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Key Principles Underlying the New Modes of Aid Governance in Asia

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Key Principles Underlying the New Modes of Aid Governance in Asia*

Abstract

Aid governance refers to the good governance of aid processes by all stakeholders, from the design and implementation to the monitoring and evaluation of aid projects and programs, to reach national and local development objectives. In these various processes, aid governance emphasizes the need for transparency and accountability to ensure that results are achieved in the best possible manner. Hence, good aid governance contributes directly to aid effectiveness. Based on the recent experience of several Asian developing countries and interviews in Vietnam, Indonesia and Laos with aid practitioners from donor institutions and Non Government Organizations (NGOs), this paper investigates ways to improve aid governance with all types of donors, both from public and private sources. It develops a framework for donors and recipients to ensure good governance in the management, administration and evaluation of aid at the national and sub-national levels, based on the key principles underlying the new modes of aid governance in Asia. The framework is anchored on three broad principles: disaggregation, inclusiveness and incentivization. Specifically, these principles suggest that aid governance can best be achieved: First, when efforts are put to design disaggregated accountability and transparency mechanisms at the sectoral and sub-country levels; Second, when these mechanisms are inclusive of all stakeholders --- private and public donors, direct recipients, national and local civil servants, NGOs and other affected parties; and Third, when there are proper incentives structures for these stakeholders to participate in good aid governance.

Key words: Private Aid, Post-Tsunami Reconstruction, Paris Declaration Principles, Accountability, Transparency

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Key Principles Underlying the New Modes of Aid Governance in Asia

1. Introduction: From Aid Effectiveness to Aid Governance

While the Paris Declaration Principles (PDP) on Aid Effectiveness (OECD DAC 2005) is a laudable initiative to increase the impact of Overseas Development Assistance (ODA) and to strengthen development practice worldwide, the PDP has mainly led to an emphasis on ownership, harmonization and alignment.¹ But of the twelve indicators of progress, the PDP indicator for mutual accountability has been one of the weakest, yet this dimension directly implicates not only aid effectiveness but more importantly, the aspect of aid governance.

Aid governance refers to the good governance *of* aid processes by all stakeholders, from the design and implementation to the Monitoring and Evaluation (M&E) of aid projects and programs, to reach national and local development objectives (Brassard 2009). In these various processes, aid governance emphasizes the need for transparency and accountability to ensure that results are achieved in the best possible manner. Hence, good aid governance contributes directly to aid effectiveness.

With greater transparency among donors, there is availability of information thus enhancing the quality of aid. This in turn results in “better and more structured relationships, more pressure on donors to respond to local priorities and government wishes, and greater

¹ For example, UNAIDS and the World Bank introduced a Country Harmonization and Alignment Tool (CHAT) in 2007, as a qualitative diagnostic tool on the quality of the AIDS response in terms of harmonization and alignment between national and international partners.

[Hhttp://www.unaids.org/en/CountryResponses/MakingTheMoneyWork/chat.asp](http://www.unaids.org/en/CountryResponses/MakingTheMoneyWork/chat.asp)

government coherence and ownership of the policy agenda.”² But with an upsurge in private aid sometimes exceeding the budgets of some official donors (Desai and Kharas 2008: 156), good governance mechanisms must also include these important actors.

Based on the recent experience of several Asian developing countries and interviews in Vietnam, Indonesia and Laos with aid practitioners from donor institutions and Non Government Organizations (NGOs), this paper investigates ways to improve aid governance with all types of donors, both from public and private sources. It develops a framework for donors and recipients to ensure good governance in the management, administration and evaluation of aid at the national and sub-national levels. This represents a radical shift away from the usual emphasis on recipient countries’ responsibility to ensure good governance as a pre-requisite to receiving aid.

The framework is anchored on the key principles underlying the new modes of aid governance in Asia: disaggregation, inclusiveness and incentivization. Specifically, these principles suggest that aid governance can best be achieved: First, when efforts are put to design disaggregated accountability and transparency mechanisms at the sectoral and sub-country levels; Second, when these mechanisms are inclusive of all stakeholders --- private and public donors, direct recipients, national and local civil servants, NGOs and other affected parties; and Third, when there are proper incentives structures for stakeholders to engage in good aid governance.

² “Mutual Accountability: The Key Driver for Better Results. A Background Paper,” Third International Roundtable Managing for Development (Hanoi: 5 August 2007). In Marieke Dennisen, *Mutual Accountability in Afghanistan: Promoting Partnerships in Development Aid?* Working Paper Series. Kabul: Afghanistan Research and Evaluation Unit. April 2009

The paper is structured as follows. Following this introduction, the second section reviews the record of aid effectiveness thus far, arguing that mutual accountability transparency are the weakest links in achieving aid governance, and that the increasing importance of private aid puts further pressure on the good aid governance agenda. The third section illustrates the three principles of disaggregation, inclusiveness and incentivization, through an examination of two case studies: First, the application of the localized version of the PDP framework on aid effectiveness in Vietnam at the sub-national and sectoral levels; and Second, the design of an interim sub-national coordinating body for the rehabilitation and reconstruction of Aceh and Nias, Indonesia, following the Tsunami of 26 December 2004. The final section proposes some approaches to introduce good aid governance measures, or strengthen them where they already exist, based on the three principles.

2. Aid Governance and Donor Institutions

To date, aid governance among DAC countries has largely been a matter of adhering to the Paris Declaration Principles (OECD DAC 2005). The PDP framework defined the five core principles of aid effectiveness as: 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]; and 5) Donors and developing countries are accountable to each

other for progress in managing aid better and in achieving development results [mutual accountability]. Since the 2003 Rome Forum that enshrined the mandate of aid effectiveness among donor organizations, many donor institutions have participated in surveys and independently conducted evaluation studies to track their aid effectiveness performance based on several progress indicators.

In this first section, we review the record of aid effectiveness thus far, particularly with reference to mutual accountability. This principle, we argue, is at the heart of aid governance. It requires donors to practice more transparency, obliges them to justify development decisions and choices, and prevents abuses of power, possibly even exacting punishment for poor performance. Reference is made to specific country cases such as Vietnam and Indonesia, where donors and their development partners have sought to construct mutual accountability mechanisms, albeit with differing results.

Mutual Accountability and Transparency - the Weakest Links

Although the PDP of mutual accountability applies to both donors and recipient countries, in practice, the term accountability refers mostly to the current system whereby recipients account to their donors through the regular filing of reports, generally within donor-designed M&E systems. As the case of Post-Tsunami Aceh and Nias demonstrates later, donors often require more accountability from recipients than they are willing to grant them. In the aftermath of the Accra Forum in September 2008, the United Kingdom Government (UK) initiated the International Aid Transparency Initiative (IATI) to make aid

more transparent through an accessible common format for donors to share information. To date, only 17 countries and donors have signed up³ --- a rather worrisome indication of the low priority that has been assigned to this principle.

Undoubtedly, adherence to the PDP remains a priority among donors. At issue here is the uneven compliance among them. For example, the Asian Development Bank (ADB) has placed strong emphasis on country ownership and harmonisation. The case of the ADB in Vietnam provides an illustrative case of donor attempts at harmonization. In its recent review⁴ of partnering and harmonization activities, from extensive in-country consultations with provincial governors and four other major donors through the Five Banks Initiative, the donors adopted a country strategy that was “aligned with the socioeconomic development planning performance indicators.”⁵ A concrete result of the Five Banks Initiative was the formulation of a monitoring framework that harmonizes project management reporting.

The UK Department for International Development (DfID) on the other hand, has focused its resources on civil society engagement in an effort to provide more substance to its development vision to reduce poverty and enhance participation⁶. However, for these

³ So far, the following donors and countries are signatories to the IATI: Australia, Denmark, the European Commission, Finland, GAVI, Germany, the Hewlett Foundation, Ireland, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, UNDP, and the World Bank.
[Hhttp://www.dgfoundation.org/index.php?id=331](http://www.dgfoundation.org/index.php?id=331)

⁴ Partnering and Harmonization: Review of ADB Partnering and Harmonization Strategies and Activities in Selected Countries. Manila: Asian Development Bank. March 2008

⁵ The Five Banks Initiative include the ADB, World Bank, Japan Bank for International Cooperation, Entwicklungsbank (KfW), and Agence Francaise de Developpement Partnering and Harmonization: Review of ADB Partnering and Harmonization Strategies and Activities in Selected Countries. *Ibid.*

⁶ Working with Non-Governmental and other Civil Society Organisations to Promote Development. UK: DFID. July 2006

donors, accountability remains an overriding challenge, not only for the countries which they support, but from their own internal mechanisms. For both multilateral institutions, there is scant evidence of any effort to demonstrate compliance with the principle on donor accountability.

According to De Renzio (2008: 4), mutual accountability is the “last and probably the least recognized of the five focus areas in the Paris Declaration on Aid Effectiveness.” While there has been widespread recognition and acceptance of this principle, in practice, very little has been done to monitor the commitments among donors and recipient governments to “hold the other responsible for delivering on its commitments.” (*Ibid.*) In mid-2008, a Briefing Note by the Australian Government’s Office of Development Effectiveness referred to the principle of mutual accountability as the “orphan” principle⁷ both in terms of conceptual elaboration and practical implementation.

This thorny area in the Paris Declaration puts the politics of aid center stage. For one, the decisions on allocation of aid to specific countries (or sectors or organizations) are filtered through geopolitical considerations. Case in point is Afghanistan, where according to Roberts (2009: 9), aid is used to “support military and political objectives,” and thus accountability through the production and circulation of technical reports becomes a secondary issue to achieving military and political results. Also, where results themselves are unclear or contested, what are the yardsticks of measurement for accountability? The

⁷ Mutual Accountability: ‘Orphan’ Principle of the Paris Declaration. AusAID Office of development Effectiveness. June 2008

tension between development and political/military interests, Roberts adds, begs the question of whether compliance to the PDP is at all possible.

In Asian recipient countries with less extreme conditions, accountability issues persist, mostly in terms of the asymmetrical power relations between donors and recipients. In countries where aid dependency is high, i.e., where aid forms a large portion of national budgets, there is very little leverage that countries can exercise over donors. For example, in 2004, 65% of Bhutan's central government expenditures was sourced from development assistance, and contributed 11% to Bhutan's Gross National Income (GNI). For Nepal, the figures are respectively 40% and 6%. In contrast, for that same year, only 3% of central government expenditures comes from aid in the Philippines, while in Indonesia, the figure is approximately zero percent. For both countries, official aid contributed virtually nothing to their GNI, while in Vietnam, aid's contribution to GNI is at 4-5% (see Table 1).

Table 1: Aid as a Percentage of Central Government Expenditures and Gross National Income, Selected Countries, 2002 - 2004

		2002	2003	2004
BHUTAN	Aid (%) of Central Gov. Expenditures	74	66	65
	Aid (% of GNI)	14	12	11
NEPAL	Aid (%) of Central Gov. Expenditures	40
	Aid (% of GNI)	6	7	6
INDONESIA	Aid (%) of Central Gov. Expenditures	4	5	0
	Aid (% of GNI)	1	1	0
PHILIPPINES	Aid (%) of Central Gov. Expenditures	..	5	3
	Aid (% of GNI)	1	1	0
VIETNAM	Aid (%) of Central Gov. Expenditures
	Aid (% of GNI)	4	5	4

Source: Compiled from OECD. <http://www.oecd.org/dataoecd/56/4/1867471.gif>

Despite a decreasing trend in dependency for Nepal and Bhutan, a substantial portion of their budgets still consists of aid, thus fuelling the argument that accountability requirements for donors remain a one-way street in the face of highly asymmetrical relationships.

Private Aid as an Emerging Player

Aid governance challenges are further aggravated by private aid, including the emerging players, notably the bigger philanthropic organizations (such as the Ford Foundation, the private voluntary organizations, corporations, and religious organizations),

with aid volumes sometimes surpassing those of official aid, especially in discrete areas such as health and education (Desai and Kharas 2008: 156). However, grant-giving is dominated by a few big players, notably the Bill and Melinda Gates Foundation whose grants in 2005 exceeded that of Ford Foundation, the second largest American grant-giving organization, by roughly five times (Marten and Witte 2008: 9). In 2007, the Bill and Melinda Gates Foundation disbursed approximately US\$1.7 billion which exceeded seven out of the twenty-two member countries of the DAC (Marten and Witte 2008: 12). Its largest commitment in Asia is the Avahan Initiative in India, totaling US\$338 million in 2009 to support the HIV-prevention programme.⁸

Due to the magnitude of private aid worldwide⁹, calls for mutual accountability have been issued increasingly to International NGOs (INGOs). Koch (2008: 1) maintains that INGOs are themselves donors, and that “their own adherence to aid effectiveness principles leaves much to be desired.” Further, INGOs are important conduits for ODA. The DfID, for example, has embarked on a vigorous program to work with Civil Society Organizations (CSOs) in various countries. A host of different financing mechanisms makes funding directly available to CSOs, the most prominent of which are the Civil Society Challenge Fund, the Partnership Programme Agreements, the Development Awareness Fund, and the Strategic Grant

⁸<http://www.gatesfoundation.org/press-releases/Pages/foundation-and-health-minister-azad-reaffirm-commitment-to-hiv-prevention-090723.aspx>

⁹ Desai and Kharas (2008: 160) estimates global private aid in the range of US\$33-39 billion net of net of administrative expenditures and various overheads.

Agreements. Total funding commitments under these various schemes amount to £328 million (approximately US\$537.9 million) and represent about 9% of its total expenditure.¹⁰

By DfID's own reckoning, however, much remains to be done in terms of the measurement of performance of projects supported by CSOs receiving DfID funding. M&E remains a challenge, and there are continuing issues regarding accountability of funds. Further, impact measures are difficult to establish, especially in funding areas like good governance and advocacy. Information on progress achieved due to CSO activity remains scarce, and so is its impact on poor people. Finally, overall coherence of civil society in the recipient countries remains a challenge, thus resulting in fragmentation of assistance and uneven performance among CSOs recipients.¹¹

Challenges in the governance structures of private donors strengthen demands for good aid governance. Koch (*Ibid.*) notes that the board and governing councils of 55 of the largest development NGOs is dominated by members from developed countries. Only 6%, that is, 42 out of 693 members come from developing countries, thus raising issues of fair representation and equity in decision-making. Further, redress mechanisms for complaints from beneficiaries and communities in which NGOs serve are practically non-existent, whereas these mechanisms have been institutionalized in the World Bank and the ADB, among others. Two international NGOs operating in Laos admit to the lack of disclosure policies or transparency mechanisms that allows the general public to obtain information

¹⁰ *Working with Non-Governmental and other Civil Society Organisations to Promote Development*. UK: DFID. July 2006

¹¹ A thorough review of CSO achievements can be found in *Working with Non-Governmental and Other Civil Society Organisations to Promote Development*. UK: DFID. 2006, pp. 28-33.

from them on their activities. Mostly, reporting mechanisms are for their own donors and these consist of standard financial and narrative reports.¹² While there are various formal and informal mechanisms to track the performance of multilateral institutions¹³, there are no counterparts for private aid. Other factors such as little cooperation among private donors and an imbalanced distribution of private aid activity in developing countries have established the argument for an aid governance framework that encompasses public and private aid ---- the subject of the next section, to which we now turn.

3. Aid Governance Frameworks in Asia

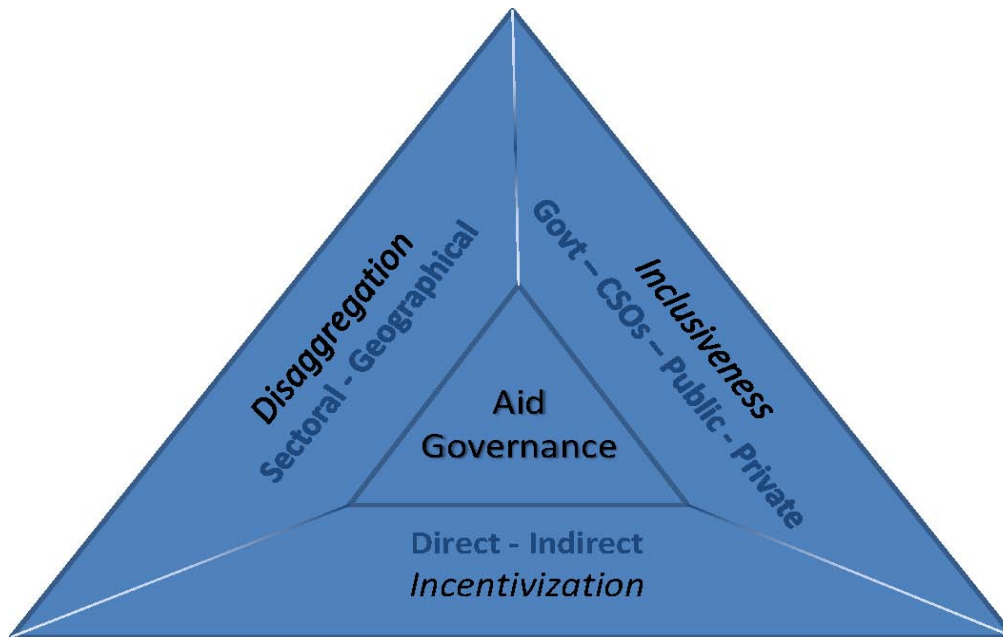
In the last five years, two major experiments in the international aid scene in Asia provide illustrative cases on strengthening country level mechanisms towards good aid governance. First is the application of the localized version of the PDP framework on aid effectiveness in Vietnam at the sub-national and sectoral levels, and second, is the design of an interim sub-national coordinating body for the rehabilitation and reconstruction of Aceh and Nias, Indonesia, following the Tsunami of 26 December 2004. This part of the paper examines these country level mechanisms to understand the key principles underlying the new modes of aid governance in Asia. Interviews with key individuals in Vietnam and Indonesia (from donors, state and non-state institutions) directly involved in the aid effectiveness platform in Vietnam and Indonesia also informs this examination.

¹² Interview with Ms. Satomi Higashi of Mekong Watch and Xiong Tsechalicha of the International Union for Conservation of Nature with Teresita Cruz-del Rosario. Laos. July 22-23, 2009

¹³ Some notable examples are the Bank Information Center and the ADB NGO Forum, both of which are non-government organizations that serve as “watchdogs” for the World Bank and the ADB.

We propose fundamental – and thus challenging - principles in designing contextualized frameworks of aid governance. Figure 1 synthesises the analytical framework of this paper.

Figure 1: Key Principles of Aid Governance



In order to ensure adaptable aid governance, these fundamental principles are: to *dissagregate* the framework of aid governance down to the sectoral and sub-country levels; to ensure *inclusiveness* of all types of donors (private and public) and ground recipients in the process; and to provide the right set of *incentives* for all stakeholders to be involved in good aid governance. Using the two case studies, each of these three principles is elaborated next.

Principle 1. Disaggregation: The Case of the Hanoi Core Statements in Vietnam

The aid effectiveness agenda received strong support from the government, given that ODA pledges in Vietnam are still among the largest in developing Asia, with total ODA pledges

in 2007 equivalent to US\$426 million in grants and US\$3,139 million in loans.¹⁴ Within only a few months after the launch of the PDP in 2005, Vietnam became the first country in Asia to officially adopt a localized version, called the Hanoi Core Statements (HCS). Results of the first two rounds of surveys for 2006 and 2008 are available and a final round is planned for 2010. In 2006, Vietnam came in 5th best among 34 countries implementing the aid effectiveness surveys.

At the Consultative Group Meeting for Vietnam in December 2007, the Director General of EuropeAid, Koos Richelle argued that in terms of aid effectiveness, “more work needs to be done, in particular for sectoral approaches allowing for more use of country systems.”¹⁵ Furthermore, the 2008 survey report (OECD DAC 2008: 20) concluded that “two particular priorities are improving the accuracy of aid reporting and increasing the capacity of local government for strategic planning and implementation”. The long term policy impact of the HCS in Vietnam has yet to fully emerge, but some trends are already discernable.

The aid effectiveness agenda is now being implemented in a disaggregated manner at the sectoral level, and plans are underway to push for a provincial level implementation. Vietnam now has 20 sectoral partnership groups, for example in agriculture, environment, transport education sectors and a Partnership Group for Aid Effectiveness (PGAE). This latter group is responsible to influence the agenda of other groups on how to put the aid effectiveness in their agenda. The OECD report further noted that the PGAE has been an

¹⁴ Presentation by Martin Rama, World Bank Vietnam “Moving to Middle-Income Status: Donors and Vietnam beyond 2010”, 29 February 2008.

¹⁵ Source:

[Hhttp://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:21578062~menuPK:387584~pagePK:2865066~piPK:2865079~theSitePK:387565,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:21578062~menuPK:387584~pagePK:2865066~piPK:2865079~theSitePK:387565,00.html)

effective forum to establish an ongoing dialogue between government organizations, donors and some civil society representatives. In addition, Vietnam hosts two International support groups: one in agriculture and rural development, and one in environment, two key priority sectors.¹⁶

But some sectors appear to be more amenable to the institutionalization of a disaggregated sectoral approach. According to the official representative of the coordinating governmental agency, the Ministry of Planning and Investment Cao Manh Hung, “in Vietnam, there has been a remarkable success in the health care sector. The Ministry of Health and 13 donors have established a partnership group in the health sector and recently issued a statement of intent.”¹⁷

In addition, sectoral studies on the tied and untied nature of aid are also currently undergoing in Vietnam, but are commissioned directly by key bilateral donors, such as DANIDA in the infrastructure sector.¹⁸ This rising trend may potentially lead to the underestimation of problems due to the impetus for consultants to report directly to the donors. An independent monitoring group at the sectoral level may be considered, just as the overall HSC agenda was independently monitored (Cox *et al* 2007).

The influence in the aid agenda is also mitigated by the fact that Vietnam is expected to reach middle-income status within a year or two. As of 2008, Vietnam’s GNI per capita stood at US\$890 (ranked 172th out of 210 classified countries), whereas the World Bank’s definition

¹⁶ Interview with Cao Manh Cuong by C. Brassard, 28 July 2009. As a result of its success in harmonization for environmental protection, Vietnam has been presented as a case study at the 3rd High-Level Forum in Accra.

¹⁷ Interview with C. Brassard, 28 July 2009

¹⁸ Interview with Edward Hedley, by C. Brassard, 24 July 2008.

of lower middle income status is between US\$976 to US\$3,855 GNI per capita.¹⁹ As a result, several large donors (private and public) are already preparing their exit strategy. According to the Asia Foundation country representative, Kim Ninh, “the Ford Foundation is expected to leave Vietnam in September 2009, and within the years 2011 to 2015, DfID and most of the Northern European bilateral donors plan to shift towards a more ‘commercial’ relationship with Vietnam.”²⁰ This event also coincides with the final round of HCS survey in 2010, where donors and government organizations will determine whether targets set in 2005 for the 12 indicators have been met.

One of the key issues for the implementation of the HCS at the sub-national level will be local capacity. The current HCS framework still relies heavily on quantifiable targets, yet as Brinkerhoff (2008: 991) argues: “The good governance agenda reinforces attention to process, treating it as a means and as an end in itself in the rehabilitated state.” Up to now, the application of the HSC clearly lacks of emphasis on areas such as decision-making processes, political processes and other qualitative issues related to local capacities.²¹ According to the former country director of ADB, William A. Costin: “A key problem to address is delayed use of money (...) Vietnam suffers from lack of capacity to absorb all the money pouring.”²² As Vietnam embarks on its post-PDP aid effectiveness agenda, the opportunity to

¹⁹World Development Indicators database, World Bank, 1 July 2009:
[Hhttp://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf](http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf)

²⁰ Interview with C. Brassard, 24 July 2009.

²¹ The optional sections of the HCS questionnaire ask very relevant questions on the expected challenges in meeting the quantitative targets and the potential suggestions to address these challenges. To date however, few organizations (donors and government) have taken the opportunity to register this information due to various sensitivities and lack of time. Interview with Tran Hung by C. Brassard, 23 July 2009

²² Interview with C. Brassard, 24 July 2009.

focus on process and other qualitative issues in aid governance is worth emphasizing in the future.

Principle 2: Inclusiveness: The case of the BRR in Post-Tsunami Aceh and Nias, Indonesia

The principle of inclusiveness in accountability mechanisms ensures participation by all types of donors (private and public), government and civil society organizations in the aid governance process. The post-tsunami reconstruction effort in the province of Aceh and the island of Nias in North Sumatra in Indonesia provide an illustrative case for three reasons. First, the disaster attracted record private aid flowing into the country immediately after the 26 December 2004 Tsunami. Second, this presented an opportunity to undertake an innovative approach to centralise aid governance in one of the largest aid projects in the world. Third, scores of evaluation reports provide lessons that can be used to analyse aid governance issues.

In an unprecedented show of international support to Tsunami victims in Indonesia alone, total pledges amounted to US\$7.2 billion, by governments and private aid. For the case of Aceh, pledges were equivalent of six times the amount of resources available in the Aceh province as compared to 1999. The role of the media was significant in generating record-breaking private aid. A year into the disaster, the International Federation of Red Cross and

Red Crescent Societies alone had raised more than US\$2 billion for all Tsunami affected countries.²³

During the peak period in Aceh and Nias, as many as 55 countries were involved, including 900 NGOs, 800 national and international organisations and 8000 foreign workers and volunteers.²⁴ This necessitated exceptional coordination efforts to ensure an inclusive process between donor partners, governments and civil society organisations. 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."²⁵

As a result, a Master Plan for the Rehabilitation and Reconstruction of Aceh and Nias was designed jointly by the National Development Planning Board of Indonesia (also known as BAPPENAS), other government agencies, line ministries, donors and civil society groups (Clark, Stephens and Fengler 2005). In parallel, a coordinating agency, the *Badan Rehabilitasi dan Rekonstruksi* (BRR), was set up on 16 April 2005 to manage this enormous flow of aid and to implement the Master Plan in Aceh and Nias, with a four-year mandate until 17 April 2009.²⁶ A key feature of this organisation was that, in addition to coordinating relief and reconstruction efforts to ensure accountability, relevance and alignment, the BRR also had

²³ "After the Tsunami come war and peace", International Herald Tribune (25 December 2005)

²⁴ Presentation by Dr Kuntoro Mangkusubroto on "Management Lessons for Host Governments Coordinating Post-disaster Reconstruction" at the Lee Kuan Yew School of Public Policy, National University of Singapore, 28 July 2009.

²⁵ Interview with C. Brassard, 16 March 2006.

²⁶ Detailed information on the BRR can also be found at <http://know.brr.go.id/H>

the authority to manage projects. By mid-September 2005, BRR had approved about 450 projects with an aggregate value of US\$2 billion out of the \$4.4 billion budget.

The former director of the BRR, Dr. Kuntoro Mangkusubroto stated recently that “the most important thing for us was accountability”.²⁷ For example, the BRR’s Religious Affairs Department’s Hasan Basri explained: “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, and they give blurry reports.”²⁸

However, the BRR did not receive immediate and full cooperation among NGOs and multilaterals, as 9 months after the disaster, only 128 out of the 438 officially registered NGOs were directly cooperating with the BRR.²⁹ One of the main reasons brought forth, was that these NGOs had begun their work prior to the establishment of the BRR and their

²⁷ Presentation by Dr Kuntoro Mangkusubroto on “Management Lessons for Host Governments Coordinating Post-disaster Reconstruction” at the Lee Kuan Yew School of Public Policy, National University of Singapore, 28 July 2009.

²⁸ Interview with C. Brassard, 2 August 2006.

²⁹ Only 128 NGOs Cooperates with BRR Aceh. (14 September 2005). Hwww.indonesia-relief.orgH.

accountability mechanisms were tied to their donor constituents.³⁰ Moreover, not all large donors agreed to be included in the Multi-Donor trust fund set up for large donors (donating above US\$10 million) and a separate Trust Fund had to be set up for example for countries such as Venezuela and China. The fact that the BRR's watchdog role was not approved by all actors meant that they failed to comply with the regulations established by the BRR.

Yet this world renowned experiment of introducing a centralised coordinating body in Aceh and Nias provides lessons for efforts in ensuring inclusiveness. When asked if a BRR-type organisation could be a way forward for coordinating multiple stakeholders involved in development at the sectoral or sub-national level, Dr Kuntoro reflected: "You need a crisis to think outside the box. We succeeded in maintaining an emergency mindset and for us it was useful. But I could see that, in the fourth year of our mandate, things were starting to be much more bureaucratic and 'back to normal'."³¹

Principle 3: Incentivization: Experiences in Designing Incentives for Good Aid Governance

The two cases discussed above highlight the need for designing the right set of incentives for all stakeholders to participate in the aid governance process. Direct and indirect types of incentives are required to ensure a disaggregated and inclusive approach. For example, direct incentives may be in the form of performance-based rewards supporting

³⁰ Aguswandi. (27 May 2005). Tsunami reconstruction plan leaves Aceh no wiser. *The Jakarta Post*.

³¹ Presentation by Dr Kuntoro Mangkusubroto on "Management Lessons for Host Governments Coordinating Post-disaster Reconstruction" at the Lee Kuan Yew School of Public Policy, National University of Singapore, 28 July 2009.

strong partnerships and the use of transparent and accountable mechanisms such as information tracking systems.

However, as seen in the Post-Tsunami reconstruction experience, there is an inherent difficulty in assessing development performance. In many cases, the non-government sector (profit and non-profit sectors) prefers to work 'outside' the government to providing their services, i.e. without having to negotiate with governments, especially since they use their own resources. As a result, the changing institutional set up to achieve the desired development outcomes may require some institutions to step outside their original mandate. Arguably, this was situation with the BRR as it went beyond its initial mandate of coordination and oversight. Ideally, institutions involved in development become social enterprises with both corporate and social responsibilities.

Indirect types of incentives for greater accountability thus become crucial. For example, providing increased voice and decisional power in the context of sectoral or sub-national partnerships may be a way forward, as is beginning to emerge in Vietnam. In addition to these political incentives, performance issues should also be considered, especially in infrastructure, where public-private partnerships often allies forces.³²

The process of designing and institutionalising these incentive mechanisms will involve changes in mindsets necessitating strong political will. For example, the authority provided to the director of the BRR was unprecedented and played a significant part in its eventual success. Not only was he empowered to decide on crucial strategic issues such as the

³² Moyo (2009) provides excellent arguments on the importance of political incentives for the case of Africa.

allocation of funds on a sectoral basis, but he also could determine the pay structure of his staff, thereby providing them with direct incentives to their application of good aid governance principles. This exceptional level of authority provided Dr Kuntoro with a means to address the many perverse incentives for civil servants or local officers whose performance is linked to inflexible performance indicators.

Finally, another important aspect is the dis-incentives on the local donors to adhere to accountability mechanisms set in place, as they may be 'competing' with other donors not just for funds but also in terms of donor effectiveness rankings. This major hurdle was also relatively successfully addressed via the design of an extensive Recovery Aceh and Nias (RAN) database on activities, inaugurated in November 2005 (Masyrafah and McKeon 2008).³³ In addition to tackling transparency and accountability issues, this mandatory mechanism to track NGO project information put pressure on donors to manage for results, which in turn could fuel additional funds into these programs and projects.³⁴

4. Future Pathways: Some Initial Thoughts

This paper argued for the use of a disaggregated approach that ensures inclusiveness and provides the right set of incentives for participation by all stakeholders. In this final section, we propose some approaches to introduce good aid governance measures, or strengthen them where they already exist, based on the three principles underlying some of the new modes of aid governance in Asia.

³³ See <http://rand.brr.go.id/RAND/H>

³⁴ Interview with Dr Kuntoro Mangkusubroto by C. Brassard, 30 July 2009

Using a disaggregated approach

The efforts among countries to interpret the Paris Declaration Principles within their local contexts are a step in the right direction, specifically with respect to ensuring country ownership of their development strategies. To ensure good aid governance, transparency and accountability measures are necessary in the process of deepening country ownership, through the inclusion of a range of stakeholders (NGOs and civil society, academics, media, and the like) in the design of national development plans. Expanding the membership in joint analytical exercises would ensure that country ownership goes beyond “government ownership.” The Five Banks Initiative in Vietnam, for example, could be expanded to include parliament, NGOs and civil society representatives, as well as Vietnamese academics and community level leaders and organizations, to participate in the analytical exercise.

Upon completion of the analytical exercise, it is recommended that an extensive consultative process be undertaken to widen even further the range of other stakeholders, to solicit their inputs and incorporate these in the final development output. This ensures that the development plans and strategies of the country represent that widest possible agreement and commitment among all actors. For example, Care International is a global NGO that proposes the involvement of local governments, national and locally-based NGOs and community representatives in decision-making over budget allocations and constructing performance assessment frameworks. This, according to Care, ensures democratic ownership of a crucial component of the development process, provides downward accountability mechanisms, and expands ownership beyond donors and specialized central agencies, particularly the Ministry of Finance. For donors, this implies strong support for

decentralization processes including the downward flow of resources and the creation of local funds that can financially sustain localized structures to incorporate “voice” and participation among a broad range of development actors.³⁵

Ensuring inclusiveness

Aid governance mechanisms, especially those that promote mutual accountability, have been proposed to address relationships among donors and their partners. De Renzio (2006: 3) denotes such mechanisms “through which people entrusted with power are kept under check to make sure that they do not abuse such power, and that they duly carry out the functions for which the power was originally entrusted.” For such mechanisms to succeed, these have to be all-inclusive. That is, they have to incorporate all stakeholders (donors, recipients, communities, etc.), and these have to be organized at all levels --- international, regional, country, sub-country.

One possibility is through a “strategic dialogue” between public and private donors (Marten and Witte 2008: 27), to strengthen coordination but also to hold donors accountable to each other. With the large number of private aid that contributes to global development assistance, the time is ripe to construct a mechanism that would involve both public and private donors in a joint effort to promote better aid governance practices. In this respect, the IATI would be a good venue to enlist and expand private donors among its ranks. The strategic dialogue however needs to have a strong infrastructure of mutual reporting, to ensure transparency among the donors and their partners. The Afghan Compact illustrates

³⁵ Mutual Accountability in Aid Relationships. Making Aid Work for the Poor. Care Policy Paper. Care International. 2007

the need for strengthening transparency and accountability among all donors in Afghanistan, in order to bring about more effectiveness in Afghan aid, and more importantly, to ensure that development assistance does not, wittingly or unwittingly, exacerbate the problem of corruption in Afghanistan (Roberts 2009: 10).

Despite its limitations and challenges, the Afghan Compact simultaneously provides an example of the principles of disaggregation and inclusiveness to promote good aid governance. Further strengthening of the inclusiveness principle would require decentralized versions of the Afghan Compact, to replicate these in geographical areas where there is a larger concentration of development assistance and where there are numerous development actors who implement development projects. Also, the *Badan Rehabilitasi dan Rekonstruksi* (BRR) is worth examining in terms of its potential for replicating in areas with similar development features and requirements.

Provides the right set of incentives

To address the issue of incentives, we propose that aid governance practices occur through a gradual process, by introducing transparency and accountability measures in specific sectors that demonstrate high visibility and positive impact. Ideal candidates are the health and education sectors, gender empowerment, and microfinance (social enterprises). These sectors are relatively “easy” and would not generate controversy nor widespread disagreement among donors, recipient countries, NGOs, and community representatives.

According to a World Bank official in Laos, the biggest participation in meetings from among the NGO sector in Laos comes from the health and education sectors.³⁶

Performance measures are usually straightforward (e.g., increase in life spans; reduction in infant and maternal mortality rates; etc.) whereas coordinated work among official and private donors in the hydropower and infrastructure sectors are the most contentious. By starting with a “building block” approach to incentives, the possibility is wide open for future collaboration on issues that are more difficult and controversial. Incentives can also be introduced in the performance systems among donors and recipient countries. The ADB recommends that “Paris-related performance indicators” be incorporated in staff competencies and utilize these for various human resource functions (e.g., selection and recruitment, promotion, secondment, etc).³⁷

Finally, an incentive to promote good aid governance is the practice of regular and independent monitoring and reporting exercises on the implementation of the Paris principles especially on mutual accountability among various development partners. An external panel with independent funding can undertake periodic assessment among donors and countries, specifically those that promote “best practice” with good lessons to generate and circulate to the larger development community. An independent monitoring team undertook an assessment of the implementation of the Hanoi Core Statement in November 2007, with a specific proviso that the report “does not reflect the views of the government of Vietnam,

³⁶ Interview with Patchamuthu Ilangovan by Teresita Cruz-del Rosario, 22 July 2009

³⁷ Evaluation of the Implementation of the Paris Declaration at the Asian Development Bank: A Development Partner’s Study for an OECD-DAC Joint Evaluation. Reference Number SST: REG 2008-03. Special Evaluation Study. Manila: Asian Development Bank. p. 27

development partners or other organizations consulted by the team.”³⁸ The views contained in such reports reflect independence from the organizational agendas of donors, recipient governments and NGOs, and should ideally contain a balance of constructive criticism and positive proposals.

The incentive to look at the Vietnam “success story” provides guidelines and benchmarks that could be transferred to other Asian developing countries faced with similar challenges. At the same time, the Vietnam assessment report emphasizes the specific context of Vietnam that may only be applicable to itself. In this regard, aid governance must continue to search for incentives that respond to peculiarities of the development situation in all Asian countries rather than construct an “ideal type” which countries must emulate.

³⁸ Marcus Cox, Sam Wangwe, HIsaake Mitsui, and Tran Thi Hang. *Independent Monitoring Report on Implementation of the Hanoi Core Statement*. Final Report. November 2007

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List of interviewees

Name	Organization	Position	Interview Date
INDONESIA			
Wolfgang Fengler	World Bank Indonesia Jakarta Office	Senior Economist	16 March 2006
Hasan Basri	Badan Rehabilitasi dan Rekonstruksi (BRR Aceh-Nias)	Religious Facilities Coordinator	2 August 2006
Dr. Ir. Kuntoro Mangkusubroto	Badan Rehabilitasi dan Rekonstruksi (BRR Aceh-Nias)	Former Director	30 July 2009
LAOS			
Satomi Higashi	Mekong Watch National University of Laos	Research Fellow	21 July 2009
Patchamuthu Ilangovan	World Bank Laos	Country Manager	22 July 2009
Xiong Tsechalicha	International Union for Conservancy of Nature	Senior Programme Officer	23 July 2009
VIETNAM			
Tran Hung	Comprehensive Capacity Building Program for ODA management in Vietnam (CCBP)	M&E Specialist	23 July 2009
Edward Hedley	Mekong Economics Ltd.	Economist	24 July 2009
Kim Ninh	The Asia Foundation	Country Representative	24 July 2009
William A. Costin	Public Policy Training Institute Hanoi	Program Advisor and Former National Director of the ADB in Vietnam	24 July 2009
Vu Thi Bich Hop	Center for Sustainable Rural Development (SRD)	Executive Director	24 July 2009
Cao Manh Cuong	Foreign Economic Relations Department (FERD) Ministry of Planning and Investment (MPI)	National Coordinator	28 July 2009