



## INVESTMENT CONCEPT

<b>Investment Concept Title:</b> PARTISIPA – Parseria Hametin Dezenvolvimentu Suku no Administrasaun Municipiu Phase 2 (Participate – Partnership to Strengthen Village Development and Municipal Administration)	
<b>Start date:</b> 1 July 2021	<b>End date:</b> 30 June 2031
<b>Total proposed DFAT funding:</b> AUD80 million	<b>Total proposed funding from all donor/s:</b> 80 million
<b>Current program fund annual allocation:</b> AUD68 million	<b>AidWorks investment number:</b> INK784
<b>Overall Risk Profile:</b> Medium	
<b>Proposed design pathway:</b> DFAT Led Design	
<b>Concept endorsed by AGB:</b> NA	
<b>Quality Assurance:</b> Informal QA by PTS, IND and SRS sections in DFAT Canberra	
<b>Policy Approval: Delegate at Post:</b> HOM	<b>Delegate in Canberra:</b> FAS SED

### A. Development Context (What is the problem?)

#### Program Summary

PARTISIPA expands Australia's longstanding partnership with the Government of Timor-Leste in support of community-driven development and improved service delivery. The program will provide support at national and subnational levels to improve governance and administration for service delivery, initially focused on implementation of the national village development program (PNDS) and rural water supply operations and maintenance.

The transition phase of PARTISIPA commenced on 1 July 2019, through the expansion and rebranding of the PNDS Support program (2014 - 2021). At this time and based on an 2018 independent review of Australia's support for Water and Sanitation in Timor-Leste, DFAT shifted management of bilateral support for rural water from the Australia-Timor-Leste Partnership for Human Development (PHD) to PARTISIPA to bring together advisory support for construction of rural water supply infrastructure (through PNDS) with support, at national and subnational levels, for improved operations and maintenance (formerly through PHD).

PARTISIPA Transition Phase is piloting small integrated teams for strengthened municipal level governance in three municipalities (Baucau, Bobonaro and Ermera). The teams will provide direct support and advice to municipal authorities on public administration with a view to PNDS, decentralisation and rural infrastructure delivery. The pilots will explore how best to build the capacity of municipalities, Administrative Posts and suku to better plan and deliver water supply and other basic services. The results of these pilots will inform the design of PARTISIPA 2021-2031 with the expectation of providing advisory support across all thirteen municipalities.

#### Context

Timor-Leste has made strong economic and social progress and secured stability since independence in 2002. Timor-Leste aspires to become an upper middle-income country by 2030 and has set down a clear development agenda through the *Strategic Development Plan 2011-2030*. To do so, a good deal of work is required across many fronts: strengthened governance and institutional foundations; improved basic services (particularly water and sanitation, health and education); transport and communications infrastructure development; and growth of

domestic markets and the private sector, and diversification of the economy. The state's reach to Timor-Leste's 452 *sukus* (villages) across 13 municipalities remains limited.

### *Decentralisation*

To deepen democratic accountability and facilitate responsive services delivery, the Government of Timor-Leste (GoTL) has embarked upon a decentralisation process. The *Strategic Development Plan* states that:

*"Decentralisation aims to promote the institutions of a strong, legitimate and stable state across Timor-Leste, create opportunities for local democratic participation by all citizens and establish more effective, efficient and equitable public service delivery to support the nation's social and economic development."*

The GoTL has taken a phased approach to decentralisation, in recognition of the capacity gaps that exist at sub-national levels of administration and because of the political nature of decentralisation (e.g. extent of devolved authority/sectors and responsibilities etc.). In 2016, decentralisation legislation was passed, and contracts were signed between line ministries and municipalities for the delegation of competencies. The process is set to continue and gain momentum over the coming years.

The Ministry of State Administration (MAE) is the peak agency for Municipalities and the national coordinating body for decentralisation. MAE also houses the secretariat /institute for National Program for Suku Development (PNDS) that provides funds directly to villages (*sukus*) for small scale infrastructure such as water systems. MAE's capacity to support the decentralisation agenda is critical to GoTL's success in extending basic services across Timor-Leste.

Timor-Leste's sub-national levels of government administration are nascent, but they are critical for decentralisation planning and implementation in Timor-Leste. The bureaucratic systems and processes required to deliver key programs and services (such as financial management, procurement, human resources systems, etc.) are under-developed. The GoTL is sequencing decentralisation to provide opportunity for sub-national governments to take on roles and responsibilities as their institutional capacity grows. However, development partner support will be needed to bolster capacity building efforts and fill critical and strategic resourcing gaps that allow sub-national administration to function for the delivery of quality basic services.

### *PNDS – Programa Nasional Dezenvolvimentu Suku*

Decades of conflict left as much of 70-90 per cent of Timor-Leste's infrastructure destroyed by the time of independence, including health facilities, water supply and irrigation systems.<sup>1</sup> With Australian technical support, the GoTL launched PNDS in 2012, a government funded community driven development (CDD) program that channels funds (between USD40,000–USD70,000 with variation based on suku population and remoteness from the municipal capital) directly to Timor-Leste's 452 *sukus* for communities to plan, construct and manage their own prioritised small-scale infrastructure projects. A cohort of facilitators across the country, employed through the MAE, support communities in financial management, engineering and construction, and social inclusion. Australia is the lead donor supporting PNDS implementation across the country.

In 2017 and 2018, GoTL financial and political constraints led to the suspension of PNDS grants. In response, the PNDS Secretariat focused on supporting lagging communities to finalise earlier PNDS projects and on the operations and maintenance of infrastructure. It also delivered new community police houses and playgrounds, funded by the New Zealand Aid Programme. In 2019, the Government of Timor-Leste restored grants to PNDS with an allocation of USD9.6 million and has committed to national allocations in 2020, which early indications suggest will amount to around USD22 million.

### *Water*

Although gains have been made since independence, including through PNDS and Australia's bilateral water programs (most recently BESIK which finished in 2016), access to water in Timor-Leste remains low at only 74%<sup>2</sup> for rural households. Lack of access to clean water is directly correlated with poor health, reduced education outcomes,

<sup>1</sup> World Bank 2018, Water Sector Assessment and Roadmap

<sup>2</sup> Timor-Leste Demographic and Health Survey 2016

and reduced productivity. Access to safe water is a contributing factor to high rates of malnutrition; in 2016, 46% of Timorese children under 5 were stunted – a rate that is among the highest in the world.<sup>3</sup>

Improving sustainability of existing infrastructure through operations and maintenance is a priority for improved water access and human and economic outcomes. Less than half of respondents in the *2018 Timor-Leste Tatoli Survey* said that their local water pumps worked well, and operations and maintenance (O&M) of rural water supplies has been deconcentrated by the Government of Timor-Leste (*Annex A*). Municipalities are responsible for supporting communities in O&M of their rural water supply but have lacked resources and capacity to fulfil this mandate, as well as clarity of national policy. Whilst villages take responsibility for basic O&M of their water systems, they often lack capacity for the more sophisticated O&M required for longevity of the system, and therefore systems fall into disrepair at rates faster than new systems are being built.

## **B. Strategic Intent and Rationale (Why should Australia invest?)**

As Australia's Foreign Policy White Paper highlights, a strong and prosperous Timor-Leste is of fundamental importance to Australia. Australia is Timor-Leste's leading development and economic partner (\$100.7 million in estimated total ODA in 2019-20) supporting Timor-Leste's objectives for economic diversification and private sector growth, provision of basic services in water and sanitation, health and education, critical transport and communications infrastructure, support for ending violence against women and girls and access to labour mobility schemes. A new Development Partnership Arrangement is being agreed between the two countries.

PARTISIPA will:

› ***Continue to support the Government of Timor-Leste deliver its successful flagship village development program:***

Timor-Leste is the only country that has self-initiated a community-driven development approach to infrastructure development at a national scale – through PNDS. Over the past seven years, with Australia's support, PNDS has made substantial contributions to suku-level infrastructure: more than 1,400 projects such as water and irrigation schemes, roads and bridges have been built or rehabilitated. As well as providing much needed infrastructure and economic stimulus at a national scale (the average PNDS project providing economic return of 40 per cent), it has been an important mechanism for skills development, short-term work opportunities, community governance, and improving gender equality. Training and mentoring have been provided to more than 52,000 community members and more than 430,000 women and men have taken part in PNDS decision making processes.

Australia's key advisory support and training through the PNDS Support Program (AUD49.5 million, 2014-2021) has made a substantial contribution to the extent and quality of the success of PNDS to date and is a respectful and highly effective partnership that should be continued (2017 Mid-Term Review). The Mid Term Review recommended that Australia continue to provide assistance to government to further embed and strengthen systems and skills, with a progressive shift in focus of support from national to municipal level, including a focus on O&M for the sustainability of infrastructure.

PNDS provides an unparalleled national platform for Timor-Leste's development. It is a popular program – with communities and decision makers – and delivers significant capacity directly at points of greatest need and that it should remain core to the development partnership between Australia and Timor-Leste. ***Support Timorese secure the best possible outcomes from decentralisation:*** There are opportunities for Australia to build on its experience, relationships, trained staff, networks and credibility established through PNDS-SP to support Timor-Leste's government to successfully deliver the benefits of decentralisation. Australia has supported Timor-Leste overcome implementation challenges to deliver PNDS; and the same challenges are faced in delivering most services in Timor-Leste: lack of capacity (technical skills and operational resources) to plan for and execute services delivery; lack of access to remote locations (poor transport and communications infrastructure and/or lack of resources to utilise the infrastructure); absence of systems and processes to support basic functioning of government (e.g. budget and financial management/procurement/human resources); and lack of experience in planning and managing projects

<sup>3</sup> *Ibid*

and programs. Australia's existing support through PNDS-SP provides the right foundations and in-situ architecture for extending support, with the PNDS-SP counterpart agency also the peak agency for municipalities and the national coordinating body for decentralisation. PARTISIPA will support decentralisation in ways which maximize the use of and support for community-driven development approaches, which in turn support government credibility and responsiveness.

- › **Complement Australia's other aid investments** PARTISIPA will provide Australian aid with a national footprint and a line of sight down the chain of basic service delivery. DFAT already works with central and service delivery agencies, but to expand impact, the aid program needs to continue working with the government to draw services down from Dili to Timor-Leste's rural municipalities, where 80 per cent of people live. Having support that is focused on sub-national government administration and capability for service delivery forms a niche and complementary part of Australia's integrated suite of aid investments. The diagram at [Annex B](#) shows the way in which Australia's aid investments work together – across sectors and from village to national levels – to strengthen Timor-Leste's economy, people and society.

A post-conflict newly independent state requires a whole of nation effort to build economic and human development - from nationally driven large-scale infrastructure, health and education programs through to bottom-up local schemes that connect poor communities with these basic services and engage them in state-building. Since Timor-Leste's independence, the Australian Government has supported Timor-Leste to build the necessary social, democratic, and economic infrastructure that is required for broad-based development. The instability and inequality associated with many resource-rich and post-conflict developing countries is being averted because attention is being paid to vertical (from village through to national) and horizontal (across sectors) development.

- › **Strengthen GoTL systems and programs, Leverage GoTL Investment:** PARTISIPA aligns closely to the Government of Timor-Leste's 2019 Aid Policy by supporting the government's own programs (such as PNDS) and systems (including for rural water supply) and responding to six out of the ten 'priority areas for external assistance' – rural development, infrastructure, water, gender, public sector management and regional integration. PARTISIPA's technical support will ensure the best outcomes of Timor-Leste's investments in these programs and services.
- › **Draw on Australia's comparative advantage:** PARTISIPA enables Australia to build on existing relationships and networks at both national and sub-national level established through the PNDS-SP, Governance for Development and previous investments in water. PARTISIPA will position Australia as a long-term partner and strengthen institutional links and influence with Ministry for State Administration and Ministry of Public Works. All relevant Ministries have welcomed our engagement and are positive about the new direction of the program. The investment will also build on Australia's in-depth knowledge and experience in supporting community-driven development and decentralisation processes across the region including in Indonesia and across the Pacific. Growth in municipality and suku administrative capacity, development of coordination and communication conventions between levels of government and across sectors, and institutionalisation of inclusive development practices, are areas that Australia can make a valuable contribution. Australia will fill a critical gap in service enabling infrastructure for rural populations.

### C. Proposed Outcomes and Investment Options (What?)

PARTISIPA will contribute to the goal of *All citizens of Timor-Leste benefit from improved basic services*.

The Goal recognises that basic services in water, sanitation, health and education are a high priority need for the people of Timor-Leste. The word "citizen" reflects that the people of Timor-Leste belong to a democratic and representative state which brings with it the requirement of government to be responsive to these needs. The term "all citizens" foregrounds the importance of inclusivity in delivery of those services – regardless of gender, (dis)ability, sexual preference, and age.

The proposed end of program outcomes for the investment are:



1. **National decisions, policies and systems enable sub-national entities deliver improved target services and programs.**
2. **Sub-national entities implement their mandate to deliver improved target services and programs**
3. **Village stakeholders effectively deliver responsive target services and programs**

These three End of Program Outcomes (EOPOs) are intended to be achieved by the end of a ten-year Australian Government investment. They focus attention on the critical role the government plays in enabling basic services to reach all citizens and reflects the differentiated roles of levels of government.

The term *target services and programs* denotes the scope of this investment. The PARTISIPA investment will focus on the reach and quality of specific government basic services and programs – clean and reliable suku water supply through improved O&M, and additional small-scale infrastructure through PNDS – rather than all aspects of decentralisation and all sectors which are beyond the resources of the Australian aid program and are also being supported by other development partners. This will ensure that the investment is not spread too thin, can test its approach and provides the partners with a clear focus that will bring tangible results. The momentum achieved through successes will incentivise future focus on other basic services including health and education. Coordination will be critical to success – supporting efforts across ministries and service functions at all levels.

Rural water is a service that lends itself easily to working vertically across the tiers of administration and horizontally across relevant agencies. Australia has had a long history of engagement in rural water and a comparative advantage in continuing this support.

**EOPO1** recognises the role of the National Government in establishing the legislative and regulatory environment that enables basic services delivery. It recognises that:

- › the enabling environment includes laws and is substantially influenced by the decisions and actions of people as they implement those laws through the creation of policies, systems and processes.
- › leadership plays a critical role in supporting sub-national administrations to build their capacity to implement the mandates assigned to them.
- › supporting decentralisation is a relatively new function for national government entities and therefore requires capacity building<sup>4</sup>.

**EOPO2** recognises that municipalities and Administrative Posts currently have limited capacity and resources for some of the most basic government functions, and that for many, implementing a portion of their mandate, defined by national government through decree laws and regulations, denotes progress. It also recognises that the basic operational capacity to implement a portion (i.e. targeted services and programs) of their mandate is the same kind of capacity required to implement a wider range of services and programs and therefore this investment should have “knock-on” impacts for sub-national administration as decentralisation continues. For example, the program may assist municipalities to effectively design a budget, source goods and services, manage finances, oversee implementation, and report against the budget, for a specific service like rural water O&M. This same capacity is required for other functions and services of government that have also been deconcentrated (eg. installation, repair and protection of rural roads, see [Annex A](#) detailed list).

**EOPO3** recognises that it is at the village level that the outcomes of decentralisation need to be realised, and that village leaders and stakeholders have a critical role to play in improving service delivery and implementation of programs affirmed in the *2016 Suku Law*. It also recognises that democracy requires an extent of mutual responsibility that includes citizens in communities to be active in their own development. EOPO3 also recognises the Australian Government’s ongoing and major support to the PNDS program.

The inclusion of all three levels of government is important in ensuring tight feedback loops between all levels of government so that government is responsive to needs and citizens are active in their own development.

### **What success will look like**

<sup>4</sup> Capacity includes resources, skills, knowledge, systems and processes as well as incentives. Defined as the performance improvement we need to achieve.

Over the life of the ten-year program success means:

- › Rural citizens have increased and continuous access to clean water (because they are actively managing those systems) and the benefits this brings.
- › Sub-national administrations are developing and implementing plans that meet the basic needs of the population and have strong relationships vertically (national and suku level) and horizontally (across the line agencies in their location).
- › Better small-scale services infrastructure in sukus.
- › Increased capacity of women and men at all levels.
- › The citizens of Timor-Leste have greater confidence in the future and in their government to deliver services.

These outcomes are an important contribution to the ongoing stability of Timor-Leste as it strengthens its democratic governance and builds strong foundations for a confident and more prosperous future.

#### **D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)**

PARTISIPA will provide technical assistance and training to government of Timor-Leste counterparts at the national and subnational level, strengthening and leveraging the GoTL's own investments in infrastructure and people (to date, the Government of Timor-Leste has invested more than USD50 million in PNDS). PARTISIPA also leverages other development partner programming utilising PNDS such as the UNDP's Green Climate Fund project, which will focus on climate-proofing small scale infrastructure, including through PNDS. Australia will continue as the leading development partner to PNDS and help government counterparts coordinate and manage interests to ensure investments strengthen its effectiveness and community-driven development approach.

The IDD and Design Team will consider and recommend the best mix of aid modalities to deliver a complex program. The investment requires an implementing partner that has proven capability to work closely and effectively with the Timor-Leste government at all levels, can operate under DFAT direction to deliver cost effective and relevant support in challenging environments, promote strong relationships at senior levels between Timorese and Australian officials, and can be responsive to shifts in the operating environment to support the Australia-Timor-Leste bilateral relationship.

The implementation and delivery options that the IDD will consider are:

- a) Commercial contractor delivering technical assistance and services support
- b) Commercial contractor delivering a mix of technical assistance and grants. Grants may include to sub-partners for implementation (in water for example), or grants through partner government systems for PNDS or water operations and maintenance pilots.
- c) Commercial Contractor managing pooled trust fund of other development partner contributions
- d) Delivery through a multilateral partner or partners.

At the concept stage, a commercial contractor is the preferred choice for the main delivery partner.

The IDD will reflect on the effectiveness of current governance arrangements with the Ministry of State Administration and Ministry of Public Works and consider the cost/benefit of a new governance arrangements.

The program will be regularly monitored by a Technical Advisory Group.

The indicative budget for a new ten-year investment is up to AUD80 million, depending on resource constraints, Australia may consider matched grants or performance based funding through government systems to improve the reach and impact of PNDS. Consistent with DFAT's policy on working in partner systems, an important step in determining the appropriateness of this modality will be to undertake a detailed Fiduciary Risk Assessment (FRA) and an updated Assessment of National Systems (ANS last completed in 2011). The decision to undertake an ANS and FRA to facilitate working in partners systems will be considered in 2023/24 – the mid-point of the first five year

phase of the program and dependent on a range of resource availability, program effectiveness and strength of government partnership.

The Australian Embassy will allocate one FTE A-based and one FTE LES to manage the program, on par with current resourcing for PNDS-SP, although this level of resourcing will need to be reassessed should a design involving the use of partner systems be the preferred option.

### Delivery Approach

Delivery of this investment will require PARTISIPA presence across Timor-Leste, from national to sub-national level to fulfil the following inputs

- › provision of technical assistance, tools, training and mentoring to relevant government counterparts (national and sub-national);
- › joint monitoring of programs and services, and conduct and sharing of research and monitoring data; and
- › provision of secretariat support, policy and implementation ideas, workshops and platforms for learning, dialogue, coordination and influence.

At the **national level**, this investment will promote improved targeted services and programs by supporting MAE and relevant ministries, such as the Ministry of Public Works, to implement both PNDS and decentralisation by establishing effective policies, systems and processes for:

- › coordination across national government ministries that have responsibilities under new laws;
- › supporting sub-national administrations to successfully expand their roles and responsibilities under the new laws, particularly focused on policies for operations and maintenance of rural water; and
- › supporting continued community driven development of village infrastructure through PNDS.

Advisors and facilitators will work alongside national government counterparts to facilitate policy dialogue and policy cohesion; strengthen guidelines and tools for effective implementation of laws and policies; promote opportunities for communication and stronger feedback loops between sub-national administrations and national government; and provide mentoring and training to bolster leadership capability and exercise policy influence for improved outcomes, including through the use of networks, research and evidence; and identify opportunities to strengthen governance of decentralisation and PNDS as they arise.

Australia has used advisory teams in PNDS-SP and previous water investments to good effect however it is difficult and requires goodwill and working politically. PARTISIPA will need complementarity with other development partner resources in these institutions. Australia will take a lead role in donor coordination to ensure this occurs. Longstanding counterpart ministries – State Administration and Public Works are positive of continuing support.

At the **municipal level**, PARTISIPA will deploy local advisers with relevant technical skills, soft skills (for knowledge transfer), and governance / policy related skills, to support administrations to develop the right systems, processes and human capacity for improved government functionality including:

- › sound public administration in budgeting, financial management, procurement policy and practice and human resource management;
- › consultative and inclusive public decision-making through improved mechanisms for citizen-community-government communication and feedback loops;
- › management of cross-agency coordination that bridges municipalities with line agencies and supports joint planning and decision-making, coordinated campaigns, and budget efficiencies;
- › problem solving local basic service delivery challenges, particularly O&M of basic infrastructure (e.g. fixing roads, basic refurbishment of schools and clinics, rural water supply, etc.); and
- › advocating to national government on behalf of the constituent population and achieving traction in national policy through coordinated efforts across municipalities and agencies.

PARTISIPA Transition Phase is currently preparing to pilot municipality and suku strengthening activities in three (3) municipalities (Baucau, Bobonaro and Ermera). The pilots will explore how best to build the capacity of

municipalities, Administrative Posts and suku to better plan and deliver water supply and other basic services. The results of these pilots will inform the design of PARTISIPA and promote effectiveness at implementation. It is envisaged that PARTISIPA 2021-2031 will place advisers in all municipalities.

At the **Administrative Post and Suku level**, this investment will draw upon a network of government facilitators stationed at Administrative Posts to help sukus understand their mandates and build their skills to implement it. This includes:

- › supporting participatory and inclusive development planning and implementation of plans as a key function of suku government;
- › continued facilitation of PNDS implementation and improved access to rural water supply through a Field Support Team who mentor government facilitators; and
- › identifying and supporting relevant accountability mechanisms to provide effective feedback loops between citizen and state and build confidence in government administration.

This investment will build upon the existing trained and skilled PNDS-SP Field Support Team in the start-up phase. Their numbers will be expanded to allow one team in each of the three pilot municipalities, and their roles and responsibilities re-visited considering this investment mandate<sup>5</sup>. This may require the injection of specific technical skills in rural water systems operations and maintenance.

## E. Risks

The PARTISIPA investment will be designed and delivered in a complex environment – a relatively new state in which systems of administration and governance are still emerging. It is therefore subject to the risks associated with this context, as well as risks associated with a complex bilateral relationship. The process of developing the Investment Design Document will explore these risks and the strategies required to minimise risks. These include the following:

- › The risks that the context brings to the PARTISIPA investment include changing GoTL priorities and direction in relation to decentralisation –the character and speed of decentralisation, the level and form of national government investment in basic services at the community level and the possibility that decentralisation will be reversed in favour of centralised control of government services. The IDD will need to explore how PARTISIPA will have the necessary flexibility to adjust and adapt to the changing political and policy landscape, and that any new governments are supportive of Australian investments and partnerships.
- › The fiscal constraints facing Timor-Leste are significant because of the high dependence the GoTL has on decreasing oil and gas revenue. Realisation of this risk may have consequences for the decentralisation agenda and funds for basic services and programs, including PNDS. The IDD will need to explore with DFAT how the PARTISIPA investment will respond if this risk were to be realised. . Political and budget impasse related to the passage of the general state budget also presents a risk, the IDD may also consider performance financing where constraints are amenable to incentives to mitigate funding risks for PNDS as a program.
- › Currently, policy contradictions and omissions often lead to inaction on the part of ministries and agencies at all levels of government due to lack of clarity around roles and responsibilities and the fact that resources have not been deconcentrated with responsibilities (ie. funds have not followed functions). In relation to decentralisation, if this were to continue the PARTISIPA program will face counterparts that lack both the capacity (including resources), clear mandate and incentives to implement basic services and programs. The PARTISIPA investment will seek to bring about policy coherence as one of its core outcomes, and therefore minimize and/or ameliorate this risk. However, the IDD will need to explore options for moving forward in the face of ongoing policy incoherence should its influence and support be insufficient to induce progress and afford enough flexibility to work within existing policy and delivery frameworks. The mechanisms and forms of engagement with all levels of government involved in sub-national governance, in their current and possible future forms, will be considered and elaborated carefully in the design. The program will

<sup>5</sup> There is currently 1 Field Support Team for each 2 Municipalities, a roving team of specialists (Dili), and surge capacity.



take an ‘agnostic’ stance on decentralisation policy – it will not advocate for or against it, but rather seek to influence the development of policy and its implementation in ways that recognise the potential impact at the subnational level, and in particular on services for people. While PNDS is a decentralised program, it will likely continue unaffected by changes in decentralisation policy and the majority of PARTISIPA efforts will not be undermined.

- › The limits of Australian resources and support, especially sub-nationally to bring about more systemic organisational capability.
- › Other development partners are looking to use the PNDS mechanism to deliver specific infrastructure that has not been prioritised by communities (the NZ-funded playgrounds and police houses are an example). The program will need to work closely and development partners to ensure coherence in policy dialogue and program delivery. Ministries will need to identify lead development partners. This is particularly acute for PNDS – to ensure that donor projects do not undermine the delivery of core PNDS community-driven development processes and outcomes. Australia will lead donor coordination efforts for PNDS and the IDD will consider what role Australia can take and what resources will be needed to ensure donor coordination is done well in other focus areas – improved performance of municipalities and rural water supply.

The IDD development process, and indeed the ongoing implementation of PARTISIPA, will need to ensure that risk, risk management and mitigation, are prioritised by key stakeholders.

#### **F. What are the next steps?**

DFAT at Post will lead and manage the design process with the support of a contracted design team with expertise in design, rural water and subnational governance. The design has a long time horizon (18 months) allowing for a high quality design through iterative consultations and learning from pilots. The design will be delivered in May, ahead of independent appraisal and peer review.

At the same time that this will be undertaken, DFAT will be leading the development of a new Aid Investment Plan for 2020-2024 which will feed into this design and vice-versa. Close oversight by DFAT will ensure that the GoTL is engaged throughout the process.

The process has the following key features:

- › PARTISIPA is not an entirely new investment: it builds upon Australia’s previous investment in rural water supply and in PNDS and expands its mandate to include support for improved sub-national administration for better delivery of basic services and programs.
- › .
- › The process provides the right amount of time and resources to enable GoTL to substantively engage in the process of piloting and design of the new investment.
- › As pilots and testing of the expansion of the current program (PNDS-SP) will be undertaken over the next 18 months, the program will be rebranded to PARTISIPA in mid-2019. This is necessary to avoid confusion regarding the expanded focus of the program and to signal its new, broader direction (beyond support for PNDS).

## Annex A: Additional Background and Context

### Decentralisation

The GoTL has outlined a three-phased approach to decentralisation:

- › **Phase 1:** Administrative de-concentration: the municipalities establish the organic structure, human resources and administrative systems, materials and finances.
- › **Phase 2:** Institutional administrative decentralisation.
- › **Phase 3:** Territorial administrative decentralisation.

Timor-Leste is currently in Phase One which establishes the administrative systems, human resources, materials and finances of municipalities. The key features of decentralization to date are:

- › Education: Preschool education program (grants); Basic Education Program (school feeding program).
- › Health: Program: Primary Health Care program; Sub-program: Communicable Disease Control and immunisation services; Sub-program: Public health management program.
- › Agriculture: Sustainably increase production and productivity program (promote good agricultural practices for rice and corn).
- › Public works, Transport and Communications:
  - Roads: Ensure the installation, repair, and protection of municipal roads;
  - Water and Sanitation: Manage water resources and provide clean drinking water (Operate and maintain rural & urban water supply system).
- › Social Assistance: Social assistance program (Public funeral service available to vulnerable people); Disaster risk management program (Disaster management).
- › Commerce, Industry and Environment: (Market Management and Tourism), Ex: to promote the construction, maintenance, repair, and management of municipal markets.
- › Justice: Land and properties Management (Registration of the lands and properties); Registry and Notary, (registration and notary, Ex: transcription of birth registration, etc.).
- › Secretariat (Administration and Authority): Good governance (Subsidies for Community Leaders & Suco Administration Fund) and institutional management program (General Administration).
- › Support for NGOs and Community Organisations (Suku councils).

Key challenges facing national government, municipalities and suku in implementation of decentralised services and programs include lack of:

- › human resources and capacity to manage government business and fulfil their new roles
- › communication and coordination between the different levels of government
- › awareness and insufficient explanation of their mandate, relevant policies and laws
- › financial and operational resources to effectively manage government offices and duties

### PNDS

Since 2011, Australia has supported the GoTL implementation of PNDS through the PNDS Support Program (PNDS-SP). The PNDS-SP provides advisory and support services to the PNDS Secretariat to bolster its ability to achieve sustainable results through capacity building across a range of key areas including gender and social inclusion, ICT, M&E, social development, engineering, and finance. Such has been the success of PNDS that other GoTL agencies and international donors have contributed funds through the mechanism to achieve community-based development outcomes. For example, the mechanism has been used by NZAid to build school playgrounds; Ministry of Education to build new school buildings, and the Timor-Leste Police to build police houses.

PNDS-SP has made a substantial contribution to the achievement of GoTL village level economic and human development ambitions. The 2018 PNDS economic impact study found:

- › PNDS-built roads, bridges, irrigation and clean water systems all exceeded the benchmark 12 percent rate of return for sound public investments.
- › Road impact - farmers were transporting larger volumes and selling more to buyers, and that some buyers were now coming to the aldeia to purchase their primary output.
- › Irrigation impact - farmers used irrigation systems to change the composition of padi, maize and vegetables they planted, increasing the production and sale of high-valued vegetables.
- › Water project impact - it is estimated that on average nearly 1.5 hours (86 minutes) is saved in time carrying water per household per day.

## Water

Constraints to progress in access to water in rural Timor-Leste include the following:

- › Failing Systems: Investments in access to water to date have focused on the construction of new water systems, and rehabilitation of those that have fallen into disrepair. There has been significantly less investment in the operations and maintenance that has resulted in short life spans for the infrastructure.
- › Lack of Community Capacity: Community management groups (GMFs) have responsibility for the ongoing operations and maintenance of rural water systems, however they lack the capacity and resources (human, financial, organisational) to fulfil this responsibility.
- › Lack of Government Capacity: Frontline government staff (FPAs) – now employed by municipalities - are unable to procure the expertise required for operations and maintenance of water systems due to a lack of procurement capacity (knowledge and policies) and a lack of budget.
- › Lack of Legal and Policy Clarity regarding the specific mandates and division of responsibility for rural water supply. The Decree Law 04/2004 gives a community management group (GMF) responsibility for rural water however the suku Law also gives the suku and aldeia chiefs responsibility for asset management.
- › Lack of Resources: In 2016, responsibility for water was decentralised to the municipalities, however this was accompanied by two years of government funding freezes. In the absence of clarity regarding responsibility, national agencies have tended to push responsibility (and therefore the costs associated with taking responsibility), between ministries (e.g. the new Organic Law for the Ministry of Public Works assumes that DNSA is responsible for rural and urban water supply).

PARTISIPA will work at sub-national levels to focus on operations and maintenance (O&M) of existing systems to reduce the number of failing systems and improve system life expectancy overall. It will address lack of capacity of front-line government staff to implement O&M themselves, and to build communities capacity for O&M. PARTISIPA will work at national levels to facilitate policy clarity regarding roles and responsibilities for water supply in rural areas which will, in turn, enable improved funds flow to sub-national levels of government.

Australia has provided leading support to improving rural access to water since Timor-Leste's independence. Since 2016, when DFAT's BESIK program finished, the Government of Australia has been supporting the water sector through five programs:

1. PNDS-SP has provided technical assistance to the government funded PNDS for all aspects of program implementation - approximately 40% of community projects are water related.
2. Partnership for Human Development (PHD) has been working with GoTL to test a model of supplemental support to community-based management for repairs that are beyond the capacity of the community tariffs to resolve.
3. Water for Women is a DFAT global WASH program and provides grants to NGOs to improve women's access and participation in their water management.
4. Australian NGO Cooperation Program provides longer term grants for programs delivered by accredited Australian NGOs. Currently six out of 41 ANCP grants in Timor-Leste support WASH outcomes.

5. Australian Friendship Grants provides grants of up to AUD60,000 to support Australian organisations, such as friendship groups to partner on community projects with local organisations. In the first round in 2018-19, two out of thirteen projects approved for Timor-Leste focused on water and sanitation.

In November 2018, an independent consultant conducted a mapping of Australia's support for rural water and recommended that Australia consolidate its bilateral support for water from PHD into PNDS-SP. The recommendation recognised that PNDS builds and rehabilitates more water system than any other government program and offers greater opportunity for impact through a well-trained network of staff and facilitators that operate nationally down to Administrative Post level. PNDS-SP has broad knowledge of rural water supply construction and a growing interest in supporting PNDS to develop systems for infrastructure sustainability, including how to sustain water supply operation. This involves suku-level leaders thinking about how infrastructure can be maintained; and also about the potential role of administrative posts and municipal government to support O&M for infrastructure. There are policy and legal implications in expanding the role of suku leaders in rural water supply management. PNDS-SP, with its national reach, is well placed to address. DFAT endorsed this recommendation and by December 2019, will have consolidation into PNDS-SP, bringing together in one investment, Australian support for the construction of rural water supply infrastructure and support for improved O&M.

### **Other Development Partners**

**Water:** The EU and USAID provide support to NGOs, UNICEF and World Neighbors (Oecusse) to improve WASH in rural communities – employing a traditional community-based management model. The Japanese Embassy has a small grants scheme that is implemented in communities through local NGOs. ADB has been supporting institutional strengthening activities with key national government agencies and is currently negotiating a loan for urban water supply. ADB also provides rural water supply technical advice for sustainability of previous investments to improve the Pante Makassar (Oecusse) and Manatuto town water supplies. Potential new donors in the sector include the World Bank and Millennium Challenge Corporation (MCC). The MCC is currently considering a GoTL proposal to focus on Dili Water, Sanitation and drainage. The Government of Timor-Leste convenes a regular WASH forum to coordinate development partner support.

**Decentralisation:** The European Union is finalising a multi-year program of support for decentralisation focused on improved national and subnational public administration, legal assistance and service delivery with a significant performance-based budget support. The UNDP, with financial support from KOICA, is providing institutional capacity development and supporting integrated municipal planning. The UNDP is receiving USD22 million from the Green Climate Fund for a project to climate proof small-scale infrastructure, including through PNDS. The project will help integrate climate change and environmental safeguard considerations into all stages of the PNDS cycle and support physical adaptations to existing and future projects.



## Annex B: Australia's integrated and holistic aid investments in Timor-Leste



