

**CASE STUDY:  
POST-EMERGENCY HOUSING FINANCE FOR THE POOR  
ACEH, INDONESIA**



**THE DEVELOPMENT INNOVATIONS GROUP  
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*The following case study represents a first draft and expanded concept paper examining policy implications for housing finance for the poor in post-emergency and particularly post-disaster settings within the context of post-tsunami Indonesia. Per the Development Innovations Group's contract with the Bill and Melinda Gates Foundation, the final version of this document will be delivered to the Foundation on January 31, 2010.*

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## Acronyms

ADB: Asian Development Bank  
ARF: Aceh Recovery Framework  
BPN: *Badan Pertanahan Nasional* (National Land Registry)  
BPR: Rural Bank  
BRR: *Badan Rehabilitasi dan Rekonstruksi* (Agency for Reconstruction and Rehabilitation)  
DAD: Development Assistance Database  
DIG: Development Innovations Group  
GAM: *Gerakan Mereka* (Free Aceh Movement)  
GOI: Government of Indonesia  
GTZ: *Gesellschaft für Technische Zusammenarbeit* (Company for Technical Collaboration)  
HFP: Housing Finance for the Poor  
HIC: Humanitarian Information Center  
HMF: Housing Microfinance  
IDP: Internally Displaced Person  
IDR: Indonesian Rupiah  
ILO: International Labour Organization  
INGO: International Non-governmental Organization  
IOM: International Organization for Migration  
MICRA: Microfinance Innovation Center for Resource and Alternatives  
MFI: Microfinance Institution  
NGO: Non-governmental Organization  
NPL: Non-performing Loan  
SME: Small-to-medium Enterprise  
US: United States  
UNDP: United Nations Development Programme  
UNORC: United Nations Recovery Coordinator for Aceh and Nias  
USD: United States Dollars

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## Contextual Framework

### ***Housing Finance for the Poor: Emerging Lessons in Post-Emergency Environments***

Housing finance for the poor varies from country to country, and depends largely on overall levels of internal economic, social, and political development. Natural disasters and human conflicts, however, know no borders. When confronted with either, many countries lack the institutions, resources and knowledge to deal with short-term relief, mid-term recovery, and long-term solvency and prevention. Through funding from the Bill & Melinda Gates Foundation, the Development Innovations Group (DIG) is developing guidelines for policy-makers and practitioners to identify the knowledge, resources, and institutions needed to effectively respond to the shelter needs of the poor in a post-emergency environment in its upcoming policy paper: Housing Finance for the Poor: Emerging Lessons in Post-Emergency Environments. The following case study will inform the larger policy paper with lessons learned in the case of the 2004 Indian Ocean Tsunami that destroyed Aceh, Indonesia.

Through our action research, DIG seeks to understand the types of housing financing approaches that are most appropriate in post-emergencies and at what stage in a community's recovery efforts these approaches should be introduced. Shelter and housing are never more important than in an emergency. In an emergency or post-emergency setting, access to housing and shelter can be a critical determinant for physical and economic survival. Shelter is necessary to provide security and personal safety, protection from climate and enhanced resistance to ill health and disease.<sup>1</sup> Housing may often be linked to a person's livelihood as the home is often a source of income generation, serving as main place of business, the location to produce goods, or a facility for inventory storage. The immediate rebuilding or reconstructing of a home can in many cases provide more than a place for shelter – it can also provide an opportunity to immediately supplement incomes and restore livelihoods.

The larger policy paper will analyze practitioner experience using different housing finance interventions in post-emergency scenarios, with a focus on housing microfinance. To inform our understanding of the range of experiences in various situations (successes and failures), DIG will prepare a series of diverse case studies analyzing the role of housing finance in emergency recovery efforts in differing contexts. The following case study serves this purpose, and will inform the larger policy paper with lessons learned through the example of a rapid onset disaster where housing microfinance is a tool that was unavailable prior to the event and remains largely unavailable to this day.

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<sup>1</sup> Sphere Project (2004). *Humanitarian Charter and Minimum Standards in Disaster Response*. Oxfam Publishing, Oxford.

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## Stages of Post-Emergency Recovery: The Role of Housing Finance for the Poor

As we look at the stages of post-emergency recovery, it is important to note that emergencies, whether they are a rapid on-set disaster (as in the case of the 2004 Indian Ocean Tsunami) or an ongoing internal conflict, are location specific. Each country or region has its own history, political systems, existing infrastructure, mitigation efforts, funding for recovery, etc prior to and post- event. Nevertheless, there are consistencies in the type and timing of responses common to post-emergency situations in terms of appropriateness to the current context. The framework presented below, introduces DIG's views regarding the four stages of post-emergency interventions, with a particular emphasis on shelter financing:

<i>Stage of Post-Disaster Response</i>	<i>Interventions Related to Housing Reconstruction &amp; Microfinance</i>
<b><i>Stage I: Immediate Aftermath</i></b>	Measures must be taken to ensure the basic needs of the affected populations are met. Shelter may include tents and communal structures (such as military barracks). Location of the temporary shelter may include individual plots of land, more communal arrangements, or even a "camp," as may be the case for Internally Displaced Persons (IDPs) or refugees.
<b><i>Stage II: Relief to Recovery</i></b>	Relief measures should focus on rebuilding productive assets for sustainable livelihoods. Interventions may include microenterprise lending. While shelter may still take the form of immediate relief; grants for shelter construction and materials may be introduced.
<b><i>Stage III: Recovery to Development</i></b>	Measures should focus on improving the quality of life of affected populations once their livelihoods have been re-established. At this point measures may include combinations of directed subsidies, and if earlier stage interventions have been well-planned with the use of "smart grants," then housing microfinance can build upon those efforts. For example, a transitional settlement of tents may be established on safe land appropriate for future urbanization with housing lots already divided for future use. "Starter homes" could be provided as part of the relief package and then be improved through housing microfinance.
<b><i>Stage IV: Full Development &amp; Reconstruction</i></b>	At this point development practices and interventions can follow non-emergency guidelines.

**Figure 1: Phases of Post-Emergency Interventions**

The following case study will use the stages above as a contextual framework to inform suggested lessons learned in post-emergency housing finance for the poor in post-tsunami Aceh, Indonesia. We believe the case study will illustrate how the phasing of post-emergency interventions can enable or hinder the introduction of housing microfinance in an environment where it has not existed before, and will allow for us to examine if and when it is appropriate to introduce housing finance for the poor in post-emergency environments.

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## Introduction

The December 26, 2004 tsunami that devastated several countries along the Indian Ocean changed the face of Aceh forever. In Indonesia, the country hardest hit by the tsunami, an estimated 167,736 people were killed and more than 500,000 were left homeless. In Aceh alone the destruction included 22% of the infrastructure and 78% of livelihoods based on trade, farming and fisheries, with an overall estimated damage of USD 4.5 billion, equivalent to 97% of the GDP of the province.<sup>2</sup> While parts of the capital Banda Aceh were unaffected, the areas closest to the coastline – particularly Meuraxa and Kampung Jawa – were completely destroyed. Most of the western coast was severely damaged. Furthermore, this event compounded the effects of the civil conflict that had persisted between the government of Indonesia and *Gerakan Merdeka* (GAM, Free Aceh Movement) for thirty years.



Figure 2: Coastline of Aceh before and after the 2004 Tsunami<sup>3</sup>

<sup>2</sup> Schulze, K.E. (2005) 'Between Conflict and Peace: Tsunami Aid and Reconstruction in Aceh,' Department of International History, London School of Economics.

<sup>3</sup> Picture of Banda Aceh before and after 2004 Tsunami - Photo credit: [mundo-francisco](http://www.mundo-francisco.com), [http://www.masternewmedia.org/news/2006/12/08/tsunami\\_video\\_the\\_best\\_tsunami.htm](http://www.masternewmedia.org/news/2006/12/08/tsunami_video_the_best_tsunami.htm)

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The tsunami disaster was the deadliest in recorded history and the international humanitarian response, in terms of funding, people and supplies mobilized, was unprecedented. In total, more than USD 7.77 billion in funding was committed to Indonesia, illustrating the extraordinary sympathy and generosity of individual citizens worldwide.<sup>4</sup>



Figure 3: 2004 Indian Ocean Tsunami Zone<sup>5</sup>

Three years after the disaster, under its Housing Finance for the Poor program funded by the Bill and Melinda Gates Foundation, the Development Innovations Group (DIG) sent a team to Aceh to carry out a case study as part of a larger policy research effort on housing finance for the poor in post-emergency environments. The mission of the team was to better understand the policy implications for housing finance for the poor, particularly housing microfinance, in a post-rapid onset disaster environment. Specifically, the team worked within the contextual framework detailed above, evaluating conditions on the ground, keeping in mind that certain housing finance tools can be introduced into a post-emergency environment at different phases following a disaster. Thus, one of the outcomes of the initiative was to determine which post-disaster phase Aceh was in three years after the fact, and whether conditions allowed for the introduction of housing finance for the poor. The team explored which housing finance products, if any, had been used to address the needs of tsunami survivors, and whether or not such products served as an appropriate and effective response to existing conditions. The team discovered that not only were conditions not optimal for housing microfinance in Aceh, but housing microfinance has not been – nor is it presently – an appropriate tool to address the housing needs of the poor. This case study will detail why the combination of how donors introduced relief funding, the history of a grant culture in Aceh, and the capacity of local microfinance institutions (MFIs) makes the introduction of a housing microfinance product unfeasible for several years to come.

<sup>4</sup> Aceh Tsunami Reconstruction Expenditure Tracking Update, April 2008. The World Bank. <http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/Aceh.Reconstruction.Finance.Update.Dec2007.pdf>

<sup>5</sup> Image courtesy of [www.humanityfirst.org.uk/images/Tsunami-Map.jpg](http://www.humanityfirst.org.uk/images/Tsunami-Map.jpg).



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## Methodology

The DIG team traveled to Aceh, Indonesia in November 2007 to conduct a case study focusing on the role of housing finance for the poor in a post-emergency environment, specifically, post-tsunami Aceh.<sup>6</sup> Although the overall reconstruction efforts in Aceh were of interest to the team, the primary focus of the research trip was on housing finance for the poor, particularly housing microfinance, in a post-disaster environment, with a particular eye to the phasing of shelter finance interventions. To understand the role and potential impact of housing finance in the post-tsunami environment, the team looked at both the microfinance sector and the housing reconstruction efforts underway.

Although the team conducted some interviews in Jakarta and one via telephone from the US, most interviews were completed in Banda Aceh and Aceh Besar. (A complete list of the organizations and people interviewed is attached). The interviews were informal in that a pre-designed questionnaire was not used. The team interviewed a wide range of organizations and persons at varying levels of responsibility. The interviewers at times solicited opinions or observations from actors with experience in the region, but who may not necessarily have been experts in all aspects of the reconstruction effort or in microfinance. The team also visited two housing reconstruction sites and toured many areas that had been affected by the tsunami.

The team focused primarily on the post-disaster context, but looked as well at some of the post-conflict issues as they related to housing reconstruction and microfinance. The team concentrated on three primary areas. First, we examined the *current lending climate* and the capacity of local MFIs. We also looked at the *current donor environment*, planned future donor activities as well as the impact that the influx of foreign aid has had on the population's expectations for recovery. Finally, we explored the *demand for and capacity of institutions to provide home improvements, microfinance in general, and microfinance for home improvements* specifically. The goal was to better understand how the combination of lending activities, demand for home improvements, MFI capacity to deliver microfinance and housing microfinance services, and the phasing of donor interventions has affected NGOs',<sup>7</sup> donors' and government's ability to achieve full development and reconstruction following the tsunami, specifically with regards to housing finance interventions.

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<sup>6</sup> The DIG team consisted of Thea Anderson, Tara Panek Bringle and Lisa Pacholek.

<sup>7</sup> Throughout the document, the term **NGO** is used for both national and international non-governmental organizations, unless specially noted.

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## Background

### *Aceh History*

Aceh is located in Indonesia, at the northern-most tip of the island of Sumatra. Sumatra falls along the Ring of Fire and the Alpide Belt, responsible for over 90% of the world's seismic activity and 17% of the world's largest earthquakes, respectively. Thus, it is impossible to look at Aceh without considering its susceptibility to frequent and significant natural disasters.

In addition to the area's regular seismic activity, for decades prior to the Indian Ocean tsunami, the government of Aceh and the Free Aceh Movement (GAM) were involved in a civil conflict. The aim of GAM was to separate Aceh from the government of Indonesia in Jakarta, thereby creating an independent state. This active conflict discouraged most international organizations from entering Aceh prior to the tsunami, with the exception of Save the Children, an NGO that maintained a small local staff. Some civil society and non-governmental organizations carried out work in Aceh before the tsunami, focusing primarily on women's empowerment, education, health, children and community development activities.<sup>8</sup>

Throughout the thirty-year conflict in Aceh, businesses neglected plans for expansion as acceptance of the status quo was the norm. MFIs were lending but without a solid understanding of the principles of microfinance and without a vision for growth. Education was not a priority nor was developing skilled labor.

### *Donor Activities*

#### **Donor Funding**

Following the tsunami, USD 7.77 billion was committed for the reconstruction of Aceh and Nias.<sup>9</sup> Of the total sum, donors contributed 42%, government institutions 29%, and non-government organizations 30%.

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<sup>8</sup> For a detailed list of all local NGOs working in Aceh before the tsunami and their areas of expertise refer to: Directory of Local NGOs in Aceh, OCHA/Mitra Sejati Perempuan Indonesia Mapping Result (2005).

<sup>9</sup> Nias is the largest of the islands off Sumatra that are part of [North Sumatra](#) province with a population of approximately 640,000. On March 28, 2005, just three months after the Indian Ocean tsunami, the island of Nias was hit by an 8.7 magnitude earthquake. The earthquake was initially presumed to be an aftershock following the December 2004 Indian Ocean quake. Now, however, the earthquake is regarded as the [second-most powerful earthquake](#) in the world since 1965 and twelfth most powerful ever recorded. In addition to the thousands of casualties, hundreds of buildings were destroyed and many thousands were made homeless. In 2007, almost two years after the earthquake, there were still tens of thousands of internally displaced persons living in camps throughout the island.

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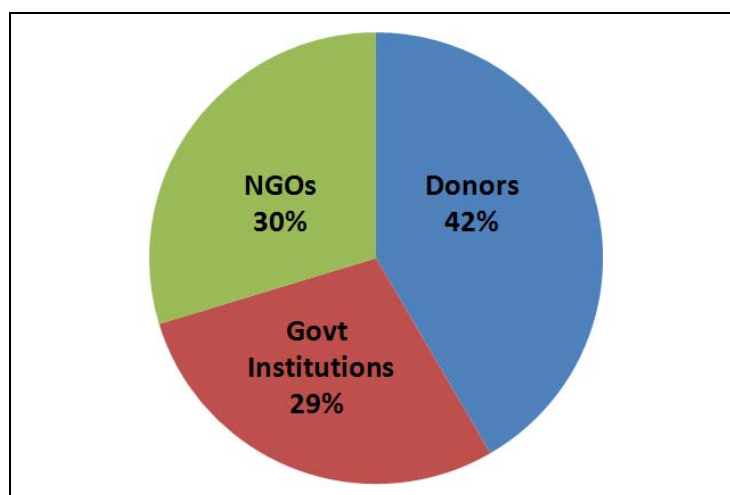
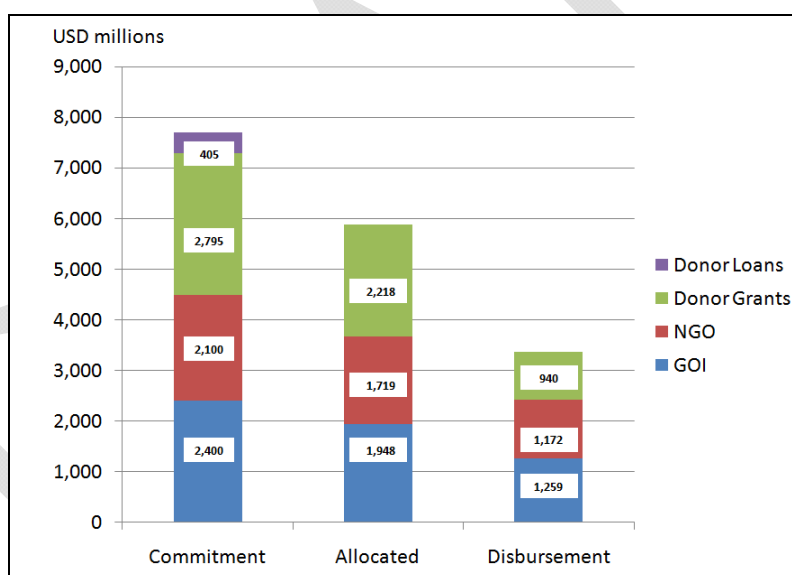


Figure 4: Sources of Reconstruction Funds

As of December 2007, 83% of the funds committed had been allocated to specific projects. The remaining 17% remains to be allocated by donors and NGOs. The Government of Indonesia (GOI), through the Agency for Reconstruction and Rehabilitation (BRR, Badan Rehabilitasi dan Rekonstruksi), has committed all of its funds.

Figure 5: Funding Allocations & Disbursements<sup>10</sup>

It should be noted that housing reconstruction has subsumed the largest share of funding by all players.<sup>11</sup> In total, USD 1,601,767,745 was committed to reconstruction of housing,

<sup>10</sup> Key Statistics, Aceh and Nias Rehabilitation and Reconstruction, World Bank, 2007.

<sup>11</sup> Statistics and graphs pulled from: Aceh Tsunami Reconstruction Expenditure Tracking Update, April 2008. The World Bank. <http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/Aceh.Reconstruction.Finance.Update.Dec2007.pdf>.

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infrastructure, and land,<sup>12</sup> representing nearly 21% of the overall reconstruction funds. The figure below illustrates the significant levels of funding allocated for housing reconstruction in relation to other sectors.

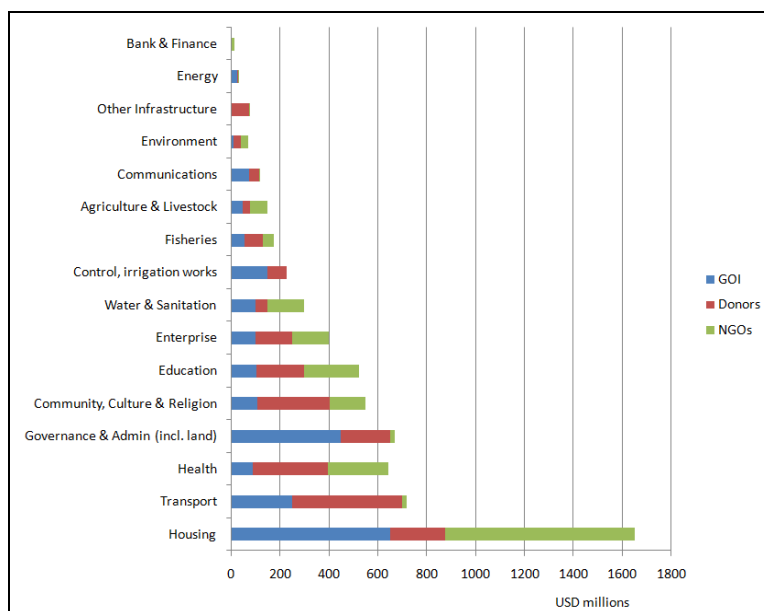


Figure 6: Funding Allocations by Sector<sup>13</sup>

## Donor Coordination Efforts

In an effort to manage and coordinate efforts from the more than two hundred sources of funding at the peak of donor involvement,<sup>14</sup> and the billions of dollars of committed funds, the BRR was established by presidential decree. With an emphasis on coordination over implementation, the BRR's purpose is to restore livelihoods and infrastructure and to strengthen the communities of Aceh through a coordinated, community-driven reconstruction and development program. The agency's core function is to help match resources from the GOI and international organizations with priorities of reconstruction.

As part of an ongoing effort to strengthen the degree of coordination, the BRR sponsored a weekly shelter coordination working group of all involved agencies conducted under joint provincial government and UN-Habitat. The forum was designed to serve as a sounding board for the review of BRR policies. One such policy area was the allocation of resources, outlined in the government's "Recovery Master Plan" according to those areas most severely in need--namely

<sup>12</sup> Figure according to RAN Database, accessed August 15, 2008 at <http://rand.brr.go.id/RAND/rc?sessionId=12188161515934181>.

<sup>13</sup> Key Statistics, Aceh and Nias Rehabilitation and Reconstruction, World Bank, 2007.

<sup>14</sup> Steinburg, Florian. (2007). Housing Reconstruction and Rehabilitation in Aceh and Nias, Indonesia- Rebuilding Lives. *Habitat International*. 31, 150-166.

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housing, transport infrastructure, local government capacity, schools, the health system, and productive sectors such as fisheries and agriculture.

One agency guided by the government's master plan and formed at its behest is the World Bank Multi-Donor Fund for Aceh and Nias. The Multi-Donor Fund manages more than USD 700 million, and is governed by a steering committee of government, donor and civil society representatives. By contributing USD 10 million to the fund, an organization is entitled to a seat on the steering committee and thus a role in the coordination and allocation of resources, albeit consistent with BRR directives. In such a supporting role, the Multi-Donor Fund works to bring multiple stakeholders together to discuss aid coordination in the recovery process, while recognizing the government's legitimate and prominent role in the recovery process.

Also notably coordinating efforts of recovery and rehabilitation are the United Nations and its partner organizations. Immediately following the disaster, the United Nations Humanitarian Information Center (HIC) established a coordination base in Meulaboh (capital of West Aceh regency) and began consolidating a "Who Does What Where"<sup>15</sup> database at the sub-district level. Following the immediate relief stage, the United Nations Development Programme (UNDP) presented the government with a package of capacity development support for aid coordination and a Development Assistance Database (DAD) to help align inflows with priority needs.<sup>16</sup>

Furthermore, beginning in late 2005, the United Nations Recovery Coordinator for Aceh and Nias (UNORC) began work to improve the coordination and overall effectiveness of international relief and recovery operations. Its Aceh Recovery Framework (ARF)<sup>17</sup> includes the inputs of both district government and grassroots organizations to properly incorporate the needs and concerns of stakeholders, including the local populace, across the province. UNORC held community consultations throughout Aceh. Such ARF consultations were designed to help "solidify linkages between provincial and district development" and to ensure that the voice of a given community was "mainstreamed in the final [ARF] document."<sup>18</sup>

Given the vast amounts of aid flooding into Indonesia and despite the extensive aforementioned efforts at aid coordination, duplication of aid and inefficient resource allocation has been a reality in Indonesia. To this end, the "Post-Tsunami Lessons Learned and Best Practices" workgroup convened by the United Nations and the GOI in May 2005 noted that "multiple options for information sharing among responders (both national and international) were not exploited. As a

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<sup>15</sup> OCHA Situation Report #16: Earthquake and Tsunami: India, Indonesia, Malaysia, Maldives, Seychelles, Sri Lanka. (10 January 2005). Accessed August 12, 2008 at [ftp://ftp.fao.org/FI/DOCUMENT/tsunamis\\_05/OCHA/ReportNo16.pdf](ftp://ftp.fao.org/FI/DOCUMENT/tsunamis_05/OCHA/ReportNo16.pdf).

<sup>16</sup> Accessed August 14, 2008 at [tsunamitracking.org/undprcb/resources/DADinfoSheet.doc](http://tsunamitracking.org/undprcb/resources/DADinfoSheet.doc).

<sup>17</sup> Accessed August 14, 2008 at UNORC's homepage: <http://www.unorc.or.id/>.

<sup>18</sup> Accessed August 14, 2008 at UNORC's homepage: <http://www.unorc.or.id/>.

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result,” the group continued, “some coordination problems were reported with many actors assigning priorities in their programs based on the ease/possibility of implementation rather than on a shared understanding of needs.”<sup>19</sup>

## The Tsunami's Impact on Housing

The tsunami dramatically impacted housing stock in Aceh. Official estimates showed 130,000 new houses were needed.<sup>20</sup> In addition to the houses destroyed, partially destroyed houses (an estimated 95,000 units – 71,000 in Aceh and 24,000 in Nias) were deemed eligible for repair.<sup>21 22</sup> The figure below illustrates the significant levels of damage to the housing sector in relation to other sectors.

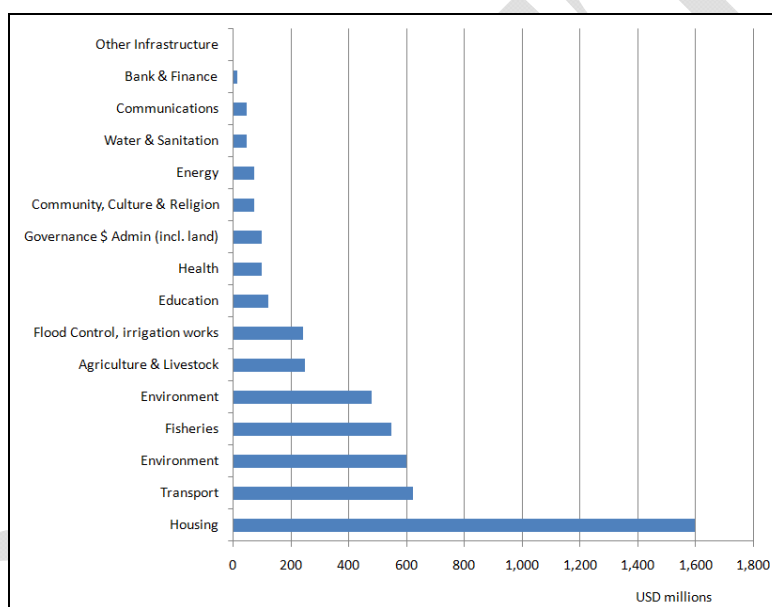


Figure 7: Damage Assessment by Sector<sup>23</sup>

The effects of the tsunami were exacerbated due to existing land rights and holding structures in place in Aceh. Prior to the tsunami, people lived on land that was not officially registered under the National Land Registry or *Badan Pertanahan Nasional* (BPN) in Jakarta. In fact, only five to ten percent of all land ownership was registered under BPN.<sup>24</sup> Consequently, once the water

<sup>19</sup> *Post-Tsunami Lessons Learned and Best Practices Workshop*. (May 16-17, 2005). The United Nations and Government of Indonesia. Jakarta, Indonesia. Accessed August 14, 2008 at [http://www.tsunami-evaluation.org/NR/rdonlyres/452D81BC-79EF-4D71-A7E7-7E22578EB513/0/lessons\\_indonesia.pdf](http://www.tsunami-evaluation.org/NR/rdonlyres/452D81BC-79EF-4D71-A7E7-7E22578EB513/0/lessons_indonesia.pdf).

<sup>20</sup> Ibid.

<sup>21</sup> Houses with destruction estimated below 50% were considered damaged by the tsunami.

<sup>22</sup> Steinberg, F. (2007) 'Housing reconstruction and rehabilitation in Aceh and Nias, Indonesia—Rebuilding lives,' *Habitat International* 31: 150-166.

<sup>23</sup> Aceh Flood: Damage and Loss Assessment, World Bank, 2007.

<sup>24</sup> Schulze, K.E. (2005) 'Between Conflict and Peace: Tsunami Aid and Reconstruction in Aceh,' Department of International History, London School of Economics.



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receded there was no official documentation of property rights and houses. Furthermore, entire portions of land disappeared in many areas and settlements were left with no distinguishing characteristics. Following the disaster, much reliance was placed on verbal documentation of the location of houses that was done in collaboration with community members. Additionally, mapping exercises were undertaken by a large number of organizations to determine people's claims about housing location and to relocate individuals and families to the correct area. Despite such efforts there was, and still is, much confusion associated with housing required for Internally Displaced Persons (IDPs).

## **Financing Housing Reconstruction**

Donor funding committed for reconstruction will rebuild 100% of the nearly 130,000 homes destroyed and the 95,000 units damaged, plus provide housing for the more than 15,000 renters who lost access to housing in the tsunami. As of December 2007, housing remained the sector with the largest need. At that time, the BRR reported that 100,000 houses had been finalized with a further 30,000 units remaining to be constructed.<sup>25</sup>



Figure 8: Photo of Aceh After the 2004 Tsunami<sup>26</sup>



Figure 9: New Housing Units Post 2004 Tsunami<sup>27</sup>

By exploring specific financing mechanisms put in place to respond to the tsunami survivors' needs for shelter, the team found that there was virtually no post-emergency shelter credit product to speak of that addressed the needs of survivors. Moreover, MFIs did not modify their existing loan products to address the shelter needs of their pre-existing borrowers. Though MFIs continued to offer credit to their clientele, there was no specific product available for housing as MFIs

<sup>25</sup> Aceh Tsunami Reconstruction Expenditure Tracking Update, April 2008. The World Bank.  
<http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/Aceh.Reconstruction.Finance.Update.Dec2007.pdf>.

<sup>26</sup> Image courtesy of  
[http://images.google.com/imgres?imgurl=http://img.timeinc.net/time/daily/2007/0709/tsunami\\_0912.jpg&imgrefurl=http://www.time.com/time/health/article/0,8599,1661462,00.html&h=235&w=360&sz=71&hl=en&start=1&tbnid=9JpMurhbj7MmyM:&tbnh=79&tbnw=121&prev=/images%3Fq%3Dtsumani%2B0912%26gbv%3D2%26hl%3Den%26safe%3Dactive](http://images.google.com/imgres?imgurl=http://img.timeinc.net/time/daily/2007/0709/tsunami_0912.jpg&imgrefurl=http://www.time.com/time/health/article/0,8599,1661462,00.html&h=235&w=360&sz=71&hl=en&start=1&tbnid=9JpMurhbj7MmyM:&tbnh=79&tbnw=121&prev=/images%3Fq%3Dtsumani%2B0912%26gbv%3D2%26hl%3Den%26safe%3Dactive)

<sup>27</sup> Image courtesy of [http://www.directaid4aceh.org/images/p5\\_beach3.jpg](http://www.directaid4aceh.org/images/p5_beach3.jpg).

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associate home lending with mortgages, and given the massive amounts of grant housing few tsunami survivors have sought credit to improve their homes. Finally, while DIG met only with families who had rebuilt with aid funding, interviewees informed the team that while few in number, those families that chose to rebuild without government or international aid did so based on their own interpreted needs and with their own financial means.



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## Findings

### ***Demand for Home Improvements***

The greatest home improvement need identified by recipients of donated homes is the need to add a kitchen facility that allows for open fire cooking. Although many non-government organizations (NGOs) built homes with kitchens, many built indoor kitchens that do not take into adequate consideration the customs of the beneficiaries. Many families have since built wooden structures with zinc roofing that lean against the back wall of the main house to meet their cooking space needs. This type of housing addition typically costs about USD 200 and is the number one request that BRR receives from housing beneficiaries.<sup>28</sup> Many housing beneficiaries do not consider the homes complete without this type of kitchen.

As for housing size, the homes built after the tsunami by NGOs seem to meet the current basic needs of beneficiary families. According to a survey completed by Badan Pusat Statistik<sup>29</sup> in 2004 (pre-tsunami) of low-cost housing in urban areas, 34% of the units were between 20-49 m<sup>2</sup>, and 50% of units between 50-100m<sup>2</sup>,<sup>30</sup> indicating that the homes donated by the international community, which are between 36 m<sup>2</sup> and 49m<sup>2</sup>, should meet the immediate basic needs of most lower-income tsunami victims even if many of the homes are in rural areas.<sup>31</sup> The team was also reminded on several occasions that average family size is currently smaller due to the large number of families that lost one or more members to the tsunami.

Given the significant amounts of donor funds, homes rebuilt by international donors in Aceh are significantly larger than homes built in the aftermath of other major natural and conflict induced disasters around the world such as Honduras (1998), El Salvador (2000) and Colombia (currently). Many housing beneficiaries in Aceh have received a basic home plus low-cost housing amenities such as glass windows, internal ceilings, plastered walls and painted exteriors. Although many of the donated homes are not hooked up to septic systems, sewer systems did not exist in many cases pre-tsunami. The BPS study previously cited indicated that 15% of families in urban Indonesia did not have access to proper sanitation and of the 85% who did, many of the sanitation units were basic latrines.

Thus the home size and amenities have gone beyond meeting the basic needs of most Acehnese families. As a result, most families indicated they had no immediate home improvement needs. Of those who wanted to make an improvement (such as adding an outdoor cooking area/kitchen), many indicated that they would do so with money from savings, or potentially from family

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<sup>28</sup> While the BRR will repair reconstructed homes that are deemed structurally unsound, they will not carry out small repairs or home improvements for aid beneficiaries. However, general awareness that BRR does engage in home construction and repair (of structurally unsound homes) has resulted in many requests to the BRR for home improvements or repairs. The BRR informed the team that such requests are very common, and they must decline such requests when they are made.

<sup>29</sup> Badan Pusat Statistik (BPS-Statistics Indonesia) is a non-departmental government charged with the responsibility of providing data to government including the population census, the agricultural census, and economic census.  
<http://www.bps.go.id>

<sup>30</sup> Badan Pusat Statistik. Housing and Settlement Statistics, Jakarta, 2004.

<sup>31</sup> Homes in rural areas are typically larger than those in urban or peri-urban settings.

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members. Others still informed the team that they consider it the responsibility of the donor or the BRR to modify or repair the home through grant funding.

### **Microfinance Lending Climate**

Following the tsunami, many organizations pushed to strengthen the microfinance sector in Aceh through technical assistance (TA) for enterprise lending in an effort to rehabilitate livelihoods of the tsunami victims. While Aceh had a history of microfinance lending, the conflict conditions in the decades preceding the tsunami and the resulting isolation from the outside world contributed to MFIs lending without a solid understanding of the basic principles and practices of microfinance, and without a vision for sustainable growth.

Furthermore, microfinance lending was temporarily discontinued in the aftermath of the disaster due to the fact that many branch facilities, as well as documents and records of account activities, were destroyed. Some MFIs lost staff and many lost clients to the disaster.<sup>32</sup> Although credit activities were suspended directly following the tsunami, most banks, cooperatives and BPRs (rural banks) that survived have recovered and are lending again. The demand for credit is great and much of the demand stems from reconstruction activities. The local banks, BPRs and cooperatives have observed a huge demand for all types of credit products, but do not have the capital, capacity or understanding of the market to meet the demand in many cases. In addition, parallel to, and sometimes in collaboration with MFI lending operations, the government of Indonesia (GOI) has affected the lending climate by providing loans to MFIs, but with no true intent or desire to recover those loans. This adversely affects the overall lending climate as the public is widely aware that the GOI is a source of MFI capital, and thus MFI clients do not feel compelled to repay these loans.

While credit is available, the MFIs in Aceh do not have a product specifically designed for home improvement and not much thought has been given to housing microfinance.<sup>33</sup> Though specific housing products do not exist, DIG felt it critical to examine the microfinance lending climate at large in order to understand the lending conditions under which such a product *could have been* introduced, had the institutions chosen to provide it. Since housing microfinance is an individual loan product offered by institutions that oftentimes offer individual microenterprise loans, the credit environment is a good indicator for what might have been offered had such a product been introduced. The following section will further explore the microfinance lending climate by examining the institutional capacity of MFIs, and the subsequent section will explore housing microfinance specifically.

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<sup>32</sup> Accessed August 14, 2008:

[http://www.allianz.com/en/allianz\\_group/press\\_center/news/commitment\\_news/community/news24.html](http://www.allianz.com/en/allianz_group/press_center/news/commitment_news/community/news24.html)

<sup>33</sup> One BPR (PT Bank Perkreditan Rakyat Syariah Bank Baiturrahman) indicated it provides 5% of formal loans for housing microfinance; the IOM informed the team that some of its loans have been used for home repairs, though most go towards enterprise; and Grameen indicated it would like to establish a home improvement lending program within the next two years.

*DRAFT***Microfinance Institutions**

Estimates show more than 2,000 MFIs working in Aceh. These institutions are primarily Islamic Cooperatives<sup>34</sup>. It appears that MFIs in Aceh are, for the most part, lending out approximately the amount of money required by law as an initial capital investment to open a BPR, and thus only a handful of MFIs have more than a few hundred clients. Growing savings and lending opportunities have not been considered a priority, as problems with identifying affordable sources of capital and a lack of capacity to adequately track a larger loan portfolio have left MFIs unable to address a growing demand for microfinance services.

MFIs have faced many significant challenges, ranging from capital constraints to high arrears. In 2006, the average BPR arrears ranged from 73% to 87%. Following considerable capacity building efforts of NGOs, in November 2007 those arrears were down to 40%. Another problem that MFIs have faced in Aceh is the inability to understand the health of the lending portfolio; many fail to write off bad loans and do not have the systems in place to adequately track the existing loan portfolio. Other MFI institutional capacity constraints observed during this study included poor outreach and marketing efforts, no business planning, inadequate accounting systems and a need for training at all levels of the organization.

A recurring theme throughout the case study research among all those interviewed was the MFIs' need for extensive capacity building and training. Microfinance professionals at-large need education in the principles of microfinance, basic accounting, business planning, risk analysis, cash-flow management and other professional skills. In addition to training for MFI staff, the institutions themselves are in need of effective systems to track loan repayment and default.

MFIs have demonstrated a demand for such capacity building initiatives by participating in trainings – even when there is a fee associated – and hosting on-site advisors. However, the general consensus is that local MFIs need continuing sustained on-site technical assistance from highly trained microfinance practitioners. This training needs to take place at all levels of the organization, focusing on building systems to accurately track loans and manage operations, and teaching best practices in microfinance.

It should be noted, however, that international donors and NGOs such as ADB, GTZ, ILO and IOM, and the Indonesian NGO MICRA<sup>35</sup>, to name but a few, have invested significant human and financial resources to build the capacity of local MFIs, and a good deal of progress has been made through these initiatives. These initiatives include providing funding to NGOs, classroom training, intensive on-site technical assistance, and developing curriculum for local universities to train the next generation of microfinance practitioners. The training is focused at all levels of MFIs – including the board, management, loan officers, and the individual clients. That said,

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<sup>34</sup> Islamic lending refers to a system of banking or banking activity that is consistent with [Islamic law](#) (*Sharia*) principles. In particular, Islamic law prohibits the collection and payment of [interest](#). In addition, Islamic law prohibits investing in businesses that are considered unlawful, or [haram](#) (such as businesses that sell alcohol or pork, or businesses which are contrary to traditional Islamic values). It should be noted, relative to most of Indonesia, Aceh is a [religiously conservative](#) area.

<sup>35</sup> MICRA, or the Microfinance Innovation Center for Resources and Alternatives. [www.micra-indo.org](http://www.micra-indo.org).

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most of those interviewed argued that MFIs continue to need intensive capacity building before any new products can be introduced.

The government has a long history in Aceh of providing “loans” as a means of responding to the economic needs of the local population. Interviewees informed the team that the GOI has no real expectations that these loans will be repaid. Some of the MFIs encountered during this study admitted to holding such loans separate from their active portfolios, and acknowledged that they rarely make efforts to collect on such loans. The public is widely aware of the GOI’s funding of MFI operations, and the result is that a history of non-payment was established in the area. Thus, any funding or credit program associated with the government has little or no chance of being successful if the aim is to truly support investment in and the viability of a healthy microfinance sector.

In May 2005, the Indonesian government created the BRR, which aims to restore livelihoods, strengthen communities and design and implement a coordinated, community-driven reconstruction and development program.<sup>36</sup> The BRR has launched its own lending initiative in Aceh, focusing on the Islamic cooperatives.

The BRR informed the study team that it lends to 184 cooperatives, and has lent 152 billion IDR (USD 16.7 million) since 2005, reaching its initial target of 50,000 clients. According to BRR sources, the product developed by the BRR has an average loan size of 3 million IDR (USD 300), with a repayment period of 12 months at an interest rate of 12% flat per annum. The average recipient cooperative lends to 300 clients, with a focus completely on enterprise lending. The BRR indicated that it provides one advisor to every two or three cooperatives in an effort to build capacity and reduce the high number of non-performing loans. At the time of the study, non-performing loans (NPLs) averaged 40% and the BRR indicated it expected that number to decrease to 30% in 2008. The BRR’s exit strategy is to establish an apex institution after the BRR closes in 2009.<sup>37</sup> The apex institution will be funded by loan reflows from the cooperatives to which the BRR lent. The cooperatives may keep 80% of the initial capital, but will pay the BRR (and in the future the apex institution) 20% of the capital investment.

Based on conflicting reports and through meetings with various NGOs and MFIs, DIG was unable to substantiate how many of the BRR recipient cooperatives were functioning at the time that – or after - the BRR disbursed its loan funds. Furthermore, we could not find evidence to show whether the BRR funding had been on-lent from the cooperatives to the targeted 50,000 final clients. Some interviewees also expressed concern that due to the rapid pace at which the BRR introduced its lending program, there was not enough focus given to capacity building of its partner MFIs. BRR gave no indications of this during its meeting with DIG.

While many interviewees outside of the BRR highlighted several potential problems with the BRR lending scheme, for the purposes of the case study one of the most critical concerns is that the BRR is using GOI loan funding to fuel lending. The public is widely aware that the BRR is

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<sup>36</sup> [www.brr.go.id](http://www.brr.go.id).

<sup>37</sup> Note: While the BRR is scheduled to close operations in 2009, there have been talks about extending its activities into 2012.

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providing loan funding to cooperatives with no expectation of repayment, and this knowledge compromises the integrity of the credit environment. That is to say, few people will be interested in taking out market-rate loans if they know they can find cheaper credit through, or not be expected to repay a loan from, a government-funded program. Furthermore, cursory knowledge of government and international funds funneled through the BRR as capital for MFIs in general may lead borrowers to default on their loans. Thus, general awareness of the BRR scheme is contributing towards a culture of non-payment that NGOs are working so hard to combat through MFI capacity building initiatives.

### ***Demand and Need for Housing Microfinance***

MFIs and international NGOs in Aceh indicated they have not seriously considered housing microfinance (HMF) as there were significant resources to build and repair homes with grant funding. Furthermore, many institutions associate housing finance with mortgage lending, and find the concept of home improvement lending difficult to understand. Thus, most MFIs consider any lending associated with a home to be the responsibility of a bank, as they do not have large sums of capital on hand for mortgage financing for new home construction. Many NGOs and MFIs indicated that the environment is not ripe for HMF lending and that such a product should not be introduced. While the majority of local MFIs informed the team that none of their clients – formally or informally – diverted microenterprise loans towards home improvements, MICRA staff indicated they have conducted research showing that approximately 30% of enterprise loans throughout Indonesia are diverted towards home improvements. Clearly, most MFIs seem either unwilling to admit this formally, or are unaware of how the clients are using their funds. That said, one BPR<sup>38</sup> reported that it provides five percent of formal consumptive loans for housing purposes; the IOM informed the team that some of its loans have been used for home repairs, though most go towards enterprise; and Grameen Bank indicated that some of its clients diverted enterprise loans for home improvements and stated that it would like to establish a formal home improvement lending program within the next two years.<sup>39</sup> Given that the findings of the MICRA study fall in line with findings globally that show that between twenty and thirty percent of microenterprise loans are diverted towards home improvements, coupled with the information that some institutions know their clients divert loans towards shelter improvements, our inclination is to believe that some of the microenterprise and consumption loans are being diverted for home use.

### ***Donor Gridlock***

It is safe to say that the more than 200 international actors who came to Aceh did so with the best of intentions. Most came with significant experience operating in post-emergency settings. However, none could have anticipated the unintended consequences that will occur when an overwhelming amount of aid funding meets complete and total destruction in an area previously

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<sup>38</sup> PT Bank Perkreditan Rakyat Syariah Bank Baiturrahman.



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untouched by the international community. Despite efforts to mitigate the vast problems that can accompany the rapid influx of billions of dollars into a post-emergency environment, Aceh has nonetheless experienced significant problems with regards to aid planning and distribution that can be explained with no better term than “donor gridlock.” As NGOs competed for resources, land and clients, they often times duplicated efforts, bypassed mechanisms established to coordinate efforts, and erected structures that were donor-driven and did not meet the needs of the local populace.

Interviewees talked of NGOs fighting over land and building homes in areas where nobody wanted to live in order to meet deliverable deadlines imposed by donor institutions. Some reported coordination problems as many institutions establishing program priorities based on the ease of implementation rather than on a shared understanding of needs.<sup>40</sup> Furthermore, many NGOs competed for donor funding without understanding the demands and needs of the local population, thereby designing donor-driven, instead of demand-driven programs. In addition, while several mechanisms for donor coordination were put in place, many NGOs hesitated to share ideas in such a forum. One NGO that we interviewed informed us that they stopped speaking at donor coordination meetings after another NGO stole one of their ideas and implemented a program they had worked hard to design.

Among the NGO community, widespread duplication of efforts persisted. Some families signed up for assistance with multiple NGOs, thereby receiving multiple homes. Our research team even met with a woman who lived with her relatives prior to the tsunami, but decided to get her own home afterwards with NGO assistance even though she technically did not qualify for her own home. This type of corruption was difficult for NGOs to monitor and could have been better controlled early on had the coordination efforts been more successful.

### **Donor Environment and Impact of Foreign Aid**

The flood of international aid, in particular, and foreigners in general has provided the local population with the opportunity to see the potential for economic growth beyond what they were able to imagine previously. New businesses have started and old ones have been rebuilt. Jobs, albeit temporary in many cases, are plentiful. Consumption has increased and entrepreneurs are responding to new demands. All interviewed made reference to the BPRs, cooperatives, banks and NGOs experiencing high demand for microfinance.<sup>41</sup>

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<sup>40</sup> *Post-Tsunami Lessons Learned and Best Practices Workshop*. (May 16-17, 2005). The United Nations and Government of Indonesia. Jakarta, Indonesia. Accessed August 14, 2008 at [http://www.tsunami-evaluation.org/NR/rdonlyres/452D81BC-79EF-4D71-A7E7-7E22578EB513/0/lessons\\_indonesia.pdf](http://www.tsunami-evaluation.org/NR/rdonlyres/452D81BC-79EF-4D71-A7E7-7E22578EB513/0/lessons_indonesia.pdf).

<sup>41</sup> See also: International Labour Organization, *Survey of The Demand for Microfinance Services in Coastal Aceh*, Jakarta, International Labour Office, 2006.

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The massive number of international NGOs and donor agencies that descended upon Aceh after the tsunami had, and will continue to have a significant impact on the local economy. Professionals to manage programs, administrative personnel, construction laborers and technical staff, as well as the numerous others who provide support and services to them have been in high demand. Local salaries and rents have increased tremendously and the local economy is booming with all the reconstruction activities. How this will play out once the international teams leave is left to be seen.

The majority of the reconstruction programs managed by NGOs are ending in early 2009 and most do not have funding to continue in Aceh beyond the timeframe which was allocated for reconstruction. The BRR's activities are scheduled to end in April 2009; although there are talks of a recovery mission continuing on in the area until 2012. New programs are not starting and many have completed first phases of programs without funding to continue. This is important to note in cases where homes have been built poorly or have faced technical problems. In many cases, housing beneficiaries are waiting for the BRR or the NGO who built the homes to respond to their on-going housing needs without an understanding of funding cycles and the availability of funding. The expectation of and dependency on foreign aid will no doubt make implementing any type of credit program difficult in the foreseeable future.

IOM has already reported that their program is facing challenges with loan repayment from its cooperative members. Although the women members of their cooperatives understand the program's guidelines and goals, many face family members at home who try to convince them not to repay the loans citing the source of the capital. The BRR is facing the same problems with their current reconstruction credit program. In this case, even the cooperatives are not repaying the loans to the program.

### ***Note on the Conflict***

The tsunami overwhelmed Aceh and many outsiders forget that decades of armed conflict dominated the region right up to the disaster. Interviewees informed the team that the tsunami in Aceh was so catastrophic, so absolutely devastating, that it actually had a positive impact on the conflict in the immediate term – as people could not imagine fighting after such absolute destruction. However, over the long-term the root causes of the conflict have not been resolved, and incidences of grievances are beginning to re-emerge.

One primary reason for this is geography and distribution of aid. The conflict victims and GAM lived primarily in the mountains of Aceh; whereas most of the tsunami victims were along the coast or in Banda Aceh proper. Furthermore, the massive influx of aid that arrived after the tsunami was earmarked exclusively for tsunami recovery. The result was that those who had suffered damage from years of conflict (and a later devastating earthquake) who lived outside of the tsunami zone initially received no assistance. While survivors of the tsunami received grant-funded housing and other forms of assistance, the conflict survivors were left with smaller-scale assistance from the Government of Indonesia. This assistance is now formally offered through an

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agency called the BRA, though its funding is minimal and what can be offered for housing is a drastically smaller amount that is offered to tsunami survivors.

Thus grievances have emerged over insufficient funding for conflict survivors while the tsunami survivors receive assistance in abundance. In the case of Aceh, the funding targeting tsunami victims excluded the majority of ex-GAM and conflict survivors, thereby creating grievances over resources – fueling conflict conditions. To make matters worse, many of the conflict survivors remain displaced. A survey by Indonesia's Ministry of Home Affairs and the World Bank covering an area of more than 5,000 villages found that 82% of those displaced by the tsunami had since returned home, while only 65% of conflict survivors had done so.<sup>42</sup> Those interviewed concluded that tsunami victims fared better.<sup>43</sup>

"At first, our brothers in the highlands said our brothers in the tsunami zone should be helped, but what about the people whose houses were burned down, who lost their fields - is there any assistance for them? We're afraid there will be jealousy. We hear complaints from the conflict communities."

- Said Fauzan Baabud, Program Officer, UNDP

<sup>42</sup> Montlake, Simon. "In Aceh, Building Peace Amid Building Pains," Christian Science Monitor (December 28, 2006)

<sup>43</sup> Montlake, Simon. "In Aceh, Building Peace Amid Building Pains," Christian Science Monitor (December 28, 2006)



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**Summary of Key Findings**

Research Area	Findings
<b>Demand for Home Improvements</b>	The donor homes' size and basic amenities meet the needs of the local populace. The greatest need is for an outdoor kitchen that allows for open air cooking. Most families do not want to make home improvements, but if they do they plan to do so with their own financial means or they expect for the donor community to improve/repair the structure with donor funding.
<b>Lending Climate</b>	MFIs, while active, were isolated prior to the tsunami due to conflict conditions in the province and lent without a solid understanding of microfinance best practices or a vision for growth. MFIs lost staff, clients and infrastructure in the disaster. The demand for credit is great, but MFIs lack the capital and capacity to meet the demand. No MFI offers a specific housing finance product, and only a handful acknowledge that their clients divert loans for home use. A history and widespread awareness of GOI involvement in MFI lending has contributed towards a climate of non-repayment.
<b>MFIs</b>	More than 2,000 MFIs, primarily Islamic Cooperatives, work in Aceh. Most are small, with only a few hundred clients. Challenges include capital constraints, significant arrears, a need for systems to track loan portfolio, and a need for sustained on-site technical assistance and training at all levels of the organization. There is widespread awareness of the BRR providing subsidized capital to MFIs which is contributing towards a culture of non-payment.
<b>Demand and Need for Housing Microfinance</b>	There is no formal housing microfinance loan in Aceh, and most MFIs are not seriously considering it. Though the majority of MFIs do not believe their clients divert enterprise and consumptive loans towards home use, studies conducted throughout Indonesia and the globe, as well as information provided by some of the interviewees, indicate that loans are being diverted for home use.
<b>Donor Gridlock</b>	Aceh has experienced "donor gridlock." As donor agencies and NGOs competed to expend resources, they competed for land and clients, oftentimes duplicating efforts, bypassing mechanisms established to coordinate efforts, and erecting structures that were donor-driven and did not meet the needs of the local populace.
<b>Donor Environment</b>	The flood of aid has provided the local population with the opportunity to see the potential for economic growth, as local salaries and rents have increased and the economy is booming as a result of the reconstruction activities. The majority of reconstruction and development efforts are scheduled to end in 2009, and new programs are not beginning. The expectation of and dependency on foreign aid will pose a challenge to implementing any type of credit program.
<b>Conflict</b>	While the tsunami initially had a positive impact on the conflict, grievances are beginning to emerge. The conflict survivors lived primarily in the mountains of Aceh, and the tsunami survivors resided along the coast or in Banda Aceh proper, and the massive influx of aid was earmarked exclusively for tsunami recovery. Significantly more conflict victims remain displaced, while the majority of tsunami victims have returned, and considerably less funding has been made available by the GOI for home reconstruction for conflict survivors.

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## Analysis

The goal of this section is to evaluate how post-tsunami reconstruction activities impacted Aceh's ability to achieve Full Development & Reconstruction according to DIG's conceptual framework (see table below). Using this framework, we will determine how some of the key findings listed above in the areas of donor activities, housing reconstruction efforts, and the microfinance industry compared with our overall post-emergency framework with regards to shelter financing in Aceh. And we will compare the team's findings with DIG's contextual framework to determine whether or not housing finance is an appropriate shelter intervention in post-tsunami Aceh. Ultimately these findings will help us to better understand the larger policy implications for housing finance for the poor in a post-rapid onset disaster environment as outlined in our suggested lessons learned.

Stage of Post-Disaster Response	Interventions Related to Housing Reconstruction and Microfinance	Post-Tsunami Aceh
<b>Stage I: Immediate Aftermath</b>	Measures must be taken to ensure basic needs of the affected populations are met. Shelter may include tents and IDP/refugee camp settings. Focus is on grants, not credit.	In Aceh, these interventions included barracks housing and tents. Microfinance activities were suspended due to loss of staff, clients, infrastructure and loan documentation.
<b>Stage II: Relief to Recovery</b>	Relief measures should focus on rebuilding productive assets for sustainable livelihoods. Interventions may include microenterprise lending. While shelter may still take the form of immediate relief; grants for shelter construction and materials may be introduced.	Microfinance operations resumed, and a GOI subsidy initiative (through the BRR) provided – and continues to provide - loan capital to MFIs. Formally, the BRR asked that only 20% of the loan be repaid. Informally, MFIs expected to not repay the loan and the BRR has reported high arrears. Grant shelter construction was introduced and continues.
<b>Stage III: Recovery to Development</b>	Measures should focus on improving the quality of life of affected populations once their livelihood has been re-established. At this point, measures can include combinations of directed subsidies and housing microfinance, and if earlier stage interventions have been well planned with the use of “smart grants,” then housing microfinance can build upon those efforts. For example, a transitional settlement of tents may be established on safe land appropriate for future urbanization with housing lots already divided for future use. “Starter homes” could be provided as part of the relief package and then be improved through housing microfinance.	While families, for the most part, have been relocated to individual plots of land, there is no formal housing microfinance activity. Since grant funding provided for large homes (between 36 m <sup>2</sup> and 49m <sup>2</sup> ) with low-cost amenities, most families do not have immediate plans to improve their housing structure. Also, the GOI has provided directed subsidies, but those subsidies are hindering, not supporting, the microfinance industry.
<b>Stage IV: Full Development and Reconstruction</b>	At this stage, development practices and interventions can follow non-emergency guidelines.	Not yet achieved in Aceh.

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As of November 2007, the case study research team found that in the three years since the tsunami struck Aceh, not only had housing microfinance not been introduced as a stand-alone product, but the conditions were not appropriate for the introduction of housing microfinance. The DIG team agreed with the opinion of many NGOs and MFIs, who indicated that the environment is not ripe for HMF lending and that such a product should not be introduced. There are two overarching reasons for this. First, Aceh has not fully emerged from “relief to recovery” phase into the “relief to development” phase with regards to shelter financing. This is because Aceh has a history of subsidies to the microfinance industry prior to and after the tsunami, coupled with a heavy focus on grant funded housing, under a donor environment that struggled to coordinate reconstruction efforts, much less focus on medium- to long-term interventions. Finally, even if the housing and microfinance sectors had not been heavily subsidized, local microfinance institutions simply lack the institutional capacity to successfully introduce any new products.

### ***Phasing of Post-Emergency Interventions***

The primary focus of the DIG research team was whether the phasing of post-emergency response created conditions that would support the successful introduction of a housing microfinance product. In the Aceh example, the initial disaster response addressed the immediate humanitarian needs in the aftermath of the tsunami. Shelter interventions included housing families in military barracks and providing tent structures. Shortly thereafter, the response entered Stage II: Relief to Recovery, during which grant funding for shelter was introduced and the GOI, through the BRR, offered subsidy products to help kick-start microenterprise lending activities. Based on the interviews and research conducted, the team concluded that Aceh remains in the Relief to Recovery post-disaster phase with regards to shelter financing. In this stage, relief measures focus on rebuilding productive assets for sustainable livelihoods, with interventions including microenterprise lending and grants for shelter construction. There are some elements of the Recovery to Development phase (outlined in the table above), including directed subsidies and the relocation of families to individual plots of land. For the most part, however, the population of Aceh continues to receive grant funded shelter interventions, and the microfinance industry remains heavily subsidized by the government of Indonesia.

The case study research team concluded that the environment in November 2007 was still not conducive to the successful introduction of a housing microfinance product. There are three primary reasons for this. First, subsidies for the microfinance industry created an unhealthy environment for a housing microfinance product to be introduced, as clients associated microfinance loans with donor funding and deemed it unnecessary to repay their loans. Second, the international community continues to provide grant-funded housing and beneficiaries associate anything related to housing as grant funding. Finally, the donor community has struggled to coordinate activities of the more than two hundred actors from the start, posing a challenge for donors to meet the needs of the local populace in the short-term, much less focus on medium- to long-term transition from relief to development.

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### Housing

For housing, the excess of donor funding has kept Aceh in the “Relief to Recovery” phase as grant housing continues to be constructed for individual clients. The study team was told repeatedly that housing beneficiaries associate anything having to do with housing as grant funding, since housing reconstruction continues to be funded on a large scale by grants from NGOs, donors and government entities.

The donor housing, for the most part, seems to meet the needs of the beneficiaries in terms of size and basic amenities. However, there are cases where the beneficiary is not happy with the construction quality of the home. There are also cases where families would like to modify the home, most notably to add an outdoor cooking area. In both of these cases, the beneficiaries expect the donor community to respond to their grievances or needs with grant funded solutions.

There are some notable cases where beneficiaries are not happy with the quality of the donor-funded home. The massive influx of funding from governments and NGOs coupled with a desire to quickly address the housing shortage resulted in sometimes inferior or undesirable homes. In the case of Aceh, the lack of skilled labor meant that many institutions hired substandard contractors to oversee construction in order to complete housing shelters in a short timeframe. In addition, the increased demand for building materials led to profiteering by institutions who sold inferior products (such as watered-down cement and diseased wood) to contractors who then built with those products. Furthermore, in an effort to construct shelters in the timeframe of a donor grant or contract and to quickly provide shelter for homeless tsunami survivors, many institutions used prefabricated homes or designs that resulted in culturally inappropriate housing (such as including an indoor bathroom and/or kitchen, which is not typical or desired in Aceh.)

For the most part families are not looking to modify the donor-funded home. However, the most common interest for a modification expressed to the team, and requested of the BRR (which, incidentally, does not finance home improvements), is for an outdoor kitchen that allows for open flame cooking. While some beneficiaries have made home improvements – such as the addition of an outdoor cooking area – with savings, for the most part beneficiaries expect that the NGO or the BRR will return to make repairs or improvements to their homes through grant funding. This is important to note, as it means that individuals still associate home construction, repairs and modifications with grant funding, and most have indicated that as a result they would not be willing to take out a loan to carry out such activities themselves. Thus the ubiquitous grant housing environment in Aceh prevents the sector from evolving out of the “Relief to Recovery” phase, preventing the successful introduction of housing microfinance.

### Microfinance

Most MFIs never even considered a housing-specific product for several reasons. First, most MFIs associate home lending with mortgages and consider that the responsibility of the banks. Second, most MFIs in Aceh have only a few hundred clients and do not have access to affordable capital, so the capital constraints prevent them for making larger, longer-term housing loans. Finally, most MFIs have focused on helping their clients with microenterprise lending, which

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they believe will have a more direct impact on the client's income. That said, even if the MFIs had been interested in the introduction of a housing microfinance product, they would have been unable to successfully introduce such a product because they currently lack both affordable sources of capital, and the internal capacity to introduce a new product.

The GOI has worked to address the capital constraints by providing loans to the MFIs. However, even under the most formal of circumstances, the BRR has asked that MFIs repay only 20% of the loans given to them by the BRR. Informally, it is understood that the GOI has no expectation that the MFIs will repay the loans. Knowledge of GOI funding of MFIs is widespread among the Acehnese population. Distrust of the Jakarta-based government, coupled with an understanding that even if a loan is repaid by the client to the MFI that the MFI is not likely to repay the loan to the BRR, contribute towards non-repayment behavior. Thus the heavy subsidy environment prevents the microfinance industry from evolving to where "Recovery to Development" and "full Development and Reconstruction" activities can take place, including housing microfinance.

### **Donor Community**

As noted above, the donor community and the Government of Indonesia have made significant efforts to coordinate reconstruction efforts. In spite of the establishment of the BRR, the U.N. Multi-Donor Fund, the Weekly Shelter Coordination Group, and others – widespread problems related to donor coordination continue. NGOs duplicate efforts, compete for resources and clients, and bypass mechanisms established for donor coordination out of either fear of having another institution plagiarize an idea – or frustration that the group is not accomplishing its goals. The result is that often times institutions will replicate the same mistakes made by other groups, and even more importantly institutions have been unable to plan for the medium- to long-term interventions. This donor gridlock is one of the primary reasons that Aceh, three years after the fact, is stuck somewhere between the "Relief to Recovery" (with regards to shelter) phase and the very early stages of "Recovery to Development" (with regards to microfinance).

### **Capacity of MFIs**

While the phasing of interventions is a critical framework to evaluate, it is impossible to consider whether or not housing microfinance as a post-emergency tool can be introduced without evaluating the capacity of local MFIs. In doing so in Aceh, it is abundantly clear that MFIs are in no position to introduce a new product. The consensus – ranging from the MFIs themselves to the donor and NGO community – is that MFIs need serious sustained, on-site technical assistance. The introduction of any microfinance product whatsoever until MFIs have received adequate training and TA to address MFI institutional constraints. These constraints include high arrears rates, a need to identify and access affordable sources of capital, and an overall deficit in skills at all levels of the organization, including business planning, marketing, accounting, and others. Donors and NGOs are making notable progress as they work to address the capacity deficiencies of MFIs to manage their current portfolios and to grow their businesses; however, institutions remain ill-equipped to manage operations in a sustainable way independently.

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To complicate matters, with donor funding drying up and many NGOs departing Aceh, the highly qualified talent that is needed to advise these local MFIs is departing the province as well – at a time when it is most critically needed. Thus it is the conclusion of the DIG research team that the fact that housing microfinance was never introduced in Aceh was a good thing, and we concur with the assessment that until significant capacity building efforts take root and we see the health of MFIs improving overall, housing microfinance should not be introduced as a tool to address the post-disaster needs of the tsunami survivors.

## **Conclusion**

The fact that housing reconstruction and microfinance activities have not fully emerged from pre-development phases means that neither sector has yet achieved the appropriate post-disaster response phase (late Stage III: Recovery to Development, or early Stage IV: Full Development & Reconstruction) to successfully introduce a housing microfinance product. Not only is the microfinance industry heavily subsidized, but most home construction continues to be grant funded. Donor coordination efforts, while notable, have failed to pull Aceh out of the early phases of recovery. While the economy is robust from reconstruction activities, most NGO, donor, and GOI programs that provide the bulk of the job opportunities in Aceh are slated to end in 2009, resulting in many out of work Acehnese who will no doubt lack the capacity to repay the larger and longer-term loans that housing microfinance offers. Furthermore, throughout Aceh people perceive anything related to housing or international organizations as free money that doesn't need to be repaid. To introduce a housing microfinance product in this environment could lead to a high default rate among borrowers. As a result, if a housing microfinance loan were introduced in the current environment, it would be unlikely to succeed. Furthermore, MFIs need ongoing and sustained on-site technical assistance before they consider introducing any new products. Introducing housing microfinance too early could not only lead to failure for the product itself, but it could also have a negative effect on the microfinance environment in Aceh overall, as institutions providing housing microfinance would no doubt be impacted by high arrears rates from the housing portfolio – compromising their financial integrity, and erasing years of progress by local and international NGOs to help Acehnese MFIs collect on outstanding loan portfolio.

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## Lessons Learned and Potential Policy Implications

The Aceh example provides us with suggested lessons learned for shelter finance interventions in a post-rapid onset disaster for policy makers and donors. These lessons include:

1. In the immediate aftermath of a major disaster, the emphasis should be to ensure that basic needs of the affected population are met. Though the immediate response cannot be to provide credit, **it is critical that policy makers responding to an emergency situation have a long-term vision to establish an environment in which housing microfinance can be phased in** as a tool not only to reduce the local population's dependency on aid funding, but in many cases to offset the overall cost of post-emergency reconstruction.
2. When millions, or in this case billions, of dollars flood into a post-emergency environment there is often a tendency to spend the money as quickly as possible. When that happens, institutions typically place more emphasis on interventions which are quicker and easier to distribute. Furthermore, donor funding is often given in phases, without assurances that an institution that received the initial funding will receive a second or third tranche. This means that the recipient institution may focus on immediate-term goals, without having the luxury of making long-term development plans. It is critical for policy makers to **consider how the immediate response (such as temporary shelters, community planning, starter homes, etc.), and the phasing of development funding, will feed into longer-term development goals** that will foster Full Development & Reconstruction.
3. Even for institutions that focus on the long-term phasing from relief to development, competition for resources and short timetables may lead those institutions to design products that meet the vision of the donors, rather than the needs of the local population. The result can be inferior and/or undesirable products. It is important for institutions to put **sufficient oversight mechanisms** into place (including using the homeowner as a supervisor) to ensure that a high-quality product is provided in the end.
4. In the aftermath of a disaster it is important for donors and NGOs to evaluate the health of the existing MFIs and consider whether they are in a position to take on new product lines. Even good MFIs, pre-disaster, typically need basic support—cash, training, emphasis on loan recovery post-disaster—before looking at new products. In the aftermath of a disaster it is important for donors and NGOs to evaluate the current health of the existing MFIs which may be suffering from the impact of the disaster too. **Before introducing a housing microfinance product, the focus should be on recovery and capacity building initiatives for those MFIs that are not operating at optimal levels.** Housing microfinance products typically have larger average loans sizes that may place additional cash constraints on MFIs. In addition, housing microfinance products are different than microcredit since home improvements don't necessarily produce additional income for the family and loans terms are typically longer. These differences require additional loan application review and follow-up, and training on the same.

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5. With phasing, it is also important to analyze the donor environment when considering if housing microfinance is viable. **If there is significant grant or subsidy activity taking place in the housing or microcredit sector in a post-emergency environment, the simultaneous introduction of a housing microfinance loan product could be detrimental** to the development process as individual clients may deem it unnecessary to repay the loan. This situation could have a spillover effect and potentially damage more successful and well established SME lending activities as people establish habits of non-repayment of loans.
6. Any **introduction of a home improvement loan product should be driven by the need and demand** for the credit product and the capacity of borrowers to re-pay loans; not merely a desire of a donor to expand outreach or meet a housing or home improvement need.
7. In ongoing or post-conflict environments, donors need to be mindful that **targeting reconstruction or lending activities towards specific groups can lead to or exacerbate conflict conditions**.
8. When governments or international organizations create institutions to manage and coordinate varied and significant sources of funding, it is important for them to **seek out proper training and expertise** – both from the local community we are working to assist, and from practitioners and experts in the field of post-emergency response.

## Challenges Moving Forward

The case of Aceh has provided us with some significant food for thought. The suggested lessons learned, while important to consider, are only a starting point for policy-makers and practitioners who are looking at the phasing of interventions in shelter financing in an effort to achieve Full Development and Reconstruction. As we write our policy paper and carry out case study research within this contextual framework of phasing donor interventions, we are left with some important questions. First, when we look at phasing, who is ultimately responsible for both identifying long-term development goals, and ensuring that post-emergency interventions are planned in a manner that allows for the achievement of those long-term development goals? Is it the donors, the government, international organizations, the communities we are working to help, or is it a combination of all stakeholders? Second, what should the short- and mid- term interventions look like in order to create an environment in the long-term that is conducive to lending and to achieving full development and reconstruction. And finally, how do these institutions lay the groundwork for achieving Full Development and Reconstruction?



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## **Annex: List of Interviewees and Site Visits**

The following interviews were conducted by the DIG team in November 2007:

1. Mercy Corps, Sasha Muench
2. URDI, Gita Chandrika, Program Director
3. URDI, Wahyu Mulyana
4. URDI, Maman
5. URDI, Hardi Suhardi
6. Build Change, Aaron T Anderson
7. Mercy Corps, Hadijanto Soejoedi, Financial Access Manager
8. Deway Makam, World Vision housing project, Darwin, Community leader
9. BRR, Joseph Oenarto and Sigit Prasetyo
10. ADB, Rehan
11. ADB Microfiance, Eugenio Demigillo, Jr., Rural Microfince Specialist
12. BRR, Sigit Prasetyo
13. BRR, Chairul Basri, Iwan Setiawan and Sanusi
14. BPR, Hikmah Waklah, Agus Sanusi, Director
15. Grameen Bank, Nur Islam, Director
16. Chemonics USAID, LeRoy Hollenback
17. Mercy Corps, Janis Sabetta and Zulkarnain Rivai
18. KBPR, Ingin Jaya, with Sahrul and Anwar
19. Gtz, Matthias Range, Technical Advisor
20. OXFAM Housing Project, Paul Neal
21. BRA – APRC, Joerg Meier, Housing Program Advisor
22. BRA, Mr. William Ozkaptain
23. ILO, Tomas Sugiono, National Microfiance Program Officer
24. BPRS Baiturrahman, Elfi, SE, Director
25. CHF, Thomas White, Chief of Party
26. BRI, Beni regional manager for Aceh
27. IOM, Sayed Ismet Assagaf, Senior Project Assistant, Recovery and Rehabilitation (Cooperative Program)
28. World Bank, Beni Oktopiansah, Junior Quality Control Specialist for Reconstruction

The following housing projects in Aceh were visited by the DIG team in November 2007:

- Deway Makam – recommended by former URDI’s team leader
- Kampung Jawa – recommended by BRR