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Measuring Aid Governance in Developing Countries:

An Application to Post-Tsunami Aceh, Indonesia

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Abstract

In contrast to the popular debate on managing international aid to achieve good governance in developing countries, this paper focuses on ensuring good governance *of* aid processes (or good aid governance) between partners in development, to achieve national and local development objectives. Starting from the case of the reconstruction process in Aceh, Indonesia, since the December 2004 tsunami, the paper draws conclusions on the aid governance challenges involved when coordinating multiple stakeholders and projects, while taking into consideration the complexities of the local political economy. Taking a critical look at the indicators of aid effectiveness developed from the Paris Declaration in 2005, the paper argues for the use of a more relevant, simple and realistic set of locally-generated aid governance indicators to achieve the desired development outcomes.

Points for Practitioners

Partners in development need to shift their focus from aid *for* good governance, to ensuring good governance *of* aid processes (or good aid governance) in order to achieve national and local development objectives. Despite mixed evidence, current aid effectiveness frameworks such as the Paris Declaration of 2005 still implicitly suggest that good governance is a pre-

requisite to development. Yet, on the one hand, good governance principles are not necessarily applied to aid management processes; and on the other hand the Paris Declaration framework for aid effectiveness still falls short of integrating good governance practice. The paper makes the case made by analysing the methodology used to collect the indicators for the Paris Declaration Principles and linking this with the lessons from post-tsunami reconstruction efforts in Aceh. The concept and measurement of aid governance by donors and country recipients, as partners in the design, delivery, implementation and management of aid will vary according to local contexts. Within a participatory manner, partners must develop a simple, clear and locally-generated measurement framework to provide evidence on aid governance. This framework requires focusing on aid processes and outcomes in a collaborative effort between partners involved in the management and administration of aid, as well as with implementers at the local level.

Key Words

Aid Effectiveness, Paris Declaration, Aid Management, Poverty, Reconstruction.

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Acronyms and Abbreviations

ACARP	Aceh Community Assistance Research Project
ADB	Asian Development Bank
<u>Bappeda</u>	Local Government Planning Agency
BAPPENAS	National Development Planning Board
BBC	British Broadcasting Corporation
BRAC	Bangladesh Rural Advancement Committee
BRR	<u>Badan Rehabilitasi dan Rekonstruksi</u> (Reconstruction and Rehabilitation Agency)
DAC	Development Assistance Committee
DFID	Department for International Development
DOC	Drivers of Change
EC	European Commission
FAO	Food and Agriculture Organization
GAM	<u>Gerakan Aceh Merdeka</u> (Free Aceh Movement)
GDP	Gross Domestic Product
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
IOM	International Organization for Migration
MCA	Millennium Challenge Account
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation

NAD	<u>Nanggroe Aceh Darussalam</u>
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
PFM	Public Financial Management
PIU	Project Implementation Unit
RPJM	<u>Rencana Pembangunan Jangka Menengah</u> (National Medium-Term Development Plan)
UN	United Nations
UNDP	United Nations Development Programme
USA	United States of America
WFP	World Food Programme

Towards a Measurement of Aid Governance in Developing Countries:

An Application to Post-Tsunami Aceh, Indonesia

Introduction

Since the late 1990s, the debate on the relationship between aid and governance focused on the need for donors to manage aid in order to help developing countries achieve good governance. Broadly speaking, governance can be defined as ‘the exercise of political, economic and administrative authority necessary to manage a nation’s affairs’ (OECD, 2006). One argument was that aid could be the ‘mid-wife’ of good policies and good institutions (World Bank, 1998). For example, it underlies the USA’s Millennium Challenge Account (MCA), a framework for aid policies aimed at tackling poor governance in recipient countries.¹ Whether aid should be conditional to good policy environments and good governance in recipient countries is a matter of intense deliberation, given the uncertainties in the relationship between aid and institutional changes affecting policy effectiveness (Johnson and Subramanian, 2005; Rajan and Subramanian, 2007). This type of political conditionality should be viewed with a critical eye, since donors have not necessarily been successful in fostering policy change, or good governance through aid and may even cause a deeper poverty trap (Epstein and Gang, 2008).

More importantly, the current discourse has yet to recognize the fact that good governance of aid processes (or good aid governance) between partners in development, is a necessary condition to achieve national and local development objectives. It is important to differentiate between aid effectiveness (for example using criteria such as the Paris Declaration Principles on aid effectiveness), aid management (referring to the design, implementation and monitoring of aid projects) and aid governance, which integrates good governance principles into aid management processes.

The analytical framework developed by the British Department for International Development (DFID), the Drivers of Change (DOC), focusing on the political economy of poverty reduction and the challenge of governance in is a step in the right direction in highlighting the historical, political and institutional factors influencing aid management (Warrener, 2004). However, DOC studies concentrate mainly on the incentives and capacities of country recipients, rather than looking introspectively at the donor-recipient relationship. In the last few years, researchers have attempted to understand the importance of incentives within aid agencies by focusing on harmonisation issues (see Winckler and Therkildsen, 2007). For example, based on six country case studies, De Renzio *et. al.* (2005) find that progress on harmonisation between aid agencies and has been quite slow and varies between headquarters and field offices due to political factors (such as the lack of prioritisation of harmonisation) and the lack of a clear institutional framework.

Measuring good and bad aid governance indicators through participatory and monitoring processes is required both from a quantitative and qualitative perspective, to take advantage of the wealth of local knowledge. This participatory process should also go beyond standard self-evaluations prevalent in previously dominant development paradigms, and include independent monitoring and evaluations (Picciotto, 2002). The end result is to refocus the collection of information away from the use of external reporting mechanisms, towards information for improved internal management.

The evidence collected provides incentives (e.g. via performance evaluations and results-based rewards) for a better integration of aid in the national governance framework, thereby increasing aid effectiveness. Two major determinants of successful aid effectiveness are first, that the set of incentives created in the recipient countries shift in a substantial way, such as to ensure minimum aid fungibility (see also Gibson *et. al.* 2005). Secondly, this requires internal political pressure towards strengthening reporting procedures and ensuring accountability and transparency and avoiding aid dependency (Brautigam, 2000).

The paper uses the case study of the post-tsunami reconstruction in Aceh, Indonesia, as an example of how various institutions got together to solve developmental problems, since the devastating tsunami of December 2004. The analysis is based on interviews in Banda Aceh (capital city of the Aceh province) and in Singapore, as well as progress reports from donors, NGOs and the Government of Indonesia. This case is particularly relevant given that an increasing proportion of aid is disbursed to help countries cope with major catastrophes and

natural disasters. Moreover, the case of the Aceh Province is considered as one of the largest aid projects in the world. Pledges to disburse aid amounted to \$9 billion by 2006, equivalent to six times the amount of resources available in the province compared to 1999. The aid money would focus primarily on emergency needs, and physical and social infrastructure. The case also illustrates an innovative attempt to set up a temporary coordinating agency to manage the enormous flow of aid following this natural disaster.

This recent event helps identify, on the one hand, the circumstances when development efforts serve to reduce the negative effect of poor policy environment and on the other hand, the contexts leading to aid being detrimental to development. Then, the paper defines the concept of aid governance, aiming to ensure good governance of aid processes (or good aid governance) between partners in development, to achieve national and local development objectives. This concept would inevitably vary according to the nature of the aid provided. Hence, this paper focuses on multilateral and bilateral aid towards reconstruction and development following a natural disaster. It also highlights the enormous pressures of ensuring aid effectiveness involving multiple stakeholders, within a relatively short period of time. Based on a key framework to analyze aid effectiveness, we take a critical look at the indicators of the Paris Declaration (OECD, 2005). The paper argues for the use of a more relevant, simple and realistic set of locally-generated aid governance indicators to achieve the desired development outcomes.

The paper includes three parts. The first part discusses the relationship between aid and governance and analyzes the usefulness of the Paris Declaration framework on aid effectiveness as an indicator for successful development efforts. The second part analyzes the reconstruction process of post-tsunami Aceh, one of the largest and most comprehensive aid efforts in recent history. The final part presents a conceptual framework to measure aid governance between development partners (including donors, recipient countries, advisors and local recipients), using qualitative and quantitative indicators.

I. The Relationship Between Aid and Governance

Many have argued that the good governance agenda of the 1990s has now become unrealistic, overloaded and too ambitious (Grindle, 2002). Others point out the rather technical approach taken by aid donors in fulfilling the Millennium Development Goals (MDG) (Chhotray and Hulme, 2009). What may be required is a second-best mindset rather than focusing on establishing best-practicing institutions (Rodrik, 2008). Indeed, at the national level, linkages between good governance and development are much weaker than previously anticipated (Tarp, 2000). On the one hand, good governance principles are not necessarily applied to aid management processes; and on the other hand the Paris Declaration framework for aid effectiveness still falls short of integrating good governance practice. This paper makes the case made by analysing the methodology used to collect the indicators for the Paris Declaration Principles and linking this with the lessons from post-tsunami reconstruction efforts in Aceh.

Indicators on the perception of governance at the national level offer only a partial view of the challenges faced by development partners in ensuring aid effectiveness towards the desired development outcomes and have been widely criticised (Arndt and Oman, 2006). At the national level, governance indicators are based on a variety of sources ranging from assessments from international organizations (such as ADB, IFAD and the World Bank) to consultations with individual experts and the use of large household surveys and firm surveys. Although these are carefully constructed at the national level, for practical policy purposes, the main shortcoming of governance indicators is their lack of disaggregation at the local level, which would be useful to help set priorities for development purposes.

Governance Indicators and Use of Aid

Given the varying perception of governance at the national level, donors have reacted in different ways to use aid for (or towards) good governance, often within a supply-driven process. Unsurprisingly, depending on the local context, development outcomes often failed, especially in achieving significant poverty reduction, despite all the efforts and investments put into it (Healey and Killick, 2000). What is urgently required is a shift from emphasising on recipient countries' responsibility to ensure good governance (even as a pre-requisite to receiving aid) to a focus on both donors and recipients in ensuring good governance of aid processes. Identifying the factors that constitute an effective aid governance framework to achieve the desired development outcomes requires investigating beyond these six commonly used indicators of governance.

It is important to differentiate between indicators of 'good' governance versus 'bad' governance. Despite some degree of consensus around what constitutes 'bad governance', there remain difficulties in identifying its underlying causes and consequences. Few researchers have attempted to look into this, but a report by BRAC (2006) attempts to uncover the human dimensions behind 'bad governance' in Bangladesh. It concludes that one of its implications is a very low morale in among the public servants. It recommends to develop better incentives towards good organizational cultures in the public sector, and to understand the constraints faced by public servants. In many developing countries such as Bangladesh, as a result of, and as a contributing factor to poor morale in the public sector, there has been an impressive growth of the Non-Governmental Organizations (NGOs) sector, as well as the rise of civil society activism. Consequently, aid (local and foreign) is increasingly channelled through this sector. This has had a tremendous impact on the organizational culture in the public sector and the constraints faced by public servants, and more generally, the incentives required to increase public sector morale, as will be argued further below.

This paper uses the case of the reconstruction process in Aceh, one of the poorest provinces in Indonesia, since the devastating December 2004 tsunami, which required coordinating multiple stakeholders and projects from the public and NGO sector. As in all cases, it highlights the importance of taking into consideration the complexities of the local political economy to ensure good aid governance. As a starting point, Table 1 summarizes the key issues for aid governance towards achieving the desired development outcomes in Indonesia. These are based on the trend of governance indicators in the last ten years, on voice and accountability,

political stability, government effectiveness, regulatory quality, rule of law and control of corruption. For the latest years available, according to the percentile ranks, Indonesia ranked very low in terms of political stability, rule of law and control of corruption. In terms of voice and accountability, government effectiveness and regulatory quality, Indonesia was around the 40th percentile.

[Table 1 about here]

The linkage between country-level governance indicators and aid governance is not straightforward. However, it can provide a sense of the underlying causes of weaknesses and bottlenecks that may hamper the governance process of aid delivery and impact. For example in Indonesia, poor performance in the rule of law and corruption present the greatest challenge to development efforts at the national level. As noted in the table, an understanding of how different segments of the population are affected and the diverse social and economic impacts would require a more localised analytical perspective.

The implications on aid effectiveness will vary between each country, region and localities, as the social and economic contexts differs greatly over space and time. An in-depth understanding of these complexities on the ground can be better achieved through frequent monitoring and evaluation (M&E) of development outcomes. These M&E processes necessitate periodical adjustments and refinements. For example, this is especially called for since the regulatory regimes are increasingly negotiating with new actors providing basic services at a

more affordable price than the publicly managed services. In these instances, the effectiveness of government indicator would shift focus away from finding more efficient means to accomplish the ends, to changing the ends in order to be more efficient.

However, as a result, the inherent difficulty in assessing development performance is that in many cases, the non-government sector (profit and non-profit sectors) prefers to work 'outside' the government to providing basic services, i.e. without having to negotiate with governments, especially since they use their own resources. The case of Post-Tsunami Aceh is to a certain extent an illustration of this growing trend.

Governments must also support the development of these sectors, as they are major players in the creation of jobs. Yet this may cause some degree of dependency when the sustainability problems occur and governments need to step in again. In parallel to this, the privatization of government operations (either through the sale of assets, contracting out, or devolution) changes the size of the government, and affects its ability to decide how its assets will be used. In the end, governments have less control over what constitute development, and how to achieve it, as the profit and non-profit sectors become increasingly important players.

This changing institutional set up to achieve the desired development outcomes may require some institutions to step outside their original mandate. Ideally, institutions involved in development become social enterprises with both corporate and social responsibilities. Yet performance issues may be under-considered, especially in infrastructure, where public-private

partnerships often allies forces. The task of evaluating good aid governance towards development must go beyond the orthodox framework and involve the non-government sector, non-profit as well as for profit.

The Paris Declaration of 2005 on Aid Effectiveness

The new rationale for better aid effectiveness focuses on general budget support and programme-based approaches. These principles, among others, form the basis of the Paris Declaration. To these could be added several other key underlying principles such as the creation of partnerships of development, fostering capacity building and creating learning for better decision-making. In March 2005, over a hundred countries committed to the principles of the Paris Declaration on aid effectiveness in reducing poverty.

A monitoring process was put in place, and the first two rounds of country level survey results from 2006 and 2008 are now available. The second round was discussed at a conference in Accra, Ghana in early September 2008, and again in Doha in November 2008. This section highlights the key principles of this declaration, and assesses the robustness of the monitoring process.

The basic principles of the Paris Declaration are as follows (OECD, 2005):

1. Developing countries exercise leadership over their development policies and plans.

[ownership]

2. Donors base their support on countries' development strategies and systems.
[alignment]
3. Donors co-ordinate their activities and minimize the cost of delivery of aid.
[harmonization]
4. Developing countries and donors orient their activities to achieve the desired results.
[management for development results]
5. Donors and developing countries are accountable to each other for progress in managing aid better and in achieving development results. [mutual accountability]

The monitoring reports of 2006 evaluated the successes and failures of thirty-four developing countries and fifty-five donors in aid effectiveness. This covered about thirty-seven percent of all aid programmed across the world for 2005. One of the key results of the monitoring process showed a major weakness lying in the mechanism linking budget formulation and execution to national plans, policy priorities and results. This was compounded by inaccuracies in the budget estimates of aid flows and directly links with corruption and aid fungibility. Many country surveys estimated that as little as less than fifty percent of aid flows for the government sector used country public financial management.

In addition, many developing countries were still underutilizing performance assessment tools such as Public Expenditure and Financial Accountability framework for public financial management systems. Special attention was also raised for the need to increase complementarities and rationalization in the division of labour, making greater use of local

harmonization and alignment in action plans, use of sector-wide and programme based approaches, to reduce the number of project implementation units and better integration of these projects into ministries. Finally, the need to analyze more explicitly the aid effectiveness at the country level and to use localized qualitative methods to supplement the quantitative results of the survey was acknowledged.

The second round of surveys is currently undertaken, again based on the collection of data from the donor's perspective, and government officials. Preliminary results of the 2008 Indonesian Survey of the Paris Declaration indicators highlighted 'the need for improved systems for reporting and performance assessment' and 'the lack of agreement on how to implement mutual accountability', which would require donors and governments to jointly develop a roadmap for meeting targets on aid effectiveness. This weakness is also acknowledged more broadly in the report from the Third High Level Forum on Aid Effectiveness, in view of the Fourth Forum in 2011 (OECD DAC, 2008). As part of the process, participating countries are encouraged to develop their own localized version of the Paris Declaration, such as the recently drafted Jakarta Commitments. The measurement of these localized goals will in turn require adjusting the indicators at the local level. The final section of this paper provides practical suggestions on how this can be achieved.

The Paris Declaration implies that good governance is a pre-condition to growth and development. However, observations on the ground do not necessarily support this claim, as discussed in the second section of the paper. Based on the case of post-Tsunami Aceh, in

Indonesia, experience shows that even in the context of a post-conflict and post-disaster environment, development efforts can lead to significant success with implicit efforts put on ensuring good aid governance, albeit with mixed results (ACARP, 2007).

II. The Tsunami and the Wave of Foreign Aid in Aceh, Indonesia

On 26 December 2004, a powerful earthquake registering 9.3 Magnitude in the Richter scale rocked the Indian Ocean floor, with the epicentre located off the coast of northern Sumatra. A series of tidal waves of nearly thirty meters in height, hit the coastlines of countries in Southeast Asia (Indonesia, Myanmar, Malaysia, Thailand), South Asia (Sri Lanka, India), and Africa (Somalia, Kenya, Tanzania, South Africa), with disastrous consequences.

The province of Aceh on the island of Sumatra in Indonesia was the hardest hit, as an estimated 167,000 people lost their lives, and another 500,000 individuals were displaced by the disaster, equivalent to eleven percent of Aceh's population (BRR, 2005). Aggregate damage from the tsunami was estimated at \$4.5 billion, nearly equivalent to the entire GDP of Aceh (IOM, 2005).

Economic and Political Context in Aceh

In spite of the abundance of natural resources, even prior to the tsunami, Aceh had a relatively poor state of infrastructure, signalling the lack of economic development in the province. The lack of security and persistent conflict in Aceh has hampered domestic and foreign investment in the area and necessitated the restoration of trust in the community by the political

leadership. Moreover, the Bureau of Planning 2003 estimated that almost thirty percent of the population in Aceh Province was living below the poverty line, compared to the national average of 17 percent (FAO, 2005).

Internal politics in the province of Aceh had an important impact on the reconstruction efforts. Historically, the roots of the modern (i.e., post-1965) Aceh separatist movement can be traced from the establishment of the Gerakan Aceh Merdeka (GAM) or the Free Aceh Movement on December 1976 by Hasan di Tiro, a descendant of the last sultan of Aceh. Fuelled by ethno-nationalism, GAM subsequently proclaimed the existence of the independent state of Aceh in December 1976. Secession, the separatists believed, was warranted because of their desire to establish a sovereign state free of Javanese economic and political domination (Ross, 2003).

Since 1976, the government's war against GAM has taken the lives of more than 15,000 people, both Acehnese and military, and led to the destruction or serious damage of infrastructure.² Over 300,000 people have been displaced by the conflict, resulting in significant disturbance to their livelihood and damage to infrastructure and the economy.³ In August 2001, the Special Autonomy Law (Law No. 18 of 2001) was signed by President Megawati Sukarnoputri that gave Aceh seventy percent control of its oil and gas revenues for eight years. The autonomy also provided for partial implementation of Islamic Law in Aceh, establishment of Islamic courts, direct elections for the province's governor and greater control of the governor over the police.⁴

The uneven distribution of income from the exploitation of Aceh's resource base was a major point of contention. It has been estimated that about ninety-five percent of Aceh's export revenues were remitted to Jakarta, with the remainder in the hands of mid-sized enterprises owned mainly by non-indigenous Acehnese.⁵ The Aceh Province was closed to the world during those thirty years of civil war. But because of the tsunami, the Indonesian government had to open the Aceh Province to foreign militaries and international communities to provide the much needed relief.

The Flow of Foreign Aid: Another Type of Tsunami

The international community, charitable and non-profit organizations reacted swiftly to address the immediate needs of the victims, including search and rescue, food distribution, establishment of evacuation areas, medical and even psychological treatments. It was estimated that the reconstruction would require at least \$5.8 billion, after taking inflation into consideration. A year after the disaster, funds raised and allocated reached \$4.4 billion, with \$1.1 billion coming from the Indonesian government, \$1.5 billion from NGOs, and \$1.8 billion from official donors. As of early 2006, the amount pledged to fund reconstruction of the affected areas in Indonesia reached \$9 billion (BRR, 2005).

The medium-term plan to rebuild Aceh was unveiled in April 2005, in the form of a Master Plan for the Rehabilitation and Reconstruction of Aceh, a joint effort of the National Development Planning Board (BAPPENAS) and a wide range of actors consisting of line ministries, government agencies, local government representative, civil society groups, and donors. More than just a

vision to rebuild the devastated areas, the Master Plan was envisioned to rebuild a better version of Aceh.⁶ ‘We’re not just replacing or even improving, we’re building a whole new system here,’ according to Bill Nichol, advisor to the Badan Rehabilitasi dan Rekonstruksi or BRR.⁷

The Master Plan laid down the main principles to be observed in reconstruction and rehabilitation and was prepared based on a ‘holistic, comprehensive, and integrated’ analysis that took into consideration the ‘religious universalism’ factor, Indonesian values, Acehese values, and Islamic values. The Master Plan, envisioned to be in effect during 2005 to 2009, was prepared with the 2004-2009 National Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah or RPJM), the regional development plan for Aceh and the affected Kabupaten and Kota in Aceh in mind.⁸ Reconstruction would be carried out until the end of 2009, including rebuilding the public system, economic systems, infrastructure, and governance systems.⁹

The road to preparing the Master Plan was not without its bumps and potholes. Bill Nichol, who served as a member of the Master Plan’s drafting committee, indicated that the Master Plan was by and large an ‘ambit claim’:

BAPPENAS developed the budget [for the Master Plan] and is in charge of implementing it. If they (BAPPENAS) went into enormous detail, it locks the people in. I got into trouble because I recommended a broad outline which [constituted] a fundamental blow to BAPPENAS’s existence. The current blueprint is a master bid list

and [contains] best guess estimates, [but] it is not a plan [per se]. It does not tell you how it fits together.¹⁰

In an innovative effort to facilitate the effective and efficient implementation of the Master Plan, the Indonesian government established a central coordinating body, the Badan Rehabilitasi dan Rekonstruksi (BRR).¹¹ The BRR would have a finite mandate until April 2009, and aim to coordinate relief and reconstruction efforts, ensure accountability, and the appropriateness of the programmes implemented, thereby centralizing aid governance. According to the World Bank's Wolfgang Fengler, a prominent personality in post-tsunami Aceh,

Aceh has been extremely isolated during the conflict. After the Tsunami there have been suddenly 1500 projects by more than 250 players. Coordinating all of them has become an impossibility. The appropriate strategy would be to focus on the big players who manage more than 80% of the total portfolio but monitor the implementation of everyone.¹²

But the situation on the ground was not as optimistic as the statistics indicate. Wolfgang Fengler added that,

while the aggregate of resources is significant and enough to build back, the allocation between sectors is very uneven. For instance, the health sector has received substantial allocations allowing for building back better, other sectors, such as transport still remain under-funded.¹³

In addition, some issues simply were overlooked, for example the relative emphasis between providing temporary and permanent housing was problematic, especially in the first six to nine months of reconstruction.

The Badan Rehabilitasi dan Rekonstruksi (BRR)

The BRR was launched on 16 April 2005, with a mandate to restore livelihoods and strengthen communities in Aceh by designing and overseeing a coordinated, community-driven reconstruction and development programme implemented. It also has the authority to plan, implement, control, and evaluate the process of project implementation. By mid-September 2005, BRR had approved about 450 projects with an aggregate value of \$2 billion out of the \$4.4 billion budget. The agency also lobbied the finance ministry, various line ministries, and parliament for the approval of the revised government budget amounting to \$863 million.

Beyond the obvious reasons of addressing and/or mitigating redundancies and resource misallocations through the coordination of donor programmes, the BRR determines the actual needs of the community being served through the involvement of community folks in the planning of reconstruction programmes. Another BRR role is to cut through the various bureaucratic traps in donor giving.¹⁴ However, BRR staff members are under no illusions with respect to the political environment that the BRR has to operate in. The endemic corruption problems in Indonesia did not spare the province of Aceh. Moreover, Sahari Ganie, a BRR staff notes that one major challenge in the reconstruction process is the history of distrust between the Aceh community at large and the central government: ‘the problem is not only vertical or

intra-government [in nature], but [also] horizontal and internal to the institutions [involved in the reconstruction].'¹⁵

The BRR mandate to ensure centralized aid governance involves seven main operating activities¹⁶:

1. The BRR is refining the current Master Plan into a fully-integrated plan, by identifying critical project gaps.
2. It catalogues all project proposals (from government and non-government sources), review these proposals, and grant approvals, based on how the proposals fit with or contribute to the Master Plan.
3. It helps meet the funding gaps of approved projects from various funding sources.
4. The BRR facilitates other stakeholders' implementation of projects, in particular through capacity-building in the local government and tackling bottlenecks (such as supply chain problems or official approval delays).
5. The BRR controls the disbursement of government reconstruction funds, ensuring that projects meet stipulated performance and integrity requirements.
6. The agency monitors all aspects of the reconstruction effort, evaluating the progress of projects and the flow of funds, and coordinating the evaluations of project impact at the community level to identify unmet needs.
7. The BRR provides a comprehensive information management system that will act as a single repository for data on needs, projects, and funds down to the village level.

Despite this clear mandate, a few months after the BRR's inauguration, its preliminary role of being a coordinating agency had to be adjusted in accordance with needs on the ground. According to Adam Schwarz, a McKinsey consultant, the BRR was further given the power of 'direct contracting,' to the chagrin of some line ministries, in order to allow the BRR to respond to gaps in the various projects or to complement poorly performing programmes by reassigning them to another agency.¹⁷

The BRR also developed a framework for its reconstruction efforts that elucidates the timeline and the priorities for reconstruction (see Figure 1 Allen, S., Petersen, G., Elmquist, M., Prouty, A., Parajuli, B., Domingo, S., et al. (2002). *UN Inter-Agency Mission to Nanggroe Aceh Darussalam (NAD) and North Sumatra*. Jakarta.

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Figure). According to the World Bank's Wolfgang Fengler,

the [overall] reconstruction process will peak in 2006 to 2007. The challenge is how to coordinate [solutions to] all these problems [and satisfy both] the Indonesian government and donors. We cannot do business as usual. It's tricky to identify needs versus damage because you would like to do better than before.¹⁸

[Figure 1 about here]

This figure demonstrates how the sequencing of efforts (so difficult to do in emergency situations), the interdependence and relative importance of each sector are integrated in the overall reconstruction framework. These are often areas that are sidetracked when elaborating a governance strategy in post-natural disasters.

Although the BRR has wide-ranging powers and direct access to the President of Indonesia, the BRR does not have an unrestricted radius of action in its mandated areas. According to Iqbal Farabi, another BRR staff member,

[the organization] has a problem in synchronizing [the requirements of Indonesian] law institutions – national law and Islamic law. We also have [to take into account] local laws. We must see the situation and harmonize it [in accordance with legal requirements]. We need to bridge the contradictions [amongst the various laws], which have a negative effect on the reconstruction.¹⁹

Even with the establishment of the BRR, full cooperation among NGOs and multilaterals remained elusive. By September 2005 (nine months after the tsunami), only 128 of the 438 officially registered NGOs were cooperating directly with the BRR.²⁰ The BRR's late entrance in the Aceh was cited as a factor in the NGOs' reluctance or inability to comply with the BRR's requirements. Prior to the BRR's entry (i.e., without centralized aid governance), many NGOs had started their reconstruction work. In fact, many observers pointed that many groups involved in the reconstruction, including the government, seem to display more accountability to their donor constituents than to the Acehnese.²¹

The BRR's watchdog role has not been met with complete approval from various on-site actors, and certain organizations inevitably fail to comply with BRR-established regulations. According to Hasan Basri of the BRR's Religious Affairs Department, 'We have two sorts of programmes—hard (construction) and soft (capacity-building). In terms of hard programmes, the problem is tendering with construction companies. We have set guidelines on building dimensions, but, because of profit motives, [certain parties] are trying not to comply with the guidelines, so the quality [of some structures] is not at par with the standards set by the BRR'. 'Regarding bloc grants (soft programmes),' he adds, 'the problem is credibility. For instance, we provide funding for a university, and fraud happens, committed not only by locals but also by the upper class. Reports are not transparent, they don't give the exact amount of where the money goes, they give blurry reports.'²² In addition, the budget system did not work well for the reconstruction efforts, with certain project funds languishing in Jakarta for many months. Of the total budget

of \$4.4 billion, BRR spent only \$775 million within the year after the disaster—less than twenty percent of the total funds committed by the Indonesian government and donors.²³

However, working favourably towards the reconstruction efforts was the peace pact between the Indonesian government and the Free Aceh Movement signed in Helsinki on 15 August 2005. Yet, some observers are not rendered complacent by the hitherto successful peace agreement. The climate of distrust between the Indonesian military establishment and GAM, generated by years of armed conflict, is exceedingly hard to nullify. Some political scientists stressed the importance of the integration of former GAM rebels into the mainstream within the context of a working democracy and the watchful eyes of a strong civil society, and to establishing a sustainable nexus between reconstruction work and peace efforts.²⁴

The case of post-tsunami Aceh is rich in learning and demonstrates the complexity of aid effectiveness and aid governance. It also shows that external help and self-reliance are not mutually exclusive and showed several ways to reduce the burden on recipient countries' in terms of social and economic costs associated with aid. First, a strong local team with substantial political support (at the domestic and international level) and with in-depth local knowledge (including local history, systems, values, politics); second, a capacity to innovate and adapt rapidly to changing conditions with the use of local expertise; and third, using participatory methods within the context (and limits) of local capacities at the individual and institutional levels.

Limitations of the Paris Declaration Framework

The mandate of the BRR expires at the end of April 2009, arguably when the real test of reconstruction and development outcomes will take place. Nevertheless, the case of Aceh's post-tsunami reconstruction efforts so far enables us to analyze the implications and limitations of the Paris Declaration monitoring framework on achieving progress in aid effectiveness, harmonization, alignment and management, based on twelve key indicators. These implications are summarized in Table 2.

[Table 2 about here]

The danger in applying the Paris Declaration blindly is to revert back to the days where donor countries micro-managed country policies, which goes directly against the basic principle of ownership. Indeed, country ownership does not directly translate in local ownership. For this, donors need to gain a better understanding of the individual country perspective, not just from an economic and institutional perspective, but also from a social and historical perspective (i.e. in qualitatively) at the local level. Centralized agencies such as the BRR, staffed with local and national staff, provide this local perspective and knowledge.

In this regard, the Paris Declaration is a useful strategy, and the evidence put together will have greater impact as it is increasingly publicized. However, the measurement framework focuses on principles, mechanisms and process issues, with minimum involvement of civil society

organisations, limiting our understanding of how to achieve the desired local level outcomes. The synthesis report from the first round of surveys in eight countries also highlighted the absence of control groups with which to compare the results meaningfully (Wood *et al.*, 2008). Furthermore, local anecdotal evidence suggests the national versus local civil servants involved in the development efforts have different perceptions of the Paris Declaration indicators, which may differ from the ground realities. The next section considers development outcomes as part of a key component of measuring good aid governance and argues for the use of broader consultation processes, beyond the central level, to include local level implementers and recipients.

III. Aid Governance

This final section proposes an analytical framework to measure aid governance. We define the concept of aid governance as the way in which aid is managed to ensure that the level and quality of assistance reach the recipient country's development needs. Therefore, aid governance seeks to integrate good governance principles into aid management processes such as design, implementation and monitoring of aid projects. This is particularly relevant to countries receiving large quantities of aid like in Indonesia. Understanding how to measure aid governance, is becoming increasingly important to national policy makers and administrators, as well as donors and recipients of aid, all seeking to 'make aid work'. This last section defines

the concept of aid governance and presents a methodology for measuring indicators of aid governance, through the case of Aceh, Indonesia.

Based on the case of Aceh, we explain how local, regional, national and international aid governance can lead to successful development efforts. However, a clear definition and method of measurement of aid governance has yet to emerge in the literature. Simply collecting evidence on aid governance will be insufficient to provide incentives for ensuring that aid governance is an intrinsic part of the mindsets and practices of development partners. Such evidence requires a proper dissemination strategy, involving some level of advocacy work. The idea of using participatory methods to evaluate aid effectiveness is not unprecedented, but two characteristics of this proposal represent a major departure from current practice on measuring aid effectiveness.

First, unlike for the Paris Declaration indicators, this should not rely mainly on the processes used by donors and implementers of aid, but also on outcomes for the local recipients. Second, it should also include the establishment of a briefing mechanism and a participatory and iterative feedback 'loop'. This would ensure that all partners reflect on their practices and that donors, implementers and recipients learn from this process. It would also allow for a refinement of the aid governance measurement framework to improve the quality and level of sophistication of analysis of aid effectiveness, so often lacking a disaggregated view.

However, this process should not become highly politicized and mediatised, or overload local development partners due to lack of local capacities. The experience of measuring the Paris Declaration indicators in countries such as Vietnam has shown that the over-reliance on perceptions of experts' opinion based on local and central public officials has at times tended to skew some of the results, because of incentives to demonstrate good results. Hence, the feedback loop should involve the gathering of information on the experience - as opposed to opinions - of the implementers and beneficiaries, in order to reduce subjectivity.²⁵

Analytical Framework for Aid Governance

In order to address the economic and social challenges such as vulnerability, isolation and social exclusion through aid, a relevant analytical framework must focus on a clearly defined and measurable concept of aid governance. The formulation of a local aid governance framework will require particular attention to participatory monitoring processes, which differs from the mainly quantitative Paris Declaration approach. Measuring aid governance uses a top down, bottom up and lateral approach. It recognizes the emergence of new catalysts in the public and the private sector which are top down: through legislation, policies, advisers, leaders. It integrates a bottom up approach through service user's feedback (for example via perception surveys), as well as stakeholders' suggestions. Finally, it allows for a lateral view, by looking into a cross section of organizations offering various basic services and sharing good practices and innovations on the ground.

As an illustration, Table 3 includes some of the key elements of good and 'bad' aid governance and the relevant quantitative and qualitative indicators that constitute the analytical framework. This list is not exhaustive and should be adapted according to the national, regional and local contexts. Nevertheless, it provides a starting point for partners in development to design a simple, cost-effective and locally-based set of indicators.

[Table 3 about here]

A useful tool to consider when measuring aid governance is the World Bank methodology of 'Voices of the Poor' first implemented as part of the World Development Report (World Bank 1999, Shanks and Turk 2003). These participatory assessments were imparted with the help of local and international NGOs, and collected qualitative and quantitative information. The methods were ranging from poverty mapping, ranking and scoring exercises, trend analysis, daily timetables, cause and effect trees and so forth. Using focus group discussions or direct household interviews, the objective was to identify the 'hidden' dimensions of poverty, to explain causality and the processes of the vicious cycle of poverty, and to engage poor communities to take part in the analysis, thereby increasing awareness.

Due to the qualitative nature of the results, the findings provide strong indication of the key problems faced by the poor in the research areas. Amongst the key findings from the Voices of the Poor in Indonesia were that targeted programmes for the poor often seemed to reach the more influential households that are usually richer, and not the intended poor, and that

subsidised services intended for the poor often involve some payments even though they should be provided for free. Another key problem was the lack of information on rights and available help. This shows that the M&E methods for targeted aid programmes should gather information about whether the funds were indeed spent on the poorest. For this purpose, participatory monitoring processes become an essential complementary methodology to quantitative data collection.

Measuring Aid Governance: Allying Quantitative and Qualitative Indicators

Ultimately, the aim of measuring aid governance and to produce useful indicators is to create actual changes in aid practices and achieve better development outcomes. The key to the approach is to implement a systematic participatory local M&E process to identify, and document, good and bad aid governance. Moreover, greater involvement in the collection of information will raise the level of awareness of the community, and help understand the sets of formal and informal rules in aid practices locally. This will greatly assist all development partners define and implement stronger incentives to achieve good aid governance. The next step will be to ensure the mainstreaming of findings into the policy agenda to reflect the different perspectives of the various social settings and institutions at the local level, thereby creating change.

As argued above, the measurement of aid governance needs to be quantitative as well as qualitative. These are complementary means and provide for both output and outcome based evaluations. Traditionally, quantitative indicators have constituted a predominant part of M&E

systems as they are easier to measure, to compile and to analyze. This is particularly the case for rural infrastructure. These indicators should go beyond expenditure and budgeting issues and can be done through direct observation, or through household or user surveys. This can be compiled every year or every two years, to identify trends over time. The information can be collected systematically through already established and trusted local partners, either from the public sector or civil society. Data sources could be taken for major rural development projects such as access and quality of basic services, quality of rural infrastructure, employment generation projects and other major poverty alleviation projects. Quantitative indicators would be taken not only from donors but also from the recipient country progress reports at the local level. Efforts should concentrate on data that is not overly reliant on external reporting mechanisms, but focusing on internal management issues from local reports.

On the qualitative side, attention is required on two areas: firstly, assessing specific output and the broader outcome and secondly, assessing process issues. Assessing specific output and the broader outcome can be done using quality perceptions-based indicators such as satisfaction levels on the quality of the services provided. These should be complemented by information on the experience (not just opinions) of the implementers and beneficiaries. These can be compiled through surveys, focus group discussion, structured and unstructured interviews. Representatives from all segments of the population should be involved, including local civil servants. In order to assess process issues, more emphasis on evaluating the decision making process is required. This includes the degree of inclusiveness (and participation levels), transparency in the process, access to information by all and voice given to all socio-economic

groups. This would allow for a more introspective approach to the analysis of donor-recipient relationships.

Another challenge is the need to increase local capacity to monitor aid governance in a simple, replicable, and cost-effective manner. Ultimately, qualitative evaluations should look into *horizontal* integration: for example the level of coordination between projects in a local community, and *vertical* integration, for example between local projects and master plans at the district, provincial or regional levels.

Based on the lessons from post tsunami Aceh reconstruction, measuring the quality of aid governance requires investigating four key areas: voice and participation, quality of targeting, innovative capacity and effectiveness in poverty reduction. First, voice and participation will lead to solutions that are contextualised and localised, thereby increasing the sense of ownership. Measuring the extent to which the recipients of aid have been able to participate express themselves during the various stages from the design, implementation and M&E of the development projects. Here the 'experts' interviewed focus on the recipients of aid. Questions would be developed in order to determine the role of recipients in decision-making, and a sense of ownership.

Efforts put to increase the 'voices of the poor' should be expanded and aim at producing qualitative indicators that can be comparable over time. For example, these qualitative indicators could be used to compare rankings of perceived problems or causes of poverty, not

only over time, but across regions and within the many segments of the society. These could also be used to determine the extent to which reforms have contributing to relieving or aggravating living conditions.

Secondly, the quality of targeting will involve measuring whether the development projects reached the intended participants, whether the project is pro-poor, whether there remain some segments of the population who are excluded and marginalized. This would include corruption issues, measuring the extent to which the project allows for private gains either from a small scale and a large scale perspective. The approaches to targeting may be direct, through geographical target, ethnic target, or sector-specific such as agriculture, or indirect, through the provision of basic services where the poor benefit more than the rest of the population.

Several challenges lie ahead for targeted aid programmes. For example, programmes must be designed such that they include incentives to encourage the poorest of the poor to participate and 'discourage the middle-poor'. They should be designed to target especially the destitute, the socially excluded, isolated communities, and the informal sector, yet these are very mobile and culturally diverse. An added difficulty is that narrow target groups usually lead to higher cost per beneficiary. The cases of ethnic minorities and isolated communities in Indonesia would be particularly important to analyze.

Thirdly, attention must be paid to innovative capacity or 'new ways of doing things better', and to document success stories, focus on solutions, not just on problems. Good performance indicators in aid effectiveness should integrate an element of innovativeness, at the local, regional and national levels. For example, it could involve looking at local 'influential champions' inside and outside government (MacKay, 2007). At the national level, innovative capacity could be analysed in terms of whether the current regulations hamper progress and development of new ways of providing basic services more effectively. Rigid regulatory frameworks may hamper creativity, the capacity to generate new ideas, and being able to see a gap between a current reality and a perceived reality.

At the local and regional levels, the indicators should help us learn from service units with high levels of 'innovative capacity' and highlight situations and contexts that are more conducive to the development and implementation of new ideas. This indicator should differentiate between improvement 'doing things better' and innovation 'finding new ways of doing things better' and be used to share good practice, for example by providing awards on innovations. This is particularly relevant in the case of Indonesia, where success stories on ways to counteract bad governance can be compiled and applied in various settings.

Finally, overall effectiveness in poverty relief will require measuring the extent to which income and non-income aspects of poverty have been alleviated, for example through raising empowerment, reducing vulnerabilities to social and economic shocks. This indicator would help understand the way in which aid has affected the recipients, for example whether it led to

an increase in social disparity, an increased dependency on aid or the development of middle men.

Conclusion

The drive to produce internationally comparable indicators goes against the recognised need to pay more attention to local contexts and the measurement of localized goals. Extensive case studies such as the Post-Tsunami Aceh experience reveal the limitations of frameworks such as the Paris Declaration Principles indicators and the Governance indicators to understand the bottlenecks in achieving good aid governance. This paper argued that, on the one hand, good governance principles are not necessarily applied to aid management processes; and on the other hand the Paris Declaration framework for aid effectiveness still falls short of integrating good governance practice. By analyzing the methodology used to collect the indicators for the Paris Declaration Principles and the lessons from post-tsunami reconstruction efforts in Aceh, the paper concludes on the need to use an introspective and broad-ranging approach, including the use of both qualitative and quantitative data available at the local level.

Given that the responsibility of ensuring good aid governance is on donors and recipients alike, this process needs to be seen as a two way stream, in which development partners influence the performance of each other. Changes in aid practices required for good aid governance from donor countries and recipient countries must to be accompanied with matching changes in M&E processes. However, this has received insufficient attention both in the literature and on

the ground. In contrast to the Paris Declaration framework, the paper argued for the use of a more relevant, simple, cost effective and realistic set of locally-generated aid governance indicators to achieve the desired development outcomes.

The major advantage of this framework is to allow for a more in-depth understanding of the synergies and contradictions between the assistance provided by donors, and the development strategies at the local level. The case of the Aceh province, one of the poorest in Indonesia provided a clear example of an innovative approach to establish a temporary institution aimed at coordinating aid governance. This comes in contrasts with other post-disaster reconstruction efforts by the international community, which have failed to empower communities and poor people in particular, such as in the housing reconstruction sector in Sri Lanka after the December 2004 Tsunami (Lyons, 2009).

Ensuring good aid governance begins with the collection of evidence on the level and extent of good and bad aid governance between development partners. Although there exist mechanisms that ensure accountability and some coordination among donors, they have different sets of priorities. In addition, traditionally, donors tend to be risk-averse and somewhat competitive between themselves. The implementation of a framework for measuring aid governance will require some degree of negotiation with the multiple partners in development. However, the emergence of new partners in development, especially from the private sector, and the strengthening of the so-called South-South cooperation offer an opportunity to integrate this framework into the mindsets and practices of these new

partnerships and to better prepare recipient countries to reject potentially unsuitable assistance. The analytical framework for aid governance presented in this paper moves away from state-driven approach to aid effectiveness and aid management, arguing for the design of simple aid governance mechanisms that includes all partners from the state, as well as the non-state sectors.

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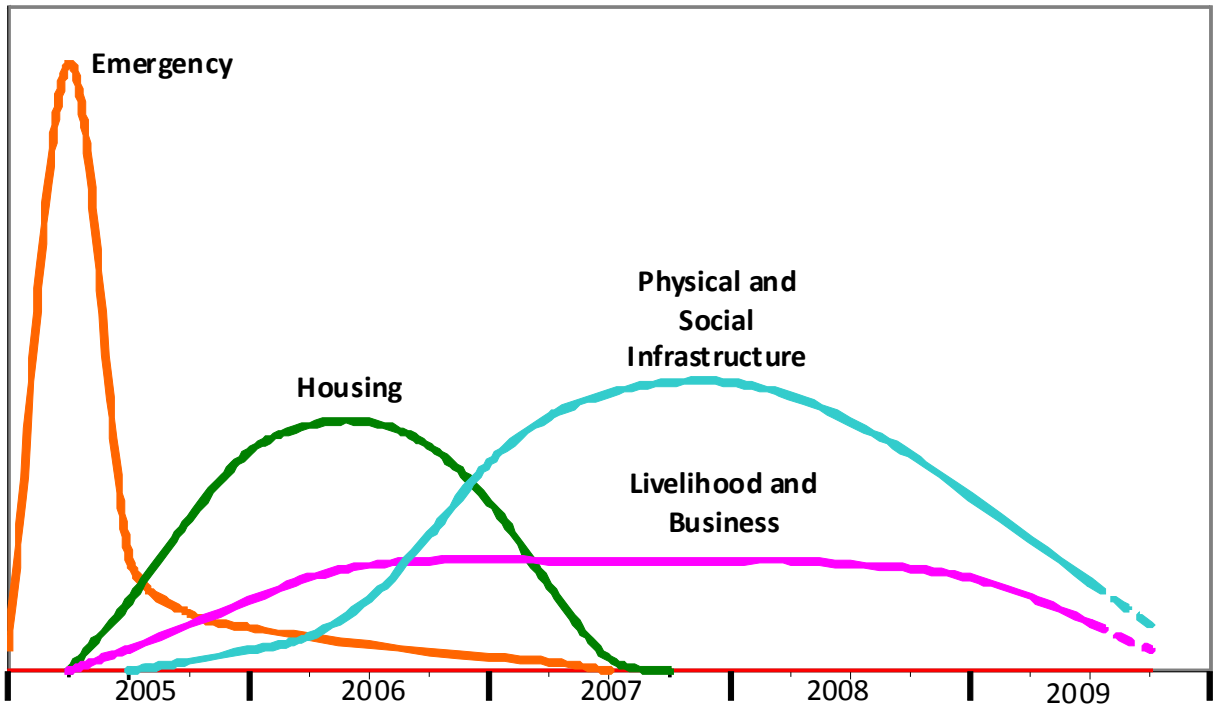
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Figure 1: Emergency and Sequencing of Efforts (2005-2009)



Source: BRR and partners (2005) Schematic illustration where the vertical axis represents the intensity of effort.

Table 1: Governance Trend in Indonesia: Key Issues for Aid and Development

Indicator	Trend 1996-2007	Key Issues For Aid and Development
Voice and Accountability	Consistently above the 40 th percentile since 2000 and most improved indicator since 1996.	Encouraging signs due to more widespread use of participatory processes related to development efforts. How have various donors taken advantage of this trend?
Political Stability	Weakest perceived aspect of governance, remaining in the bottom 15 th percentile since 1998	Political instability negatively affects development efforts. It reinforces the need to decentralize and to involve civil society further.
Government Effectiveness	Consistently between the 30 th and 40 th percentile since 2000	There is a need to identify the required qualities of civil servants (at all levels of government) during recruitment, and find the right incentives to increase government effectiveness within the performance assessments systems.
Regulatory Quality	Fluctuating between the 25 th percentile and the 40 th percentile in the last ten years but most improved indicator since 2002.	Gaps in the implementation of the regulatory framework must be clearly identified. There also exist multiple interpretations of the regulations across the various cultural and ethnic groups. De-regulation may also be called for in certain areas to facilitate the development process.
Rule of law	Least improved indicator, around the 20 th percentile since 2002.	There is no 'living' rule of law culture, and there is a lack of knowledge on how different actors use the different legal avenues available. Weaknesses in the rule of law severely hamper the achievement of the development goals at the local, regional and national levels.
Control of Corruption	Improved from 10 th percentile in 2002 to below 25 th percentile in 2006 and still amongst the weakest components of governance.	The judiciary is notorious for corruption and human rights violations are common place. Corruption hampers various segments of the population differently, and the poorest tend to face deeper economic impact.

Source for trend: Kauffman *et. Al.* (2008)

Table 2: Implications of the Paris Declaration Monitoring Process for Aceh Indonesia

Indicator	Challenges
1. Ownership	The concept of ownership is still not well understood, as donors talk about capacity development, but focus on technical assistance. Improving the level of ownership is also hampered by poor capacity at the local level as well as the trauma caused by natural disasters. However, with political will, it may ultimately help strengthening social inclusion, as well as fostering political stability.
2. Quality of Public Financial Management (PFM) Systems including reliability of procurement systems	Donors need to make greater use of the country's PFM systems. Initiatives such as in Vietnam on developing an Aligned Monitoring Format for monitoring disbursement, process and performance data should be considered. Priority should also include refining the budget process especially at the local level.
3. Aid reported on government budget (and Aid Flows aligned on national priorities)	Budget recording gaps varies between donors and whether aid is imparted on a multilateral or unilateral basis.
4. Coordinated capacity development and Support	The number of official coordinated programmes delivered through government-led capacity building programmes is quite low in Aceh and again this varies between donors.
5. Use of country Public Financial Management (PFM) systems and country procurement systems for aid flows	This varies between donors and countries, and non-budget support aid tends to have a very low proportion of usage of government PFM systems.
6. Avoiding parallel project implementation units (PIUs) (use of common arrangements and procedures)	Donors often justify the use of parallel PIUs due to quicker implementation, specific reporting and management requirements and lack of confidence in government systems.
7. Aid is more predictable	This varies between donors and countries and on the priorities and capacities of the different stakeholders
8. Untied aid	Aid provided for the reconstruction has been relatively free of conditionality except indirectly, with the use of foreign experts and specialists, especially in the field of health.
9. Use of programme based approach	Some encouraging signs are happening in the fields of education and health, but the challenge remains in the area of housing and transport.
10. Coordinated missions	The low proportion of coordinated missions is explained by

and coordinated country analytical work Untied aid	donors' specific interests, language barriers and internal procedures. There is considerable sharing between multilateral donors but much less in individual country analyzes.
11. Sound performance assessment framework	With the multitude of donors on the ground at the same time, there has been an inability to implement a standardized performance assessment framework
12. Reviews of mutual accountability	There are few country-level mechanisms permitting joint assessment of progress in implementing agreed commitments on aid effectiveness.

Source: Author's analysis

Table 3: Good and 'Bad' Aid Governance: Quantitative and Qualitative Indicators

	Aid Governance	Quantitative Indicators	Qualitative Indicators
Good	1. Increased access to capital resources	1. Amount of Aid reaching the poorest	1. Uses of aid to address relevant priorities
	2. Fosters transfer of relevant technology	2. Amount of technical assistance provided	2. Adequacy of technology used, innovations in the use of technology
	3. Improved human development	3. Human Development Indicators (HDI), MDG indicators	3. Increased equity for various socio-economic groups
	4. Improved delivery and access to basic services	4. % of population with access to good quality services, MDG indicators	4. Perception of service quality from users, innovations in the delivery of good quality services
	5. Capacity building	5. Trained individuals by type of training	5. Wider social impact on local economy
Bad	1. Uncoordinated aid	1. Higher debt levels, downscaling projects	1. Misalignment of objectives, conflicting policies, downscaling projects
	2. Misuse or abuse of aid	2. Speed of implementation of projects, targeting the poor	2. Quality of implementation of projects (top-down, not participatory, use of funds for private purposes or to benefit local interest groups)
	3. Lack of absorptive capacity	3. Participation of aid recipients (finance, human resources)	3. Poor programme management, lack of skills, lack of participation, top down approach only
	4. Conditionality leading to political pressure	4. Proportion of aid that is tied	4. Conflicting policies, civil unrest, worsening political stability
	5. Lack of sustainability of aid	5. Rate at which aid is disbursed, environmental depletion	5. Negative social and economic impacts, short-termism problem

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Endnotes

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