



Australian Government  
AusAID

*GOVERNAÇÃO PARA O DESENVOLVIMENTO*

*GOVERNANCE FOR DEVELOPMENT*



## **Concept Note: Governance for Development**

East Timor Program

February 2012

## 1. INTRODUCTION

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In July 2011, the Government of Timor-Leste (GoTL) released its 20 year Strategic Development Plan (SDP) which aims to transition Timor Leste from a low income to upper middle income country with a health, well-educated and safe population by 2030. The SDP is the critical point of reference for Australian aid as it provides a vision for the people of Timor Leste to drive their country's transition to prosperity, and puts forward a single plan for development partners to support.

The SDP acknowledges that the GoTL must invest its substantial resources in projects with long term returns that transition economic activity from government spending to the private sector to: i) gradually reduce the economy's dependence on government spending (and petroleum revenue); and ii) open up other more sustainable sources of revenue for the government to support service delivery. Careful sequencing of government spending will be necessary to avoid undermining the development and competitiveness of non-oil export sectors, and to avoid unproductive investments that do not help grow the non-oil economy. The SDP also acknowledges that GoTL will also need to strengthen its manage of Timor Leste's public finances in order to ensure maximum benefits are derived from public spending.

Through the SDP, the GoTL recognises that a healthy and well-educated population is critical for the country's long term development prospects. Yet the limited effectiveness and efficiency of public servants and frontline professionals such as teachers and health workers makes it difficult for the government to provide services to all of its population. Continued upward pressure on salaries and entitlements represents a fiscal risk in the medium term and the government faces the prospect of an increasingly expensive and inefficient civil service workforce which remains resistant to performance improvements.

Innovation and new ideas are required to assist the Government of Timor Leste to deliver on the promise outlined in the SDP. This Concept Paper describes a plan for Australian assistance to support the GoTL to further this effort. Referred to Governance for Development (G4D), it proposes to support the GoTL to 'ensure that good public sector management enables growth and delivery of services that meet Timor-Leste's development needs.' It proposes to do this by:

- (1) develop good ideas and initiatives for better service delivery and economic growth; and
- (2) strengthen the performance of Government of Timor Leste's public sector to deliver better services and enable economic growth

## 2. THE NEW DEAL AND AUSTRALIA'S COMMITMENT TO PARTNERSHIP

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Agreed at the IV High Level Forum on Aid Effectiveness in Busan, the *New Deal for Engagement in Fragile States* provides new aid architecture for the 1.5 billion poorest and most vulnerable in the world. The *New Deal* identifies five Peacebuilding and Statebuilding Goals (PSGs) – legitimate politics, security, justice, economic foundations, and revenues and services, describing these as 'an important foundation to enable progress towards the MDGs'.

The New Deal identifies ten key areas where international engagement needs to change to focus on new ways of engaging and building mutual trust, including a shift to country-led fragility assessments; the re-evaluation of formal compacts; stronger support for political processes; more effective support for capacity development; greater transparency of aid; increased use of country systems; and more timely and predictable aid. The New Deal puts the voice of fragile states and their people at the heart of their own country led and owned peacebuilding and statebuilding solutions with the support of their international partners.

Consistent with the New Deal, the Governments of Timor Leste and Australia signed the Strategic Planning Agreement for Development at Busan. This formal compact commits Australia to supporting Timor-Leste's Strategic Development Plan (SDP) and ensures that the two governments

will determine annual performance targets through a regular annual high level dialogue. SDP targets to which G4D will contribute will be agreed by the governments of Timor Leste and Australia over the coming months, and specific results will then be agreed in discussions at the annual Strategic Planning Agreement discussions.

### 3. AUSTRALIA'S ENGAGEMENT IN GOVERNANCE

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According to data gathered by the Ministry of Finance, in 2010 Australia provided around 44 per cent of total bilateral Official Development Assistance to Timor Leste, making it the country's largest bilateral donor (USA was next, accounting for 11 per cent). Australia currently supports Timor Leste's governance reform agenda through three main programs (outlined below), making it the largest donor in this area. G4D will replace, and build on the experience of these programs.

- **Public Sector Capacity Development Program** (July 2006-2012, \$42.8 million) – focuses on strengthening GoTL's key institutions responsible for public sector capacity development – the Ministry of State Administration and Territorial Management, the Civil Service Commission and the National Institute for Public Affairs.
- **Planning and Financial Management Capacity Building Program** (Nov 2006-2012, \$13 million) – This World Bank implemented program focuses on building the capacity of the Ministry of Finance to deliver on its public financial management responsibilities. While it is a multi-donor program Australia is the program's primary funding partner.
- **Justice Sector Support Facility** (2008-2013, \$24.1 million) –JSSF contributes to stability and prosperity in East Timor by helping to provide equal and timely access to justice for women and children. It promotes leadership, case management across the justice sector and responds to violence against women.

AusAID's position as the primary donor in a number of sectors positions it well to assist the GoTL across the whole of the public sector to improve services and enable growth.<sup>1</sup> With this in mind, G4D will take an enabling approach, ensuring that efforts of development partners in public sector management and sector programs reinforce each other to support the government's agenda to bring about sustainable improvement in the delivery of essential services and growth to the poor.

### 4. THE GOVERNANCE FOR DEVELOPMENT (G4D) PROGRAM

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G4D will assist the Government of Timor Lest to deliver on the Strategic Development Plan by 'supporting good public sector management that enables growth and the delivery of services that meet Timor-Leste's development needs.' The program will be delivered via two components: (1) New Public Policy Initiatives; and (2) Strengthening the performance of Timor Leste's public sector to deliver services and enable growth. The program structure is represented in a diagram at Attachment 1.

#### (1) DEVELOPING GOOD IDEAS AND NEW POLICY INITIATIVES

This Component will support the development of new public policy initiatives identified by the two governments that address constraints to growth and service delivery. It will focus on supporting

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<sup>1</sup> Australia is the largest bilateral donor in the water and sanitation and health sectors, and from 2013 will also be the largest donor in education, and has smaller but significant programs in Justice, Agriculture, and Rural Roads. Each of AusAID's sectoral programs has at least a partial focus on supporting general public sector issues such as human resource management/development and Public Financial Management.

initiatives in their conception phase and will support some initiatives into implementation phase. Initiatives will also be selected for their ability to build an effective partnership between Australia and Timor-Leste. Criteria for selecting activities under Component 1 will be agreed with GoTL through the detailed design process (outlined below), but may include initiatives that:

- support productivity growth and/or broad-based economic growth
- directly benefit large parts of the population
- enable individuals and communities across Timor-Leste the opportunity and freedom to lead lives of real value as defined by them, and
- ensure an equitable distribution of these opportunities, across different groups within society, across geographical regions and across generations.

At the point at which an idea has developed to the point of implementation it may be taken on by the Government of Timor Leste with support from G4D if it is sufficiently aligned with the objectives of the Program. Alternatively it can be funded under another part of the AusAID program, or by other development partners or stakeholders.

**Example: Support for the GoTL's Accelerated Community Development Program**

AusAID's existing support to the Ministry of State Administration and Territorial Management and the Ministry of Finance is an example of how G4D will work in the future. In this case, AusAID supported representatives from MoSATM and MoF to undertake a study tour to Indonesia to investigate the highly successful Indonesian National Program for Community Empowerment (PNPM). AusAID is now working under the leadership of MoSATM and MoF to assist the design and implement a new program which simplifies existing local development programs, and places the emphasis on getting resources and development to poor communities.

The program will also focus on generating support for good public policy initiatives across a broad range of stakeholders including, but not limited to the GoTL. It will link external actors and interest groups to policy processes and identify coalitions for change in order to stimulate broad support for good public policy, including from outside government. This will ensure that public policy initiatives are grounded in the interests and preferences of the people of Timor-Leste. The inclusiveness of the public policy process will also be important in ensuring that Timor-Leste builds a stable political settlement. It is intended that this component of the Program will encourage constructive engagement between the GoTL and other social actors, as outlined in the New Deal for Fragile States. Specific activities that may be implemented under this component are in the table below.

**Table 2: Component 1 – Good Public Policy**

<i>Objectives</i>	<i>Possible Activities</i>
Development of growth and service delivery oriented public policy.	Direct dialogue between AusAID and the GoTL Facilitating access to eminent thinkers and leaders Study tours and exchanges in Australia and third countries (eg. Indonesia) Support to think-tanks and universities Commissioning research in areas of agreed interest
Broad-based support for Good Public Policy	Targeted scholarships (Australian and additional third country options) Advocacy training Information sharing and networking events Conferences and seminars Surveys and research Small grants Collaboration with third party interlocutors (eg. The Asia Foundation)

**(2) STRENGTHENING THE PERFORMANCE OF THE GOVERNMENT OF TIMOR LESTE'S PUBLIC SECTOR TO DELIVER SERVICES**

It is proposed that Component Two of G4D will assist the GoTL to strengthen its public sector to deliver better services and enable economic growth. It will do this in two ways:

- (a) By supporting the GoTL to strengthen its civil service to enable growth and deliver services
- (b) By supporting the GoTL to strengthen its public financial management systems

***(a) Supporting the GoTL to strengthen the performance of its civil service to enable growth and deliver services***

Delivering on the SDP will require improvement in GoTL's implementation capability. It is expanding, both in terms of numbers and salary levels, and is likely to continue expanding, with an associated risk that it will crowd out the private sector. It has a large service delivery and infrastructure agenda to deliver under the SDP, but has low capacity, minimising the government's productivity gains from the increasingly expensive and expansive workforce.

AusAID's approach under the PSCDP has been to invest significant energy in building the capacity of institutions such as the CSC and INAP to drive civil service policy and capacity development across government. While the CSC will undoubtedly remain a partner for G4D, the focus of AusAID's support will shift towards taking improved service delivery as the central organising principle of engagement, rather than institution building. The aim will be to complement AusAID's work with Line Ministries in its other programs.

The scope of the activities under this Component will need to be defined during the design process, which will include further evaluation of what has had an impact under PSCDP, the operations of its key partners (CSC and INAP), what these institutions contribute to service delivery. Key G4D partners in this process will be the Ministry of State Administration and Territorial Management, the Civil Service Commission, the National Institute of Public Administration (INAP), the Ministry of Finance. Given the new focus of G4D on enabling service delivery, reforms will also require close co-ordination with various Line Ministries.

***(b) Supporting the GoTL to strengthen the performance of its public financial management system***

As noted in the *Strategic Plan of the Ministry of Finance 2011-2030*, MoF has a key role to play in effecting the implementation of the SDP. This role relates not only to strengthening capacity for budget development and execution. It also includes implementing policies and mechanisms to diversify sources of revenue, promote private sector development, support line ministries in delivering major infrastructure projects and in maintaining high standards of transparency and accountability in public expenditure. The MoF will be the key program partner for this area of G4D engagement, and G4D proposes to support the GoTL's PFM system in two ways:

- (i) Supporting MoF to improve its performance in developing sound economic, public investment and fiscal policies
- (ii) Strengthening links between MoF, Line Ministries and other budget entities through effective client service and outreach (AusAID)

***(i) Supporting MoF to develop sound economic, public investment and fiscal policies***

AusAID is currently working with the Ministry of Finance and other development partners (World Bank and EU) to develop a new program of support to bolster the MoF's capacity to deliver on its core policy mandate of fiscal policy and macroeconomic management, in line with the Ministry's Strategic Plan and Policy on the use of technical assistance (TA).

The Minister for Finance recently indicated a preference for exploring the establishment of a multi-donor Direct Funding Agreement to support the Ministry's core functions, under which the financing and procurement mechanisms will be those of the Ministry. AusAID G4D officers will participate in this MoF-led process at the invitation of the Minister.

## (ii) Strengthened links between MoF, Line Ministries and other budget entities

To complement the improved performance of the Ministry of Finance, G4D will also seek to support MoF's role in strengthening the performance of the PFM system across government, with a particular focus on PFM-related constraints to service delivery. Establishing client service and outreach is a priority reform for MoF given the rapid decentralisation of PFM responsibilities to Line Ministries. G4D's efforts will focus on assisting government to build a more joined up PFM system that allows better allocation and flow of resources to service delivery units. AusAID will work with the MoF, looking out and down the expenditure chain and will seek to address systemic and capacity constraints to improved service delivery, consistent with the GoTL Policy on the use of technical assistance. AusAID will also support efforts to improve the flow of information back into MoF to enhance its ability to track, review and improve the quality of expenditure.

**Table 2: Supporting the GoTL to strengthen its public financial management system**

<i>Outcome</i>	<i>Possible activities</i>
Supporting MoF to develop sound economic, public investment and fiscal policies	<ul style="list-style-type: none"><li>• Support macroeconomic and fiscal policy</li><li>• Support role as a central policy and standards setting and monitoring agency for the PFM system across government</li><li>• Petroleum revenue management</li><li>• Domestic tax policy and administration</li><li>• Statistics and national accounts</li><li>• Advice on state owned enterprises including National Oil Company and National Development Bank</li><li>• Undertaking core PFM diagnostic studies such as Public Expenditure Reviews (PERs), Procurement Assessments (CPAR) and Public Expenditure Tracking Surveys (PETS).</li></ul>
Strengthened links between MoF, Line Ministries and other budget entities through effective client service and outreach (AusAID)	<ul style="list-style-type: none"><li>• Scale up and roll out the FMIS</li><li>• Support the establishment of district treasury office network (with FMIS links).</li><li>• Work with Line Ministries to improve PFM systems/monitoring and administrative data collection</li><li>• Alternative financing mechanisms for better service delivery/ social safety net programs (e.g. direct financing to enable district managers to manage and control their budgets)</li><li>• Establish MoF client service units to support engage with Line Ministries/districts/service delivery units on PFM skills, including budget allocations, expenditure policies and procedures, reporting, accounting and expenditure review.</li></ul>

## 5. HOW WILL G4D BE DELIVERED?

### IMPLEMENTATION APPROACH

It is AusAID's intention to directly implement G4D. This reflects the importance of this Program and is indicative of AusAID's desire to build a stronger and more trusting development partnership with Timor-Leste. The Program will be headed by an AusAID Director (Program Director), under the leadership of the Minister-Counsellor in Dili. It is hoped that the Program Director and her/his team will be co-located with a small implementation team within a GoTL agency as experience from AusAID programs in other countries (Vanuatu and PNG) indicates that this approach to implementation provides the following benefits:

- Improved AusAID understanding of the operating environment – therefore better contextualised and relevant support.

- Direct government-to-government access enhancing AusAID's responsiveness to government needs
- High quality relationships built on trust

The selection of an appropriate skilled individual to take on the Program Director role will be critical to the Program's success, and particular emphasis will be placed on the ability to form effective relationships in a whole of government and cross-cultural setting. The position will be language-designated, and GoTL will be consulted in the selection process for the Program Director. The G4D implementation team will also be supported by a services only contractor which provides logistical and administrative support to the implementation of the program.

AusAID's current support to the Ministry of Finance to the Major Projects Secretariat, and the roll out the Financial Management Information System is provided by direct funding to the MoF. This initial use of GoTL budget systems is intended to provide a basis considering whether increased use of GoTL budget systems is possible in the future.

### **GOVERNANCE ARRANGEMENTS**

Governance arrangements will be agreed with GoTL over the coming months. Given the enabling nature of G4D, it is proposed that a cross-government Steering Committee will be established to guide the strategic direction of G4D and will incorporate representation of senior officials (possibly Ministers) from a range of agencies and AusAID's Minister-Counsellor. The Steering Committee will be responsible for approving the initial detailed design of the Program, its strategic plan and annual work-plans, including suggested support in the first year of implementation.

### **DETAILED DESIGN PROCESS**

AusAID will work closely with key government counterparts including the Ministry of Finance, Ministry of State Administration and Civil Service Commission, National Institute of Public Administration, National Development Agency and Line Ministries to develop a detailed design for G4D. It will be developed iteratively by AusAID's in-country team over the coming 10 months, with discussions moving from conceptual and strategic at the outset, towards operational and implementation concerns towards the end of the 10 month process process.

It is hoped that this more iterative approach will enable AusAID to build strong and direct relationships with key GoTL partners, and enable the G4D team to better reflect the evolving environment in the G4D design, while checking in regularly with key design partners to ensure that agreed program directions remain relevant.

A schedule for this design process will be developed and shared with key GoTL partners subject to GoTL consideration and approval of the G4D Concept.



## ATTACHMENT 1 – G4D PROGRAM STRUCTURE

