than any other province in the country. The task now is to ensure that the design, planning, procurement, implementation, and monitoring of the projects (be they community based or larger construction projects in cities) are all carried out with openness and transparency. This means that the principles and strategies established for reconstruction generally and anti-corruption specifically are mainstreamed at the sector level and developed into procedural and measurable mechanisms that provide incentive to actors working in the water and sanitation sector. All measures then need to be applied successfully in projects delivering services to the people of Aceh.

At its core, the anti-corruption approach adopted for Aceh relies on some key principles – including community participation, capacity building and improved transparency. While there is some clarity as to how this will progress in the next years, there is also a sense of uncertainty. In relation to anti-corruption efforts, the situation is still in flux. Stakeholders seem more than willing to adopt a learning attitude, but many agencies are newly formed, and procedures are not tried and tested. To this extent the accountability measures currently proposed are a starting point, to be developed with time and experience, and requiring new levels of *multi-layered* monitoring, feedback and revision.

The landscape in which corruption operates is determined by the norms, rules, regulations and procedures established for all reconstruction, not for public works or water alone. Nevertheless, the demands of developing and launching projects in the water sector, and the integration of many into broader resettlement projects, has meant that little time has been spent focusing on the sector specific measures needed to address corruption strategically. There appears to be an urgent need for increased and regular donor coordination with government at the provincial level in relation to sector corruption and the development of common sector norms and goals. Multi-lateral agencies have much experience to pass on to bi-lateral and NGO partners, and vice versa. Workshops sharing knowledge and concerns with government in an atmosphere that promotes ongoing dialogue and learning will be essential.

It is still early days in the Aceh reconstruction effort. At this stage it remains to be seen if Aceh and the national and international actors involved can together produce the turnaround needed, if the significant range of measures proposed will counter the overwhelming force of corruption that exists and is propelled to continue in the context of unprecedented levels of funding. In the water sector, new accountable institutions are urgently needed, but this takes time, and enforcement strategies, commensurate with the laudable efforts to produce new rules, are vital. There are also many external factors affecting the outcomes. It is unclear how the military will ultimately act, and how the peace process will influence reconstruction. There is agreement however that government and civil society have shown significant commitment to an anti-corruption agenda in Aceh and have created a sound starting point for far-reaching improvements in accountability.

¹¹⁴ World Bank, 2005, *Proposed NAD-Nias Settlement Rehabilitation and Reconstruction Program Appraisal Report*