

## International Technical Assistance for Local Governance Reform in the Post-Suharto Indonesia: Sustaining Aid Effectiveness?

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**Abstract** This paper highlights how international donors' community establishes relationships with Indonesian government in supporting Governance Reform Programs in the Post-Suharto Indonesia. The discussion developed within the notion of aid effectiveness that formally recognized after the Paris Declaration agenda 2005 and also the fact that Indonesian government and its development partners declared "Jakarta Commitment" to make aid effectiveness real in the Post-Suharto Indonesia. The research shows that following the fall of Suharto regime, the governance reform programs were viewed as one of the most significant areas supported by the international donor community as Indonesian development partner. Many donors believe that Indonesia needs great technical assistance supports to enhance the local governance reform process. However, the extensive involvement of the donors does not guarantee that the technical assistance offered by the donors effectively implemented and addressing the sustainability issues. This is related to the donors' fragmented behaviors, unclear national and local legal frameworks, typical red tape bureaucracy, and the dynamic of local politics.

**Key words** International technical assistance, Local governance reform, Aid effectiveness, Post-Suharto Indonesia

### 1 Introduction

The changing patterns of international development was closely related to end of the World War II- the time when the Newly Independence regions factually needed external supports to fund their development (Prank 2004; Xayapong 2002). Most of ex-colonialist countries in the North became aid providers for their former colonies through various international technical assistance programs. Many believed that international technical assistance was an appropriate tool to support development process in the Newly Independence regions (Severing & Ray 2009; Wood 1989; Hater & Watson 1985). Despite negative criticism on the effectiveness of aid, technical assistance remains as one of the core strategies. Easterly & Futed point out, technical assistance offers support in the form of knowledge sharing, skill upgrading, and technical know-how (Easterly & Futed 2008).

The technical assistance was initially focused on infrastructure development in former colonies as a "mechanic of decolonization" of the former colonialist countries (Hater & Watson 1985, p. 6). Even though the United Nations (UN) involved in the technical assistance programs as early as 1946, it was the successful implementation of the Marshall Plan and President Truman policy on Aid giving to underdeveloped nations that fostered the growing number of international technical assistance (Prank 2004; Riddell 2007; Marot's 2010). The establishment of the Organisation for Economic Co-operation and Development (OECD) in 1961 further emphasized the significant roles of aid to finance development in developing countries (DCD-DAC 2012).

Like other newly established regions, Indonesia was also gained big supports from international donors since its early independence dated back in 1945. The latest status of Indonesia as one of a Middle Income Countries makes aid least significant to Indonesia; the country is now having minimum percentage of foreign aid compared to domestic revenues and private income (Fenny & Clarke 2009, p. 24).<sup>1</sup> During the Post Suharto period, the effectiveness of aid has also become an important government agenda. International donors are now known as development partners (Walsh 2005: 4). In relation to this, the Indonesian government demanded that its development partners embrace clear policies on how aid will be used, indicating that aid should comply with the Indonesian Medium Term Development Plan 2004-2009. One instance of this was evident when the Minister of the State

<sup>1</sup> Low-income countries include Afghanistan, Cambodia, Laos and Timor-Leste in Asia and Kiribati, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu in the Pacific (Feeny & Clarke 2009: 24).

Development Planning Agency (*Badan Perencanaan Pembangunan Nasional, Appends*), expressed government concern about aid effectiveness during the 2005 meeting of the Pre Consultative Group on Indonesia (Pre CGI). Before it was disbanded in 2007, the CGI conducted annual meetings of its thirty member institutions to discuss development finance and to monitor Indonesia's debt levels. Indonesia chaired the 2005 meeting, amidst calls for increased control by the nation over its economic management and development policies.

However, international aid to Indonesia has always been debatable due to its strategic political context as shown in the first two authoritarian regimes- Sukarno (1945-1965) and Suharto (1966-1998) governments. Even though both of the regimes generally portrayed different attitudes towards International aid, strong political debates among elites criticizing the negative impact and the motive that might hinder the hidden agendas behind aid giving (Road night 2002). The present relationships between the Indonesian government and its donors –recently called development partners to some extent influenced by the initial relationships built in the early stages of the country's independence.

The down fall of Suharto government in 1998, introduced a new face of Indonesian government structure. Indonesia is moving toward a more decentralized government structure and functions were accelerated through various donor-funded reform programs (Aspin all 2010: 2). Principal examples of these programs include the Partnership for Governance Reform in Indonesia (supported by the UNDP in March 2000), the Australia-Indonesia Partnership for Decentralization (AIPD) (Au said 2010-2015), the Asian Development Bank's Local Government Finance and Governance Reform Program (2011), and Germany's GTZ Good Local Governance activities (GTZ GLG 2005-2009).<sup>1</sup> These programs demonstrate that international donors have been playing an important role to support Indonesia's reform agenda.

This paper highlights how international donors' community establishes relationships with Indonesian government in supporting Governance Reform Programs in the Post-Suharto Indonesia. The discussion developed within the notion of aid effectiveness that formally recognized after the Paris Declaration agenda 2005 and also the fact that Indonesian government and its development partners declared "Jakarta Commitment" to make aid effectiveness real in the Post-Suharto Indonesia. The paper further discusses the strategy to sustain aid effectiveness in Indonesian context.

## 2 Donor-funded governance reform in the Post-Suharto Indonesia

As stated earlier in this paper, one of the most significant changes in the Post-Suharto Indonesia is the switching nature of government management. The quick swing from a highly centralized government into a more decentralized one in Indonesia often known as "a big bang" approach. After thirty years of vastly centralized government maintained under Suharto regime, Hobbies government introduced decentralization Law No. 22/1999 on local autonomy and Law No. 25/1999 on Fiscal Balance (Takeshi 2011; Widianingsih 2007; Sjamsuddin & Noor 2012; Rahmatunnisa 2013). Indonesia needed two years to implement the decentralization laws that often cited as "the most ambitious and far-reaching policies" on decentralized governance (Buñuel et. al 2013, p. 857). The laws also took further impact on bureaucratic structures and public investment, most state agencies at the regional and local levels were dissolved, and their personnel were transferred to subnational governments. 239 provincial-level offices of the central government, 3,933 district-level offices, and more than 16,000 service facilities were transferred to district (*kabupaten*) governments. With the increased responsibilities and personnel, the subnational share in government spending jumped from 17 percent

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1 The Partnership for Governance Reform in Indonesia is an Indonesian organization committed to promoting and advancing good governance. The Partnership has grown fast; from a donor-led initiative to becoming a trusted, neutral and prominent Indonesian-managed institution. It has a governing Board composed of 12 eminent reform-minded Indonesians, representatives from three multilateral organizations: the Asian Development Bank, the UNDP and the World Bank, and six ambassadors from committed countries. The Partnership became operational in May 2001 as a UNDP project and its trust fund began disbursement in June 2001. The Australia Indonesia Partnership for Decentralisation (AIPD) aims to improve the way in which district governments are able to provide essential services in some of the poorest areas of Indonesia, including in East Java, East Nusa Tenggara, West Nusa Tenggara, Papua and West Papua.

to over 30 percent in 2001 and 2002 (World Bank 2003; Hofman & Kaiser 2002: 1-2). About one third of the total state expenditures are transferred to local governments under decentralization scheme. In addition, about half of all public investments are managed by the local governments (World Bank 2010a: 2). Thirteen years after the implementation of the “big bang” decentralization model, Indonesian decentralization laws moved back to a less decentralization nature of government through the enactment of Law No. 32/2004 and Law No. 33/2004.

My research found that the history of decentralized governance in Indonesia could not be separated from the role of International Donors Community as one of important Indonesian development partners. The involvement of International Donors Community in Indonesian decentralization context initially started in 1980s through local capacity building project in Bema regency West Nusa Tenggara. The program was a collaborative project under the responsibility of the Ministry of Home Affairs (Mohan) and the National Development Planning Board (*Appends*) in collaboration with the German government aid agency *Deutsche Gesellschaft four Technics Zusammenarbeit* (GTZ). GTZ was known as leading institution since it had long involvement in supporting Indonesian decentralization programs. Though the institution later changed its name into German international development institution called The *Deutsche Gesellschaft fur Internationale Zusammenarbeit* (GIZ) GmbH on 1 January 2011(Widianingsih 2014).<sup>1</sup>

At global level, donors’ involvement in decentralization issues was firstly introduced in 1970s which characterized by local government capacity building-type projects, including the use of new planning and management tools (Silver 2003, p. 421). In the 1980s, donor community put more emphasize on the importance of decentralizing planning and management process to local level government by developing direct technical assistance on policy reform agendas(Silver 2003: 421-2). Then in 1990s the tendencies of donor proliferation in governance and decentralization issues became stronger and widely recognized (Damayanti 2004: 2-3). Similarly, Silver and Takeshi found that in 1990s democratic governance, community organization empowerment and civil society development programs became the main focus of donor funded decentralization programs (Silver 2003; Takeshi 2011). The donors believe that decentralized government structure enable the community to be actively engage in decision making processes. Furthermore, decentralization can be a tool to improve local government capacity in delivering public services (DSF 2006; Smoke, Gómez et al. 2006).

The noteworthy donors’ involvement in Indonesian decentralization agenda was better acknowledged in April 2006. At that time, a new international consortium of major development institutions in Germany established a Joint Working Group on Decentralization (JWGD). It was functioned under the Consultative Group on Indonesia (CGI), an institution that formed to administer and synchronize Indonesian foreign debt. The CGI was a shared effort of the Indonesian government and the World Bank. The JWGD aims to support decentralization and local governance in developing countries as part of public sector reforms and poverty reduction strategies. To achieve these aims, the JWGD conducted regular meetings separate from the annual CGI conferences. The meetings aimed to increase effective coordination between donors and Indonesian officials National Development Planning Agency (*Appends*), Ministry of Home Affairs (Mohan), Ministry of Finance (Move) and

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<sup>1</sup> The GTZ works for the German Federal government and other clients, public or private sector, national or international, such as the European Union, the World Bank or other organization under the United Nations (UN). It also works in collaboration with private sector companies. At the time of my research, German Government technical assistance projects to Indonesia were implemented under the German Technical Development Assistance Institution called the *Deutsche Gesellschaft fuer Technische Zusammenarbeit* (GTZ) which has been working in Indonesia since 1975. However, recent political change in the German government led to a new Germaninternational development institution called The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) GmbH on 1 January 2011. This institution brings together the long-standing expertise of the *Deutscher Entwicklungsdienst* (DED) gGmbH (German development service), the *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ) GmbH (German technical cooperation) and Inwent – Capacity Building International, Germany

Ministry of State Apparatus Empowerment (Men PAN) (Winter 2010: 19).<sup>1</sup> The Indonesian government and the donors agreed to establish a permanent secretariat for the JWGD in Jakarta to ensure more effective aid management in Indonesia. Unfortunately, the dynamic relationships between Indonesian and the Netherlands government led to the dismissal of the CGI in 2007. As a result all of the efforts to synchronize aid to Indonesia could not be implemented.

Even though the CGI removal negatively influenced the way the JWGD works, the International Donors community in Indonesia continues their decentralized support projects in various different institutions. Based on my interview with some leading international donor's representatives based in Jakarta, informal meetings among decentralization experts representing different donor funded decentralization projects in Indonesia endured. The meetings occasionally shared practical challenges of programs implementation which mostly related to the lack of coordination efforts among all stakeholders involved. Hence, the need to establish a coordinating institution getting stronger. This is why, later, in 2007, the DSF (Decentralization Support Facility) was established to coordinate international donor supports to Indonesia. The membership and objectives of this approach are similar with the JWGD which could not operate after the dismissal of its affiliated institution-the CGI (Pollard in Winter 2010, p. 19).

However, as a coordinating institution for decentralization, the DSF applied similar principles with the JWGD. The institution was highly driven by international donor's community who has been working in the area of decentralization projects. Because of that, my field research revealed that some Indonesian high rank officials strongly criticize the DSF for lack of engagement with Indonesian government as the beneficiary of the donor funded decentralization programs. In my opinion, the issues on the DSF establishment highlight the unequal power relations between the Indonesian government and its development partners. This is probably the best explanation why almost all coordination efforts on aid to Indonesia remain stagnant and out of focus. As winter stated that the renaming of the Donor Working Group on Decentralization (DWGD) into the Development Partners Working Group on Decentralization and Local Governance (DPWG DLG) has been mainly used as an information sharing forum among donors without Indonesian government concern (Winter 2010). Yet, the effectiveness of aid in the Post-Suharto Indonesia remind imperative. The critical question is which parties have responsibility to ensure the effective implementation of such programs? Is that the responsibility of Indonesian government or International donors?

As Takeshi has pointed out, the Post-Suharto Indonesia places decentralization and participation as the main instruments for strengthening democratic reform. This view is in line with the concerns of international aid agencies which believe that there is a need to build the right institutions for a more democratic society (Takeshi 2011: 414). This approach aims to make public institutions more accessible and responsive to the poor, as well as building and strengthening representative institutions (Takeshi 2011, p. 414). In this, recent donor policies on decentralization and local governance assistance are closely linked to achieving the Millennium Development Goals (MDGs) (Fenny & Clarke 2009, p. 4). However, as Fenny and Clarke argue, achieving the MDGs is not merely the task of international donors. The recipient countries are responsible for managing the resources through the improvement of policy and governance (Fenny & Clarke 2009: 17). Importantly, Stephen Howe considers that the interactions between the donors and recipient countries are highly significant in

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1 In 2010, members of the group were the African Development Bank; Austrian Development Agency; Belgian Technical Cooperation; Canadian International Development Agency; Dutch Ministry of Foreign Affairs; Europe Aid, European Commission; French Ministry of Foreign Affairs; French Development Agency; German Development Bank (KfW); German Development Service (DED); German Federal Ministry for Economic Cooperation and Development (BMZ); Gesellschaft für Technische Zusammenarbeit (GTZ); InWent gGmbH Germany, Capacity Building International; Inter American Development Bank; Irish Aid; Joint Africa Institute; Ministry for Foreign Affairs of Finland; Norwegian Agency for Development Cooperation; Royal Danish Ministry of Foreign Affairs; Spanish Ministry of Foreign Affairs and Cooperation; Swedish International Development and Cooperation Agency; Swiss Agency for Development and Cooperation; UN Capital Development Fund; United Nations Development Programme; UN-Habitat; United Kingdom Department for International Development; U.S. Agency for International Development (USAid); World Bank (DPWG LGD 2007; Aoki & Vinuela 2010)

making aid effective (Howe's 2011).

Through various donor support projects and programs, the mainstreaming of local governance and decentralization programs has become an important factor in reducing poverty rates in developing countries (Aoki & Manuela 2010). Most international donors claim that the programs have been successfully implemented and have enabled democratic transformations in many developing countries (Aoki & Manuela 2010; Takeshi 2011). Yet, in Indonesia, there are two contradictory arguments about the progress of donor support governance reform. As Takeshi argues, the implementation of reforms remains difficult and challenging. For example, the poor are not included in policy making nor have the poor achieved sufficient benefit from development (Takeshi 2011: 414). Despite that, positive examples of reform are identifiable. For example, my field research in Mata ram City showed that the local government planning board successfully facilitated grass roots level planning processes. Other examples can be seen in the participatory development planning in Solo city (Widianingsih and Morrell 2007; Widianingsih 2005).

### **3 Sustaining aid effectiveness in Post-Suharto indonesia: Grey or bold translation of Paris development agenda?**

The biggest international criticism on aid giving is mostly focused on how effective aid can be distributed to the recipient countries (Genie et. al 2012; Hong & Lee 2013). Furthermore, criticism also related to the commitment and ability of aid experts to learn from previous successful and also failed aids delivered in the last fifty years (Marot's 2010: 3). Riddell argues that aid might still outlines similar development problems such as global poverty, but the difference lay in the way world leaders emphasize their commitments supporting development in developing countries. The campaign against poverty launched in 2005 by the G8 countries' leaders (Riddell 2007: 2). Although the recent debates of aid put more attention to the capability and right of recipient countries, the questions on its effectiveness in eradicating poverty, initiating reforms, changing governance, and advancing the MDGs are still remaining (Riddell 2007: 2). As point out by Hong & Lee that since the Post World War Two, the contribution of aid to economic development and democratization process in developing countries have not shown a significant impact (Hong & Lee 2013: 173).

The recent quest for improved aid effectiveness is not only directed to the donors, but also requires that recipient countries more appropriately implement and manage aid programs (Ndikumana 2012: 1). Indonesia's formal allegiance to aid success is documented in the Jakarta Commitment 2007 in which government and donor partners agree to adhere to international agreements including the Paris Declaration (Winters, 2010). Later, in 2009, the government established the Development Aid Effectiveness Secretariat (A4DES), under the national development planning agency *Bappenas*. As well, efforts to achieve success in decentralization and good governance programs rely on government and development partner coordination through the organization known as the Decentralization Support Facility (DSF). This was established by the World Bank on behalf of nine donor institutes in 2007 to improve the effectiveness of donor funded decentralization in Indonesia. In one activity to improve donor coordination and avoid overlapping programs, the DSF has created data bases of active donor funded decentralization programs. However, the support of international donors remains a sensitive issue in Indonesia and sparks political debates. For example, some government officials consider the World Bank's management of the DSF as a negative intervention. For critics, the existence of the DSF implies the control of foreign powers over the direction of Indonesian development. The DSF has faced many challenges as power is negotiated between the various interest groups.

Project evaluation reports and academic research reveal shortcomings from both the donors' and the beneficiaries' implementation of decentralization programs. For example, conflicting program design and weak coordination are problems arising from different understandings of decentralization and local governance among donors and other mechanisms of aid management. Other examples are fragmented activities, such as when donors share a small fund across different sectors; policy gaps between donor and beneficiary; inconsistency with other donor programs, and inconsistencies within program design (Walsh 2005; DPWG LGD 2007; Eaton et. al 2010; McCormick & Schmitz 2009; Knack & Smits 2012).

The first evaluation of the Paris Declaration Agenda principles in Indonesia was carried out by the OECD in 2008. The report found that all five dimensions of the Agenda are operating in the moderate and low range. These include ownership indicators that reflect the ability of the recipient countries to take a lead over development policies and strategies, as well as coordinating various development stakeholders across the county. The indicators for ownership show that a group of relevant high ranking officers and their respective staff in *Appends* and *Move* has progressed positively to varying degrees. However, other ministries are lagging. Indonesia's recent mid development plan the *RPJMN (Rancangan Pembangunan Jangka Menengah)* also adopted these principles, and efforts to increase government ownership are also supported by the development partners' commitment as attested by their signing of the Jakarta Commitment. This also shows in their active participation in the working group under A4DES (Aid Effectiveness for Development Secretariat) activities.

In terms of the Paris Agenda's harmonization principle, the Indonesian government emphasizes the importance of establishing a coordination body to achieve more effective aid. However, this is still facing a great challenge because of the different policies and practices of the development partners. For example, during my fieldwork interviews I was told of different frameworks for monitoring and evaluation-Indonesian government applies yearly monitoring and evaluation, whereas development partners monitor and evaluate based on defined targets of each program. Although some partners are willing to increase collaborative programs, the national government has yet to lead a strategic coordination.

Despite the success stories in project reports, the fast growing donor involvement in governance reform has generated criticism and debate among development practitioners and academics. Many argue that donors failed to adequately address the state capacity issue (Brautigam & Knack 2004; Pronk 2004). In Sub-Saharan Africa, where international donors are also strongly involved in decentralized governance reforms, long term assistance has resulted only in weak state institutions (Brautigam & Knack 2004: 258, 260). There were pessimistic views on the initial decentralization program in Indonesia (2000) delivered by the Consultative Group on Indonesia (CGI) members. They warned the Government of Indonesia about the danger of implementing decentralization without appropriate policy frameworks. The IMF in particular, expressed strong concern on the possibility of increasing debt for local government (Silver 2003: 423). Notwithstanding those, and other problems, by 2010, decentralization had become an important part of the Indonesian government agenda. Achievements include devolving key public service provisions to district levels, reassigning 2.5 million civil servants, and conducting local government direct elections. However, power relations between provincial and district government remain unclear. Other problems relate to financial management, and most local government areas still heavily rely on central government support (UNDP 2011).

The exact number of donor funded decentralization programs and projects in Indonesia were difficult to determine prior to 2007, because comprehensive statistics were not maintained. Various sources present different numbers of donors in governance reform (DSF 2007; Edi & Setianingias 2007). This occurred due to poor coordination among governmental bodies and donors. When I conducted fieldwork interviews in 2009 with NGO practitioners I found that the donor community is still frustrated by limited coordination between the key actors in Indonesian decentralization programs. For instance, government departments have different policy and procedures for dealing with donor funded programs. Moreover, decentralization policies and programs occasionally overlap and are in some cases contradictory – often because of weak national frameworks (DSF 2006: 3)<sup>1</sup>. Following strong demand for more information about donor activities, the Directorate for Capacity Building and Local Finance in the Ministry of Home Affairs, established a database of donor support for decentralization programs (DSF 2007: 1).<sup>2</sup> This is called the Donor Mapping Data Base Report, and aims to keep both donors and government up to date with existing and planned donor funded projects. It will also be used for monitoring purposes (DSF 2007: 2). Based on the 2007 Report, donor activities in Indonesian decentralization programs consist of 30 projects from; ADB, AusAID, BMZ, CIDA,

1 Ministry of Home Affairs (MOHA), Ministry of Planning (BAPPENAS), and Ministry of Finance (MOF)

2 Defined as programs that support “the transfer of authority to plan, make decisions or manage public functions for the national level to any organization or agency at sub-national level” (DSF 2007, p.1)

DFID, DT, GTZ, UNDP, USAID and the World Bank The projects covered 26 out of 33 provinces (81.8 %) and 310 out of 440 Districts and Municipalities (70%).<sup>1</sup> They focused on three main themes of public service delivery, planning and budgeting, and financial procurement (DSF 2007: 3-4).

As can be seen, the involvement of donors in Indonesian decentralization programs remains high. In fact, most of the governance reform programs in Indonesia are conducted by foreign donors and foreign implementing agencies (Edi & Setianingtias 2007: 4)<sup>2</sup>. Between 2000 and 2005, the number of donor agencies active in Indonesia governance reform projects increased by 50%, from 12 to 22. The number of projects funded by these donors increased by 263%, from 35 projects in 2000 to 217 projects in 2005 (Edi & Setianingtias 2007: 5). Prior to 2000, initial donor funded projects were mostly bilateral agencies. More recently, International Financial Institutions (IFIs) became directly involved.<sup>3</sup> Prior to that, the IFIs tended to undertake policy dialogues at international level rather than having direct involvement in decentralization program implementation (DRSP 2006a: 44).<sup>4</sup>

As mentioned above, a major problem in implementing donor funded decentralization programs is the lack of coordination at almost all levels of government and among the stakeholders involved. At the national level, most donors only work with their counterparts in certain units. For example, the ADB Sustainable Capacity Building for Decentralization (SCBD) only liaise with certain individuals at MoHA. Despite the existence of multi donors coordinating body such as the DSF and A4DESK, my research found that the coordination with donors is also conducted through informal personal discussion. Most of the official donors believe that to some extent informal discussion strengthen the coordination efforts build among the development partners working in the same area of concern (interviews with DSF, Bappenas, A4DESK officials in Jakarta 2009).

The newly established umbrella coordinating bodies such as the Decentralization Support Facility are important for international donors to harmonize aid (Winter 2012: 2). There are also selective coordination initiatives which are affiliated with certain donors' projects and funding (Edi & Setianingtias, 2007). Examples of these are the Partnerships for Governance Reform (USAID), the Multi Donor Trust Fund (UNDP), and the multi-donor Support Office for Eastern Indonesia known as SoFEI. These coordination efforts are initiated both by the Indonesian government and its development partners (Edi & Setianingtias 2007: 12).<sup>5</sup> The Indonesian government has not been able to effectively combine these institutions, and as winter (2012) indicated, there is no single central institution with the responsibility to coordinate donor funded decentralization programs.

As a result, most projects run as single entities rather than working as part of an overall structure. Moreover, each government department has its own interest in implementing a program, related to budget allocations for the implementing institution. In 2000, an attempt was made to overcome these problems and to coordinate donor activities, when the Donor Working Group on Decentralization was established. However, this failed to identify the duplication of programs (DRSP 2006, p. 44). Thus, in

1 This number is quoted from Donor Mapping Database: Narrative Report (DSF 2007: 4), although an inconsistency occurs on p.9 where the number of municipalities is 308. The database does not record projects of donors which are not part of the DSF.

2 Donors are multilateral or bilateral. Most of the bilateral donors are governments, but they can also be private organizations such as NGOs or foundations. The foreign implementing agency in charge is responsible for carrying out the funded project. Some foreign donor agencies also carry out the project, some entrust the implementation to other foreign organizations including multilateral bodies, bilateral governmental organizations, international NGOs, or private companies.

3 IFIs are financial institutions that have been established (or chartered) by more than one country, and hence are subjects of international law. Their owners or shareholders are generally national governments, although other international institutions and other organisations are occasionally shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. Many of these are multilateral development banks. The best-known IFIs are the World Bank, the IMF, and the regional development banks.

4 The World Bank sponsored the CGI meeting in 1995 and promotes decentralization through the Joint Working Group on Decentralization (JWGD) chaired by Indonesia (MOHA) and co-chaired by donors (DRSP 2006, p. 44)

5 Recent selective coordination initiatives only involve several donors.

late 2005, a further initiative on building effective and active coordination of donor funded programs began with the establishment of the Joint Working Group on Decentralization (JWGD). Despite weaknesses identified by winters (2012), the establishment of the Decentralization Support Facility in 2005 nevertheless brought about significant progress in coordination, initiating reforms such as regional government performance indicators, the Governance and Decentralization Survey, and the Stocktaking on Decentralization Program (DRSP 2006a: 45).<sup>1</sup>

Milton Friedman, one the most influential of development thinkers argue that there is a clear evidence of the role of aid in developing countries economic development (Prank 2004: 4). The United States for example has been actively involved in supporting economic development for developing countries in Asia, Latin America, and Pacific Regions. However, analysis on the impact of economic aid to development in developing countries varies. The research literature argues that, statistical studies on the relationships remain inconsistent. The Development Assistance Committee (DAC), a donor office based in European Union comprising all the western donors plus Japan and Korea argue that this reflects the different purposes of aid and multiple characteristics of recipient countries.

Furthermore, the DAC OECD notes that the challenges of aid to developing countries related to the question on how to make aid more effectively implemented. For this some donors, practitioners and academics also conducted some research on the effectiveness of aid since early 21st century and found general conclusion that the impact of aid to economic development and poverty reduction efforts are limited (Hong & Lee 2013: 174). For this Prank argues that aid is not the main agent of development, but only as a “catalyst”. The effectiveness of aid could not be measured only by simple measurement of general economic data, but need to look deeper on specific objectives (Prank 2004; Martinussen 2004; Edgren 2004). Edger states that the contributing factors for aid effectiveness related to the view that aid is positioned as a “compensation” from the former colonialist countries to their to former colonies, this reality explains why aid made the relationship of donors and recipients stronger than in the colonialist era (Edger 2004: 43).

My interview with donors’ counterparts at Ministry of Home Affairs revealed that, in some cases, poor governance exposes the government officials as the counterpart of the donor funded program to use aid fund for personal purposes. To some extent, the unclear aid financial administration resulted in the possibility of corruption. This issue has been raised during Suharto Era, at that time the United States as one of the most influential donors expressed her concern on Indonesian budget structure that vulnerable to corruption as I discussed in Chapter 4. Furthermore, at the time I did my field research, donor support to the MOHA was not included in the national development budget 2008 has caused the misuse of aid fund. The Indonesian National Auditor (*Badan Pemeriksa Keuangan, BPK*) found that some activities in the MoHA funded by two different resources (National Budget and donor support). Because of this, the notion of on budget and off budget revealed (Interview with MOHA staff, 2009). This finding shows that in term of Indonesian financial management, the legacy of Suharto Era continues and practices in the Post Suharto Indonesia.

At policy level, the Ministry of finance enacted a new regulation on project management. It is expected that all donors fund should be integrated in national Budget. In practice, this new regulation interpreted by signing up the Jakarta commitment and the establishment of the A4DES office. However, the law could not be successfully implemented because technically donors have their own financial system that does not fit with Indonesian system. Every country has its own distinctive financial management regulation. Moreover, the problem also related to the technical problems. For example, some donor programs that are in the process of implementation and could not just stopped and switch into new system.

Furthermore, the difficulty also related to other complex classical managerial problems, weak coordination amongst Indonesian ministries, lack of effective communication between Indonesian government and its development partners. This made the information on donor mapping data base produced by Indonesian government and the DSF far from expected standard. Consequently, some donors that are currently working in Decentralization and Good Governance issues often pick the

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<sup>1</sup> DSF is coordinated by the World Bank under a Trust Fund Arrangement. The partner agencies include ADB, AusAID, CIDA, DFID, GTZ, Netherlands, UNDP, USAID, and World Bank (DRSP 2006: 44).



easiest way to deal with the counterpart without considering “formal authority” and mechanism.

After the Paris Declaration Agenda 2005 which urge for the important of aid effectiveness, Indonesia also endorsed Jakarta commitment to coordinate aid in Indonesia. The establishment of A4Des in Jakarta expected to overcome the problems of aid. However, this institution has not functioned well. The process of decolonization in Asia, Africa and Latin America has brought a significant changed in the way the world viewed. This is also followed by development strategies became more focused on poverty alleviation strategy and enhancing economic growth in developing nations (Zafarullah & Haque 2006: 13).

The power relations between the former colonialist and its ex colony is no longer reflecting the extreme exploitation, but shifted into more subtle relationships. Nested argues that the old and new global system definitely shares similarity in the way power exercised, power has been centrally exercised among European and Northern countries. The power hegemony and the fear of being co-opted by communism ideas of Russia have also influenced the way rich countries building their relationships with the poor countries (Nested 2004: 15). One aspect of the new world division is the emergence of foreign aid to alleviate poverty and enhance economic growth in developing countries (Boone 1996: 289). Foreign aid programs are commonly seen as a cure for problems emerged in developing countries; however, in fact there has been a continuous debate about its effectiveness (Ashok 2005; Boone 1996).

Along with the practice of international aid assistance, European and US academics started to discuss the political and economic motives of aid giving. As points out by Peltries & Voltmeter that literature on aid giving highlights the issue on the relationships between aid and political power and what are the reasons behind the aid giving (Peltries & Voltmeter 2004: 63). In his analysis on aid debates, Pronk follows the changing focus of international assistance policies since its early development. For example, the focus after the Second World War (1945-1948) period dominated by war reconstruction programs. In 1950s aid policy focused on community development programs, then in 1960s it moved towards trade and investment issues. In 1970s the policies closely related structural adjustment program and debt relief. In 1980s focused on humanitarian assistance and civil war reconstruction. In 1990s the focus of aid policy covered human development, conflict prevention and democratic governance (Pronk 2004: 2), and it is that which has become the main base of my thesis on good governance in Indonesia.

Pronk argues that development assistance at least has four potential challenges including the influence of international relations, aid agencies limited knowledge on recipient countries, inappropriate development assistant instruments, and different understanding of development process amongst the various stakeholders (Pronk 2004: 3). In my opinion, these differences are not only related to the way every countries negotiates their position in the world system, but also embedded in the evolution and debate of development theories. This can be seen from the emergence of new international development agenda such as the MDGs and Paris Declaration.

One of the most important phenomenon in the history of international development assistance is the emergence of the Washington Consensus in 1989. This policy aimed to enhance economic growth in Latin America by introducing 10 reform agendas, which included: Fiscal Discipline, Reordering Public Expenditure Priorities, Tax Reform, Liberalizing Interest Rates, a Competitive Exchange Rate, Trade Liberalization, Liberalization of Inward Foreign Direct Investment, Privatization, and Deregulation (Williamson 1990: 1-3). According to Rao, the Washington Consensus has supplied the ideological rationalization of top-down globalization in the name of promoting faster growth and wider diffusion of growth benefits. But the actual record of the last twenty years shows that growth has been markedly lower and inequality (both within and across countries) measurably higher than during the previous thirty years (Rao 2002: 29). The effectiveness of aid in development has been questioned, the critiques questioning the motive of aid, the management of aid, whose get benefit from aid?

Ashok’s research found that even though aid has been used as major instrument for eradicating poverty in developing countries for more than 50 years, it has not made a significant impact on poverty and growth (Ashok 2005: 1). Despite the success stories in project reports, the fast growing donors’ involvement in developing countries’ reform programs and projects has invited strong criticism and

debate among development practitioners and academics. In supporting his argument, Ashok provides his quantitative analyses on aid flow and its relationships to poverty problems, and finds that more than 40 % of developing countries are still in poverty despite receiving long term international assistance (Ashok 2005: 10).

In the case of Africa, it has been argued that the intensive foreign assistance on administrative capability has worsened the domestic administrative capability. This finding confirmed the argument of Cassin and associates (1986) that there is no satisfactory result in developing institutional capacity of the recipient countries (Arthur 2003: 189). Xayapong also has similar conclusion on aid in Laos, his study found that the failure to manage foreign assistance contributes to aid ineffectiveness (2002, p. 51). In the late 1990s, the amount of aid flowing to developing countries increased, however, international community argues that this was unable to reduce poverty rate (OECD Observer 2009). For this reason the questions on the effectiveness of aid giving become more prominent.

Boone concludes that foreign aid is not an appropriate instrument to neither alleviate poverty nor enhance growth in the recipient countries. He further argues that poverty issues are related to the ability of government to designed a pro poor policy and the aid flow could simply distort the policy made (1996: 292). He found that because most long term aid in 1971-1990 was delivered with almost no conditions, the beneficiaries could access aid regardless their political and economic situations. This kind of aid tended to increase the level of consumption. Aid is mostly utilized for projects and programs such as United States assistance to Indonesia under Suharto leaderships. Hence, this type of aid had no direct benefit to the poor. In term of human development index and investment rate, aid also failed to give a positive contribution to improving the quality of life of the recipients (Boone 199, p. 322).

In Indonesian case, Lukito Tuwo – a Bappenas executive, argues that during the late 1990s the transaction cost of aid is considered high. This contributed to the effective use of aid fund, there fore, for Indonesia, the movement against aid mainly questions the level of aid effectiveness (2009: 3). Similar argument about aid effectiveness delivered by OECD Observer, reporting that the success stories of aid programs were also accompanied by the failure of some development in some countries (2009: 1). Many argue that limited success came about donors failed to address the state capacity issue (Leonardo 2003; Brautigam and Knack 2004; Pronk 2004). Take the case of Sub-Saharan Africa for example, where despite donors' long term assistance for governance reform state institutions remain weak (Brautigam and Knack 2004: 260) as detailed in chapter 5 with reference to representation and accountability to recipients.

Analyses on aid effectiveness conducted by Carlsson, Schubert, & Robison, they found that there are typical Official Development Assistance (ODA) characteristic that made aid ineffective, including the big differences on the characteristic of aid, multi channeling model of aid disbursement, and different planning framework between the donors and the beneficiaries (Carlsson, Schubert, & Robison 2009: 11).

Responding to these issues, governments of recipient countries initiated series of high level meetings. In 2002 International Conference on Financing for Development, held in Monterey, this resulted to an agreement between donors and recipient countries.<sup>1</sup> Donor's countries expected to provide more financing for development, this meeting also addressing the issues of aid effectiveness. One year after, in February 2003, the High-Level Forum on Harmonization held in Rome (HFL Rome). This forum aims to seek a strategy in improving the management and effectiveness of aid, and it also became a preparation for a further meeting in Rome in 2005. Specifically this forum set an ambitious agenda for aid effectiveness, which includes:

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1 Monterrey Consensus, March 2002 concluded that ODA is important for development in developing countries. The conference attendance urged developed countries to take action in allocating 0.7% of their GNP for ODA for developing countries and 0.20% of the GNP for least develop countries. The Monterrey consensus is the follow up of Millennium Summit, September 2000 which enacted the Millennium Development Goals (MDGs). One of the MDGs point is the percentage of Nett ODA from DAC OECD member 0.7 % of their GNP. In 1996, the DAC OECD published "Shaping the 1st Century: the contribution of Development Cooperation", this document also outline the 0.7 % minimum of GNP for ODA.

- *Ensure that harmonization efforts are adapted to the country context, and that donor assistance is aligned with the development recipient's priorities.*
- *Expand country-led efforts to streamline donor procedures and practices.*
- *Review and identify ways to adapt institutions' and countries' policies, procedures, and practices to facilitate harmonization.*
- *Implement the good practices principles and standards formulated by the development community as the foundation for harmonization (www.aidharmonization.org).*

The 2005 High-Level Forum enacted the now famous document called the Paris Declaration which focuses on aid effectiveness.<sup>1</sup> Hoyden argues that this event marked the important change in the pattern of aid giving by giving more spaces to recipient countries in prioritizing their development needs (2008, p. 259). The Paris Declaration introduced important agenda for aid effectiveness, covering (1) Ownership: Encouraging developing countries to take the lead and have sovereignty in defining and prioritizing their development agendas (2) Alignment: expecting donors to use and strengthen the development strategies and systems of developing countries (3) harmonization: The coordination effort between donors and developing countries as well as among donors to achieve aid effectiveness (4) Management for development results: Developing countries and donor agencies have a global responsibility to achieve (5) Mutual accountability: Development partners must be prepared to share risks and accountability for ensuring aid effectiveness and improved results (ADB 2007; OECD 2005).

For recipient countries, the PD agenda is not merely a signed declaration, but also inherit a political process started Doha (November 2001), Rome (2003). Therefore, this should open a space for recipient countries to create a balance of the Breton Woods Institutions' power (DeLoG 2011; Glenie et al 2012; UN 2008). However, it would not automatically increase the bargaining power relations of recipient countries, many efforts needed to achieve aid effectiveness. Glennie et al. For example, state that Paris Declaration agenda is neither a blue print nor the "colonization of the aid effectiveness", but the agenda considered important due to its practical purposes. Therefore, regardless the critique on weak implementation of the Paris Declaration agenda, the aid effectiveness remains important in addressing development dialogues (Glennie et al. 2012: 15).

The expectation of advancing aid effectiveness increased after the enactment of the Paris Declaration agenda 2005, this continues as a centre of development debate in the ACCRA (2008) and also Busan High Level Forum (2011) (Booth, 2011; Ndikumana 2012). The PD agenda emphasizes the importance of adopting 5 principles (ownership, alignment, harmonization, managing for results, and mutual accountability) to achieve more affective aid. However, after 6 years of its implementation, the results of its evaluation are mixed, in some cases aid is effectively implemented but also failures have emerged in various regions and different sectors (Booth, 2011; Ndikumana 2012).

The implementation of PD principles in water, health and education sector in Bangladesh, Ethiopia and Uganda for example, show different results. Bangladesh achieves weak to moderate results while Ethiopia and Uganda achieve moderate to strong results within the three sectors (Garnet, Stone & Pollen 2009: 30). In the case Indonesia, the evaluation on PD principles also embrace different result. The evaluation conducted in the infrastructure sector shows that in terms of ownership, Indonesian government considered having a positive result when the national government leads the planning process. However, other principles such as mutual accountability, alignment, harmonization, managing for results, and mutual accountability show weak performance results. For example, government has a weak capacity in project procurement (Garnet, Stone & Polen 2009: 69).

Furthermore, the Paris Declaration agenda continues to develop in various High Level Forum meeting, the recent one conducted in Busan, South Korea (2011). The figure below summarized the changing priorities of aid effectiveness agenda in Paris (2005) and Busan (2011).

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<sup>1</sup> Held in Paris on 2nd March 2005, the document signed by 100 countries and multilateral institutions (ADB 2007, p. 1).

Paris and Busan	Newly Introduced at Busan	In Paris but Dropped at Busan
<ul style="list-style-type: none"> <li>▪ Country results frameworks (with Stronger emphasis on coordinated use by donors)</li> <li>▪ In-year predictability</li> <li>▪ Aid on Budget</li> <li>▪ Mutual Accountability (with stronger emphasis on inclusive approaches)</li> <li>▪ Strengthening PMF systems</li> <li>▪ Use of Country PFM and Procurement Systems</li> <li>▪ Untying aid</li> </ul>	<ul style="list-style-type: none"> <li>▪ Civil society-enabling environment</li> <li>▪ Private sector-enabling environment</li> <li>▪ Medium-term predictability</li> <li>▪ Application of aid transparency standards</li> <li>▪ Gender equality in public spending.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operational development strategies</li> <li>▪ Coordinated technical cooperation</li> <li>▪ Parallel implementation units</li> <li>▪ Use of programme-based approaches</li> <li>▪ Joint missions and analysis</li> </ul>

**Figure 1 Changing Priorities on Aid Effective Agendas**

Sources: Glennie et al. 2012, p. 18

In Indonesian context, the Paris Declaration was followed by The Jakarta Commitment signed by 26 development partners on 12<sup>th</sup> January 2009. This is considered as a strategic effort of the Government of Indonesia (GoI) in managing aid for development. In practice the Jakarta Commitment later implemented with the formation of Aid Effectiveness for Development Secretariat (A4Desk) which will be discussed further in the next chapter. Hoyden argues that the implementation of the Paris Declaration agenda is very complex because exercise of power between donors as development partners and their recipient countries is highly political (2008: 259-20). He further argues that the existence of new emerging donors such as China also challenging the effectiveness of aid due to different standard offered in the process of aid giving (Hoyden 2008: 20). In similar vein, the practice of China aid in Africa strongly criticized due to its contradictory principle with the Paris Declaration agenda on aid effectiveness (Glennie et. al 2012: 15).

My own interview with NGO activist in Indonesia also reveals the danger of China as an emerging donor in Indonesia.<sup>1</sup> China aid model often seen as challenging a Western Model of aid giving. After three years of the Paris Declaration, the OECD observer noted that targets set had not been met (2009, 1). In 2008, the Third High-Level Forum on Aid Effectiveness (HLP3) was held in Ghana. This meeting endorsed Accra Agenda of Action/AAA to accelerate progress in Aid Effectiveness. Specifically this meeting addresses a more transparent, predictable aid and fair aid. These issues rose due to the fact that some of aid giving required the beneficiary to purchase goods and services from donor country (OECD Observer 2009: 1). In the same year the follow up of financing for development conference held in Doha, this conference aimed to reaffirm the Monterrey Consensus (Two 2009; OECD Observer 2009).

#### 4 Conclusions

The international donor's community and relationships with Indonesian government in supporting Governance Reform Programs in the Post-Suharto Indonesia can be traced back to the Newly Independence Indonesia. Indonesian government has always be part of International Agendas and developed similar attitude towards international aid. The recent challenges of aid giving at global level also influence the dynamic of Indonesian government policies on aid giving. In practice, Indonesian government showed a relatively strong commitment on the Paris Declaration Agenda (2005). Indonesia believes that the core principles of aid effectiveness should be employed. The government even took further step by endorsing "The Jakarta Commitment" in 2007 and established a donor coordination office in Jakarta under three main departments. However, the extensive involvement of the donors does not guarantee that the technical assistance offered by the donors effectively implemented and addressing the sustainability issues. This is related to the donors' fragmented behaviors, unclear national and local legal frameworks, typical red tape bureaucracy, and the dynamic of local politics.

<sup>1</sup> Interview with INFID activist, Adelaide 14 April 2010

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