



# Annual program performance report 2010: Timor-Leste

May 2011

## Summary

### Overview of Timor-Leste context

Timor-Leste has made great strides given the short period since independence. In 2010 the country continued to experience relative stability and solid economic growth – although this growth was primarily driven by further increases in government spending. The Prime Minister continued work on a draft Strategic Development Plan outlining Timor-Leste's priorities to 2030. This plan will be released in mid-2011 and is likely to focus on increased spending on major infrastructure development. Estimates indicate a decrease in the number of people living in poverty to 41 per cent in 2009. However this follows a sharp spike in poverty at the time of the 2006 crisis and development outcomes remain poor. Although some human development indicators have improved, overall Timor-Leste remains off-track to meet most Millennium Development Goals, in part because of its low starting base.

## Results

**Table 1: Ratings of progress in 2010 towards the objectives of the Timor-Leste Program<sup>1</sup>**

Objective	Rating in 2010	Relative to previous rating
<b>Country Strategy Objective 1: Strengthen Basic Health and Education Service Delivery</b>		
<i>Health</i>		
Adequate and predictable national and district operational budgets for health	■	Not applicable
Quality preventative and promotive health services which reflect resources available	■	Not applicable
Equitable distribution of an adequate number of skilled and motivated health workers	■	Not applicable
Improved health sector procurement and logistics	■	Not applicable
<i>Education and Youth Employment</i>		
By 2015 quality basic education is available for children, and dropouts are almost reduced to zero.	■	Not applicable

<sup>1</sup> Changes to the way Australia analyses aid performance in Timor-Leste in 2010, including through the APPR process, mean most ratings cannot be compared to last year. We have moved towards assessing shared progress between Australia and the Government of Timor-Leste towards shared development outcomes as explained in the 'Results of the Timor-Leste program' section below. In addition, unlike last year, progress against the broad 'community safety' objective in the country strategy is broken down to its constituent parts: ending violence against women, building resilience to natural emergencies, and supporting access to justice.



By 2012, at the national, regional and school levels there is the capacity to provide effective and efficient education management against the Strategic Plan.

Not applicable

A tertiary and vocational education competency framework is developed to support recognition of Timor-Leste qualifications and create stronger links with the labour market.

Not applicable

## Country Strategy Objective 2: Increasing Employment

### Rural Water, Sanitation and Hygiene Behaviour Change

District and central authorities improve planning and resourcing for sustainable and equitable delivery of rural water, sanitation and hygiene services

Not applicable

Increase in government and community capacity to build, rehabilitate and maintain water supply systems

Not applicable

Increase in government and community capacity to improve hygiene and sanitation practices

Not applicable

### Infrastructure

> Improved budget execution of the Government of East Timor's capital works program

Unchanged

> Improved capacity of the Ministry of Infrastructure for capital works procurement

> Rehabilitation and maintenance of rural roads

### Agricultural Productivity and Food Security

Improved food security through increased productivity of major foodcrops

Not applicable

Increased access to rural financial services

Not applicable

## Country Strategy Objective 3: Improving Government Accountability, Transparency and Integrity

### Public Sector and Democratic Governance

> To help establish and develop central agencies, in line with GoTL's public sector reform agenda

> To help establish and implement a regulatory framework for, and enable provision of training to, the public sector

Unchanged

> To build functional formal political institutions and respect for democratic processes

> To build effective relations between the state and communities

### Public Financial Management

> To strengthen systems and processes in the areas of planning, budgeting, public expenditure management and revenue administration in the Ministry of Finance

Unchanged

> To build human resource capacity within the Ministry of Finance

## Country Strategy Objective 4: Building the Foundations of a Safer Community

### Resilience to Natural Emergencies

Not applicable

### Combating Violence Against Women

Not applicable

### Policing Capacity and Justice

Helping to build the foundations of a more effective and accountable police service

Unchanged

Achieve fair and timely access to justice for children, women, and men in Timor-Leste

Not applicable

#### Note:

The objective will be fully achieved within the timeframe of the strategy.

The objective will be partly achieved within the timeframe of the strategy.

The objective is unlikely to be achieved within the timeframe of the strategy.



## Major quality successes, issues and challenges

Prior to the agreement of the five-year Australia Timor-Leste Country Strategy in 2009, Australia's aid program to Timor-Leste was spread thinly across a high number of low-value activities. Since that time, major efforts have been undertaken to reduce the number of initiatives and reform the program to align with the strategy. Despite this, a program 'health check' conducted in 2010 revealed the number of low-value activities remains high.

This year Australia shifted how we analyse aid performance in Timor-Leste – and moved from analysing progress of our programs to overall progress in a sector. Sector performance frameworks were developed in sectors where we intend to make a long-term contribution to shared development outcomes with the Government of Timor-Leste. This APPR reflects this new approach.

Engagement and policy influence with the Government of Timor-Leste (GoTL), particularly with the Prime Minister, remained a challenge for Australia's aid program throughout 2010. However this relationship warmed towards the end of the year. Emerging, high-level Government decisions and changing Government landscape (ie: in regard to small scale infrastructure funds) required flexibility in sectoral support.

Australia worked with the Government of Timor-Leste to broaden the spectrum of capacity development approaches used through the aid program. A review of all adviser positions was undertaken by Australia and GoTL resulting in a commitment to reduce the reliance on advisers across the program.

## Management consequences

Australia will follow up on constructive dialogue with Prime Minister Gusmao in late 2010 and early 2011, which marked a successful shift towards re-setting the aid relationship between the two countries. A high-level partnership and dialogue will be established to discuss policy and programs in light of the forthcoming SDP. To be a useful partner, Australia must demonstrate credibility and flexibility in aligning behind this plan.

The program expects to deliver six major designs in 2011, covering almost all priority areas of Australia's support, including health, education and water and sanitation. This presents a major opportunity to shift how Australia works and ensure all interventions are in partnership with the Government to achieve real results. All designs will be informed by strong analysis and contain clear program logic. This major endeavour will require dedication of staff resources to design work – including creative use of staff across desk and post and additional management and advisory resources.

Despite efforts to reform the program to date, it is still fragmented. Australia must ramp up efforts to improve the manageability of the program and ensure a deeper level of engagement across fewer sectors. The number of initiatives under AUD 3 million in value will be halved in 2011. A high priority will be accorded to strengthening the program's corporate backbone in line with the agency's corporate reform agenda.



## Timor-Leste context

Having achieved a third year of relative stability the Government of Timor-Leste (GoTL) has signalled its intention to move rapidly towards growth and development for all. The Prime Minister and many of his cabinet spent much of 2010 drafting the Strategic Development Plan (SDP) and discussing it with communities throughout the country. The Prime Minister intends the SDP to set out his vision of Timor-Leste's priorities to 2030. While the draft Plan has been tightly held, and is not scheduled for release until mid-2011, an early summary, presented to the April 2010 Development Partners meeting, clearly indicates a focus on increased spending on major infrastructure development to drive continued economic growth. This was confirmed by the creation of two new special funds in the 2011 Budget – the USD 599 million Infrastructure Fund (which accounts for most of the \$688 million capital budget) and the USD 25 million Human Capital Development Fund.<sup>2</sup> The Prime Minister's determination to set Government priorities without interference from outsiders, highlighted in last year's APPR, continued, with ongoing development of the SDP taking place without the engagement of development partners.

Government expenditure has increased significantly over the past decade. Budgeted expenditure rose from only USD 64 million in 2001-02 to USD 660 million in 2010. Budgeted expenditure in 2010 was almost identical to 2009 but revisions to the budget increased available funds to US\$838 million, a 23 per cent increase on the previous year. Reported budget execution rates have increased from 71 per cent in 2001-02 to 91 per cent in 2010.<sup>3</sup> Through the 2011 Budget the Government plans to significantly increase its expenditure to USD 1.3 billion, a 56 per cent increase on the final budget for 2010.

Some important development indicators are improving. Between 2007 and 2009, the proportion of the population below the poverty line fell by an estimated nine percentage points (from 49.9 to 41 per cent).<sup>4</sup> This represents a correction of the sharp spike in poverty occasioned by conflict in 2006 and 2008; but while moving in the right direction, poverty remains above 1999 levels (36 per cent).<sup>5</sup> The economy continues to grow rapidly, fuelled by government spending, although this is largely concentrated in Dili. It is estimated that the economy grew by 9.5 per cent in 2010, compared to 13 per cent in 2009.<sup>6</sup> Growth of between 7 and 10 per cent is forecast for 2011.<sup>7</sup> Estimated annual average growth was above 10 per cent since 2007 after negative growth in 2007. Growth in per capita GDP has been slower given annual population growth of over 2 per cent.<sup>8</sup> Public financial management (PFM) systems are improving, especially within the Ministry of Finance.

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<sup>2</sup> Democratic Republic of Timor-Leste, State Budget 2011, Budget Book 1

<sup>3</sup> AusAID estimates based on Democratic Republic of Timor-Leste, Budget Execution Reports

<sup>4</sup> World Bank, A 2009 Update of Poverty Incidence in Timor-Leste using the Survey-to-Survey Imputation Method.

<sup>5</sup> Ibid

<sup>6</sup> The economy is measured in terms of non-oil GDP excluding the UN mission. ADB Asian Development Outlook 2011, pp. 230; Statement by IMF Staff Representatives on the Democratic Republic of Timor-Leste, 19 January 2011; and Democratic Republic of Timor-Leste, State Budget 2011, Budget Book 1, p. 26.

<sup>7</sup> The lower forecast is from the IMF Staff Report for the 2010 Article IV Consultation, 3 December 2010, p. 8. The higher forecast is from the ADB Asian Development Outlook 2011, pp. 231.

<sup>8</sup> Democratic Republic of Timor-Leste, State Budget 2011, Budget Book 1, p. 26 and IMF Staff Report for the 2010 Article IV Consultation, 3 December 2010. According to the IMF average annual population growth for the period 2000-09 was 2.4 per cent. The World Bank World Development Indicators database gives a higher average growth rate of 3.7 per cent over the same period.



Nevertheless, great challenges remain. Illiteracy rates are high, and most children drop out of school before completing their basic education.<sup>9</sup> Unemployment and under-employment remain high – 70 per cent of those employed are engaged in informal work and thus highly vulnerable.<sup>10</sup> Plentiful oil money means that public spending is growing rapidly, but the quality of expenditure is questionable and the double digit growth rates will not be sustainable in the absence of private sector growth. In spite of skills gaps, the public service has grown rapidly since 2002, and payroll costs more than tripled between 2008 and 2011. Although, good progress on disability inclusiveness was made with the drafting of the National Policy on Disability, persons with disabilities remain largely hidden, due to high levels of stigma and discrimination.

The handover of responsibility for policing from United Nations Integrated Mission in Timor-Leste to Timorese institutions proceeded without incident during 2010 and early 2011. The longer term trends in public safety are as yet unclear and as a post-conflict country, Timor-Leste retains the potential for suffering security shocks or crises. Presidential and parliamentary elections scheduled for 2012 may test the community's commitment to peaceful resolution of differences and the Policia Nacional de Timor-Leste's ability to respond effectively to disturbances.

Another potential stressor is food security. Extended rains in 2010 meant that while some farmers increased crop volumes, others experienced flooding and losses, including of seed stocks. Food security has always been precarious: over half of children under five in Timor-Leste are stunted and a third of women have inadequate nutritional status.<sup>11</sup> Communities are therefore ill-prepared for any lengthening of the annual 'hungry season' experienced when their grain stores are exhausted.

Timor-Leste's Constitution provides for the decentralisation of public administration. Draft local government laws produced in 2009 propose decentralised municipal governments at the level of the current districts. However, the Government has deferred decentralisation until after 2012 and has struggled to strengthen governance at a sub-national level. At the same time, 2010 saw the Government continue to flood the districts with money through various grant packages, including the Decentralisation and Development Package (DDP) for procurement of small-scale infrastructure and budgeting for the MDG Suco Program. This indicates a continuing Government interest in spreading the country's wealth to the districts.

The global financial crisis and other international events have affected the ability of some of Timor-Leste's traditional donors to remain engaged, at least to previous levels. Multilateral relationships are changing: the UN plans to draw down its mission in 2012; and Timor's increased GNI means that it has dramatically less access to grant funds from the International Financial Institutions. As a result, both the World Bank and the Asian Development Bank are now shifting their focus to infrastructure lending. Donor coordination at the sectoral level improved over 2010, chiefly driven by donors. Australia is the largest donor in Timor-Leste and our development assistance in 2010 is equivalent to approximately 11 per cent of Timor-Leste's State Budget.<sup>12</sup> The spread of Australian assistance (excluding that implemented

<sup>9</sup> Education Management Information Systems 2010.

<sup>10</sup> Timor-Leste Labour Force Survey 2010

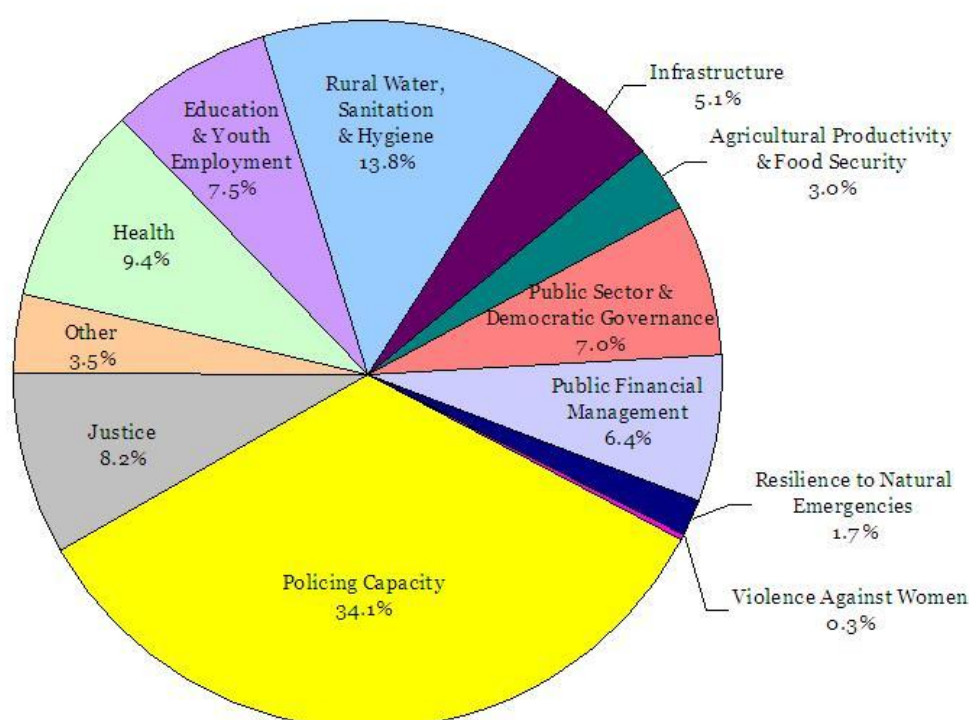
<sup>11</sup> Timor-Leste Demographic and Health Survey 2009-2010

<sup>12</sup> Based on Australia's 2010-2011 budget for overseas development assistance to Timor-Leste of AUD 102,700,000 and Timor-Leste's 2010 (mid-year rectified) State Budget of USD 837,981,000.



through AFP) is outlined in Table One below. Australia is an increasingly influential leader in several sectors of focus for the program and is engaged in constructive policy dialogue with relevant Ministries. However, the highest levels of Government continued to have few incentives to engage in policy dialogue with Australia. AusAID's relationship with the Prime Minister Gusmao warmed towards the end of 2010 and the Prime Minister was keen to discuss innovative ideas to address the Government's top priorities. But to influence Timor-Leste in its future spending pattern and ensure real results in alleviating poverty, AusAID must position itself as a useful partner in implementing the forthcoming SDP.

**Table One: Estimated AusAID East Timor expenditure (10/11)<sup>13</sup>**



## Results of the Timor-Leste program

In 2010, Australia changed how it analyses aid performance in Timor-Leste. In a number of areas, we moved from analysing progress of Australian-funded programs to examining overall progress in a sector. Sector performance frameworks were developed for sectors in which we (i) intend to make a significant, long-term contribution to systemic reform and (ii) can clearly state the *shared development outcomes* to which Australia is significantly *contributing*. This APPR rates and discusses shared progress against these shared development outcomes, drawing on the indicators and performance questions set by the relevant sector performance framework. The quality of Australia's *contribution* to these outcomes is also discussed, but the rating is focused on shared progress rather than Australia's progress alone. This shift towards

<sup>13</sup> Note this comprises the AUD 69 million estimated ODA expenditure from AusAID only. This does not include ODA expended by the Australian Federal Police, which is estimated at AUD 33.7 million for 2010-2011







rating shared progress against shared outcomes represents an acceptance that Australia and Timor-Leste also share accountability for progress. Where shared progress is inadequate, this brings into question whether Australia is doing the right thing in the sector, or whether we should change our approach.

In sectors where sector performance frameworks have not yet been developed, outcomes statements are drawn from the 2009 Annual Program Performance Report, which are based on the Australia-Timor-Leste Country Strategy. Although many of these sectors have multiple outcome statements, one overall rating was agreed for each sector, as the shared outcome statements may change when sector performance frameworks are developed. These overall ratings were agreed as part of the APPR drafting process. Sector performance frameworks for some of these sectors will be developed in 2011.

## Sector: Health

### Ratings against shared development outcomes

-  Adequate and predictable national and district **operational budgets** for health
-  Quality preventative and promotive **health services** which reflect resources available at the district level
-  Equitable distribution of an adequate number of skilled and motivated **health workers**
-  Improved health sector **procurement and logistics**

### Assessment of results and performance

#### Sector Context

In the ten years following independence, Timor-Leste has made good progress towards establishing a functioning health system. It has a basic health workforce, physical infrastructure and a pharmaceutical supply system. There is reliable evidence that some health indicators are improving, particularly child and neonatal mortality rates due, for example, to an increase in the proportion of births attended by skilled health workers and immunisation rates.<sup>14</sup> Trends in providing basic health service delivery for women are generally positive. For example, in 2003 only 13.9 per cent of women received four or more antenatal check ups; by the end of 2009 this was 55 per cent.<sup>15</sup>

Despite significant gains in the sector, health outcomes remain poor. Timorese still continue to die in high numbers from common and preventable diseases, including malaria and respiratory illness. In 2009, life expectancy at birth was around 62 years.<sup>16</sup> The country is unlikely to meet any of its health related Millennium Development Goals (MDGs) by 2015, and women and children are disproportionately affected by poor health. It is estimated that Timor-Leste's maternal mortality rate is still somewhere between 440 and 557 deaths 100,000

<sup>14</sup> Timor-Leste Demographic and Health Survey 2009-2010

<sup>15</sup> Timor-Leste Demographic and Health Survey 2009-2010

<sup>16</sup> World Bank Development Indicators, <http://data.worldbank.org/country/timor-leste> (accessed 10 June 2011)



live births, while the infant mortality is around 44 deaths per 1,000 live births.<sup>17</sup> Adequate nutrition also remains a serious problem, with under-five rates of stunting at 58 per cent and wasting at 19 per cent in 2009.<sup>18</sup> These figures represent an increase over the past six years, meaning that the MDG of a 50 percent reduction in the prevalence of underweight children under 5 years of age by 2015 will be hard to achieve.

Compounding the problem are poor literacy rates and hygiene practices along with poor infrastructure, including lack of clean water supply and basic sanitation facilities, especially outside Dili. While a network of primary and some specialist health care facilities exists, the rural population still has difficulty accessing care when they need it due in large part to distance and the poor quality of rural roads. Available services are also under-utilised for a range of social and cultural reasons.

### Shared Progress

The health care system in Timor-Leste is funded by the Government of Timor-Leste, a range of development partners and the private sector. The Government's vision is that all Timorese have access to primary health care by 2030. The Government is developing a new National Health Sector Strategic Plan 2011-2030 (NHSSP) (due for release in the second half of 2011) to replace the existing Health Sector Strategic Plan 2008-12 (HSSP), which focused in the short term on achieving the MDGs. The new NHSP outlines national health priorities and strategies including the need to strengthen collaboration between the Ministry of Health (MoH) and its development partners within the spirit of the Paris Declaration

Australia is the largest donor in the health sector. Other key players include the World Bank, which manages a multi-donor trust fund (MTDF), through which AusAID provides support for the HSSP, together with the Cuban Medical Brigade, USAID, and NGOs. Most development partners operating outside the MTDF are supporting projects and activities that also contribute to the HSSP.

Progress in the sector would benefit from stronger Government leadership, particularly on the issue of donor coordination, together with reduced fragmentation and a real commitment from all players to achieving results. The achievement of high quality health outcomes across Timor-Leste has been hampered by the proliferation, and poor coordination, of donor activities with well over 100 donor-funded health-related projects currently being delivered through the MoH and NGOs.

Australia's investment in the sector has been significant – we invested around AUD 10.9 million in the sector in 2009-10, which constituted approximately 16 per cent of donor funding and 9 per cent of total health spending in the country – but our support has been fragmented. We have worked principally through the MTDF, but also delivered bilateral projects supporting specialist surgical services, the World Food Program's maternal and child health feeding program and through selected NGOs, especially for family planning activities. But we have arguably acted as a financier of activities (especially through the MTDF) rather than an active development partner, and we do not have the influence in the sector that could reasonably be expected from our investment.

17 Estimates from the Government of Timor-Leste Demographic and Health Survey 2009-2010 and Timor-Leste's Health Management Information System (Ministry of Health) 2008-2009.

18 Timor-Leste Demographic and Health Survey 2009-2010





### *Adequate and predictable national and district **operational budgets** for health*

National and district **health budgets** are neither adequate nor predictable. Encouragingly, actual health budget execution has increased, however Timor-Leste's annual health budget allocation has remained steady at USD 35 million for the last few years, and has declined as a proportion of the overall Timor-Leste budget, from 10.8 per cent in 2005-6 to 5.6 per cent in 2010.<sup>19</sup> The reasons behind this decline are not clear. It is of concern that salary expenditure is increasing at the expense of goods and services funding. Increased salary expenditure is also generally difficult to draw back from later. Compounding this is the need to add over 700 trainee doctors to the payroll, and increasing demand for pharmaceutical and family planning commodities.

Australia continues to support the MoH's Planning & Finance Directorate to prepare annual budgets and plan for the equitable distribution and growth of the workforce. We also commissioned analysis in 2010 of the bottlenecks affecting service delivery. This work identified issues such as lack of funding and autonomy at district level, an overly-centralised purchasing system, and slow and confused acquittal procedures.<sup>20</sup> It has led to development partners working with Government to simplify acquittal and disbursement systems in order to increase funds available for health service delivery. The MoH and MoF are working together to improve public financial management, through plans for annual reforms in financial management systems to improve health delivery starting in mid-2011. This will inform the Government's decentralisation agenda in coming years.

### *Quality preventative and promotive **health services** which reflect resources available at the district level*

While there is still room for improvement in the quality of services, the utilisation of health promotion and curative services has slightly increased due to the monthly *Servisu Integrado Saude Comunitaire* (SISCa), or village-level health outreach services. SISCas are mobile health clinics that visit more than 450 villages each month to provide pre- and post-pregnancy care for women and babies, family planning services and treatment of common illnesses.

In 2010, 71 per cent of Timor-Leste's monthly SISCa visits benefited from Australian support. SISCAs play a key role in maintaining a family health register, providing immunisations, antenatal care, and nutrition information, and family planning and reproductive health advice. The vast majority of SISCAs are run with technical, logistical, and transportation support from international and local health NGOs, contracted by MoH with Australian funds. This direct funding has brought health services closer to people. We also provided vehicles and motor bikes to facilitate service delivery in the districts.

Timor-Leste's 2009-2010 Demographic and Health Survey indicated that 71 per cent of women in Timor-Leste either want to delay their next pregnancy by at least two years, or have no more children.<sup>21</sup> Australia is helping address this significant unmet need for family planning by supporting NGOs to provide sexual and reproductive health counselling, family planning commodities and clinical services, as well as ante-natal and post-natal and newborn

<sup>19</sup> Calculations based on Government of Timor-Leste budget data

<sup>20</sup> Kathy Whimp, Analysis of bottlenecks to service delivery in Timor-Leste, 2010 (for AusAID)

<sup>21</sup> Timor-Leste Demographic and Health Survey 2009-2010



care. In 2010 alone, 142,732 Timorese women of reproductive age across eight districts accessed Australian-funded family planning advice and services.<sup>22</sup>

Australia has trained 21 nurse anaesthetists, through the Royal Australasian College of Surgeons. They are the only nurse anaesthetists practising in Timor-Leste and are now based primarily in district referral hospitals assisting with both basic and comprehensive emergency obstetric care, including caesarean sections.

#### *Equitable distribution of an adequate number of skilled and motivated **health workers***

A UNSW report estimates 4,000 health professionals are currently working in East Timor.<sup>23</sup> The workforce remains fragmented and incomplete, however, due to an incomplete workforce planning and information system. The Cuban Medical Brigade provides the largest number of health workforce and about 700 students are studying medicine in Cuba. The challenge for Timor-Leste is how to integrate the newly trained doctors into the health system. Australia and the World Bank have been trying to engage the MoH on these issues, especially in light of the pressures on workforce planning and budgeting discussed above.

In 2010, fifty Timor-Leste doctors, nurses, surgeons and health managers undertook health studies in Australia, Fiji, Indonesia and PNG. In addition, Australia has trained 54 midwives in Timor-Leste to Diploma 3 level, making them the most qualified in the country. Under the Australia - Timor-Leste Program of Assistance for Surgical Services (ATLASS), Australia is supporting surgical training for three Timorese through a mix of in-country and overseas training units.

#### *Improved health sector **procurement and logistics***

While the number of health facilities which regularly report having no pharmaceutical drugs (stock outs) dropped from 40 per cent to approximately 17 per cent between 2008 and 2010, significant concerns remain.<sup>24</sup> The Essential Drugs List is too long, the Government of Timor-Leste's budget allocations for pharmaceuticals are decreasing, and poor planning means the Government is conducting expensive emergency procurements too regularly. Australia has supported a tracer drugs list for assessing the number of districts reporting having no pharmaceutical drugs and the EU have provided long-term support to the central pharmaceuticals and medical equipment warehouse (SAMES). We are concerned, however that a gap will be left by the impending completion of the EU's program.

### **Management Consequences**

> Australia will reshape its major health programs behind the new National Health Sector Strategic Plan 2011 – 2030. A key focus will be strengthening our commitment to service delivery (particularly maternal and child health) and transitioning towards greater sector harmonisation, where Australia will take a lead role in donor coordination. It will also involve addressing unsatisfactory monitoring and evaluation systems. This will include re-designing the World Bank supervised HSSP-SP,<sup>25</sup> the efficiency and effectiveness of which has so far

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<sup>22</sup> Marie Stopes International Annual Report, 2010

<sup>23</sup> Augustine Asante, John Hall and Graham Roberts, A Review of Health Leadership and Management Capacity in Timor-Leste, 2011, UNSW

<sup>24</sup> Fabian Kong, Analysis of the pharmaceutical sector, 2010 (for AusAID and the World Bank)

<sup>25</sup> Health Sector Strategic Plan – Support Project



been disappointing. The re-design will address the constraints and bottlenecks to service delivery at central and district levels.

> Australia will undertake policy dialogue with the Ministry of Finance on the issue of budget allocations for health and with the Ministry of Health around the quality of health spending. Australia will aim to influence PFM reforms and recommend that funds required for the growing salary budget do not displace recurrent costs required for district-level service delivery. This will involve preparing a 'roadmap' for strengthening MoH's financial management systems (eg operational procedures, supporting IT systems), a Fiduciary Risk Assessment to inform consideration of increased use of Government systems, and engaging credible technical assistance (TA) to manage and implement this change process.

> Australia will help to strengthen pharmaceutical and medical supply chain management through a new program of support for the National Health Sector Strategic Plan 2011-2030, including through assistance for improved coordination in the procurement, warehousing, distribution and management of supplies.

> Australia and the Government of Timor-Leste will expand the evidence base for health policy development. This will involve supporting MoH's new Research Department to establish a joint operational agenda with its new partner the Menzies School of Health Research. The Menzies School of Health Research will focus on: research barriers to improving nutrition and reducing maternal deaths; comparative analysis of district performance; results-based financing; and improving the pharmaceutical system.

> Australia will work with the Government on a multi-sector response to improve nutrition in Timor-Leste, through our support to health, education and food security, drawing on the findings of the research outlined above.

## Estimated expenditure

**Table 2: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Health	9.5	9.4

## Sector: Education and Youth Employment

### Ratings against shared development outcomes

■ By 2015 quality **basic education** is available for children, and dropouts are almost reduced to zero.

■ By 2012, at the national, regional and school levels there is the capacity to provide effective and efficient **education management** against the Strategic Plan.

■ A **tertiary and vocational education competency framework** is developed to support recognition of Timor-Leste qualifications and create stronger links with the labour market.



## Assessment of results and performance

### Sector Context

Timor-Leste will not achieve Millennium Development Goal 2 by 2015. Basic education enrolment improved from 67 per cent in 2005 to 86 per cent in 2010.<sup>26</sup> Unfortunately secondary enrolment rates have not improved, nor have primary completion rates - with only 73 per cent of students completing grade five.<sup>27</sup> Illiteracy, particularly in adults, remains high. Gender ratios tell a mixed story: they are almost equal at primary level and improving at tertiary level, but at the secondary level there are three boys enrolled for every girl.

Quality of education is of greater concern than access to it. An Early Grade Reading Assessment conducted in 2010 identified worrying shortfalls: 70 per cent of students at the end of grade 1 could not recognise a single word and only 30 per cent of students at the end of grade 3 could read to an international standard.<sup>28</sup> These are not easy figures to turn around.

However, 2010 saw some positive developments in the policy environment: The Ministry of Education (MoEd), with Australian support, hosted an Annual Joint Review of the sector to encourage greater coordination and developed an ambitious National Education Strategic Plan 2010-2030 (NESP).

The outcomes against which shared progress is rated below are drawn from the NESP outcomes to which Australian support is contributing.

### Shared Progress

Australian support to the education sector has been through two main programs – the Education Sector Support Program, and to a lesser extent through the Youth Employment Promotion Program. Both programs conclude over the period 2011-12. ESSP has been primarily focussed on building the capacity of staff and systems of the Ministry of Education, while YEPP has focussed on developing the development of a TVET framework, providing opportunities for short term employment and careers counselling.

While the focus of these programs was relevant to the needs of the sector at inception, there has been an increasing acknowledgement by both the GoTL and donors that there needs to be a greater proportional focus on gains at the service delivery level. This is where learning achievement and improvements in the educational status of children have been minimal.

*By 2015 quality **basic education** is available for children, and dropouts are almost reduced to zero*

Strong progress has been made in increasing enrolment rates at the basic level. However learning achievement within schools continues to be of significant concern. This problem is driven by a number of complex factors that are not well understood including teaching quality, language of instruction, classroom infrastructure and materials and high drop out and repetition rates. Change will come slowly, making it unlikely the Government will achieve this outcome by 2015.

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<sup>26</sup> National Education Strategic Plan 2010-2030, Ministry of Education.

<sup>27</sup> Ibid

<sup>28</sup> World Bank, An Analysis of Early Grade Reading Acquisition, 2010



In 2010 Australia assisted the Government to increase basic education quality by supporting the provision of Tetum and Portuguese language supplementary learning materials to every school and child in the country. Further, 313 classrooms were rehabilitated and 84 classrooms constructed by the Government, with ESSP technical support, over the course of 2010.

*By 2012, at the national, regional and school levels there is the capacity to provide effective and efficient **education management** against the Strategic Plan*

Medium term Government budget allocations to the sector are uncertain, which threatens the roll-out of the MoEd's Strategic Plan. However, with Australia's support, budget execution for the entire MoEd, including salaries, capital development, minor capital and good and services has improved to approximately 98 per cent in 2010.<sup>29</sup> Additionally, Australian support has assisted in the deployment of the Education Management Information System, which allows the MoEd to collect critical data on the education sector and provide grounds for stronger evidence-based policy, planning and budgeting. However, this is not yet informing management decisions within MoEd. The Ministry's procurement, PFM, and logistics systems also remain weak. The Ministry is still highly dependent on technical assistance. This needs to be either acknowledged as unavoidable for the medium term or addressed through exploring new ways to build local capacity.

In 2011, the Government plans to implement the Escola Basica (school cluster) initiative which seeks to reform the way schools are managed to ensure greater responsibility at the service delivery frontline of the school and regional level. The initiative will focus on child-centred learning and seeks to improve distribution of learning materials and school meals. This significant reform will be a clear test of the MoEd's relatively weak procurement, logistics and distribution systems.

*A **tertiary and vocational education competency framework** is developed to support recognition of Timor-Leste qualifications and create stronger links with the labour market.*

In 2010 the Government undertook the first ever National Labour Force Survey (NLFS) in Timor-Leste, which will provide a valuable evidence base for future policy development. The Government also developed the National Qualifications Framework (NQF) which indicates the minimum standards to be met for the completion of recognised and accredited tertiary-level qualifications (including at the secondary technical and vocational level), and should over time ensure that teaching qualifications are based on standardised levels of competency.

Australia contributed both technical assistance and funding to support the NLFS and the initial development of the NQF. Australia also continued to support the National Labour Force Development Institute (INDMO) to establish an industry driven, competency based tertiary qualification system. A key priority for 2011 will be the development of a pool of qualified trainers to deliver these qualifications. INDMO is increasingly operating with a much-decreased reliance on international technical advice.

## **Management consequences**

<sup>29</sup> Ministry of Education, Review of financial management processes, Report prepared as part of the Education Sector Support Program mid-term review, 2010





Jointly with New Zealand, Australia will embark on a change in strategic focus through the design of a new sector program that will ensure:

- > A delivery strategy by the end of 2011 that will guide AusAID's future engagement in the sector, particularly the development of a new program of ongoing support to replace the ESSP program.
- > A package of interim measures to support the early implementation of the National Education Strategic Plan, and to cover capacity needs between the conclusion and start of new donor programs.
- > A research agenda to identify the needs of the sector and assisted in the development of more effective and targeted programs by all donors.
- > More direct policy engagement with MoEd and other development partners, supported by an Education Adviser.
- > Assistance to the Ministry of Education to ensure that the core components of the National Education Strategic Plan can be implemented effectively.
- > A stronger focus on gains at the service delivery level, a greater focus on achieving tangible gains in literacy and learning achievement of children.
  - This will include creating the conditions for more equitable access to education (e.g. rural students and girls) including stronger engagement in teacher training, curriculum development, school management and learning materials.
- > Australia will work with the Government on a multi-sector response to improve nutrition in Timor-Leste, through our support to education, health and food security.

## Estimated expenditure

**Table 3: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Education and Youth Employment	7.6	7.5

## Sector: Rural Water, Sanitation and Hygiene Behaviour Change

### Ratings against shared development outcomes

- District and central authorities improve **planning and resourcing** for sustainable and equitable delivery of rural water, sanitation and hygiene services
- Increase in government and community capacity to build, rehabilitate and maintain **water supply** systems
- Increase in government and community capacity to improve **hygiene and sanitation** practices

### Assessment of results and performance

#### Sector Context



Access to safe water is improving with increased government commitment, but in rural areas only 63 per cent of the population have access to adequate water supply and only 39 per cent have access to improved sanitation.<sup>30</sup> However, if the current investment by the Government and development partners is maintained, it is possible for Timor-Leste to achieve the Millennium Development Goal for access to safe water by 2015.<sup>31</sup> Australia is the largest donor in the water and sanitation sector and the only donor working within government.

### Shared Progress

*District and central authorities improve **planning and resourcing** for sustainable and equitable delivery of rural water, sanitation and hygiene services*

In 2010, the Government demonstrated its commitment by approving an increase in budget allocation for rural water (USD 8.9 million in 2011, up from USD 5.7 million in 2010) and sanitation (USD 760,000 in 2011, up from USD 200,000 in 2010).<sup>32</sup> It also allocated funding for water system maintenance for the first time in 2011 and funded the employment of 88 additional staff at the sub-district level (previously Australian-funded) – due in part to Australia's influence.

The Government also drafted a National Sanitation and Water Policy, revised the National Rural Water Guidelines, and delivered major improvements to monitoring and information management systems in the sector - all strongly supported by Australia's Rural Water Supply and Sanitation Program (RWSSP). Australia is also helping the Government to plan how it can adapt to climate change by assessing the impact on water resources.

However, there is still some way to go to improve annual planning, particularly at the district level. And the absence of multi-year financial planning is an ongoing limit on certainty.

A positive mid-term review of RWSSP and the sector in 2010 encouraged Australia's support to shift toward use of Government's financial and procurement systems for greater impact. The review noted that there are a large but appropriate number of advisers given the low capacity of government. The Joint Adviser Review in 2010 confirmed this but identified a number of advisers that could be phased out as government capacity increases.

Australia has made strong contributions to gender equality and disability inclusiveness in the water and sanitation sector. Disability inclusiveness is included in needs analysis, regular stakeholder mainstreaming workshops and integration into the GoTL sanitation policy and programming. Australian support has promoted the active involvement of women and men in all design and maintenance activities, and promoted women as community facilitators and members of the water user groups.

*Increase in government and community capacity to build, rehabilitate and maintain **water supply** systems*

In 2010 over 60,000 additional people in rural areas in Timor-Leste received access to improved water supply.<sup>33</sup> However, there is still some way to go in ensuring systems are good

<sup>30</sup> WHO and UNICEF *Joint Monitoring Program for Water Supply and Sanitation Coverage Estimates*, 2006

<sup>31</sup> Mid-Term review of the Rural Water Supply and Sanitation Program (RWSSP), 2010.

<sup>32</sup> Timor-Leste General State Budget for 2011 - approved by the Council of Ministers in November 2010, passed by National Parliament in January 2011 and promulgated by the President in February 2011.

<sup>33</sup> RWSSP reporting to AusAID, March 2011.



quality and maintained. A 2009 study in two districts found that 70 per cent of rural water supply infrastructure was not fully functioning one year after construction.<sup>34</sup> Reasons include: poor design; unqualified contractors; inadequate materials and supervision; weak community involvement in their design, construction and operation; and irregular maintenance. These risks were heightened by the Government's decision to deliver water supply through its Decentralisation and Development Program, featuring weak contractor selection and supervision and poor quality work.

Of the 60,000 people above, 6,000 benefitted from Australian constructed water systems, and 19,000 benefitted from Government constructed systems that drew on Australian support with surveying and design. Australia also helped the government to develop a monitoring system that has data on the functionality of 90 per cent of the rural water supply systems. Australia has been training and supporting community-based water user groups to manage and maintain water systems. Women's participation in these groups has increased from 18 per cent to 38 per cent. Australia's support for the monitoring system, the 88 sub-district staff, and the increasing number of water user groups has significantly increased the capacity to manage and monitor water systems. If appropriate resources are provided for operation and maintenance then more systems should remain functioning.

*Increase in government and community capacity to improve **hygiene and sanitation** practices*

The Government implemented community sanitation programs in 162 villages (out of a total 2,228 villages in Timor-Leste). Fifty five of these (17 directly supported by Australia) declared themselves 'open defecation free', with all people using latrines instead of encouraging the spread of disease by defecating in the open. While these figures are small, progress is expected to accelerate. In 2010 Australia provided around 7,000 people with improved sanitation and promoted behaviour change of 1,000 people to use hand washing facilities with soap.

In addition to the above Australia funded a number of Australian NGOs in 2010 that collectively provided over 4,000 people with improved access to rural water supply and/or sanitation.

### **Management Consequences**

In 2011 Australia will design a new phase of support to rural water, sanitation and hygiene in Timor-Leste that will:

- > Support greater government leadership, management and implementation. In early 2011, Australia will begin analysis to identify potential areas where Australia can work through Government systems and the associated risks and benefits. The will inform decisions on potentially making greater use of government financial and human resources and management systems for greater sustainability.
- > Emphasise resourcing and developing an effective rural water supply maintenance system and encouraging the Government to shift to multi-year financial planning for the sector.

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<sup>34</sup> Baseline study of Water Supply & Sanitation in Aileu & Lautem Districts, Timor-Leste, PLAN Timor-Leste 2009. "Fully functioning" is defined providing safe water through-out the year to 80 per cent of the community



- > Engage with the Government on reform and improvement of Government systems including procurement, supervision and quality of capital works.

## Estimated expenditure

**Table 4: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Rural Water, Sanitation and Hygiene Behaviour Change	14.1	13.8

## Sector: Infrastructure

- > Improved budget execution of the Government of East Timor's capital works program
- > Improved capacity of the Ministry of Infrastructure for capital works procurement
- > Rehabilitation and maintenance of rural roads

## Rating

■ The objective is unlikely to be achieved within the timeframe of the strategy.

## Assessment of results and performance

### Sector Context

Since the widespread destruction of infrastructure during the post-referendum conflict in 1999 and the 2006 crisis, little rehabilitation has occurred and infrastructure continues to deteriorate. Major economic infrastructure is absent or entirely inadequate. There is no national power grid and there are regular power outages. The nation's roads, bridges and irrigation systems have suffered from high levels of rainfall, lack of maintenance, and poor quality public works. A roads survey in 2010 found that around 90 per cent of rural roads were in bad or very bad condition.<sup>35</sup>

### Shared Progress

The Government allocated over 40 per cent of its 2011 budget to economic infrastructure (about USD 550 million).<sup>36</sup> In recent years around 80-90 per cent of the infrastructure budget has been executed.<sup>37</sup> While this seems high, little infrastructure improvement can be observed on the ground and the quality of public works is poor. A significant share of infrastructure funds has been devoted to a large purchase of electricity generation and transmission equipment (over 80 per cent of the 2011 economic infrastructure budget).

Government policy on procurement of infrastructure works has changed regularly and is still uncertain, particularly in light of the planned decentralisation reforms. While the Ministry of

<sup>35</sup> AusAID estimates based on European Commission, Technical Assistance to Design the Masterplan for Rural Roads, Final Report, 18 November 2010. The survey found that 69 per cent of 730 km of rural roads accessible by vehicle were in bad or very bad condition. It is therefore estimated that around 90 per cent of the total 3,025 km of rural roads are in bad or very bad condition.

<sup>36</sup> AusAID calculations based on Democratic Republic of Timor-Leste State Budget 2011, Book 1 Budget Overview. 'Economic infrastructure' includes energy, transport, agricultural and industrial infrastructure.

<sup>37</sup> ADB reporting to AusAID.



Infrastructure (MoI) retains responsibility for most infrastructure planning much of the infrastructure budget is procured outside of the Ministry's control. For example, small projects are procured at the district level through the Prime Minister's Decentralisation and Development Program. The Government plans to establish a National Development Agency in 2011 which is likely to have a large role in overseeing infrastructure development. Donors have sometimes added to the confusion, recently supporting several policy and planning exercises in the sector despite weak government ownership.

Australia's Asian Development Bank-managed program is building the MoI's capacity to implement the infrastructure budget. Toward this end, it has helped MoI develop useful tools like a project monitoring and control system, databases to estimate project costs, and building codes. In 2011, it will support these further to ensure they are institutionalised and used by the government. Also, a scholarship scheme was established in 2010 and 15 students were sent to Indonesia to study. However, the program's impact has been constrained by the shift of control over procurement away from the Ministry, and a mid-term review in 2010 identified a number of adviser positions that had not been effective. In response, the program was restructured to focus adviser inputs around specific tasks that build on successful elements of the program.

Australia is supporting the rehabilitation and maintenance of rural roads that connect villages to major road networks. The International Labour Organization (ILO) managed program (TIM-Works) uses labour-based approaches to generate employment, and has demonstrated their viability and cost effectiveness. During 2010 the program rehabilitated 150 km of road, maintained 679 km and provided 11,472 people with short-term employment (average 30-60 days). This brings the program total since 2008 to 240 km road rehabilitated, 1751 km maintained and 25,480 people employed. The program has injected around USD 2 million into local communities and has given some villages vehicle access to the outside world including health, education, and economic services. Australia is also supporting the ILO Youth Employment Program which is employing people to undertake unskilled maintenance of rural roads. During 2010 around 1,500 km of roads were maintained under this program employing nearly 13,000 workers.<sup>38</sup> Both programs work with Government but outside the Ministry of Infrastructure, which limits their ability to influence road works at scale.

### Management Consequences

> Australia is developing a new program with the ILO to establish a rural road rehabilitation and maintenance system in the Ministry of Infrastructure. A focus on rural roads is appropriate given that other donors have focussed on national roads. Australia will lead policy dialogue and donor coordination in this sub-sector. The program will build on the experience of TIM-Works to integrate the labour-based approach into MoI. The new program will balance tangible results with building MoI capacity to better manage its own resources. The program will have the flexibility to respond to a changing institutional environment and encourage better inter-agency coordination.

> Australia is supporting the establishment of a Major Projects Unit in the Ministry of Finance. This will include policy advice and a fund to enhance selection, preparation and implementation of major infrastructure projects such as ports and road networks. Australia

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<sup>38</sup> ILO reports to AusAID on the TIM-Works project and Youth Employment Program.





support is contingent on the Government of Timor-Leste proceeding with its stated policy of engaging the services of an international firm to act as a procurement agent for all major government procurement. Improved capacity is needed in this area as the government is rapidly increasing funding for large projects and lacks capacity to manage the procurement process.

> During 2011 Australia will clarify its approach to the infrastructure sector. A delivery strategy will consider how the government is placed to implement its upcoming Strategic Development Plan which is likely to feature major infrastructure development and whether there is a case for Australia to contribute funding for major infrastructure.

## Estimated expenditure

**Table 5: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Infrastructure	5.2	5.1

## Sector: Agriculture Productivity and Food Security

### Ratings against shared outcomes

- Improved food security through increased **productivity of major foodcrops**
- Increased access to **rural financial services**

### Assessment of results and performance

#### Sector Context

In Timor-Leste 80 percent of the country's poor depend on subsistence agriculture for their livelihood. Over the seven years to 2009 agricultural GDP grew at a real average rate of 4.2 per cent, based on official estimates, but this is from a low base.<sup>39</sup> Reduced food production was expected in 2010 because heavy rains and floods damaged crops and irrigation systems and prevented some farmers from planting new crops. Recent indications are that these impacts were less severe than expected during 2010 but harvests in 2011 are likely to be affected. The IMF estimates that agricultural GDP grew by 0.5 per cent in 2010.<sup>40</sup>

Low agricultural productivity means that food security is an ongoing issue. The 2007 Timor-Leste Survey of Living Standards identified that households experience a 'hungry season' of an average of 3.2 months of low food consumption during the year. Food insecurity contributes to malnutrition. The 2010 Demographic and Health Survey revealed that 58 per cent of children under five are stunted and 45 per cent are underweight. These are increases since a 2003 survey. The 2010 survey also found that 27 per cent of women are malnourished and three in ten pregnant women are anaemic.

<sup>39</sup> AusAID calculation based on Democratic Republic of Timor-Leste State Budget 2011, Book 1 Budget Overview, Tables 3.3 and 3.4, p. 26.

<sup>40</sup> Statement by the IMF Staff Representative on the Democratic Republic of Timor-Leste, January 19, 2011.



## Shared Progress

### *Improved food security through increase productivity of major foodcrops*

The natural conditions for agriculture in Timor-Leste, including rainfall patterns and land quality, are challenging. Agriculture is also hampered by poorly-coordinated and often counterproductive government policies and inadequate infrastructure. The government has in the past subsidised the distribution of significant quantities of imported rice which reduces incentives for domestic food production. The government is also freely distributing agricultural inputs such as seeds and fertiliser which could undermine the development of sustainable markets for inputs, as well as Australia's efforts to establish a seed production and distribution system in Timor-Leste.

These broader factors undermine Timor-Leste's food security factors. Australia's main food security program Seeds of Life (SoL) program is performing well. However, SoL is still making the transition to a scale where it can have a significant and impact on food security. SoL works in partnership with the Ministry of Agriculture and Fisheries (MAF) to evaluate and release higher yielding crop varieties (maize, rice, peanuts, cassava and sweet potato). Yield advantages in research and demonstration trials ranged from 24 per cent to 159 per cent.<sup>41</sup> Food security is improving in communities where demonstration trials are undertaken. Farmers use their increased yields to supplement food sources and sell excess product to meet other household needs (e.g. medical services). MAF staff capacity to produce, store and distribute seed is slowly improving.

Improved crop varieties were distributed to up to 21,000 farming households during the 2009-10 wet season and to up to 11,000 households during the 2010-11 wet season. It is estimated that between September 2008 and the end of phase two of SoL in January 2011 improved varieties were distributed to 25,000 farming households, benefiting around 150,000 individuals.<sup>42</sup> These farmers would have passed on these crop varieties to even more farmers. Future work under the SoL will focus on up scaling distribution and accessing more farmers to meet more of the country's needs.

Around one quarter of farms in Timor-Leste are managed by women. Women are actively targeted under SoL. Over 60 per cent of farmers attending SoL demonstration field days were women.<sup>43</sup> In 2010 SoL produced a report outlining climate change impact and adaptation issues for the agriculture sector in Timor-Leste.

Australia, working through the Food and Agriculture Organization is also assisting with building MAF's capacity to prevent and control infectious diseases in livestock. This included establishing a veterinary laboratory facility.

### *Increased access to rural financial services*

<sup>41</sup> ACIAR, Seeds of Life II, Final Report, 31 March 2011, Table 12, p. 32.

<sup>42</sup> ACIAR estimate reported to AusAID and ACIAR, Seeds of Life II, Final Report, 31 March 2011, p. 31. SoL reporting years are from September to August, incorporating the wet season from November to May. Because the second phase of SoL finished in January 2011 the 2001-10 distribution figure is not for a full wet season. The figures for each wet season include some double counting of households across different crops. The estimate of 25,000 farming households for the period September 2008 to January 2011 incorporates an approximate adjustment for double counting (across crops and across years) to the total for three wet seasons of around 43,000 households.

<sup>43</sup> ACIAR, Seeds of Life II, Final Report, 31 March 2011, p. 34.



The microfinance sector in Timor-Leste is young but growing steadily. Australia, working through UN agencies, is assisting the poor in rural areas of Timor-Leste to access financial services (saving and microcredit) by building the capacity of local microfinance institutions. During 2009 and 2010 the number of microfinance clients in Timor-Leste increased by around 21,000<sup>44</sup> However most of this growth was in the government-sponsored microfinance institution which was not directly supported by INFUSE. In 2010 the Government introduced a new regulation for the microfinance industry aimed at providing greater protection to depositors. Our program helped facilitate consultation with the microfinance industry and will assist institutions to comply with the new regulation in the future. Our support has also helped microfinance institutions strengthen their management systems and improve their financial sustainability. The two microfinance institutions directly supported by INFUSE have achieved financial self-sufficiency and were achieving positive returns on their assets.<sup>45</sup>

### Management Consequences

- > During 2011 Australia will seek a larger impact on the long-term constraints to agricultural productivity and food security through new and expanded interventions and stronger policy dialogue. Australia, working with MAF and other donors, will closely monitor short-term food security (including storage) and work with government and other donors to provide assistance if required. Australia will engage in dialogue with the Government on issues relating to food security such as agricultural policies and subsidies. Australia will use multiple points of engagement on policy issues. However, it will be important to have realistic expectations of what policy changes are likely in the short term. Australia will also work with the Government on a multi-sector response to improve nutrition in Timor-Leste, through our support to health and education.
- > A new phase of Seeds of Life commenced in February 2011 for five years to expand the program to the whole of Timor-Leste and significantly upscale the distribution of improved crop varieties. It aims to establish a sustainable seed system managed by MAF and incorporating community-based and market-based seed production and distribution. It will be important to ensure new elements of the program are effectively implemented and that the M&E framework captures robust data on the food security impacts of increased seed distribution. One of the great challenges will be to build MAF leadership and capacity.
- > Australia's Multi-Country Market Development Facility is expected to commence in Timor-Leste during 2011. This will analyse markets to identify opportunities to make markets more competitive and accessible to poor men and women. The facility will greatly expand Australia's analytical capacity and outreach into agriculture and other sectors.
- > During 2011 Australia will review its assistance to Timor-Leste for livestock disease prevention and control. This will focus on the government's ability to sustain the laboratory facility in the future. This review will inform Australia's decision about whether to provide

<sup>44</sup> UNCDF Special Projects Implementation Review Exercise (SPIRE). Mid Term Review (MTR): Inclusive Finance for the Underserved Economy (INFUSE) Timor-Leste, March 2011, p 45 and INFUSE reporting to AusAID. In December 2010 there were 55,851 active clients of microfinance providers. The INFUSE MTR includes a December 2008 baseline of 34,733 savers but no separate figure for total clients. In calculating growth since December 2008 it is assumed (based on the March 2010 figures) that the total number of clients (including lenders) in December 2008 was almost equal to the number of savers.

<sup>45</sup> INFUSE MTR, pp. 26-27. At December 2009 the two institutions had Financial Self-Sufficiency Ratios of 105 per cent and returns on assets of at 3 per cent or greater.



further assistance. ACIAR will also begin a livestock-management project during 2011 in partnership with an Indonesian university.

> A mid-term review of the UN microfinance program will be finalised in March 2011. Australia, as a member of the management board of the program, will work to address recommendations of the review. The Australian-funded Pacific Microfinance Initiative implemented through the International Finance Corporation has funding allocated to provide assistance in Timor-Leste. Australia will ensure this initiative is well coordinated with the UN program and other development partners working in microfinance in Timor-Leste.

## Estimated expenditure

**Table 6: Estimated expenditure in 2008–09**

Objective	A\$ million	% of bilateral program
Agriculture Productivity and Food Security	3.0	3.0

## Sector: Public Sector and Democratic Governance

- > To help establish and develop central agencies, in line with GoTL's public sector reform agenda
- > To help establish and implement a regulatory framework for, and enable provision of training to, the public sector
- > To build functional formal political institutions and respect for democratic processes
- > To build effective relations between the state and communities

## Combined rating against shared outcomes

■ The objective will be partly achieved within the timeframe of the strategy.

## Assessment of results and performance

### Sector Context

Progress in strengthening public sector capacity in Timor-Leste has been mixed in 2010. The Government's new Human Capital Development Fund, set up under the 2011 National Budget, will intensify human resource development, with an allocation of USD 25 million in its first year and rising to USD 45 million by 2015 to fund a range of training and scholarship opportunities. But workforce numbers and salary costs are continuing to grow: to 26,093 civil servants in 2010 (from 21,954 in 2008) at a bill of USD 72 million (up from USD 33.6 million in 2008). This is rapid expansion by international standards and Timor-Leste's civil servant to population ratio is now among the highest in the region.

The Government's public sector reform agenda, introduced in 2008 as part of the 'Year of Administrative Reform' has established new institutions and mechanisms to improve the civil service. But the ongoing absence of a strategic plan for the public sector – to determine overall size, shape and cost – is increasingly problematic. The need for a stronger framework extends to the Government's use of consultants financed from the state budget, with expenditure on professional services increasing 136 per cent since 2008 to USD 53.7 million in 2010 (this is



separate to the wages and salaries bill). Furthermore, building a workforce with the requisite skills – at both the basic and highly-specialised ends of the spectrum - remains a key challenge for government.

An emerging democratic culture continued to be evident in Timor-Leste throughout 2010, with robust parliamentary debate and scrutiny from parliamentary committees, the media and civil society. The Prime Minister spent 2010 travelling across the breadth of the country to consult on his government's strategic development plan. However a mission led by Australian governance advisors concluded that although the Constitution guarantees citizen participation in public matters, decision-making remains highly centralised within government. Despite some strong voices against corruption within civil society, there are not yet clear channels of interaction between the government and the citizens.

Further analysis undertaken in 2010 recommended that Australia reconsider its governance portfolio and develop an approach that links our support in public sector reform, democratic governance, and public financial management. As with other sectoral programs, this approach requires a sharper focus on improving service delivery in a way which involves citizens as active participants - thereby strengthening the citizen-state relationship.

## **Shared Progress**

### *Public sector reform*

Australia's public sector support program has seen a period of strategic drift in which it has supported almost the full range of Timor-Leste agencies on a suite of issues ranging from food security and nutrition through to disability inclusive development. To rectify this, its 'Additional Initiatives' stream of sub-projects ended and its focus continued on support to (i) central agencies, in line with GoTL's public sector reform agenda and (ii) a regulatory framework for, and enabling provision of training to, the public sector.

### *Helping establish and develop central agencies, in line with GoTL's public sector reform agenda*

The mandate for reforming Timor-Leste's public sector resides predominantly with the Ministry of State Administration and Territorial Management (MoSATM) and the Civil Service Commission (CSC). These agencies were therefore the main recipients of Australian support under this objective in 2010.

Australian support to the CSC in 2010 helped it place controls around the expansion of Timor-Leste's civil service which has been a key cause for concern in recent years. In 2010 the CSC instituted a recruitment freeze for 2011 while taking forward a process for conversion of 'temporary' positions (that account for about half of all public service jobs). Australian technical assistance helped CSC drive these reforms.

We also helped strengthen the CSC's corporate functions in order that it can better meet its mandate. With Australian support, the Commission also produced a five year Strategic Plan, submitted its first Annual Report to Parliament, and consolidated internal structures through developing a range of new operational procedures in 2010. The CSC is also actively addressing disciplinary issues, with a total of 164 cases investigated in 2010. In addition, the CSC suspended the salaries of over 363 officers who had abandoned their employment and terminated the salaries (or employment) of 29 officers. The Disciplinary Directorate's caseload is expected to grow following Australia's recent provision of work equipment.





While our support to MoSATM has been limited to date, in 2010, the Council of Ministers approved a new organic organisational structure for the agency with legal input from Australia. The new structure establishes clearer areas of responsibility and lines of accountability that will enable more effective management of the Government's future decentralised development agenda.

*Helping establish and implement a regulatory framework for, and enabling provision of training to, the public sector*

The National Institute for Public Administration (INAP) is primarily responsible for developing the capacity of Timor-Leste's civil service by delivering training and capacity development support across government. In 2010 INAP successfully piloted a Senior Management Course with 18 participants. The pilot drew on local experts to help deliver the seven modules and provide expert advice during the training. INAP also delivered the Administrative Assistants course to 300 civil servants (further to the 200 participants, when we piloted the course in 2009). While Australia provided direct assistance to both initiatives, a review that we commissioned found that it will be critical to strengthen INAP's internal organisation and learning facilities to sustain and expand these training courses in line with GoTL expectations.

In 2010 Australia assisted the Government of Timor-Leste to broker a whole-of-government approach to training by helping establish an interagency Training and Development Consultative Committee, jointly chaired by the CSC and INAP. This Committee will inform the development and dissemination of new policy on civil service training. The committee has prepared a draft decree law on Training and Development, as well as a Scholarship and Study assistance policy, for approval by the Council of Ministers. This framework will help strengthen skills development across the civil service through a standardized management approach and provide an important mechanism to mobilise the GoTL's new Human Capital Development Fund.

Separately, in 2010 Australia expanded the number of available Australian Development Scholarships by 50 per cent, from 20 to 30 scholarships annually, while expanding marketing approaches, hosting the first ever exhibition of Australian and New Zealand universities. Working closely with the CSC, we also established a new Government Internship Program for returning Australian and New Zealand scholarship graduates, to be piloted in 2011 with 5 interns across a range of Ministries.

*Democratic governance*

Australia continued to support a range of small-value initiatives related to democratic governance in 2010, including support to parliament, media, electoral systems and civil society. Achievements included improved legal drafting and analysis skills in Parliament, through an intensive program led by Indonesian professors and incorporating Portuguese language skills. Australia also continued support to a Gender Resource Centre in Parliament as well as female members of parliament and permanent committees to work on gender-sensitive legislation. Our long-term support to Timor-Leste's electoral management authorities continued, with the Australian Electoral Commission providing Building Resources in Democracy, Governance and Elections (BRIDGE) training to 94 representatives from government and civil society organisations to help them promote public understanding of, and support for, electoral processes. BRIDGE was awarded a 2010 United Nations Public Service Award.



## Management Consequences

- > Building on analytical groundwork in 2010, Australia will develop a governance delivery strategy that links our support in public sector reform, democratic governance, and public financial management. This strategy will bring a sharper focus on improving service delivery through involvement of citizens as active participants - thereby strengthening the citizen-state relationship. This will guide the re-design of our public sector reform program and rationalisation of our democratic governance portfolio.
- > Australia will work with the GoTL to integrate this governance approach of promoting community involvement in service delivery across all sectors in which it provides support. This will be reported against in individual sectors, as well as against a future governance delivery strategy.
- > The governance delivery strategy will also guide ongoing dialogue around: GoTL leadership of a public administration reform strategy and support for the mandates of the CSC and INAP; MoSATM's management of decentralised funding; and the MoF-led TA policy – explained further below - to ensure more discipline around the Government's use of professional services and development partners' use of advisers.

## Estimated expenditure

**Table 7: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Public Sector and Democratic Governance	7.1	7.0

## Sector: Public Financial Management

- > To strengthen systems and processes in the areas of planning, budgeting, public expenditure management and revenue administration in the Ministry of Finance
- > To build human resource capacity within the Ministry of Finance

## Combined rating against shared outcomes

■ The objective will be partly achieved within the timeframe of the strategy.

## Assessment of results and performance

### Sector Context

A recent International Monetary Fund Public Expenditure and Financial Accountability assessment found that overall, Timor-Leste has made solid progress in strengthening public financial management (PFM) systems in just a very few years with improvements measured in 12 of the 29 applicable indicators.<sup>46</sup> The improvements are often modest, but underpinned by real changes in work practices, legislation and IT systems. Most notable are the gains made in the comprehensiveness of fiscal information, fiscal transparency, funding predictability,

<sup>46</sup> PEFA Assessment, IMF, 2010.



timeliness and quality of bank reconciliation and financial statements. Legislative scrutiny and the external audit process also improved.

Yet the gains achieved and relative strengths of the Ministry of Finance (MoF) are diminished by gaps in the PFM system elsewhere. An independent, external auditor is missing, internal audit is almost non-existent and budget planning and implementation capacity in line ministries is still weak. There has also been some major slippage in performance, for example on orderliness of the budget process, capacity of the MoF to do medium-term fiscal planning, development of sectoral investment strategies and multi-year budgeting. The flow of funds to service delivery units remains problematic. Issues of emerging corruption in procurement and tax administration remain a concern. Overall, the Government have not managed to keep a consistent approach to PFM reform, with major decentralisation and relaxation of controls in some areas (e.g. procurement, cash handling and large sub-national grants mechanisms such as the MDG Suco Program) contrasted with centralisation of decision making powers in others (e.g. planning and budgeting, particularly capital expenditure). This has led to inconsistency and inefficiency across the broader PFM system.

### **Shared Progress**

With Australian support through the World Bank-supervised Planning and Finance Management Capacity Building Program (PFMCBP), the Ministry of Finance took some positive steps in 2010. This included implementation of a major reorganization of the Ministry, strengthening public expenditure management through simplification and streamlining of treasury systems and processes and increased delegation of authority to line ministries. Further progress included improved revenue management - with increased transparency in tax administration and reinforcing petroleum tax administration - and a gradual improvement in macroeconomic planning. Advisers have made significant contributions over the past eighteen months to MoF's overall capacity

However, the challenges are large and growing. Capacity of civil servants remains very low, with continued heavy reliance on Technical Assistance (TA) across the Ministry. MoF faces two competing pressures. On the one hand, the Ministry must address the lack of basic skills amongst civil servants and focus on building core skills such as numeracy, literacy and basic accounting. On the other hand, the huge ambition of the Government to fast track development with increased expenditure highlights the need for high-level policy advice around investment decisions, along with implementation support to make it happen. PFMCBP has struggled to do both well, and the review recommended taking a more clearly defined approach to challenges at each end of the capacity spectrum. Australia supported a new approach in the MoF, indicating that we expect to see a more coherent approach to the use of TA.

### **Management Consequences**

- > Assist MoF develop a policy on capacity building and the use of TA in March 2011. It is expected that this policy will flow through and impact PFMCBP through its redesign in late 2011.
- > Keep working to identify opportunities to build MoF's client service and outreach capacity through bilateral engagement with MoF and through the 2011 redesign of PFMCBP. This means ensuring more attention on the quality of PFM systems in line ministries.



- > Ensure that the MoF Strategic Plan is the basis on which future assistance is designed, and that this contains a more realistic and pragmatic approach to balancing institutional and individual capacity.
- > Continue to improve the current limited bilateral engagement in key areas, particularly in relation to infrastructure investment and decentralisation. As PFMCBP is redesigned in the latter half of 2011, Australia will need to carefully shape its engagement in PFM reform and ensure strong linkages with our broader public sector development strategy.

## Estimated expenditure

**Table 8: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Public Financial Management	6.5	6.4

## Sector: Resilience to Natural Emergencies

### Rating against shared outcome

■ To improve disaster risk reduction by the Government and communities in Timor-Leste.

### Assessment of results and performance

#### Sector Context

Timor-Leste experienced an extended wet season reflecting La Niña-related weather patterns with two significant episodes of flooding in late June/early July (affecting 923 families) and early August (affecting 1044 families). While many districts were affected, the impact on families and homes and the long-term impact on agricultural land was assessed as limited. However, the flooding highlighted inadequate access to emergency shelter for displaced victims, which will worsen as the population grows. There are unclear roles and responsibilities within the various parts of government with a mandate in relation to disaster risk reduction and emergency response. A variety of different agencies have an operational mandate in relation to emergency response, including the National Disaster Management Directorate (NDMD) the police (PNTL), the armed forces (F-FDTL) and the Ministry for Security and Defence).

#### Shared Progress

In 2010, the National Disaster Management Directorate's (NDMD's) Strategic Plan was approved and its budget was increased significantly. With 60 staff now in place, the NDMD is increasingly well placed to implement its workplan although human resource capacity and budget allocation are both still constraints.

The Government responded well to the localised emergencies, with limited international assistance. Through Australian funding, the International Organisation for Migration (IOM) and NGOs based in the districts provided support in the form of transport and volunteers to evacuate victims, and distribute the Ministry of Social Solidarity (MSS)'s food and non-food items in coordination with District Disaster Management Committees. IOM provided logistical support in coordination with MSS, while the UN provided air support to conduct assessments.



Our support through IOM to improve the long-term capacity of communities and the Government to reduce the risks from disasters continues. A whole-of-government disaster risk management workshop in 2010 did reveal a lack of coordination in responding to natural emergencies due to the variety of agencies with an operational mandate.

### Management consequences

> With Australia's current disaster risk reduction project due to be completed in late 2011, we will review the sector and our funding with a view to considering how to further improve disaster preparedness measures and coordination at both national and community levels.

Estimated expenditure

**Table 9: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Resilience to Natural Emergencies	1.8	1.7

### Sector: Combating violence against women

Rating against shared outcome

■ To reduce violence against women and girls.

Assessment of results and performance

#### Sector Context

According to Timor-Leste's 2009-2010 Demographic and Health Survey more than one in three Timor-Leste women (39.2 per cent) have experienced physical or sexual violence, with current husbands or partners being the key perpetrators. Of these women, about one in five (24 per cent) seek help – usually from family members. Support services exist, but are not adequate to address the extent of the problem and only 1 per cent of affected women access these services.

Although domestic violence was recognised as a specific crime (separate to assault) by the Penal Code promulgated in 2009, it remains a largely hidden problem. Only 4 per cent of women who experience violence seek help from the police.<sup>47</sup>

#### Shared Progress

In 2010, Australia continued to work with the Timor-Leste's Government, legal institutions and civil society through the Justice Facility (JSSF) to tackle the problem of violence against women and girls from two angles. Firstly, interventions were targeted to prevent violence against women and girls. Secondly, efforts were made to ensure those affected by violence have access to justice and appropriate support services. Australia's Justice Facility provided 20 grants to local civil society groups to work on these efforts – an increase on the previous year. This support meant that 462 persons benefitted from legal and support services in 2010.

<sup>47</sup> Timor-Leste Demographic and Health Survey 2009-2010, p 245.





Additional support, such as advocacy by men's groups and youth drama performances, increased community awareness about violence against women and girls in order to change attitudes and prevent future violence. An evaluation in 2010 concluded that the grants are being generally effectively managed, complemented by our significant organisational development support. This support reinforces efforts through the AFP's Timor-Leste Police Development Program to strengthen the capacity of the police to respond to gender-based violence through developing an investigations training manual and training officers of the police's Vulnerable Persons Unit.

The Law Against Domestic Violence was promulgated in June 2010, after years of existence in draft form, with support from a number of stakeholders including Australia. The law creates and strengthens mechanisms for the prevention of domestic violence and the promotion of the rights of victims, and builds on the criminalisation of domestic violence and various sexual crimes in the Penal Code.

To action the rights established in this law, the Government prepared a draft 'gender justice policy' in 2010 with support from Australia. Preparing a gender justice policy was one of the Government's National Priority objectives in 2010 and aligns with the Justice Sector Strategic Plan 2011-2030. This policy brings together seven strategic areas for intervention: data collection; prevention strategies; legislation; criminal procedure; court processes and facilities; services for victims; and gender equality for employees in the legal system. The policy was referred to the Minister for Justice for final review and approval.

### Management consequences

- > In 2011, Australia will continue its dual focus on preventing violence against women and girls, while ensuring those affected have access to justice and support services. In regard to prevention, Australia will continue to support local organisations working in the districts to change community attitudes, for example through community radio and youth theatre, training with men's groups, education about domestic violence legislation and strengthening child-protection networks.
- > In 2011, Australia will work to expand reach of existing victim support services by addressing the lack of infrastructure for these services. We will build on current support for the limited number of existing 'safe rooms' and 'safe houses' with a major program of capital works to establish safe room facilities attached to the five referral hospitals in Oecusse, Suai, Maliana, Maubisse and Baucau. The safe rooms will provide both crisis and follow-up care for victims of domestic violence, sexual assault and child abuse. Over time and through the provision of training, the intention is for safe room services to expand to include counselling, medical care, forensic examination and documentation of injuries for prosecution purposes.
- > An evaluation of Australia's Justice Facility in the second half of 2011 will examine the effectiveness of Australia's interventions to reduce violence against women and inform the mechanisms for ongoing support.

### Estimated expenditure

**Table 10: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
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## Sector: Policing Capacity and Justice

### Ratings against shared outcomes

- Helping to build the foundations of a more effective and accountable police service
- Achieve fair and timely access to justice for children, women, and men in Timor-Leste

### Assessment of results and performance

#### Australia's Role

The Australian Federal Police (AFP) implement the Timor-Leste Police Development Program (TLPDP), which supports the development of Timor-Leste's police force (Policia Nacional de Timor-Leste, PNTL) as well as assisting the Office of the Secretary of State-Security (SoSS) and the Office of the Prosecutor-General (OPG). The overarching aim of the program is to assist the Government of Timor-Leste in establishing a policing capability where the governance, values and operational characteristics of the PNTL support increasingly strengthened rule of law in an emerging democracy. Australia has made significant efforts to assist Timor-Leste in the development of such a police force. With the draw-down of the United Nations Police presence, and the hand over of police leadership to the PNTL within all the districts of Timor-Leste in 2010, the success of these efforts is increasingly being tested. TLPDP's role is capacity development of the PNTL and does not include any direct security or policing role.

Complementing this role, AusAID is working through a bilateral Justice Facility to improve the delivery of services in the justice sector. The AusAID-funded Facility works with key sector institutions, particularly the Ministry of Justice and the Office of the Prosecutor General, to strengthen their administration, leadership, human resource management and budget and financial management.

#### Shared Progress

In 2010, positive progress was made by the Government of Timor-Leste, PNTL and the AFP towards creating an effective and accountable police service. The PNTL's 2010 Annual Action Plan prioritised a number of key elements for the organisation: administration, operations, legislation, training, discipline and infrastructure. In response, TLPDP identified five specific priority capacity building outcomes that it will work towards within the 2010-2014 program: (i) the Police Training Centre (PTC); (ii) PNTL supervision and management; (iii) PNTL Investigations capability; (iv) sustainable Administrative systems for PNTL and the SoSS; and (v) provision of sufficient and appropriate training, infrastructure and enabling tools to support capacity development of the PNTL, SoSS, and OPG.

There have been incremental improvements in the organisational robustness and effectiveness of the PNTL throughout 2010, with improvements to basic training, investigations training and greater opportunities for advanced police management training.

TLPDP made significant contributions to the progress of these priorities in 2010. A key enabler for all five priorities was the creation within TLPDP of a program evaluation and development team, who have begun to benchmark capability across the PNTL to ensure adequate indicators are available to assess progress.



The Police Training Centre - the key institution to deliver training to PNTL officers - has progressed towards accreditation as a learning institution. National accreditation is a significant outcome, given that it links police training and education explicitly to the national plans to develop and improve the average level of education. The AUD 4.3 million renovation of the PTC infrastructure, training rooms and accommodation has commenced. This is progressing on schedule, and is anticipated to be completed in 2012-2013 fiscal year. Once complete the PTC will have live-in accommodation for 250 members, and should be sufficient to provide the infrastructure for the PNTL to conduct the training they require to support their ongoing development into a resilient national police.

In regard to PNTL supervision and management, significant progress has been made towards the development and national accreditation of the diploma-level executive police management program. The first of these programs has commenced, and it is intended that all 256 commissioned PNTL officers will have completed certificate four to diploma level by 2014.

For investigations training, three levels of accredited training (for the PNTL Investigations units and the Prosecutors of the OPG) has been developed, and the first of the level one courses has commenced. All 260 PNTL investigators, along with all the OPG prosecutors, should have completed one or more levels of training by 2014. It is intended that these courses will address some of the significant issues that have occurred between the PNTL and OPG with coordination and preparation of cases, and the consequential negative effects this causes on perceptions of the PNTL.

Contribution to the development of sustainable administrative systems is at an early stage. The intent is to support the PNTL human resources, finance, planning, and logistics administrative systems in order to support improved PNTL operational capability. Technical assistance has been delivered to the PNTL's career regime and promotions process. Career progression and promotion has been a significant issue for the PNTL, and the improvement in these processes is expected to lead to significant improvements in staff moral and retention.

The last priority outcome area, provision of training, infrastructure, and enabling tools to support capacity development, includes a significant number of projects that TLPDP carry out to assist PNTL development that are not covered under the other four priority areas. A total of 187 projects were initiated through 2010, with 151 of them being completed. These include projects designed to improve PNTL forensic capability through the provision of training and equipment. Improvements in training PNTL investigators in crime scene management and physical evidence examination will provide the PNTL with an improved capability to collect evidence and provide the OPG with adequately prepared briefs of evidence.

In 2010 in the justice sector more generally, the Government of Timor-Leste, with AusAID support, achieved a number of milestones to improve sectoral coordination and service delivery. The Government formally launched its Justice Strategic Plan to guide priorities across the sector. Further the Government continued to roll out a case tracking management system. This enables justice institutions to track and report accurately on cases, helping improve transparency and coordination. AusAID also helped extend judicial services to the districts through completion of eight prosecutors' houses and support to two mobile court sessions.

### **Management Consequences**



- > Within TLPDP, two key risks are currently being managed as the program moves into its 2011-12 cycle. The first, lack of sufficient accurate data on PNTL progress, is being addressed through the development and implementation of benchmarking, coordinated by the program evaluation and development team. This will give TLPDP greater situational awareness, thus allowing adjustment and refinement of developmental program focus in response to PNTL organisational issues as they are identified.
- > The second key risk area is the sustainability of these training programs without direct TLPDP support. Progress was made on embedding PNTL-led training into the PTC, investigations, and management programs. However as this is the first year of this effort the gains in capacity to sustain training were smaller than those in the infrastructure and delivery of training areas. As the programs become established and bedded down throughout 2011 and beyond, TLPDP will increasingly focus on ensuring that they are sustainable within PNTL training capability.
- > An evaluation of Australia's Justice Facility will be conducted in the second half of 2011 to examine the effectiveness and sustainability of support provided to the justice sector. This evaluation will guide management decisions on AusAID's role in the sector following completion of the Justice Facility in 2013.

## Estimated expenditure

**Table 11: Estimated expenditure in 2009–10**

Objective	A\$ million	% of bilateral program
Policing Capacity (AFP)	34.7	34.1
Justice (AusAID)	8.3	8.2

## Quality of aid activities

Name of initiative or activity	Relevance	Effectiveness	Efficiency	Monitoring & Evaluation	Sustainability	Gender Equality
Rural Water Supply and Sanitation	■	■	■	■	■	■
Family Planning and Reproductive Health Services	QAI Exemption					
Seeds of Life	■	■	■	■	■	■
Public Sector Linkages Program	■	■	■	■	■	■
Public Sector Capacity Development Program	■	■	■	■	■	■
National Parliament Capacity Development	QAI Exemption					
ATLASS - Specialised Medical Services Program	■	■	■	■	■	■
Emerging Infectious Diseases (Biosecurity)	■	■	■	■	■	■



Name of initiative or activity	Relevance	Effectiveness	Efficiency	Monitoring & Evaluation	Sustainability	Gender Equality
Peace Dividend Trust Phase 2	■	■	■	■	■	■
Education Sector Support Program	■	■	■	■	■	■
Youth Employment Promotion Program	■	■	■	■	■	■
Humanitarian Response	QAI Exemption					
Justice Sector Support Facility	■	■	■	■	■	■
Infrastructure Program	■	■	■	■	■	■
Health Sector Support Program	■	■	■	■	■	■
Planning and Financial Management Capacity Building Program	■	■	■	■	■	■
Australian Development Scholarships	■	■	■	■	■	■
Timor-Leste Sea Pipeline	QAI Exemption					
Timor-Leste Police Development Program	QAI Exemption					

Definitions of rating scale:

Satisfactory (4, 5 and 6)

■ = 6 = Very high quality

■ = 5 = Good quality

■ = 4 = Adequate quality; needs some work

Less than satisfactory (1, 2 and 3)

■ = 3 = Less than adequate quality; needs significant work

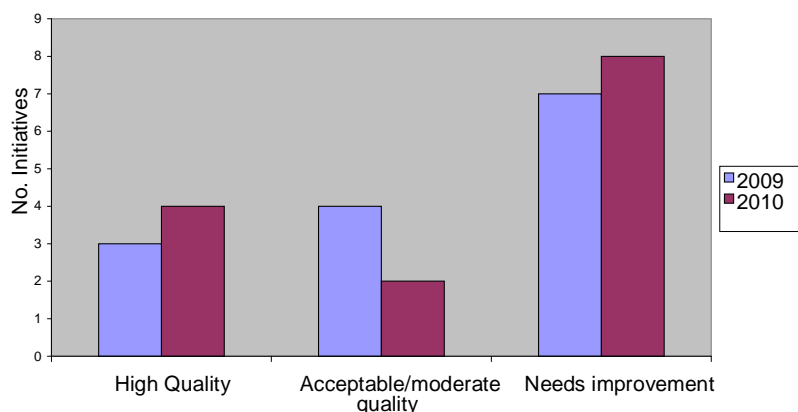
■ = 2 = Poor quality; needs major work

■ = 1 = Very poor quality; needs major overhaul

Note: The above ratings are provided for only aid activities with total funding approval of more than AUD 3 million.

## Discussion of Quality at Implementation Ratings

Quality of Initiatives 2009 and 2010



Overall, the quality of initiatives is roughly similar to 2009, with over half still needing improvement (see figure above).<sup>48</sup> The great majority (75 per cent of this half) will be re-

<sup>48</sup> Definitions are: High Quality: at least three 5s or 6s (no 3s or below). Acceptable/ Moderate quality: 4s and above; one rating of 3 allowed; no rating of 2 or 1. Needs improvement: two or more criteria rated at 3; any rating of 2 or 1.





designed in 2011, drawing on considerable delivery strategy work undertaken in 2010. The other 25 per cent will end.

By criteria, 2010 QAI ratings told a mixed story:

- > About 80 per cent of initiatives are sufficiently **relevant**. This will strengthen in 2011 as new designs drive greater alignment with GoTL directions and the Australia Timor-Leste Country Strategy 2009-2014 and as less relevant initiatives end.
- > 2010 saw little change from 2009 to **effectiveness**: initiatives are split roughly equally between making inadequate, adequate, and good quality progress toward their objectives.
- > On **monitoring and evaluation**<sup>49</sup>, mid-performers improved in 2010, while weak initiatives (over half the portfolio) did not. One in five initiatives have poor M&E systems.
- > Over a third of initiatives are highly **efficient** – an improvement on last year. However, 42 per cent of initiatives are still unsatisfactory, including all World Bank supervised initiatives.
- > **Sustainability** scores were disappointing and significantly worse than last year<sup>50</sup>. Almost 65 per cent of initiatives are unsatisfactory, and 20 per cent rated poor.
- > Reflecting tougher ratings, **gender equality** scores dropped dramatically in 2010, with half our initiatives inadequate, and 28 per cent poor.

These scores merit further interpretation. Almost two-thirds of initiatives were within a year of completion in 2010, which meant that shortcomings in terms of effectiveness and sustainability were easier to highlight, but harder to address. Australia reformed programs where immediate changes were possible (e.g. PSCDP's overuse of advisers). However, the rewards of strong efforts put into diagnosing program shortcomings and discussing new approaches with partners (e.g. more appropriate use of the trust fund modality by HSSP-SP) will not be reaped until programs are re-designed in 2011. Lower scores may also indicate improved staff awareness of the logical connections between actions and outcomes and how programs can better address the underlying factors affecting gender equality.

## Cross-cutting themes

### Capacity Development Approaches

QaIs indicate that Australia's current capacity development efforts in Timor-Leste are mostly ill-defined and have little impact on institutional performance, often because original intentions were too ambitious. The experience from PFMCBP suggests that Timor-Leste's context frequently justifies capacity substitution, at least in the medium term. This is appropriate in a fragile state that despite weak skills and systems must, in order to sustain stability, deliver short-term tangible gains (e.g. services, public order) to citizens. However, while there is a role for advisers working in capacity substitution, there has been an over-

<sup>49</sup> See 'results focus' below

<sup>50</sup> See 'capacity development approaches' below



reliance on the adviser-counterpart model as a means of capacity development. The focus on the adviser-counterpart model as a means of capacity development will continue to scale back in 2011, and the full range of capacity development options will be considered. GoTL has asked Australia to assist the preparation of a new TA policy, reflecting our reputation for new thinking in capacity development. The new policy will enable the Government and donor partners to address different elements of 'capacity' - policy, in line work and developing indigenous systems and skills.

### Adviser Effectiveness

We will continue to shift our focus to the full range of capacity development options, rather than just an adviser-counterpart model. In 2010 we reduced advisor numbers in line with commitments between the Governments of Australia and Timor-Leste and joint assessments of need and effectiveness. The ratio of national to international TA, and average adviser remuneration, are ahead of the Agency mean. Our public sector reform program made particular headway: it commenced more appropriate selection processes that prioritised capacity development skills, instituted more rigorous advisor monitoring, and began engaging more national advisors. But concerns about advisor effectiveness and TA overuse remain in health, infrastructure, education and PFM. Actions are underway, including support to MoF's TA Policy and capacity building plan; rationalising the ADB infrastructure program; and re-shaping our health and education engagement through their re-designs in 2011.

### Service-Delivery Focus

A related issue emerging across many initiatives is the need to re-orient our systems strengthening support toward actual improvements in service delivery, especially in the districts. This link is currently particularly hard to draw out in health, education and public sector reform. Further, to ensure sustainable services, we need to connect 'top-down' state provision of services with 'bottom-up' community involvement in how these services are provided. Making this happen will require careful thinking in 2011 design processes. We should also draw out the lessons of the water and sanitation program, given that its mid-term review highlighted a good balance between central institutional capacity building and service delivery as well as a positive example of community involvement in service delivery.

### Gender

Australia was a key supporter of the Timor-Leste draft gender justice policy and civil society work to reduce violence against women and girls in 2010. Although strong progress towards gender equality has been made in some service delivery sectors, such as rural water and sanitation and maternal health, the QaIs indicate that in others Australia must improve efforts to systematically address gender issues. An evaluation of Australia's small-value support to increase women's political participation, provided through UN Women, revealed disappointing results and Australia will review this support. In 2011, we will sharpen our focus on integrating gender across all sectors of Australian support – to promote real change for women in the districts. All evaluations and designs in 2011 will have a specific focus on improving gender equality. The gender focal point at post will continue to lead these efforts, guided by a visit from AusAID's senior gender adviser. Australia will encourage other donors to harmonise support to gender across all sectors, as we take on the role of chair of the gender donor coordination group in 2011,



## Disability

In 2010 we supported Timor-Leste's first Strategy for Community Based Rehabilitation (Disability Services), assisted community health posts to ensure people with disabilities are included in the Strategy, and funded the Royal Australasian College of Surgeons to provide increased surgery to persons with disabilities. We also focused our disability mainstreaming efforts in water and sanitation, including a needs analysis, regular stakeholder mainstreaming workshops, and integration into GoTL sanitation policy and programming. These efforts will increase in 2011, with Timor-Leste one of two focus countries for implementation of the 'Development for All' strategy. Additional funding from the disability budget measure will be provided for disability-specific initiatives, in addition to further consideration of options for mainstreaming disability across existing sectoral programs. This will build on work to date and will be supported by the Regional Specialist, Disability-Inclusive Development (Asia). In addition to ensuring good practice disability-inclusive development, programming decisions will be informed by post management capacity and prioritising mainstreaming during the analysis/design phase (as opposed to retrofitting).

## Nutrition and Food Security

Timor-Leste's nutrition crisis and food security situation is of enormous concern to Australia and Timor-Leste. In 2011 Australia will work with the Government of Timor-Leste to ensure a multi-sector response to malnutrition incorporating all sectors - particularly health and education. This will complement efforts in agricultural productivity and food security, such as monitoring short-term food security, providing assistance when required and improving crop yields.

## Aid Effectiveness

We continued to support GoTL's leadership of the g7+ agenda through the International Dialogue on Peace-building and State-building in 2010. This is providing fragile states a critical voice in the international aid effectiveness debate. In 2010 and early 2011 GoTL and donors benchmarked current practice against principles of aid effectiveness as a platform for improvements over time.

*Coordination:* Australia led consensus building amongst leading donors around the 2010 Timor-Leste Development Partners Meeting with some success. But within sectors progress was uneven. New GoTL strategies in education, health, and public financial management (PFM) created impetus for coordination and a platform for multi-donor designs in 2011. Substantive discussion and exchange between donors and the Government on PFM also received a boost from the mid-term review of the PFM program. These achievements were in spite of weak GoTL architecture for donor coordination (National Priority Working Groups), which may strengthen under the forthcoming GoTL Strategic Development Plan and Aid Policy.

*Use of Government PFM systems:* To ensure greater sustainability of service delivery through greater Government ownership, we took early steps toward alignment with the Government's PFM systems, including in line agencies. In water and sanitation, health and education, we are undertaking analyses of government PFM systems to inform their strengthening as well as to inform decisions about their potential use through new modalities designed in 2011. Decisions



about potential use of government PFM systems will involve balancing the fiduciary risks against the development risks of not using these systems.

*Managing for Results:* 2010 also saw real progress in getting government's information systems up and running – an important platform for harmonisation. The Labour Force Survey was launched; MoF instituted an integrated financial management information system (MIS); and a water information system now provides information on coverage, functionality and gaps. On the other hand, the Health MIS remains disappointing, not least due to the 4,000 data entry points health workers are required to submit, and there is still a way to go in agriculture and roads. Further, sustaining these new systems with GoTL and linking them to decisions remains a challenge.

### Policy Influence

As noted in several QAIs, challenges were posed throughout 2010 by emerging, high-level GoTL decisions like investing in heavy oil electricity generators and instituting multiple procurement approaches to more rapidly execute its capital budget. A recently agreed bilateral annual dialogue between the Governments of Australia and Timor-Leste is an opportunity for constructive high-level engagement around these issues. In order to be heard on policy issues, Australia will need to improve its ability to provide timely, innovative and practical approaches to high-priority problems. Further, we will work to position ourselves as a useful partner in implementing the forthcoming Strategic Development Plan.

Within sectors of program focus, we continue to try to increase the influence of line agencies (e.g. health, education) on overall government resource allocation and strategy. This contributed to improvements to GoTL's water and sanitation allocation. Recently commissioned analysis of PFM systems across key sectors (and dialogue with GoTL about their findings) and designs of new modalities in 2011 offer real opportunities to ensure policy engagement becomes part and parcel of the way we work.

### Results Focus

No delivery strategies were completed in 2010 and all lagged behind designs. However, the drafting process informed several initiative concepts in early 2011. Key sector performance review discussions were held for the first time. They aligned with draft delivery strategies and aimed to assist more systematic articulation and tracking of the national changes to which our initiatives and policy dialogue are contributing.

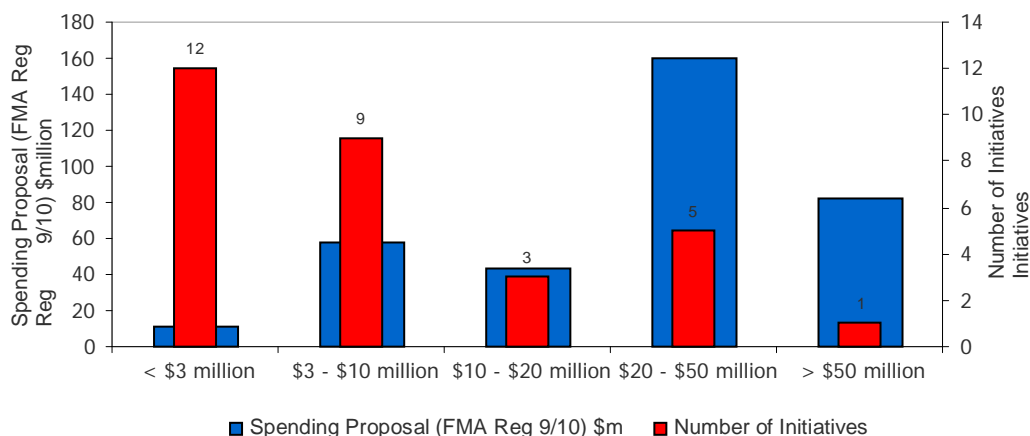
Some initiatives reversed strategic drift in 2010. For example, a mid-term review helped rein in the scope of our ADB-supervised infrastructure support, and in public sector reform we ended an 'Additional Initiatives' stream of disparate activities.

Several initiatives made positive reforms to their M&E approaches. However, unclear outcome reporting remained an issue in 11 of 13 QAIs. Inadequate performance information is a particular issue for ADB- and most World Bank-supervised initiatives, which suffer from gaps in program logic. There were improvements to the management of these programs in 2010, but there is still some way to go for these inputs to produce better results.



## Manageability

**Total Value and Number of Active Initiatives by Scale**



Over a third of initiatives are under AUD 3 million in size, totalling only 3 per cent of the Program's approved funds. Further reductions in the number of activities will be achieved when half of the Program's initiatives end in 2011 and as a further quarter close in 2012. This represents an opportunity to improve the Program's manageability.

This opportunity is most obvious in the governance portfolio (incorporating PFM, public administration, and democratic governance), which includes ten initiatives – more than double any other portfolio. Five of these are under AUD 3 million each, including two that carry disproportionate workloads. This portfolio will be rationalised in forthcoming delivery strategy and design work.

## Management consequences for 2011

### Dialogue, partnership

In early 2011, following successful initiatives in 2010 that supported GoTL's top priorities, Australia and Timor-Leste re-set the aid relationship and committed themselves to closer partnership. A major management priority for 2011 is to fulfil that commitment.

- > Develop a partnership between GoTL and Australia 'on development issues, underpinned by principles of mutual respect and accountability'.
  - Conduct the first high level dialogue to discuss priority policy and program issues in light of the GoTL's Strategic Development Plan
  - Demonstrate flexibility and responsiveness to GoTL's priorities, particularly through
    - greater use of country systems where justified through a cost-benefit analysis (e.g. in Australia's support to the water and sanitation sector and to GoTL's major projects unit)





- “just-in-time” policy advice (PFM and public sector reform)
  - innovative approaches to program delivery which demonstrate mutual accountability such as incentives and cost sharing, and which integrate opportunities for policy dialogue.
- > We will advocate further improvements in World Bank performance, drawing on recommendations made in the Independent Evaluation Group, the World Development Report and Australia’s independent review of aid effectiveness. We will encourage the Multilateral Policy and Partnerships Branch to undertake a joint review of mechanisms in post-conflict and fragile states.

## Design

- > During 2011 the Timor-Leste program will produce six major designs (health, education, rural roads, public administration, support for GoTL’s major projects, and water and sanitation). This comprises almost all priority areas of Australia’s support:
- We will prioritise staff resources to this large body of design work, given its importance to the program. We will seek additional management and advisory resources as well as implement a ‘one team’ structure across desk and post to more effectively use available staff.
  - These designs will be informed by strong analysis. This means that we will have to ensure adequate resourcing for quality designs, with improved attention to gender, disability, M&E, sustainability, risks and benefits of use of government systems, and capacity development.
  - We will strengthen program logic in each of these designs, and pilot a facilitated design, partnership approach in our support to water and sanitation.
  - In key sectors (e.g. public administration and MoF PFM strengthening) we will adopt an incremental engagement strategy, using analytical work to identify entry points around shared objectives for reform and change, responding flexibly and innovatively to key issues as they emerge.
  - We will seek to increase support to disability-inclusive development across the aid program, in line with GoTL priorities and Australia’s ‘Development for All’ strategy.
- > Our designs will give particular emphasis to practical improvements in PFM in selected sectors (health, education and water and sanitation).
- > We will commence an Assessment of National Systems, as required by AusAID’s guidance on working in partner systems, and endeavour to work collaboratively with other like-minded donors. Further, we will conduct further Fiduciary Risks Assessments in sectors where we are considering use of Government systems.
- > We will adopt more effective approaches to capacity building in line with the recommendations of the Joint Adviser Review.
- > We will support GoTL to develop and socialise an improved policy on TA and we will incorporate these new approaches (including different modalities to deliver policy advice, fill in-line positions and develop institutional capacity). This will potentially be done as part of a broader pilot linked to GoTL’s leadership of the g7+ agenda.





## Progress against 2010 management consequences

Objectives	Progress	Explanation
<b>Re-set the relationship with GoTL:</b> AusAID will initiate annual high level consultations, and explore options to more formally set out bilateral commitments in a partnership agreement. We will specify our expectations of mutual accountability, and agree clear benchmarks for each other's performance, drawing on the undertakings in our Country Strategy, and the priorities set out in the government's Strategic Development Plan.		In February 2011, GoA and GoTL agreed to an annual high-level dialogue – a major step forward for the relationship. Agreement on the scope and process for these meetings will be secured in 2011.
<b>Identify entry points for dialogue:</b> Where are the strongest incentives for reform, and where do reform efforts seem least likely to succeed? How can external actors support good policy decisions and strong program interventions? AusAID will undertake analytical work (e.g. a Drivers of Change study) to identify the entry points and obstacles to improved policy dialogue with the government.		The Adviser Review, PFM bottlenecks analysis, and a large number of initiative evaluations identified opportunities for policy dialogue. These were picked up in delivery strategies and concepts for new programs, and will be taken forward as part of 2011 design discussions with GoTL.
<b>Improve policy dialogue capacity:</b> Current resourcing levels at post are modest in comparison to other significant programs, and our ability to engage in evidence based policy dialogue is limited. We need to secure quality advice and support from the thematic groups and, ideally, from in-house advisers. We will strengthen our access to high-level skills in economics / public financial management, education and health.		Secured in-house PFM expertise at Post, but the need for in-house advisers in other sectors (especially education and health) was not met in 2010.
<b>Work with the World Bank to find new ways of operating in low capacity environments:</b> The World Bank is a valued partner. However, AusAID and the World Bank rate its programs poorly. We will analyse the strengths and weaknesses of the trust fund approach, especially its reliance on government implementation, and work with the World Bank to adapt its approach to better meet the fragile, low capacity context. For instance, we will seek commitment from the Bank to place senior program managers in the field to strengthen its support for implementation. We will also formalise improved approaches to Australian participation in program management as part of mid term reviews due during 2010.		Additional in-country resources and some rationalisation was achieved in some programs in 2010, but there remains a need for AusAID-wide analysis on the appropriateness of World Bank ways of working in fragile settings.
<b>Clarify program logic:</b> Many of our programs continue to suffer from crowded and unclear outcome statements, and the logic connecting inputs to these outcomes is weak. We will systematically assess each of our programs to improve design, and ensure that as new activities are brought forward, we emphasise simplicity and a clear, logical path to results.		With assistance from external expertise, there were real improvements in staff awareness of program logic. Leaps of logic underpinning some programs were also highlighted. Addressing these require significant reforms as part of 2011 design processes.
<b>Signal our willingness to gradually transition to use of government systems.</b> The government has a strong agenda to move from program assistance to budget support. However, country systems are very weak and do not provide an adequate level of fiduciary assurance to donors. But signalling a serious commitment to this will underscore willingness to push the reset button in the relationship.  We will work with other interested donors (e.g. the EC) and the government to agree on a roadmap of reforms needed in order to move to use of country systems. We will use existing analysis (e.g. PEFA) and commission diagnostic work (with government) where necessary.  Where appropriate we will consider using ring-fenced and		Significant achievements have been made with the Ministry of Finance to articulate a roadmap for moving toward greater use of country systems, linked to the MoF Strategic Plan. Discussions around initiative evaluations, the early stages of designs, and PFM analyses also allowed us to signal our commitment to alignment. 2011 will be an opportunity to put it into action, drawing on AusAID's corporate guidance on working in partner systems.



incremental ways of using country systems.

**Reduce the use of TA:** We will continue to reduce the numbers of TA, and pursue a more innovative approach to capacity development.



We are on track to meet targets for reduced TA that were agreed by GoA and GoTL, but further discipline will be required in 2011. Ground breaking discussions with MoF in 2010 laid the foundation for the development of an innovative and tailored GoTL TA Policy. It will be critical that we apply this to 2011 designs.