

# Timor-Leste

## National Program for Village Development Support Program (PNDSSP)

### Investment Design Summary

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Program Name:	PNDSSP
Start Date: January 2014	End date: December 2021, with a stop-go point at June 2017
Concept Note approved by:	Strategic Programming Committee, May 2012
Quality Assurance Steps:	Independent Appraisal and Design Peer Review, September 2013

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## Abbreviations and Acronyms

BESIK	<i>Bee, Saneamentu no Ijene iha Komunidade</i> - Rural Water Supply and Sanitation Program
BNCTL	National Commercial Bank of Timor-Leste
CAP	Community Action Planning
CDD	Community Driven Development
CEP	Community Empowerment Program
CHS	Community Feedback System
CSC	<i>Commissaun Servisu Civil</i> (Civil Service Commission)
CSO	Civil Society Organisation
DWG	Disability Working Group
FST	Field Support Team
g7+	<i>Group of 7+ conflict affected and fragile states</i>
GfD	Governance for Development
GoTL	Government of Timor-Leste
HRM	Human Resource Management
IMC	Inter-Ministerial Committee
KDP	Kecamatan Development Program
LDP	Local Development Program
M&E	Monitoring and Evaluation
MAE	<i>Ministério da Administração Estatal</i> (Ministry of State Administration)
MC	Managing Contractor
MEP	Monitoring and Evaluation Plan
MIS	Management Information System
MoF	<i>Ministeriu Finanzas</i> (Ministry of Finance)
NGO	Non-Government Organisation
NSP	National Solidarity Program (Afghanistan)
O&M	Operations and Maintenance
OECD-DAC	Organisation for Economic Cooperation and Development - Development Assistance Committee
PDD	Decentralised Development Programme
PDID	<i>Planeamento Desenvolvimento Integrado Distrital</i> - Integrated District Development Planning
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PND	Program Nasional Desenvolvementu Suku
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> - National Program for Community Empowerment
POM	Program Operations Manual
QA	Quality Assurance
SDP	Strategic Development Plan
SPAD	Strategic Partnership Agreement for Development
SPC	Strategic Programming Committee
TA	Technical Assistance
TWG	Technical Working Group
UNDP	United Nations Development Programme
WASH	Water, Sanitation and Hygiene

## Executive Summary

The *Programa Nasional Dezenvolvimentu Suku* (PNDS), or *National Program for Village Development*, is a new, nation-wide community development program of the Government of Timor-Leste (GoTL). PNDS was launched in January 2012 as an election promise by Timor-Leste's President Taur Matan Ruak and Prime Minister Xanana Gusmão. It was subsequently included in the Program of the Fifth Constitutional Government (2012-17) and the Organic Law of the Ministry of State Administration. It was given financial approval by the National Parliament in the 2013 Budget and the Council of Ministers approved a Decree Law giving legal force to its scope, structures and operating principles in June 2013.

**PNDS is a central part of the government's strategy to increase development in rural areas.** PNDS will contribute to rural development by funding the 'missing link' to service delivery and poverty reduction – basic village infrastructure – as well as providing jobs and training. Communities will receive an annual grant of US\$50,000 (on average) directly from the Government to plan, construct and manage their own small-scale infrastructure projects. Depending on village priorities, this could include new irrigation channels, local bridges, motorbike paths, market places, and refurbishment of existing water systems, schools and health facilities. Villagers will be supported to plan and implement projects by trained facilitators including technical facilitators, financial advisers and social facilitators.

**PNDS will be a community driven development (CDD) program.** CDD addresses poverty by focusing its primary engagement at the community level. It is defined as an approach that gives communities or locally elected bodies control over decision making and management of development funds, with the long term aim of reducing poverty. It is usually used in contexts of low governance capacity, instability and insecurity. It prioritises quality women's participation throughout the process.

**PNDS is owned, managed, and largely funded by the Government of Timor-Leste.** GoTL has established institutional structures to manage PNDS, including an Inter-Ministerial Committee and a Technical Working Group whose members are from key government ministries. The Ministry of State Administration (Ministério da Administração Estatal – MAE) will have overall financial, human resource and program management responsibility, but will work closely with the Ministry of Finance (MOF), the Civil Service Commission (CSC) and other ministries. A National Secretariat for PNDS has been established within MAE to manage day-to-day program implementation.

**The government plans to implement PNDS in all 442 sukus during 2014.** The design of the program, in the form of a Program Operations Manual and a Decree Law, was finalised in the first half of 2013. In the second half of 2013, a field test of the program is being conducted in 30 sukus in five districts, Dili, Aileu, Manatutu, Ermera and Liquisa. In 2013, MAE, Finance and the Civil Service Commission will finalise the necessary human resource, finance and logistics systems required to manage the program on a national scale.

**Australia has been instrumental in the inception and development of PNDS.** During 2011, GoA began discussions with key stakeholders within GoTL on the principles of CDD as a model for delivering basic infrastructure, services and economic opportunities in rural areas. In 2011, Australia supported GoTL officials to travel to Cambodia and Indonesia to examine different models of community driven

development. During 2012 and 2013, Australia has provided international and national personnel and logistical support to the design and preparation of the GoTL PNDS. This has included assisting the preparation of the policies and laws covering PNDS, assisting development of financial and HR management systems for PNDS; training up to 400 technical, financial and social facilitators to support communities to manage their PNDS projects; and supporting sub-national socialisation of the program. GoA is working closely with GoTL on a bilateral level, providing support through the services of a managing contractor<sup>1</sup> and is facilitating other development partners' contributions to PNDS. The value of Australia's support in the 2012-13 and 2013-14 financial years is approximately \$14.5 million.

**There is a strong rationale for Australia to provide longer-term support to PNDS.** As a CDD approach, PNDS is relevant to the needs of communities in Timor-Leste and has the potential to make a difference to community living standards in a relatively short time. As it has in other countries, CDD can avoid some of the government bottlenecks found in sector delivery systems by giving communities the power to plan, budget for, construct, operate and maintain their own basic infrastructure. As Timor-Leste's largest bilateral donor, with strong relationships, Australia is well placed to support GoTL to deliver their development goals more effectively through PNDS. In addition, support for PNDS aligns with Australia's strategic priorities and Australia's commitments as the lead donor to support the New Deal in Timor-Leste: it supports the objectives of peace building to improve livelihoods; it supports a program owned and led by GoTL; and the program will be delivered through Timor-Leste's own country systems. This engagement builds on Australia's position as a trusted and influential development partner – and with credibility comes more opportunity to influence Timor-Leste's economic reform and development agenda in constructive ways.

**As a partner supporting a GoTL-led program, Australia will support GoTL's goal of *"Improved socio-economic conditions and local governance for village men and women in Timor-Leste through community managed infrastructure."***<sup>2</sup> International evidence shows that CDD programs are effective increased economic benefits at the community level. CDD has been shown to deliver results more quickly where governments and donors have few tools to reach poor people directly, particularly in countries affected by conflict. As a flexible mechanism, objectives can evolve over time and so there is scope for the program to evolve, for example, to go beyond infrastructure in future years.

**The over-riding objective of Australia's support to PNDS is to identify critical areas where additional assistance could improve Timor-Leste's ability to deliver an effective program.** Australia will seek to support strategic, evidence-based policy-making on PNDS. We will provide technical support to the operational planning and management of PNDS on a day-to-day basis for quality of implementation and achievement of program outcomes. Support has been designed based an analysis of lessons learned implementing local development programs in Timor-Leste and internationally. It will focus on improving: financial management systems; human resource management; information management and monitoring and evaluation; and inter-agency and Secretariat planning, coordination, and communications. It will also increasing the capacity of GoTL to engage effectively with communities; and develop a community feedback system.

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<sup>1</sup> Services are being provided by Cardno Emerging Markets, under the Interim Governance for Development contract.

<sup>2</sup> Australia's Program Logic describes this goal in a slightly different way based on Australia's theory of change – see Section

3 *What do We Hope to Achieve?* for more detail.

**Australia has learned much from its past experience in Timor-Leste and will use these lessons to guide our support to PNDS.** We will provide technical assistance in a way that builds capacity, with the intention over time for GoTL to take on more responsibility, require less support, and where appropriate, contract its own external support instead of Australia. We will prioritise building effective, trust-based relationships. We will work to understand and respond to the changing operational environment to ensure PNDS continues to complement rather than undermine broader GoTL service delivery efforts. We will also work with GoTL to ensure communities remain at the centre of planning and decision making for PNDS.

**The PNDS Support Program will use a mix of delivery partnerships** – including bilateral engagement, technical assistance through a managing contractor and partnerships with other development actors, including the World Bank and The Asia Foundation. The approach makes the most of Australia's existing mechanisms, while ensuring that a broad range of development partners are helping to support GoTL's program. Australia accepts the need for a degree of flexibility in choosing the most suitable delivery methods for the PNDS Support Program and will work closely with GoTL on a bilateral basis to assess whether new or amended methods of support are needed over time.

**The proposed period for Australia's PNDS Support Program is envisioned for eight years,** starting from the beginning of 2014. In the third year of implementation, Australia will undertake a review of its support, in partnership with GoTL to assess whether the first phase is demonstrating adequate results to justify investment in a second phase. Activities of the PNDS Support Program will be outlined in a six-monthly implementation plan. The implementation plan will detail the timing and resources required for each activity, implementation arrangements and risk management. It will be prepared in partnership by the Australian Aid Program Director with the PNDS Secretariat, with assistance from the managing contractor and input from development partners.

**PNDS has the potential to deliver tangible benefits to communities and to support more effective GoTL service delivery, but a program of this size and scope carries inherent risk** - particularly in the post-conflict, low-capacity environment in which it is being implemented. By working closely with GoTL towards shared objectives, as part of our New Deal commitment, Australia will share a part in the operational and reputational risks that arise during the implementation of PNDS. However, as no Australian funding will be provided for PNDS grants, Australia does not have direct fiduciary risk associated with PNDS grant funding. Australia has assessed that balanced against potential pay-offs, engagement in PNDS is highly worthwhile.

**Australia will need to understand the factors influencing a changing political and policy environment, as well as community mobilisation and cohesion, during PNDS implementation.** Effective coordination between our sector programs, supporting the different line ministries whose work at national and district levels will be involved with or affected by PNDS, will be critical. PNDS must play a complementary role and not undermine sectoral systems or divert funding and effort from other important sectoral objectives and service delivery mechanisms. Australia will also work to identify problems early, and resolve them in a timely and effective manner with lessons feeding into program activity design.

## Document Overview

This investment design summary is accompanied by the **Government of Timor-Leste's Program Operations Manual which is the key GoTL document governing the design and implementation of PNDS**. All detail regarding the implementation of PNDS should be sought, first and foremost from the Program Operations Manual. The Manual, along with a three page summary document, can be found at [Annex 1](#).

**This design outlines how Australia will support the Government-led program described in the Program Operations Manual.** It includes Australia's rationale for supporting PNDS implementation and the activities Australia will support, and provides analysis on how Australian support will meet The Australian Government's design quality standards, including how Australia will manage risk, performance and government engagement issues.

### **Part A: Strategic Context and Rationale for Australian Support:**

Section 1: summarises the development context in Timor-Leste, the government's strategic plan and core challenges in meeting its development goals; and establishes the government's rationale for Community Driven Development (CDD) in this context; Section 2: discusses what Australia can bring to the sector and rationale for our support.

### **Part B: What the program will look like:**

Section 3: sets out the goal and end of program outcomes of PNDS; Section 4: outlines what Australia will fund; Section 5: outlines how we will deliver our support; Section 6 outlines the implementation arrangements we will employ; Section 7 outlines the resources needed to implement the program; and Section 8: described how we will measure results.

### **Part C: Significant Issues and Risks**

Part C outlines the key risks to the implementation of PNDS and how Australia is going to manage those risks and cross cutting issues.



## Part A: Context and Strategic Setting

### 1. How is Timor-Leste delivering on its development goals, and what are the remaining challenges?

#### 1.1 Context

**Timor-Leste has made substantial progress in its ten years of independence.** It has established a vibrant democracy and set up a model structure for managing its resources wealth. The Government's earlier focus on maintaining stability has given way to prioritising economic and social development and important development gains have been made. According to the 2013 Human Development Report, between 2000 and 2012 Timor-Leste's Human Development Index (HDI) increased by 38 per cent<sup>3</sup>, with improvements in school attendance, literacy and life expectancy.

**However, considerable challenges remain.** While Timor-Leste is classified as a middle income economy, approximately four fifths<sup>4</sup> of the country's GDP is from oil and gas extraction, making it the most resource dependent economy in the world. The public sector, driven by oil revenues, dominates the economy: government investment, recurrent spending, and public employment and programs are the overwhelming drivers of growth.

**In addition, development gains have not been shared equally across the population.** When Timor-Leste's HDI is adjusted to account for inequality across the population, it falls by 33 per cent. The number of people estimated to be living in severe poverty is around 40 per cent, while closer to 70 per cent live on less than US\$2 per day<sup>5</sup>. Using the Multi-Dimensional Poverty Index (MPI)<sup>6</sup>, UNDP estimates that 68.1 per cent of the population in Timor-Leste experience multiple deprivations in education, health and standard of living, and an additional 18.2 per cent are vulnerable to deprivation.

- **Opportunities and living standards are particularly low in rural and remote areas.** According to the 2010 Census, just 57 per cent of people in rural areas have access to drinking water from an improved source, 25 per cent have access to basic sanitation and 19 per cent to electricity. According to the 2011 Household Income Expenditure Survey, rural households earn half the income, consume half as much meat and vegetables and eat a quarter of the fish and dairy of their urban counterparts<sup>7</sup>. A recent ADB study assessing the distribution of improvements in indicators

<sup>3</sup> 2013 Human Development Report

<sup>4</sup> Australia 2011 Household Income Expenditure Survey states that 80.5 per cent of Timor-Leste's GDP is from oil and gas extraction, while the Timor-Leste National Accounts 2000-2011) cite a figure of 77 per cent.

<sup>5</sup> Although there is good information about the extent of poverty in Timor-Leste, very few of the poverty studies have been repeated or include qualitative inquiry, which means that there is limited information on the dynamics or drivers of poverty. By the international income poverty measure of \$2 USD a day, 72.8 per cent of the population is poor. Australia Multidimensional Poverty Index, which tracks health, education and asset measures and is based on 2009-2010 Timorese data, estimates that 68.1 per cent of the population is poor and 18.2 per cent is vulnerable to poverty. Australia Multidimensional Poverty Index estimated that 38.7 per cent of the population in Timor-Leste is in severe poverty.

<sup>6</sup> UNDP calculates a Multi-Dimensional Poverty Index (MPI) for each country, representing the percentage of people living in households where at least one person is deprived of education, health or standard of living, using data from the 2009-10 Demographic and Health Survey.

<sup>7</sup> 2011 Household Income Expenditure Survey

across *sukus* (villages)<sup>8</sup> found that *sukus* with the highest living standards are predominantly in urban areas or close to district centres, with relatively low agricultural activity<sup>9</sup>. *Sukus* with the lowest living standards were smaller, more remote, had low literacy and higher agricultural activity<sup>10</sup>.

- **Women are likely to experience greater severity and increased dimensions of poverty.** In the 2010 census period, female adult literacy (in Tetum) was 50.9 per cent compared to male adult literacy of 61.3 per cent. Female adult labour force participation in the formal economy was 36.3 per cent, compared to male adult labour force participation rate of 72.8 per cent. According to the 2010 National Demographic and Health Survey (NDHS), 38 per cent of women surveyed reported experiencing physical violence since age fifteen, with 74 per cent of these cases involving a current husband or partner.
- **People with disabilities are more likely to be among those who are severely poor.** People with disabilities are under-represented in both primary and secondary schools. Their access is affected by social attitudes and a lack of reasonable accommodation of specific needs in school infrastructure and by teachers. People with disabilities face issues both in access and quality of services. Although the 2010 Census likely under-reported people with disabilities, of those surveyed, 72 per cent had never attended school and 49 per cent were economically inactive.

**Timor-Leste's development outcomes reflect the impact of decades of conflict and instability on economic growth and access to services.** Even before the 1999 crisis, development outcomes were low, with only 47 per cent of villages having access to paved roads. The violence and destruction wrought during the period immediately after the 1999 referendum affected Timor-Leste profoundly. The massive destruction of infrastructure, loss of government capacity and damage to social networks has led to **multiple, reinforcing challenges to development in Timor-Leste:**

- The poor condition of **basic infrastructure in general and the road network in particular**, remains a key constraint to economic (including agricultural) and social development. An estimated 80 per cent of the country's rural roads network is in poor condition. This presents major challenges for public service delivery, such as health and education, and imposes increased travel times and costs on rural people who remain isolated from facilities and services. Poor infrastructure has been identified as the major obstacle for women's access to markets and opportunities for economic progress.
- **Institutional weakness and generally low levels of human capacity** compound the inherent challenges of delivering services in rural and remote locations. GoTL has made significant progress in building the institutions of state and the skills required to deliver services to people after decades of conflict. But this process started from a low base. Across all sectors, weaknesses include planning, budgeting, financial disbursement, procurement, logistics and human resource management.

<sup>8</sup> Timor-Leste's 13 districts are subdivided into 65 sub-districts and 442 *sukus* (villages). A *suku* (also spelled *suku* or *suko*) is a cluster of aldeias (hamlets), of which there are 2250 in total.

<sup>9</sup> ADB (2012) A pathway to inclusive opportunity in Timor-Leste (draft)

<sup>10</sup> Note that while poverty rates between districts vary (eg Dili is less poor than surrounding districts) and within regions, there is less variation in the degree of poverty experienced by the poor across the country. Australia poor in Dili face significant constraints to development and opportunities (Timor-Leste: Poverty in a Young Nation, p10)

- Subsistence farming is still the main form of livelihood outside of Dili; **however agricultural productivity is relatively low**. Increasing agricultural productivity is constrained by the quality of land and challenges in storing and transporting produce to market (based on the poor condition of rural roads and poor access to markets).
- **A poorly educated workforce** is a constraint to productivity and to the long term development of the economy. People are generally able to reach educational facilities but the quality of education is low, and schools do not have appropriately trained staff, sufficient learning materials, or sufficient classrooms, particularly in rural areas.
- Young jobseekers, even when well educated, currently have limited job opportunities outside government with a **limited private sector** and **limited formal private job creation**. According to the *2011 Household Income and Expenditure Survey*, the private sector employs less than 10 per cent of Timor's total working population<sup>11</sup>. Further progress to remove the structural constraints to growth is needed to expand private investment.
- **Health services** are often inaccessible for the rural poor. The health system is constrained by insufficient numbers of health clinics, insufficiently qualified health staff and chronic undersupplies of equipment.
- **Demographic changes** will continue to impact development. Timor-Leste has one of the highest birth rates in the world, the majority of its population is below the age of 21, and migration from the countryside to the Dili is very high.
- **Gender disparities and violence against women** are also barriers to development and carry both direct and indirect economic costs. These costs relate to lost earnings, lost time, and lost investments in human capital. Violence in the workplace can contribute to a decrease in productivity, lower wages, absenteeism, and decreased labour force participation. Violence can also force women into low paid work, and into insecure work that increases their vulnerability to exploitation and abuse. It can prevent women from working outside of the home, either because domestic violence puts constraints on them, or because the threat of violence or harassment in markets, fields or the workplace makes it unsafe to do so.

## 1.2 What is GoTL doing to address these issues?

**The Government of Timor-Leste is strongly committed to reducing poverty** - through structural reforms, institution building and large-scale public investment. While public spending following independence was initially directed to improving public safety and security, more recently it has focused on enhancing social protection, addressing the problems faced by youth, tackling unemployment and improving social service delivery.

### *The Strategic Development Plan*

**The Timor-Leste Strategic Development Plan 2011 – 2030 (SDP) presents a twenty-year vision that reflects the aspirations of the Timorese people to create a prosperous and strong nation.** It sets out a series of ambitious targets to promote social capital, infrastructure and economic development.

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<sup>11</sup> According to the 2011 Household Income Expenditure Survey, of a total working population of more than 600,000, only 58,200 were employed by the private sector.

According to the SDP, by 2015, every village in Timor-Leste should be able to count on a new or rehabilitated school with qualified teachers, a clinic with nurses and medicine, safe drinking water, access to roads that link villages to markets and improved livelihoods. GoTL hopes to achieve this through a five to ten year “big bang” investment program. In 2013 the national budget is approximately \$1.3 billion. Most of this additional revenue is being spent on major infrastructure aimed at government services and developing the economy.

### *Reaching the Rural Poor*

**The SDP outlines the government’s commitment to reducing poverty in Timor-Leste – especially in rural areas.** Acknowledging the high cost at which Timor-Leste achieved independence, Prime Minister Gusmão refers to the social and economic transformation of every Suku as the final step in rebuilding the nation and delivering a peace dividend to the Timorese who fought for independence<sup>12</sup>.

**However, institutional and human capacity constraints challenge the government’s ability to implement the SDP<sup>13</sup>.** As described above, skill shortages, capacity constraints, bottlenecks in public administration and financial management systems, a limited private sector and lack of enabling infrastructure hinder the Government’s ability to deliver services to the rural poor:

- In particular, **public financial and administration systems** are highly centralised, with resulting bottlenecks for the delivery of services in rural areas. Intended to cater to a small volume of government revenue, these centralised systems have not adapted well to rapid increases in government spending, nor to the movement of service delivery beyond Dili to districts and rural areas. For example, the Treasury within the Ministry of Finance (MoF) remains the sole authority to disburse government funds. A request for payment raised in a district must be transported to the capital city, with the resulting cheque or funds manually transported back to the place of payment.
- There are very **limited banking facilities outside Dili**, no online interbank settlements, and limits to non-cash banking services (such as high cost, significant delays, limited options for cheques, and no mobile or phone banking in the short term).
- **Population dispersal and the condition of transport infrastructure** also significantly increase the cost and reduce effectiveness of public service delivery.

**The government is investing in improving the performance of its central and line agencies but this process will take time.** As well as increased investment, the SDP commits the government to improve central governance systems and strengthen corporate planning and budget extension. However, improving processes, systems and skills is a long term strategy. The Government declared 2008 the year of administrative reform, but frustrations developed as institutional and structural reforms failed to provide tangible changes in the lives of the population<sup>14</sup>. While more reforms have followed, getting the front-line of services working effectively remains difficult across all sectors.

<sup>12</sup> Address By His Excellency Australia Prime Minister Kay Rala Xanana Gusmão On Australia Occasion Of Australia International Conference On Decentralization And Local Government, Dili, 28 May 2013

<sup>13</sup> Address by His Excellency Prime Minister Kay Rala Xanana Gusmão “State Building for the Next Decade: A Reflection on Timor-Leste’s Experiences and Expectations in State Building”. Opening Session of the 2013 Timor-Leste Development Partners Meeting, Dili, Timor-Leste, 19 June 2013

<sup>14</sup> Address By His Excellency Australia Prime Minister Kay Rala Xanana Gusmão, On Australia Occasion of the Closing of the Timor-Leste And Development Partners Meeting, 20 June 2013, Dili

**It is vital for state legitimacy that the government can begin to show credible signs of change since independence (the peace dividend) and build a stronger relationship with its citizens.** Giving people a greater voice in their country's future and greater control over how government policies affect their lives has been a dominant part of Timor-Leste's national discourse and a strong priority in politics throughout the resistance period and since independence<sup>15</sup>. There is a strong push for the development of Timorese solutions that reflect the Timorese reality – its culture, history and traditions (see Box 1 – Local Interpretations of Governance in Timor-Leste). These principles underpin much of Timor-Leste's development and institutional reform agenda, including the country's plans to decentralise or deconcentrate government spending and decision making (see Box 1 – Decentralisation in Timor-Leste).

#### **Box 1: Decentralisation in Timor-Leste**

Decentralisation reform has been on the agenda for the Government of Timor Leste since the restoration of independence, with the principles of decentralised government enshrined in Timor-Leste's Constitution. Decentralisation in Timor-Leste is framed as a way of bringing the government closer to its population, particularly in the rural and remote areas - to both increase the participation of citizens and make government functions better targeted and more efficient<sup>16</sup>. A national consultation process on decentralisation began in March 2013 as part of a process to identify a decentralisation model that recognises Timor Leste's history and experience, and establishes sub-national municipal government in each of the 13 districts. There is broad and bipartisan support for the principles of decentralisation, but there remain some open issues over the form it should take, and the timing, resources and requirements for implementation (see [Part C – Significant Issues and risks](#) for further analysis on decentralisation).

**The Government has trialled a number of initiatives to improve participation, reach pressing areas of need and accelerate sub-national spending.** These have been conducted both independently and in partnership with national NGOs, and international and bilateral partners. Interventions have had different priorities and objectives and used different approaches – from the rapid implementation of urgent infrastructure for economic growth, to testing models for a more decentralised form of governance. Some initiatives have sought to avoid bureaucratic bottlenecks and constraints, while others have sought to balance longer term capacity building with enhancements to service delivery. Key programs in the evolving strategy for local development in Timor-Leste are described below<sup>17</sup>:

The **Community Empowerment Program (CEP)** was implemented by the World Bank from 2000-2004, to a total value of US \$8.4 million. CEP was a community driven development program which aimed to strengthen local-level social capital to build institutions that reduce poverty and support inclusive patterns of growth. CEP distributed block grants to communities

<sup>15</sup> See for example Santos, 2012; and Ingram, 2013

<sup>16</sup> Address By His Excellency Australia Prime Minister Kay Rala Xanana Gusmão On Australia Occasion Of Australia International Conference On Decentralization And Local Government, Dili, 28 May 2013

<sup>17</sup> International and national NGOs have run multiple community-based development programs throughout rural Timor-Leste since 1999. Australiase are not assessed here as they have generally been of small scale and not linked to government planning and delivery processes.

to manage their own small infrastructure projects. CEP also formed democratically selected, socially inclusive, locally-based Village Development Councils (VDCs) to administer to projects.

**The Programa Desenvolvimento Lokal (*Local Development Program*) (PDL)**, began in 2004 as a pilot program administered by the Ministry of State Administration and Territorial Management (Ministério da Administração Estatal - MAE) and the UN Capital Development Fund to demonstrate decentralised infrastructure and service delivery as an effective way of reducing poverty<sup>18</sup>. The PDL set up representative bodies at district and sub-district levels to prioritise and administer small development projects<sup>19</sup>. Two models for decentralisation were piloted, one focused at the district level and the other at the sub-district level. Both district and sub-district assemblies were comprised primarily of suku representatives, with local public servants as non-voting members<sup>20</sup>. Once established, District and Sub-District Assemblies were trained and supported to undertake local development planning processes, and implement and administer small grants for infrastructure and service delivery through processes of prioritisation and inclusive decision making, tender and procurement. In response to the Prime Minister's concerns over the slow pace of rural development, the PDL was expanded from a pilot to a national program in 2010 with an annual budget of \$2 million and an increase in average grant size to \$14,570. It ended in 2012.

**Pakote Referendum (Referendum Package)**<sup>21</sup> was introduced in 2009 following a sustained period of conflict, to rapidly expand infrastructure and economic opportunities in rural areas. Through the Pakote Referendum, the Government allocated \$70 million to small infrastructure projects such as roads, bridges, schools, and water and sanitation. Funds were allocated to contractors to implement across the country to create local employment in districts and sub districts, stimulate the local economy and mobilise local capacity and participation.

In 2010, the \$31.36 million **Programa Desenvolvimento Desentralizado (*Decentralised Development Program*) (PDD)** was introduced to follow on from Pakote Referendum to strengthen the Timorese private sector and stimulate development in rural areas. Managed by MAE, the PDD awarded small infrastructure projects of up to \$250,000 in value to local companies in the sub districts to generate employment, stimulate economic growth and improve basic infrastructure in rural areas.

In 2011, the program was enhanced and expanded as **Programa Desenvolvimento Desentralizado I&II (PDD1&2)** with \$44.3 million in new funding. Now divided into two streams, funds were allocated to identify infrastructure projects at the aldeia or hamlet level (project values up to \$15,000), suku level (up to \$75,000) and sub-district level (up to \$150,000) for PDD1 and District level (\$150,001-500,000) for PDD2. While projects were still selected at national level, District Administrators were given responsibility for the selection and management of the local contractors. In 2012, \$52.5 million was allocated for PDD1 and PDD2 in the national budget, dwarfing the \$6.4 million allocated for PDL.

<sup>18</sup> Local Development Programme Timor-Leste (LDP-TL) Annual Report, 2005. UNCDF February 2006

<sup>19</sup> Australia Asia Foundation and Irish Aid, "Community experiences of decentralised development in Timor-Leste", 2012, p4.

<sup>20</sup> Justice for the Poor, 'Articulations of local governance in Timor-Leste: lessons for local development under decentralisation', Policy Note, July 2010

<sup>21</sup> Press Release IV Constitutional Government: Referendum Package to develop rural areas, Secretary of State for the Council of Ministers, Dili, 28 October 2009

## Box 2: Governance and identity in Timor-Leste

Timor-Leste has a relatively structured system of community government in Timor-Leste, dating back to before Portuguese administration, when Timor-Leste was divided into small kingdoms. Each kingdom was ruled by a liurai (a leader or king) and comprised a number of village communities each with their own *adat* (a term meaning custom or “way of the elders”).

During Portuguese administration, Timor-Leste was divided into municipalities. However below this level, the governance structure was left largely the same, comprising villages (*sukus*) and hamlets (*aldeias*). *Sukus*, particularly those in remote areas, were largely permitted to follow the rules and principles of their *adat*.

Today, *sukus* and *aldeias* remain important political and social units – representing the most immediate and relevant form of governance in people’s lives. Ancestral myths still define villagers’ social identity, and many communities identify more strongly with their local *adat* than they do with a sense of national identity and values.

Each *suku* is led by a Xefe de Suku (village chief), who is responsible for broad community affairs including maintenance of community infrastructure, protection of the environment, dispute resolution and peace and security. *Suku* chiefs are directly elected and supported by a *suku* council which is composed of *aldeia* chiefs, a treasurer and representatives of women, youth and customary elders<sup>22</sup>. Development and political interaction at the community level depends upon these structures.

**Local development approaches in Timor-Leste have had mixed success, but continue to build on lessons learned.** The programs described above have enabled large numbers of Timorese to participate in the allocation of public resources, largely in accordance with their priorities. However, a relatively high proportion of projects gave rise to concerns about land, procurement, labour or contractor performance. Lessons have highlighted the need: for more deliberate attention to local consultation during planning, to strengthen participation, including for women and youth to support capacity building and training; to improve inter-ministerial coordination, to develop effective financial management systems; to develop appropriate and common technical standards; to facilitate information flows to communities; and increase social accountability, including through grievance mechanisms and community-based Monitoring and Evaluation (M&E). The below summary outlines how these lessons have been incorporated over time (Detailed analysis of previous local development programs and their lessons is at [Annex 3](#)):

**CEP** - with a few exceptions (such as road works) civil engineering programs implemented through CEP were judged to be well designed and implemented<sup>23</sup>. However, CEP suffered from difficult political alignment between Timorese actors and the UN Administration and lack of clarity on the decentralisation of political authority and village governance. There was no law on selection or roles of the *chefe suku*, which meant *chefes* were left out of councils and the role of the council was limited. This undermined the relevance and local ownership of infrastructure

<sup>22</sup> World Bank (2009) Community Based Development and Infrastructure in Timor-Leste: Past Experiences and Future Opportunities.

<sup>23</sup> World Bank (2005) Implementation Completion Report, Community Empowerment and Local Governance Project, p11,23



constructed through the program<sup>24</sup>, due to a lack of familiarity at the local level with standards and procedures.

**Pakote Referendum (Referendum Package)**<sup>25</sup> The Referendum Package was criticised for its top down decision making on projects, which were seen as excluding local leaders and communities. With an exemption from normal procurement processes, and an extremely short period for implementation, the Referendum Package was also criticised for inflated prices, poor quality of construction, limited relevance to local priorities and bias in contractor selection<sup>26</sup>. However, the Referendum package did inject significant funds into rural areas, and the lessons learned from this exercise led to the evolution of the Local Development Program.

**PDL** – in contrast with CEP, PDL had high levels of ownership from national and district government officials. PDL produced relatively high quality and low cost infrastructure, strengthened the role of suku councils as enablers of development and helped suku council members, district administrators and technical staff build advocacy, lobbying, negotiation and facilitation skills<sup>27</sup>. However, community members were seldom involved in the implementation, monitoring or evaluation of their projects (construction was normally tendered by local government to private contractors) - which led to inappropriate project selection and lack of community ownership – which in turn affected the utility of the infrastructure built. In addition, resources under LDP were not deemed sufficient to adequately cover the significant infrastructure needs of most villages.

**PDD** - reflected a strong desire to create economic opportunities in rural areas struggling with high rates of poverty. The budget for PDD was considerably higher than PDL, both in terms of the number of projects that could be funded in a single year, and the size of those projects<sup>28</sup>. To speed delivery, projects were identified at a national level, and requirements for tendering and procurement of projects significantly reduced. Research into initial community perceptions of PDD showed that communities did not feel sufficiently consulted and involved in the prioritization, consultation and planning of projects<sup>29</sup>. MoF also expressed concern about the performance and financial management of the program (see further discussion of enhancements to PDD in Box 2).

**Building on these lessons, the government is formalising and regulating a number of sub national coordination structures and processes** (see Box 2: Evolving Legal Framework for Sub-National Governance in Timor-Leste). In response to concerns about insufficient suku-level engagement

<sup>24</sup> B. Moxham, Australia World Bank in the Land of Kiosks: Community Driven Development in East Timor, accessed 14 February 2013, <http://focusweb.org/index.php?q=node/519>

<sup>25</sup> Press Release IV Constitutional Government: Referendum Package to develop rural areas, Secretary of State for the Council of Ministers, Dili, 28 October 2009

<sup>26</sup> Butterworth, D, and Dale, P. (2011). Local Governance and Community Development Initiatives: Contributions for Community Development Programs in Timor-Leste [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2011/08/16/000333037\\_20110816005839/Rendered/PDF/638520WP0Timor00BOX361530B00PUBLIC0.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2011/08/16/000333037_20110816005839/Rendered/PDF/638520WP0Timor00BOX361530B00PUBLIC0.pdf) See also: 2009 “Referendum Package lacks quality” Suara Timor Lorosae, 22.12.2009. Online at: <http://www.etan.org/et2009/12december/31/22referendum.htm>

<sup>27</sup> Australia Asia Foundation (2005) Community Experiences of Decentralized Development in Timor-Leste.

<sup>28</sup> In the 2012 state budget, \$52.5million was allocated to the PDD program, as opposed to a little over \$6.2million for PDL.

<sup>29</sup> See Australia Asia Foundation and Irish Aid, “Community experiences of decentralised development in Timor-Leste”, 2012, for analysis of the district and sub-district planning and decision-making processes used in PDD, as well as some of the outcomes at community level.



through PDD, in January 2011, Prime Minister Gusmão advised that during 2011, MAE would draft an integrated action plan to respond to suku priorities. This process resulted in approval of a decree law for Integrated District Development Planning (PDID) in February 2012. PDID addresses a number of the lessons learned above by providing stronger community participation, integration of top-down and bottom-up planning and improved coordination across Ministries. The stated intent of the PDID decree law is to establish a planning, and implementation system so that the State Budget is invested in those areas that the Districts and Sub-Districts define as priorities.

#### Box 1: Evolving Legal Framework for Sub-National Governance in Timor-Leste

**2003 Constitution** - increased efforts to address inefficiencies in planning, budgeting and implementation of infrastructure and service delivery by giving greater responsibility to local levels such as the suku councils;

**2004 Law on Suku Council Elections** - recognised the importance of building an authentic, sustainable democracy at the local level;

**2004 Decree Law on Community Authorities** - defined broad categories for suku council activity to enable achievement of development and basic service provision within the community;

**2009 Law on Community Authorities and their Election** - formalised the role of Suku Chiefs and Suku Councils as a way of recognising and legitimizing community leaders; clarifying their relationship with government authorities; and providing recognized leadership ahead of political decentralisation efforts.

**2009 Law on Administrative and Territorial Division** - established the system of municipal councils aligned with existing district boundaries.

**2012 Decree Law for Integrated District Development Planning** – established the structures and processes for the development, prioritization and approval of District Integrated Plans (DIP), which harmonise the Suku Development Plans and the Strategic Development Plan.

### 1.3 A New Approach to Local Development in Timor-Leste

As part of the process described above, in early 2011, the Government of Timor-Leste began to engage with the Australian Government on ways to **improve the performance of its local development programs**. In particular, MoF was interested in ways to improve the speed and quality of deconcentrated spending across the different district infrastructure programs. Reforms to financial delivery mechanisms and funding flows were designed to link in with MoF's broader public financial reform agenda, with a view to programs with clearer operating procedures, which were more transparent and accountable in the use of public funds, bringing greater benefits to people in rural areas.

In July 2011, GoA invited officials from MoF and MAE on a study tour to Indonesia to **observe Indonesia's successful national community-driven development (CDD) program, the National Program for Community Empowerment (PNPM)**. On return, with assistance from GoA, MoF and MAE developed a joint proposal to the Council of Ministers to establish a new CDD program.

In January 2012 GoTL passed a resolution to **establish a mechanism to accelerate community development, now known as the National Program for Village Development (PNDS)**. In June 2012 the President and Prime Minister launched the program as an election promise, announcing that US\$300 million would be provided over an eight-year period. PNDS was subsequently included in the Program of the Fifth Constitutional Government (2012-17) and the Organic Law of MAE. It was formally committed to in the 2013 Budget, with the Council of Ministers approval of a Decree Law in June 2013 giving legal force to the scope, structures and operating principles.

**PNDS will be a *community-driven development (CDD)* program (see Box 3).** It will channel funds directly from the Government to communities who will plan, construct and manage small-scale infrastructure projects in their *sukus*. Villagers will be supported to plan and implement projects by trained facilitators including technical construction facilitators, financial advisers and social facilitators. Each village is expected to receive an average annual grant of US\$50,000 based on an agreed formula including criteria such as village remoteness and population. Systems to run the program are being put in place at national, district and sub-district levels.

#### Box 42: What is Community Driven Development?

CDD is one particular model for addressing poverty by focusing its primary engagement at the community level. It is defined as an approach that gives communities or locally elected bodies control over decision making and management and use of development funds, with the long term aim of reducing poverty. The defining characteristics of a CDD program are understood to be:

- a focus on communities and/or community groups (rather than individuals);
- a participatory planning process, including consultations with members of the community;
- resources are channelled directly to the community;
- the community itself is directly involved in project implementation, generally involving the creation of employment opportunities for members of the community; and
- the community itself is directly involved in monitoring the progress of implementation, including the quality and costs of inputs and outputs, with recourse to complaints handling mechanisms as part of the larger CDD project design.

The largest funder of CDD programs internationally, the World Bank, argues that the relevance of CDD is that: *“experience has shown that given clear rules of the game, access to information and appropriate capacity and financial support, poor men and women can effectively organize to identify community priorities and address local problems by working in partnership with local governments and other supportive institutions”*<sup>30</sup>.

CDD programs fill critical gaps in service delivery, particularly in contexts of low governance capacity, instability and insecurity, where local institutions (governments or markets) have had a poor track record of service delivery.

**PNDS will operate under the guidelines of the PDID.** The PDID was first proposed much earlier than PNDS; but the development of the PNDS model has moved very quickly. When the PDID decree law was approved, PNDS existed only as a concept in the government resolution to develop an accelerated

<sup>30</sup> Wong, S., & Guggenheim, S. (2005). Community-Driven Development: Decentralization’s Accountability Challenge. *East Asia Decentralizes: Making Local Government*

community development program described in Section 1.2. The PDID framework therefore created a “space” for a future community contracting program; but the speed of the PNDS model means the two programs are now being designed at the same time, both programs spelling out their concepts and frameworks with subsidiary resolutions and more detailed guidelines. It is envisioned that PDID will oversee planning of district-level development initiatives including those funded through PNDS. The PDID process also includes the identification and prioritisation of suku infrastructure proposals suitable for community contracting, which can then be addressed through PNDS.

**Australia has provided international and national personnel and logistical support** to assist with the preparation of the policies and laws covering PNDS, the development of a Program Operations Manual, training of program personnel, development of M&E systems and the implementation of a field test of the program in 30 suku. Australia is working closely with GoTL on a bilateral level, providing support through the services of a managing contractor<sup>31</sup> and is also facilitating other development partners’ contributions to PNDS. The total value of Australia’s support during 2012 and 2013 is approximately \$14.5 million (further detail regarding Australia’s support during the PNDS preparation phase can be found at [Annex 2.](#))

**The design of PNDS has been informed by key lessons learned from local development programs in Timor-Leste** described above as well as lessons learned implementing CDD programs internationally. At [Annexes 3 and 4](#) is a summary of how the PNDS design responds to the lessons learned from previous local development programs implemented in Timor-Leste and internationally. In summary PNDS is likely to succeed<sup>32</sup> because it:

- **has strong political support** – PNDS is a central part of the government’s strategy to increase development in rural areas, and will be the major mechanism for community level development. President Taur Matan Ruak and Prime Minister Gusmão launched the program as an election promise in November 2012. It has also been included in legislated government structures and funded in the 2013 State Budget;
- **will provide a more adequate level of funding than earlier programs** (\$300 million over eight years);
- **has had strong inter-ministerial cooperation in its design and preparation** – previous local development programs have suffered from poor inter-ministerial coordination or a lack of inter-ministerial support. MoF has been closely involved in establishing PNDS within the Treasury system and substantial effort is being made to establish the human resource and other corporate resources needed to run PNDS;
- **has benefitted from a high level of consultation** - consultations have been held with development partners and local civil society organisations in Dili and in all of Timor-Leste’s 13 districts. International NGOs were invited to attend these meetings. The Australian Government also supported The Asia Foundation to work with the Government of Timor-Leste to consult in more detail at the village level regarding PNDS program processes. These consultations informed the Government of Timor-Leste’s design of PNDS and the Australia’s Support Program;
- **includes simple, standardised infrastructure designs;**

<sup>31</sup> Services are being provided by Cardno Emerging Markets, under the Interim Governance for Development contract.

<sup>32</sup> Risks to PNDS implementation are described in Part C – significant Issues and Risks.

- **emphasises the importance of trained and certified facilitators** with technical and social facilitation skills to enable full community participation;
- **bases key technical facilitation roles in rural areas** to provide communities with access to support and capacity building in relation to community mobilisation, construction and financial management; and
- **establishes clear channels for conveying information to communities and a community feedback mechanism.**

In 2013, a field test of the program is being conducted in 30 sukus in five districts - Dili, Aileu, Manatutu, Ermera and Liquisa. These regions have been chosen as they cover rural areas but are close enough to Dili to be supported by the national PNDS team while sub-national resourcing was still being developed. In 2013, MAE, MoF and the Civil Service Commission have been putting in place the necessary human resource, finance and logistics systems required to manage the program. Nationally, the program will be rolled out in stages, with all sukus beginning PNDS planning in the twelve months from October 2013, but in three separate phases starting in October 2013, March 2014, and September 2014.

## 2. Why should Australia continue to support PNDS?

We have assessed that, with support from partners, GoTL is establishing a program that has strong potential to increase social and economic benefits for the rural poor. We believe there is a compelling rationale for Australia to support PNDS over the next eight years because: 1) as a CDD approach, PNDS is relevant to the needs of communities in Timor-Leste and has the potential to improve development outcomes; 2) Australia can support GoTL deliver their development goals more effectively through PNDS; and 3) support to PNDS aligns with Australia's strategic priorities in Timor-Leste.

### 2.1 PNDS responds to important development needs and CDD is an appropriate way to address these needs.

As discussed in Section 1.1, poverty in Timor-Leste is deep and widespread, with multiple, reinforcing challenges to improving development outcomes. **Australia shares GoTL's sense of urgency to improve basic services throughout Timor-Leste.** Through its Governance for Development and sector programs, Australia is working closely with GoTL to help improve public sector management with a view to enabling growth and improving the delivery of services. However, improving Timor-Leste's public administration system will take time. It is unlikely that spending through government sectoral programs will provide benefits quickly enough to meet public expectations, prevent incomes declining and meet urgent development needs. **Poor development outcomes and current bottlenecks to service delivery in rural areas warrant interim complimentary strategy to support development needs at the suku level.**

**A CDD approach has relevance as a complementary development effort that can make a difference to community living standards in a relatively short time.** CDD programs have proven to deliver results where governments and donors have had few tools to reach poor people directly. As discussed in detail *Annex 4 (Effectiveness of CDD – International Evidence)*, there is strong evidence that, when

implemented well, CDD programs increase household living standards and welfare<sup>33</sup> and can create jobs and distribute wealth beyond urban centres<sup>34</sup>. In addition, CDD programs have been shown to be a good value-for-money approach to building and maintaining infrastructure, costing 13 to 40 per cent less than similar small-scale projects delivered by government<sup>35</sup>. The National Program for Community Empowerment (PNPM) in Indonesia has achieved noteworthy results, with 94 per cent of PNPM infrastructure projects fully functional after four years. Since 2008, over 81,000 km of rural roads, 7,000 bridges and 19,127 irrigation systems have been built. Annually, around 34 million people benefit from village level infrastructure supported by PNPM, with benefits heavily skewed toward the poor.

**PNDS has the potential to reach all villages in Timor-Leste on an annual basis and link government spending directly to community needs.** It can also create a stronger base of small-scale infrastructure which, over time, can be used by communities and government to improve access to health, education, agricultural and economic services in rural areas.

## 2.2 Australia can support GoTL to deliver PNDS more effectively

GoTL has, on a number of occasions, quickly introduced new programs that have experienced challenges in design and implementation, and have not achieved their stated objectives. Australia's annual refinements and innovations to the PDD program demonstrate the Government's desire to improve the delivery of sub national infrastructure programs. But such reforms have been constrained by a lack of information and capacity. PNDS has quickly gained momentum in Timor-Leste, with political leaders pledging their support for a rapid national rollout. Australia's support can help PNDS to rise above previous local development efforts as a successful initiative that positively impacts poor people.

**As Timor-Leste's major development partner, we have strong relationships at the highest levels of Government, within key Ministries and with other development partners.** Australia is well placed to draw on these relationships, contextual knowledge and an understanding of the political interests at play to help increase the quality of PNDS.

**With a large, multi-sectoral portfolio in Timor-Leste, Australia can draw on its programming experience in Timor-Leste to influence PNDS operations.** Our influence on the quality of PNDS will derive, in part, from our ability to gather and communicate evidence about what works. For example, through the bilateral water and sanitation program, *Bee Saneamentu no Ijene iha Komunitade* (BESIK), we have, in partnership with GoTL, established functioning rural water systems that rely on community engagement in planning, construction, operations and maintenance for the quality and sustainability of service delivery. Similarly, through Australia's Governance for Development Program, we have experience working with GoTL to develop more efficient and effective financial management, human resource management and government administration systems. Not only can we inject such

<sup>33</sup> Wong (2012) What Have Been the Impacts of World Bank Community-Driven Development Programs? World Bank, p v-vi

<sup>34</sup> In Afghanistan, for example, the National Solidarity Project has reached 70 per cent of Afghanistan's villages, improving small scale infrastructure such as water systems and roads.

<sup>35</sup> Wong (2012) What Have Been the Impacts of World Bank Community-Driven Development Programs? World Bank, 40

experience into PNDS, we can work to support GoTL's and Australia's investments to establish better sectoral service delivery systems that benefit from the roll out of PNDS.

**Australia is also well placed to draw from experience implementing community driven development programs internationally.** Australia provides assistance to the Indonesian Government's PNPM program, which is recognised as one of the most successful community driven development projects in the world. Study tours to Indonesia, facilitated by GoA, have already proved to be valuable in sharing the lessons and experience of CDD for Timor-Leste.

## 2.3 Support is aligned with Australia's strategic priorities in Timor-Leste

**Supporting PNDS fits both the purpose of Australia's program (poverty reduction) and our approach to delivering development assistance in Timor-Leste.** In line with New Deal principles<sup>36</sup>, in November 2011, the Governments of Australia and Timor-Leste committed to working together under the Strategic Planning Agreement for Development (SPAD) to improve the lives of all citizens of Timor-Leste. The SPAD states that the partnership is founded on mutual respect, friendship and shared responsibility for improved development outcomes. Australia is significantly reshaping its program to meet these commitments. Its priority investment areas will include:

- promoting sustainable economic growth by improving food security and agricultural productivity, and developing infrastructure, particularly rural roads and water and sanitation systems;
- promoting opportunities for all by increasing access to quality education;
- saving lives by increasing access to quality health services, increasing access to safe water and sanitation and ending violence against women and girls; and
- promoting effective governance by strengthening public sector administration and governance so that the public sector has the capability to provide quality services to the Timorese people and implement the SDP in an effective and accountable way.

Australia's support to PNDS is a practical example of our commitment to align our support with Timorese priorities and share responsibility for improving development outcomes. It is also a response to improving the quality of life of the marginalised rural poor, by providing an opportunity for communities to improve their access to essential services and infrastructure through a mechanism focused on quality, effectiveness and accountability.

**Supporting PNDS positions Australia as a trusted and effective development partner.** Australia has been a development partner in Timor-Leste since 2000 and we understand that in order to be an effective partner, we must prioritise building strong relationships with Timorese stakeholders, supporting GoTL priorities, maintaining an ongoing strategic understanding of policy development in the Timor-Leste context, and ensuring that Australian Aid programs work together in consistent and coherent ways. Support for PNDS will be the first time Australia has substantially supported a

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<sup>36</sup> In 2011 the G7+ Group of Fragile States and their development partners agreed the New Deal for Engagement in Fragile States. Australia New Deal sets out five Peacebuilding and Statebuilding Goals as the foundation for accelerated progress towards the MDGs in fragile and conflict-affected states. Australia key elements of the New Deal are 1) a focus on the Peacebuilding and Statebuilding Goals (PSGs): legitimate politics, security, justice, economic foundations and revenues and services; 2) support to country leadership and ownership (FOCUS elements); and 3) a push for international and domestic resources to be better utilised (TRUST elements). Australia endorsed the new deal and is the lead donor for its piloting in Timor-Leste.

Government-initiated program in Timor-Leste<sup>37</sup>. This engagement positions Australia as a trusted and influential development partner for GoTL – and with credibility comes more opportunity to assist GoTL to deliver quality outcomes.

**PNDS may also help other Australian sector programs in Timor-Leste.** PNDS could help sectoral programs by developing and demonstrating more effective ways to deliver funds in rural areas. Training and technical facilitators who are to be located in rural areas will help target key capacity constraints of broad relevance, such as financial literacy, and is a considerable investment in the human resource capabilities of the nation. Data captured by the PNDS M&E system will have relevance to rural development issues more broadly, and the PNDS community feedback system will create a structure to increase communities' participation in oversight of implementation. PNDS is also likely to provide increased opportunities for consultation, coordination and engagement - providing an entry point into all villages across the country, many of which the Australian Government has had limited or no direct contact with until now. It has the potential to improve linkages in district level coordination with line ministries and provides villages block grants to fulfil sectoral needs (ie improving basic infrastructure that impedes service delivery in health or education).

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<sup>37</sup> Although our water and roads programs work within GoTL's policy priorities and work closely with government counterparts

## Part B: Program Outline

**PNDS is owned, managed, delivered and largely funded by the Government of Timor-Leste.** GoTL will fund the costs of all community grants on an annual basis. It will also fund most salary and operational costs of PNDS.

**The Government of Timor-Leste's Program Operations Manual<sup>38</sup> is the key document governing the design and implementation of PNDS.** All detail regarding design and implementation of PNDS should be sought, first and foremost from the Program Operations Manual. This is a comprehensive document covering a full range of issues including:

- 1) **Background:** regulatory framework; PNDS objectives and key performance indicators; gender and social inclusions; guiding principles; code of conduct.
- 2) **Community Grants Funding and Management:** national budget allocations; menu of allowable and non-allowable activity types; disbursement triggers for suku grants; management of suku bank accounts; procurement policy and processes; cash management procedures; reporting requirements; monitoring and audit activities
- 3) **Program Management Structure and Actors:** program management structure and roles and responsibilities of national, district, sub-district, suku actors.
- 4) **Program Cycle:** capacity building; program cycle steps; construction and technical issues.
- 5) **Monitoring and Evaluation Framework:** community monitoring and accountability; Government monitoring and oversight; reporting and management information system; evaluation framework; community feedback system.

**In the current version of the Program Operations Manual, the goal of the PNDS is:**

*improved socio-economic conditions and local governance for village men and women in Timor-Leste through community managed infrastructure.*

**In the current version of the Program Operations Manual, the expected outcomes of PNDS are:**

1. strengthened GoTL systems to accelerate direct delivery of PNDS to communities
2. increased community participation and capacity for planning and managing local infrastructure
3. quality infrastructure built and maintained by communities.

### 3. What does Australia hope to achieve?

As a partner supporting a GoTL-led program, Australia will support GoTL's goal of *improved socio-economic conditions and local governance for village men and women in Timor-Leste through community managed infrastructure*<sup>39</sup>.

<sup>38</sup> Australia Program Operations Manual is currently being field-tested in 30 Sukus and is expected to be updated prior to the national roll-out following lessons learned during the field test.

<sup>39</sup> During the preparation stage for PNDS, Australia assisted whole-of-Timorese government coordination and the development of the Program Operations Manual, including development of the goal, outcomes and program logic for the program. This is the subject of ongoing discussion. We have developed this program logic to enable Australia to determine where and how we are best placed to provide support. Following the field test, GoTL, with support of its partners will review



In supporting this goal, we have developed a program logic to determine where and how we are best placed to provide support. The goal contained in this program logic, that *community members attain increased social and economic benefits* differs from GoTL's current goal statement because *local governance capacity* has been contained in our description of *social benefits*. PNDS, with its strong focus on building community decision making systems, providing an opportunity for community members to articulate their opinions, concerns and complaints, and its emphasis on the transparent use of resource is well placed to improve local governance capacity in communities. Long-term M&E will track whether these changes are occurring (or whether they are measurable and attributable to PNDS) and help the program adapt over time to lessons learned.

### Box 3: A hierarchy of objectives for PNDS

Both GoTL and GoA have a range of reasons for supporting PNDS and these have informed the program's development. These objectives include empowering communities by giving them control of their projects, improving inclusiveness and participation in community decision-making and improving gender equality, providing training and jobs. In addition, by empowering citizens and establishing an effective mechanism for disbursing funding to implement communities' own development plans, PNDS is intended to help build social capital and strengthen the link between Government and citizens and build a demand for better governance within communities. The program is also intended to help improve GoTL policy development, program implementation and coordination, by putting in place effective corporate systems for PNDS that can be taken up more widely within Government.

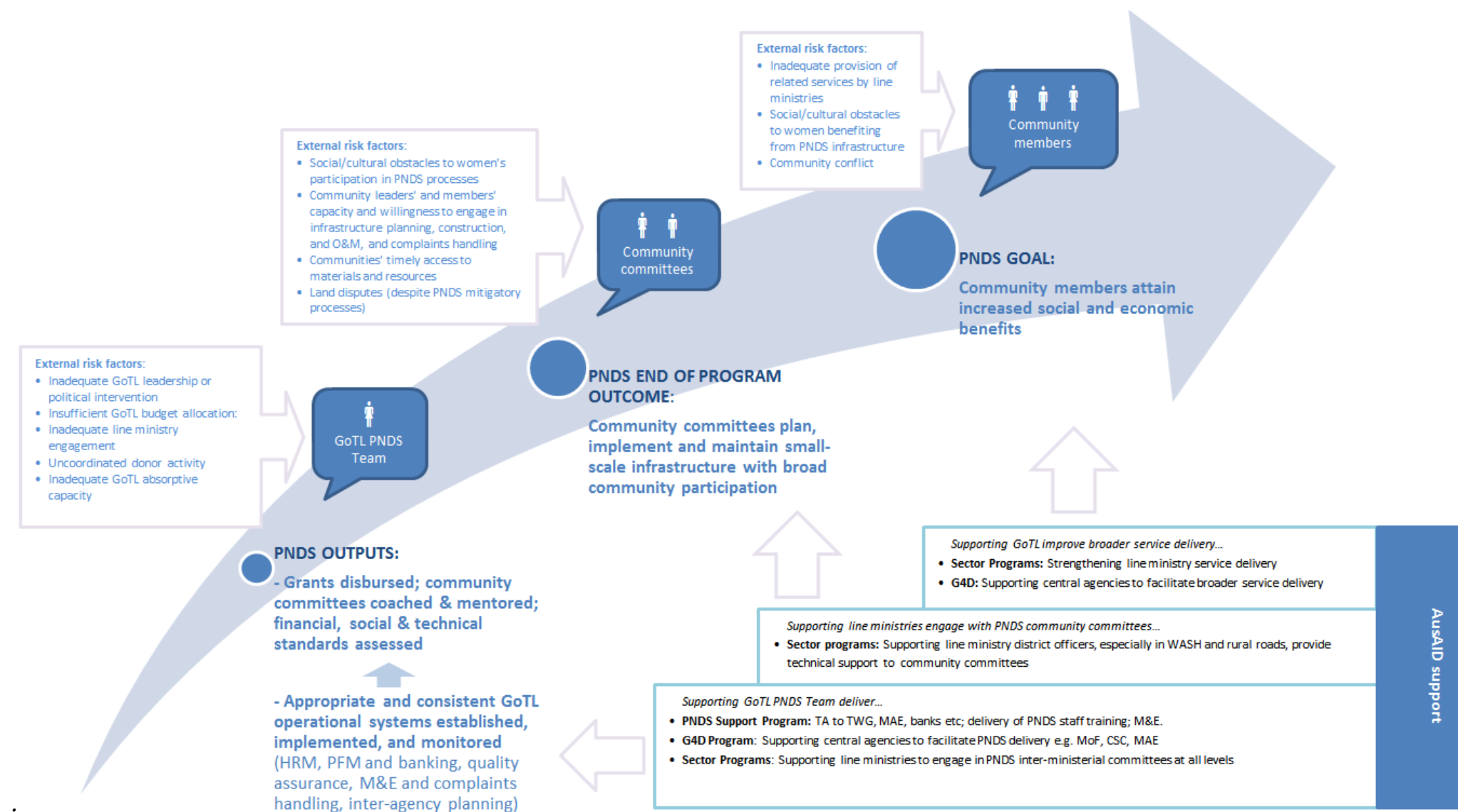
As discussed in *Annex 3 (Effectiveness of CDD – International Evidence)*, experience shows it is difficult to definitively measure or attribute social benefits to CDD, while evidence around the economic benefits of CDD-implemented infrastructure is generally good. It will be important to have realistic expectations of PNDS' ability to achieve or contribute to broader development objectives. The design of PNDS incorporates resources and mechanisms to effect change in relation to the broader objectives of PNDS. Long-term M&E will track whether these changes are occurring (or whether they are measurable and attributable to PNDS) and help the program adapt over time to lessons learned. As a flexible mechanism, objectives can evolve over time and so there is scope for the program to evolve, for example, to go beyond infrastructure in future years.

The program logic at Figure 1 below frames the establishment, implementation and monitoring of appropriate GoTL operational systems, as well as the disbursement of grants and facilitator mentoring as outputs of a "PNDS team" (including both GoA-funded and GoTL-funded personnel). Over time, as PNDS' systems are clearly defined and operationalised, it should be increasingly possible to draw a line between the functions of GoA-funded personnel (i.e. outputs of GoA-funded support) and the functions that GoTL public servants or contractors are expected to be carrying out independently by the end of the program (i.e. outcomes of GoA-funded support). This will enable the gradual articulation of a program logic for the PNDS Support Program, distinct from PNDS itself.

To support this transition, lead TA personnel for each PNDS system (once it is sufficiently defined and settled) will need to work with their GoTL counterparts to agree on capacity development strategies. They will need to regularly review the agreed expected outcomes (defined in terms of expected expansion in counterpart performance) in order to assess adequacy of progress of capacity development.

the POM and may adjust its goal and program logic. We do not expect the model to change substantially, but if there were changes that might affect the logic or basis of Australia's support, Australia will have the logic reappraised.

Figure 1: PNDS Program Logic:



### 3.1 Goal of the PNDS Support Program

The goal of the PNDS Support Program is that **community members attain increased social and economic benefits**. This captures the benefits expected to be accrued by members of communities which receive PNDS funding. It is necessarily broad because of the range of infrastructure likely to be supported by the program.

**Community members** refers to all women, men, girls and boys in the sukus receiving funding from PNDS, intended to be all sukus in Timor-Leste on an annual basis. This is consistent with the GoTL's vision for resourcing projects that generate real benefits for all people at the community level<sup>40</sup>.

**Social benefits** are defined as the opportunities and/or material gains that result from the process by which PNDS is implemented and by the investment made in the community's infrastructure. They include: improved access to social services (e.g. schools, health facilities, community facilities, water supplies); improved local governance capacity; improved security (e.g. walkways, lighting); and improved social capital (e.g. an increase in the influence of women in community decision making, community members having increased financial and technical skills, and stronger links between sukus and sub-district and district administrations).

**Economic benefits** may include direct employment on PNDS projects, or improved income generation and employment opportunities that arise from completed projects (e.g. improved access to markets, better irrigated crops, easier access for public transport). The injection of PNDS funds into every suku is also expected to provide a small stimulus to the rural economy.

**The PNDS Support Program will help GoTL influence this goal by assisting it to deliver the outputs and achieve the end of program outcome** (see Section 3.2). Some of this support will be delivered through PNDS-specific efforts. We will also contribute to this goal through the efforts of its broader country program. GoA is working through its **sector programs** in Timor-Leste to improve education, health, rural roads and WASH service delivery. Australia's **Governance for Development Program** will be working with central agencies on sub-systems that enable or block the delivery of services, planning, management, financial services and corporate systems to reduce poverty. Good cooperation between the PNDS Support Program and other Australian Aid programs and support for greater cross-sectoral cooperation by GoTL will deliver greater benefits to community members.

### 3.2 End of Program Outcome for the PNDS Support Program

The outcome expected by the end of PNDS' first eight years is that **community committees plan, implement and maintain small-scale infrastructure with broad community participation**.

This is the change in behaviour expected on the last day of the program. PNDS' effectiveness from year to year should be judged by the adequacy of its progress toward this outcome. Australia's Support Program will initially run for four years, with a mid term review to determine whether an option for an additional four years is considered.

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<sup>40</sup> Australia recognises that it is generally less likely that the more vulnerable in a community will benefit. e.g. a disabled person is less likely to be able to earn wages building a road and a landless labourer is less likely to have and surplus production to be taken to market on a new road. In the early years of implementation PNDS is expected to provide general benefit to poor villages. Strengthening PNDS to reach the most marginalised in communities is likely to be a stronger focus for the program once systems and processes have been bedded down, as discussed in Part C Significant Issues and Risk.

**Community committees** refers to three representative structures that will be established in each village (suku). These committees will lead the planning, implementation and maintenance of small-scale infrastructure projects funded by PNDS. The effectiveness of these committees will be contingent on the extent to which they are genuinely representative of, and accountable to, their constituents.

**Small-scale infrastructure** is defined in the ‘menu’ of projects that can be approved and supported by PNDS<sup>41</sup>. The success of PNDS projects will be contingent in part on communities having the requisite skills and capacity to both implement the projects, and commit to ongoing operations and maintenance of the infrastructure.

**Broad community participation** highlights the principles of inclusion and participation. Community engagement processes will proactively seek the involvement of women and marginalised people, ensuring a breadth of perspectives in the articulation of village development priorities. The establishment of a clear and accessible community feedback system will be critical to enable adequate participation by all people.

## 4. What will Australia Support?

**Australia’s support will focus on developing and strengthening the GoTL systems and capabilities required for PNDS to work.** We have chosen to focus on these elements based on specific requests by GoTL, Australia’s experience implementing CDD programs (as described above in Lessons Learned – Part A, 1.2.1 and Annex 3) and Australia’s knowledge of public sector capacity in Timor-Leste (as summarised in Part A, 1.1). The risk management strategy for PNDS has also identified key areas that require support from Australia (see Part C; and Annex 10 – Risk Matrix for more detail).

The scale, complexity and speed of the national program’s rollout will challenge GoTL’s management capacity and will require sustained support from Australia. GoTL’s plans and management for PNDS will continue to emerge during 2013 and 2014, particularly following the PNDS field test. **Australia will require flexibility to respond and adapt its support.** GoA, GoTL and the managing contractor will develop joint six-monthly work plans around each of the six systems identified for Australian support.

### 4.1 Financial management

Effective and transparent systems for disbursing and managing PNDS funds will be vital to the success of PNDS. As discussed in the analysis of Context (Section A; 1.1 and in Part C Significant Issues and Risk), Timor-Leste’s PFM systems and financial sector are still emerging. Timor-Leste’s banking system is underdeveloped and there are significant institutional constraints to expanding it.

Australia’s support for financial management systems in the PNDS program will focus on **establishing financial systems which are able to support ethical, timely and consistent cash disbursements of PNDS grants in accordance with the Program Operations Manual.** This will include:

- developing a system for disbursing PNDS funds from MOF and MAE to communities, with adequate controls around transparent and ethical handling, use and reporting;

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<sup>41</sup> See the PNDS Program Operations Manual p21.

- support to both MAE and MoF for their roles in developing and managing the annual PNDS budget and implementing the agreed financial management procedures for PNDS;
- developing and delivering high quality training in financial procedures to PNDS sub district and district facilitators, including a train-the-trainer program to support facilitators in their community capacity development role;
- supporting MAE to partner effectively with BNCTL to establish PNDS banking operations and enable timely disbursements in accordance with POM requirements;
- supporting MAE and MoF to monitor financial disbursements through program auditing processes – both internal and independent; field monitoring; and community feedback mechanisms;

**As PFM is a core issue for GoTL with broad implications, Australia will support broader PFM system reforms across GoTL through its GfD initiative rather than through our support to PNDS.** The PNDS Support Program will focus on establishing and improving financial systems directly related to the delivery of PNDS, in line with existing central financial management systems. Overarching support to GoTL's key public financial management reforms provided through the GfD initiative will aim to target bottlenecks which delay financial payments and service delivery across all sectors. The PNDS Support Program and GfD will coordinate closely on areas of synergy such as:

- initiatives to strengthen the Treasury to improve the efficiency of payment approvals, as well as the planned expansion of District Treasury to enable Government payments to be made in Districts rather than only the capital city;
- ongoing enhancement of Financial Management Information Systems to better plan and monitor district level financial processes;
- assisting MoF in the design and delivery of training and guidelines, to enable the delegation and deconcentration of financial processes for budget execution to Line Ministries;
- initiatives to strengthen audit functions and audit capacity of MAE.

## 4.2 Human resource management

**Human resource management (HRM) is a major challenge in Timor-Leste.** In particular, the government has a poor record of performance management of civil servants; particularly those in district based roles. This includes ensuring basic attendance and managing the logistical arrangements to enable civil servants to perform their roles. Management of non-performing civil servants, including those involved in cases of alleged fraud, is particularly poor.

**A key consideration for PNDS is the fact that PNDS facilitators will be engaged as public servants.** This changes the incentive structures of the program at a fundamental level. MAE will need considerable assistance to manage and support the large increase in staff, in particular in assuring appropriate merit based selection and performance management, particularly in rural areas where it is harder to monitor and support staff.

**Australia's support for HRM will encourage merit-based selection for PNDS facilitators who are sufficiently trained and motivated.** Australia will place one international adviser in MAE to help it and the Civil Service Commission to support general Human Resource Management, including in selection,

recruitment, deployment, training and performance management of PNDS personnel, as well as longer term workforce planning.

As HRM is a core issue for the GoTL with broad implications, **Australia will support broader HRM system reforms across GoTL through its GfD initiative rather than through our support to PNDS.** The PNDS and GfD programs will coordinate closely in the delivery of HRM support in MAE in particular so that PNDS systems align with broader GoTL policy and institutional structures.

### 4.3 Planning, Coordination and Communication

According to Australia's *East Timor Public Sector Capacity Development Program (PSCDP) Review*, capacity to operationalise policy is a major weakness across GoTL, with generally weak operational planning, weak business systems and communications, weak intra- and inter-agency coordination and generally very weak links to the districts.<sup>42</sup> PNDS has benefited from strong inter-ministerial cooperation in its design and preparation but effective program implementation including planning, budgeting and communication will remain a key challenge for GoTL.

GoTL requires support to coordinating effectively with line ministries to ensure PNDS compliments broader GoTL service delivery efforts. Strong links with line ministries will be essential to ensure that projects implemented through PNDS support and are supported by broader sector investment priorities. For example, infrastructure build through PNDS will only be useful to the extent that ministries provide related services, such as qualified staff, adequate equipment, clear regulations etc. In addition, GoTL will require accurate information about the types of infrastructure being built through PNDS to prevent duplication and overlap.

**Australia will help GoTL ensure that PNDS is effective, remains integrated with wider GoTL priorities and maintains high-level political support by:**

- **Supporting coordination and communication at national and sub-national levels**, including:
  - supporting inter-Ministerial coordination at the national level;
  - Supporting line Ministries to help their national and sub-national staff and stakeholders work effectively with PNDS.
- **Supporting the PNDS Secretariat to plan, budget and report** including:
  - developing work plans for PNDS;
  - developing and maintaining accurate budget plans for PNDS and provide timely and accurate financial reports to MoF;
  - providing accurate and relevant reporting to other ministries as required.
- **Supporting the PNDS Secretariat to communicate and advocate for the program** including:
  - working proactively with key stakeholders (within Government and non-government actors) to ensure they understand the program. Provide avenues for their input to improve the program.
  - providing translation services as needed (for communities and partners);
  - assisting PNDS communication activities, including developing communication strategies and materials.

<sup>42</sup> East Timor Public Sector Capacity Development Program (PSCDP) Review

In addition, through bilateral engagement and our sector programs in WASH, health, education and rural roads, Australia will build awareness within line ministries of priority PNDS coordination issues, to allow them to more effectively participate in the Technical Working Group and Inter-Ministerial Committee<sup>43</sup>. We will also help MAE and other ministries link technical requirements and coordinate implementation at the community and district levels.

#### 4.4 Information management and monitoring and evaluation

Data collection, reporting and monitoring and evaluation (M&E) are weak in many government programs, particularly those implemented in rural areas. Given the complex and fluid nature of the operating environment in Timor-Leste, information management and M&E will be a key feature of PNDS. A high quality M&E system can play an essential role in tracking performance, enabling the program to adapt to lessons learned, and as a source of timely and relevant data on remote and rural areas that require additional support. Strong M&E systems are critical in allowing CDD programs to learn, adapt to the local context, evolve with Government policy, provide accountability and be modified over time.

##### **Australia will:**

- **Support the implementation of the PNDS Management Information System (MIS)** through the PNDS Managing Contractor and through bilateral engagement. This will include assisting MAE to capture, analyse, disseminate and use information to make management and policy decisions. Data collection needs to be pitched at a level appropriate for a village's capacity to collect it and the government's ability to use and analyse it.
- **Fund specific M&E activities through multilateral and local development partners**, including the World Bank and The Asia Foundation. These activities will include:
  - qualitative and quantitative Baseline and Follow-Up Surveys – to gather data on income, consumption, asset ownership, literacy and educational attainment, social activity, social networks and social capital, and perceptions of local and central government and other institutions.
  - qualitative process monitoring - to identify specific aspects of PNDS which constrain impact or skew impact within or between villages. Process monitoring is likely to be implemented by a local or international research partner.
  - evaluation of design variations - seeking to improve development effectiveness by comparing the impact of variations in program design and identifying the most effective modalities (such as different methods of project selection, monitoring).
- **Work with GoTL to establish field monitoring capabilities** (through a Field Support Team – described below).

#### 4.5 PNDS Training Program

The work of trained, motivated facilitators will be essential for the success of PNDS. Strong facilitators – with appropriate technical (social facilitation, financial management and technical design) and interpersonal skills (strong communication, relationship and consensus building and dispute resolution

<sup>43</sup> Australia TWG and IMC are described in section 6 – Delivery Methods and Governance Arrangements.



skills) are a key component of Australia's risk management strategy for PNDS (see Part C; and Annex 10 – Risk Matrix).

**Australia will deliver intensive, competency-based training to enable sub-district and district based PNDS staff to perform their roles effectively.** Support will include:

- periodically revising PNDS facilitator training materials and methods<sup>44</sup> to incorporate experience from implementation and updated line ministry technical requirements. All methods should be practical and competency based;
- in collaboration with local training providers, provide national and/or district-based refresher training to all sub-district and district facilitators on a twice-yearly basis. Refresher training will be targeted at identified needs and new skills;
- providing pre-service training to up to 90 new recruits each year to fill expected vacancies. Training delivery will be tailored to the three facilitation groups (technical, financial and social) as well as integrate common learning opportunities between the groups;
- delivering monthly or bi-monthly, district-based coordination meetings for sub-district and district staff, aimed at maintaining a support network for remotely-based staff, checking program implementation progress and sharing information;
- providing on-the-job, face-to-face individual mentoring to sub-district and district facilitators at least twice a year and explore creative opportunities for ongoing support such as phone support. Mentoring is aimed to assist facilitators to implement their duties to a high quality and to overcome challenges encountered; and
- designing training materials and methods for staff managing the PNDS Management Information System (MIS). We will fund one international MIS Adviser position and up to two national MIS support officers. We will provide initial orientation training MIS staff (GoTL and GoA-funded), refresher training and pre-service training for new MIS recruits to fill expected vacancies.

#### 4.6 The PNDS Field Support Team

Based on lessons learned implementing CDD in other countries, it is clear that a program management unit like the PNDS Secretariat can very quickly become overloaded with administration and day-to-day management, and can lose sight of villagers, their struggles and successes.

**Australia will help establish a PNDS Field Support Team (FST) to provide the program Secretariat with a mechanism to understand what is going on in the field, document successes, identify major problems, and channel local voices.** The FST, comprising finance and social development experts will undertake extensive and ongoing field visits to monitor progress and mentor District level PNDS staff to help them perform their roles effectively. The FST will report back to management on key findings – positive and negative – in order to allow management to make decisions and respond to issues as they emerge, and to be able to utilise positive stories to garner further support for the program. The FST will also feed into training needs assessment, and raise issues of performance management.

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<sup>44</sup> A complete set of training materials has been developed in 2012 and 2013 for the initial phase of training facilitators. These will need to be assessed and revised based on experience in the 2013 Field Test.



## 4.7 Feedback Management System

PNDS is a nation-wide program that will disburse large amounts of cash and work with a large number of stakeholders at national, district, sub-district and community levels. There is an inherent potential for stakeholders to experience gains or losses, whether of financial nature, trust, safety or opportunity. It will take a number of years to get the core PNDS processes working well, due to the scale of the roll-out, stakeholders' varying levels of capacity and the need for stakeholders to learn the rules through repeated program cycles. In addition, PNDS is being implemented in a post-conflict country in which communities and government do not always have the tools to prevent or respond effectively to program problems.

**Australia will support the establishment of a Feedback Management System (FMS)** to increase governance and provide a channel for community feedback to be heard and responded to. This will comprise a **Community Feedback System (CFS)** to address problems that arise at all levels of the program will help ensure that community members' experiences and needs are acknowledged and that they are addressed; and a **Fraud Management System (FMS)** to cover intentional or deliberate dishonest act to deprive PNDS of resources or property or money by guile, deception, or other unfair means. The FMS will in some cases be implemented through the CFS and district/national feedback systems, but it may also have separate processes for large fraud issues.

### **Australia will:**

- help MAE to develop and manage the PNDS Feedback Management System at national and district/sub-district levels;
- support socialization of the feedback management system and training on roles and responsibilities for all key actors; and
- draw on the services of other development partners (such as local NGOs) to assist with implementing and monitoring of the community feedback system.

The CFS, in combination with the Management Information System (MIS), will also generate information that will be useful to the Minister of State Administration and the Minister of Finance. It will help them understand the performance of PNDS and build their confidence that problems are resolved appropriately. This is critical for maintaining long-term political support.

## 5. How will we work? Principles for Implementation

**Australia has learned much from its past experience implementing programs in Timor-Leste.** There have been several evaluations and reviews of previous support that have captured these lessons, the central finding of which is to understand how change happens and how donors can most effectively engage within that process. These evaluations and studies point to the following four key lessons which have been translated into principles for PNDS implementation.

## 5.1 Provide technical assistance in a way that builds capacity

Numerous evaluations<sup>45</sup> have shown that development partners in Timor-Leste have tended to rely on traditional, adviser-heavy capacity development approaches. The Timor-Leste country report for the Joint Review of the Use of Advisers in the Aid Program<sup>46</sup> found that:

- Australia and GoTL need to more clearly define and agree the purpose of adviser positions;
- expected results were often poorly defined and the assumptions about how change was expected to occur were flawed;
- partner country ownership of adviser management processes is crucial to inculcating strong ownership and effectiveness of adviser inputs; and
- alternatives to adviser positions should be more meaningfully explored.

**Australia will provide technical assistance to GoTL in a way that builds capacity, with the intention over time for GoTL to take on more responsibility**, require less support, and where appropriate contract its own external support instead of Australia. For example, technical assistance in the areas of finance and HRM are intended to help build the respective systems to assist with these high risk / core delivery areas, but can be phased out once systems are in place and understood. Support will be guided by the pilot version of Australian Aid's Organisational Capacity Building framework 2012<sup>47</sup> – which recommends a staged approach to assessing, planning and monitoring the capacity building of organisations.

**Australia will engage a capacity building expert in the early stages of implementation** to assess the level of capacity building required in various MAE functions for PNDS to operate effectively. GoTL capacity development and ongoing needs will be reviewed every six months as part of the PNDS six-month implementation planning process. Responsibility for these decisions will ultimately rest with the PNDS Support Program Director.

## 5.2 Build strong relationships and maintain high-level support

The PNDS Support Program will need strong and effective relationships with key program partners to succeed. Influence, legitimacy and information all flow from relationships of trust. A report on the culture of the civil service noted that partners with a trusting relationship are afforded respect, loyalty and access to information<sup>48</sup>. The Independent Completion Report for the Public Sector Capacity Development Program (PSCDP) made several observations about the importance of taking time (often quite substantial periods) to develop relationships of trust and notes that trust can lead to government being willing to share sensitive information.<sup>49</sup>

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<sup>45</sup> For example, Independent Completion Reports of Public Sector Capacity Development Program and Infrastructure Technical Assistance, 2012.

<sup>46</sup> Australia, 2010.

<sup>47</sup> Available on request.

<sup>48</sup> Butterworth, D, and Dale, P. (2011). Local Governance and Community Development Initiatives: Contributions for Community Development Programs in Timor-Leste, , p15

<sup>49</sup> Independent Completion Reports of Public Sector Capacity Development Program and Infrastructure Technical Assistance, 2012 p34.

**The PNDS Support Program will prioritise understanding key stakeholders to engage with them effectively.** The PNDS Support program will draw upon the relationships and understanding of the broader Australian Aid program to understand the placement of PNDS within the national context. Australia will develop a Stakeholder Engagement Strategy outlining how Australia will interact with key PNDS stakeholders including GoTL, non-government organisations, communities and other donors. We will deliver targeted information on PNDS to key stakeholders regularly and work to understand emerging issues and initiatives in other Government agencies and review or adapt PNDS accordingly.

**The PNDS Support Program will emphasise the role of Timorese staff in the relationship building effort.** National staff have language skills and a more nuanced understanding of the political and cultural context in which PNDS is operating. They are also better placed to invest in building relationships over the longer term (as Australian-based staff are constrained by the Department's three year posting cycle, whereas Timorese personnel can be engaged to work on the program over much longer periods). With this in mind, much of the responsibility for building effective relationships with Timorese counterparts will rest with PNDS Timorese staff, with adequate support from Australian and international staff.

### 5.3 Adapt to the changing environment

Timor-Leste, like many post-conflict societies, is a dynamic institutional environment. PNDS has been established with substantial initial political support. It is, however, being developed and implemented in a fluid political context. Debate on the allocation of national resources, the effectiveness of government service delivery mechanisms and the allocation of governance responsibilities is strong and will continue to evolve in the years of PNDS' implementation.

**Australia will need to understand and respond to the changing political and policy environment during PNDS implementation.** One of the key drivers of change will be the government's decentralisation or deconcentration agenda. As described below in *Part C – Significant Issues and Risks*, The resolution of these questions will inevitably involve changes to Timor-Leste's current model of governance and service delivery. Australia's Support to PNDS, with its strong focus on building capacity, robust governance systems, emphasis on transparent use of resources, community accountability and coordination for key Line Ministries, is well placed to respond effectively to this process. Australia will monitor developments carefully and work with GoTL counterparts to ensure PNDS continues to support and compliment broader governance and service delivery efforts.

**Australia will maintain strong bilateral leadership on issues of sector coordination to ensure PNDS complements rather than undermines broader GoTL service delivery efforts.** The PNDS Support Program will only be able to respond to the changing operational environment in Timor-Leste if it maintains coordination and consultation across the full range of government services. Australia will support nascent GoTL coordination mechanisms and facilitate the participation of GoTL line ministries in the implementation of PNDS through the technical working group. We will encourage further participation of line ministry staff in district and sub-district coordination so that PNDS infrastructure is integrated in their plans for ongoing service delivery and there is no duplication of effort.

**The PNDS Support Program will also focus on maintaining strong relationships with the Australia's sectoral programs** in health, education, water and sanitation, roads, agriculture, rural development and eliminating violence against women, all of which are in the process of developing close relationships with line ministries. Through the coordination of the GfD program and other sector programs, Australia will work to ensure that its support to develop or adapt the corporate systems needed for PNDS will be consistent with GoTL's broader corporate systems and regulations.

**Australia will make the most of opportunities by remaining flexible and responsive.** Fluid operational environments pose opportunities as well as risks. For example Timor-Leste's public financial management system is no yet fit for purpose (as discussed in the above context analysis and also in Part C Significant Issues and Risks). While this must be carefully managed in order for PNDS to operate effectively, it also provides considerable opportunities for Australia and GoTL. PNDS will be responding directly to known limitations in financial literacy by building a cohort of skilled facilitators who will support and train community members in every suku. In addition, support for audit and monitoring and evaluation will improve accountability and identify needs for further support/training. PNDS will thus support the service delivery network directly and help to demonstrate its effective use to line Ministries.

**Australia needs to provide long-term predictable and consistent technical and financial support,** as outlined in the SPAD. This is critical to building trusting and effective relationships. If it appears that there is not genuine ownership of an organisation or policy, over a period of time, then Australia needs to inform the relevant government stakeholders, and be transparent about its reasons for withdrawing support.

## 5.4 Maintain a focus on communities

Australia's support for PNDS is focused primarily on improving GoTL capacity and systems to deliver an effective program. However, it will be vital that GoTL and Australia keep communities at the centre of planning and decision making. The immediate demands on the PNDS Secretariat to respond to line ministries, MoF and others is likely to reduce their ability to focus on the activities of sub-national PNDS staff, and more importantly, on villagers.

**Australia is committed to supporting communities to understand and carry out PNDS processes.** Getting processes right at the community level will require substantial effort. While donor-led capacity building efforts have supported Timor-Leste's national government considerably since independence, suku have largely been left to their own resources, with administrative capacity of leaders at suku and aldeia levels generally very low. Australia takes seriously the lack of capacity to carry out modern governance and administrative processes at the community level and has designed the PNDS Support Program accordingly, including support for:

- ongoing training and mentoring of quality community facilitators who will provide social, technical and financial support to communities;
- establishing a Field Support Team to identify and document successes, weaknesses, failures, complaints and problems, and in response to these, support and mentor sub-national staff to overcome the issues, and make suggestions to management for design revisions;

- a Community Feedback System to address problems that arise at district and national level will help ensure that community members' experiences and needs are acknowledged and that they are addressed; and
- a strong monitoring and evaluation framework will allow us to examine how PNDS is impacting communities (including issues of social inclusion, conflict and capacity constraints). Using this information we can determine what needs to be modified to reduce negative impacts of PNDS or to make the most of opportunities PNDS presents.

**Australia also acknowledges the potential for community conflict and is working to mitigate this risk.**

Australia has included conflict mitigation and mediation skills in all training for Social Facilitators, and will continue to advance these skills in refresher training over the forward years. Australia will adopt principles of the 'Do No Harm' approach in order to analyse PNDS' impacts on communities and how they may positively or negatively influence forces that either build social capital or potentially create or exacerbate existing tension. Through The Asia Foundation research we have assessed some of the potential drivers of conflict and our assumptions of what these are (see Section 10.1) will be tested and further analysis and learning undertaken as program implementation continues. We acknowledge that flexibility in design may be required at the community level, in both the GoTL program and Australia's support program, given these risks and possibly unexpected consequences of PNDS implementation. More information on Australia's approach to conflict risks can be found in *Section 10 – Significant Issues and Risks*.

## 6. Delivery methods and governance arrangements

**The PNDS Support Program will use a mix of delivery partnerships.** The approach makes the most of Australia's existing mechanisms, while engaging a broad range of development partners to help support GoTL's program. Australia accepts the need for **a degree of flexibility** in choosing the most suitable delivery methods for the PNDS Support Program and will work closely with GoTL on a bilateral basis to assess whether new or amended methods of support are needed over time. The delivery approach for the PNDS Support Program has been discussed and agreed with relevant Ministers and senior government officials, including the PNDS Secretariat and Technical Working Group. *Please see Annex 7: PNDS Governance and Management Structure for a description of roles and responsibilities in PNDS implementation and governance.*

### 6.1 The PNDS Team

The '**PNDS Team**' is a broad coalition of partners that include several GoTL agencies, GoA, contractors, training providers, multilateral partners and civil society organisations. It is envisaged that after eight years each of these actors will be able to carry out their roles in delivering PNDS.

The proposed management and governance arrangements for Australia's support to PNDS will confirm GoTL as the leader in PNDS implementation, with a partnership with Australia to support the quality implementation of the program. This is consistent with the New Deal and the SPAD, as described earlier. The proposed governance structure for the PNDS Support Program involves collaboration at the strategic and operational levels.

## 6.2 Role of Government of Timor-Leste

GoTL is providing the bulk of PNDS funding (community grants, staff salaries and support costs) through the national budget while Australia will fund technical assistance, training, M&E and possibly some discrete operational costs. Contribution from the Timor-Leste national budget for PNDS is costed at \$300 million over eight years for community grants, plus salary and operational costs for civil servants working on the program (including all facilitators).

GoTL has established institutional structures to manage PNDS. The design of the program has been driven by an Inter-Ministerial Committee (IMC) and a Technical Working Group (TWG) whose members are from key ministries with a service delivery or policy interest in sub national infrastructure<sup>50</sup>. Roles during implementation are expected to be as follows:

**Inter-Ministerial Commission:** Led by the Minister for State Administration and Minister for Finance, the Commission's role will be to oversee the proper allocation of resources and the implementation of PNDS in accordance with its objectives. It will provide policy and overall strategic direction to the program, review progress and make strategic recommendations. The IMC will report to the Prime Minister and Council of Ministers.

**Technical Working Group:** The group will continue with its role shifting from design and early development to supporting the implementation of PNDS. It will provide inter-sectoral coordination across the line ministries, guidance on policy and operational issues, reviewing implementation progress, overseeing adherence to program principles and cross-cutting issues such as gender and social inclusion, and resolving major program-wide implementation issues. The TWG will report to the IMC.

**The Ministry of State Administration:** MAE is the main ministry responsible for the implementation and day-to-day operations of the PNDS. Within the Ministry, a PNDS Secretariat has been established to resource this role and the Director General for Local Development is the overall manager of PNDS. The Secretariat works with other parts of MAE (e.g. human resources, finance and budgeting) and also manages and coordinates the work of new and existing MAE staff at the District and sub-District Levels. The PNDS Secretariat reports to the IMC and TWG. Responsibilities include:

- overseeing PNDS planning, budgeting and implementation;
- ensuring objectives are being met and principles and policies are being followed;
- coordination of PNDS within the PDID framework, including its implementation mechanisms such as the Decentralised Development Program (PDD);
- human resource management of PNDS staff;
- financial management (operation costs, triggering grant and other payments through MoF, procurement, auditing);
- monitoring and Evaluation, including operation and staffing of the Management Information System (MIS);
- managing the community feedback system;
- joint management of Australian support for PNDS; and

<sup>50</sup> As set out in Annex 2; membership of the PNDS IMC and TWG includes representatives of the Ministries of Health, Education, Public Works, Transport and Telecommunication, and Agriculture and Fisheries; and the National Development Agency.

- coordination and liaison with external stakeholders including other ministries, civil society organisations and development partners.

**Ministry of Finance (MOF):** MOF will be responsible for the disbursement of funding as requested by MAE and overarching financial accountability in line with Budget and Finance Management regulations. This will include ensuring that sufficient budget (together with Australia and other donor support) is provided each year in a timely manner for implementation.

### 6.3 Role of Australia

Australia will directly manage the implementation of the PNDS Support Program, forming a single implementing team with the Contractor and other program implementing partners. As described in *Part 5: How Will We Work? Principles for Implementation*, strong bilateral engagement and relationship building will be vital for maintaining strong support for PNDS and managing risk. Australia will support strategic, evidence-based policy-making on PNDS.

**Australian Head of Aid:** The Australian Head of Aid in Timor-Leste will provide high-level oversight of Australia's support for PNDS; advise on strategic issues including risk management; and engage in high-level dialogue with partners around continued support within GoTL, and the broader Australian Government.

**PNDS Support Program Director:** Australia's Program Director is the main representative of its support for PNDS. Australia position is likely to be funded and recruited directly by the Australian Government. This will allow GoA to be more closely engaged in policy dialogue and form a more effective working partnership with the government on PNDS. The Program Director will manage Australia's support for PNDS in partnership with the Director General for Local Development as head of the PNDS Secretariat. Key responsibilities for the Program Director will be:

- managing PNDS Support Program in partnership with the Director General for Local Development as head of the PNDS Secretariat
- leading Australia's policy dialogue on PNDS with GoTL agencies and development partners;
- preparing and overseeing annual plans for the PNDS Support Program (to be approved by the TWG and developed in partnership with the Head of the PNDS Secretariat)
- tasking and managing the performance of the Managing Contractor, including supervision of the Senior Program Coordinator (based in PNDS Secretariat) and Operations Manager
- overseeing Australian-funded development partner inputs to the PNDS
- coordinating support for PNDS and collaboration with other Australian sector programs in Timor-Leste (especially WASH, Road for Development, Governance for Development, Health and Education programs)
- responsibility of the performance and quality of the PNDS Support Program including addressing cross cutting issues (gender, social inclusion, environment and land issues), risk management, and quality reporting
- planning and commissioning Monitoring Review Group missions in partnership with the Head of the PNDS Secretariat
- coordinating with other development partner programs in Timor-Leste
- ensuring program and policy coherence in Australia's engagement with MAE and MoF.



Australian staff will provide corporate and policy support to the Program Director, while the Managing Contractor will report to the Program Director on operational issues.

**Australian Aid officer placed in the PNDS Secretariat:** Australia will second a Senior Officer to the PNDS Secretariat to support strategic relationships, coordination of Australian support, and quality assurance, with a particular focus on finance, human resource management, and continuous improvement of program implementation. The secondee to the PNDS Secretariat will have strong relationships on operational issues with the Ministry of Finance, the Civil Service Commission and the Ministry of State Administration.

**Monitoring and Review Group (MRG):** Australia will engage an MRG to support evidenced based learning and decision making to inform Australia's support to PNDS.<sup>51</sup>

## 6.4 Role of the Managing Contractor

Australia will employ a Managing Contractor to provide technical assistance, logistical support and delivery of the training program for PNDS. Australia MC will not be responsible for strategic direction or have a representational role on behalf of Australia. This will be the responsibility of the Australian Aid Program Director.

The MC will provide technical assistance, logistical and operational support for program implementation in accordance with the rolling six monthly workplan agreed with the GoTL. The MC will be headed by an Operations Manager who will be supported by staff, including a human resource management, procurement, financial management, and an administrative team. The MC will be based in a program office and will report to the PNDS Program Director. The responsibilities of the MC will be:

- assisting Program Director with the preparation and implementation of six-monthly plans and related costings for the PNDS Support Program
- operational management of the PNDS Support Program through administrative personnel and corporate activities (financial, human resource, procurement vehicles, utilities and other logistics)
- recruitment and mobilisation of PNDS Support Program personnel (including national and international long-term and short-term technical advisers) for roles / outputs as set out in the Program Logic
- management of sub-contracts, eg with training venues, logistics providers and MIS development

In Timor-Leste, Australia's experience using a managing contractor to work with government staff to facilitate community engagement and infrastructure delivery has been positive. In 2009 the Rural Water Supply and Sanitation Program (BESIK) financially and technically supported the GoTL to employ 88 government staff at the sub-district level to assist communities to design, construct, operate and maintain rural water supply systems. In partnership with GoTL, Australia recruited, trained, and mentored these staff. This approach proved successful at motivating government staff and helped improve service delivery and the quality of rural water infrastructure. An Independent Completion

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<sup>51</sup> See Section 8.4 on more about the MRG.



Review of the program found that this approach carried inherent risks but appears to have been a successful way to dramatically improve local service delivery, both reach and quality.<sup>52</sup>

## 6.5 Role of other partners

Other development partners funded directly by Australia, such as the World Bank and The Asia Foundation, will deliver a number of mutually agreed activities. Coordination of development partner activity as part of the PNDS Support Program will be discussed by the TWG. As the program develops, opportunities may arise for working with additional partners, such as local NGOs. While Australia has not yet established formal processes or working arrangements for other potential partners besides the World Bank and The Asia Foundation, the PNDS Support Program will evaluate possible options to harness opportunities as they arise.

Monitoring and evaluation support will be provided by multilateral and local development partners through grant agreements with Australia.

- **the World Bank** will be engaged to provide external monitoring and evaluation through Australia's Country Trust Fund with the World Bank
- **The Asia Foundation (TAF)** is currently running the review of the PNDS field test and may play a role in field support, analysis and evaluation of PNDS community engagement processes and outcomes. TAF is being engaged through the TAF-Australia Timor-Leste Partnership Agreement.
- **local NGOs** have a valuable role in supporting community planning, monitoring and evaluation, particularly in relation to conflict issues, community participation processes and community outcomes. Australia is yet to determine the exact role or mechanism for engaging local NGOs.

## 6.6 Implementation Plan

Activities of the PNDS Support Program will be outlined in a six-monthly implementation plan. The implementation plan will outline the timing and resources required for each activity, implementation arrangements and risk management. It will be prepared by the PNDS Program Director in partnership with the Director General for Local Development as head of the PNDS Secretariat, with assistance from the managing contactor and input from development partners. The Implementation Plan will be approved by the TWG. A draft Implementation Plan will be prepared three months in advance. This will facilitate shared GoTL/Australian resourcing of PNDS. *A draft implementation plan is at Annex 9.*

# 7. Resources

## 7.1 Budget

The total estimated GoTL budget for PNDS is \$300 million over 8 years, with the annual allocation for implementation approximately \$22 million for suku grants plus additional funds for operational costs. As national implementation in sukus will be staged, the 2014 will be lower than subsequent years.

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<sup>52</sup> Independent Completion Review Rural Water Supply and Sanitation Program 2012

Total Australian support for implementation over four financial years (2014-2017) is likely to be up to \$39 million. This includes services delivered through a managing contractor, services delivered through multilateral and NGO partners, and Australian staffing, management and monitoring costs. Our investment in PNDS will form about 10 to 15 per cent of the total Australia country program budget. Australia will make a decision whether to fund a second four year phase after concluding a Mid Term Review in 2016-17.

The budget for the PNDS Support Program has been determined based on Australia's experience supporting the design and development of PNDS during 2012-13 and 2013-14. Australia has worked closely with the interim Managing Contractor, The Asia Foundation, and the World Bank to develop program budgets and has used this to inform future funding allocations. Australia also employed a Budget Development Specialist to assist the preparation of the PNDS budget. Anticipated technical assistance requirements of the future program used to inform this budget can be found at *Annex 8*.

## 7.2 Staffing

The Australian staffing profile for PNDS will be appropriate for the nature and scale of the investment and comparable with other Australia programs in Timor-Leste. Staff resources are likely to be:

- one PNDS Program Director, based in Dili (non-APS employee - role outlined in Section 6.3)
- one A-Based Assistant Director, based in Dili (EL1) – to lead program management of PNDS within Australia
- one O-Based Senior Program Coordinator based in the PNDS Secretariat, as described in 6.3
- one O-Based Level 4, based in Dili to support administration and program management related to PNDS
- one APS6/EL1 employee based in Canberra who will spend approximately 40 per cent of their time on PNDS to provide support on contracts, performance and quality, and reporting
- one Australia Timor-Leste Director (EL2), based in Canberra, to fulfill the APS specific functions for PNDS (including reporting and performance and quality) spending only a small portion of their time (10-20 per cent) on PNDS.

## 7.3 Procurement Arrangements

The PNDS Managing Contractor will be selected through an open international tender. A contract of approximately three years will provide an option to extend for up to an additional four years depending on the findings of the Mid Term Review and contractor performance. Australia will seek funding approval for the option period in 2016-17 if a second phase is considered appropriate.

## 8. How will results be measured?

PNDS is a large and complex program, invested with high expectations by the Government of Timor-Leste. Good management and evidence-based decision making will be essential for GoTL to realise objectives through PNDS. PNDS will have a monitoring and evaluation (M&E) system which Australia and the World Bank will support GoTL to finalise during 2013. It will be embedded within GoTL systems

progressively during implementation. It will also assess the quality of Australian-funded support to PNDS. A working draft M&E Plan is attached at Annex 5.

## 8.1 Audience

The **primary audiences** for reporting generated by the M&E system will be the PNDS Inter-Ministerial Commission (which reports to the Prime Minister and Council of Ministers), the Technical Working Group, Australia's implementation team (Head of Aid, Program Director, Australian Aid staff and contracted program staff), other Australian sector programs in Timor-Leste. The **secondary audience** will be the Australian taxpayer and a broader community of policy-makers, practitioners and academics interested in community driven development and rural service delivery, including those involved in local development in Timor-Leste.

## 8.2 Purpose

There are **two primary purposes** for M&E in PNDS:

- the first is **program improvement**. Information gathered through the M&E system will be used by primary audiences to assess whether progress towards the end of program outcomes is adequate and why or why not. The information will be used to make shared decisions about improvements to the program implementation, including Australian-funded support to it;
- the second is **accountability**. Both GoTL and Australia have development priorities and commitments, captured in Timor-Leste's *Strategic Development Plan* and Australia's *Effective Aid* policy and Comprehensive Aid Policy Framework. The bilateral Strategic Planning Agreement for Development is updated annually and records the Governments' mutual commitments to development in Timor-Leste. Information gathered will be used to assess PNDS' effectiveness. GoTL will use the information to make decisions about, and report on, its budget and implementation of its programs. Australia will also draw on the information to make decisions about its budget, to meet agency performance and quality requirements (e.g. annual quality reporting) and to manage risk.

The **secondary purpose** for Australia's support for PNDS M&E is to generate **learning about community driven development** that is relevant to GoTL's broader poverty alleviation and service delivery objectives (e.g. operation of effective procurement and financial processes). It will also inform Australia's programs in Timor-Leste and other countries (e.g. how a stronger link between government and communities can facilitate better service delivery) and a wider audience interested in CDD (e.g. country comparisons of CDD successes and challenges).

## 8.3 Roles, scope and timing

The PNDS M&E Plan will be **guided by the Australian Government's M&E standards for Australian Aid**. These Standards reflect OECD-DAC standards for international development M&E available at: <http://www.jcsee.org/program-evaluation-standards/program-evaluation-standards-statements>.

The plan is being **developed by a qualified and experienced M&E Specialist**, recruited by the interim managing contractor, who is responsible for ensuring that the M&E System meets the purposes described above. The specialist will be supported by additional M&E personnel inputs through the

Managing Contractor and Australia's Country Trust Fund with the World Bank. An indicative outline of Australia's M&E System is attached at Annex 5.

During the third quarter of 2013, **Australia will work with the World Bank to establish a baseline for the PNDS M&E plan.** Through the World Bank, Australia will conduct a review of current information available through existing surveys in Timor-Leste and determine the extent of new surveying required. Qualitative and quantitative M&E specialists will be engaged to develop a final baseline, to be completed by the fourth quarter of 2013.

## 8.4 Approach and method

**The PNDS M&E Plan will consist of a mix of approaches and methods.** The approach and methods will be agreed by GoTL with support from Australia and World Bank and documented in the M&E Plan and in partnership agreements. Initial ideas on approaches for each level of the program logic are provided below. Australia will fund the chosen M&E strategies and GoTL will implement them with support from the World Bank and potentially by other non-government partners.

At the **PNDS goal** level, the World Bank will employ impact evaluation methods to assess the extent to which community members are experiencing social and economic benefits, enabling/inhibiting factors, and implications for the PNDS approach. In addition, data will be collected through the PNDS Management Information System (MIS). GoTL and Australia can use this data to report on annual trends. Australia and the World Bank will work with GoTL to establish more detailed indicators and evaluation questions. Evaluation will measure both the development impact of PNDS projects as well as the effectiveness of GoTL and Australian operational management.

At the **PNDS end of program outcome** level, quantitative and qualitative methods will be employed to assess adequacy of progress towards end of program outcomes across locations. These may cover issues such as: the extent of gender and social inclusion; how representative and functional community committees are; the extent to which infrastructure is being used and maintained; how well resources have been allocated and used; and how well the community feedback system is working.

At the **PNDS outputs** level, the focus will be on the use of a MIS (to be developed in 2013), supplemented by regular qualitative monitoring and periodic studies. These will be used to collect sex-disaggregated data and information on outputs such as the quality of facilitation and training, the integrity of financial systems, the quality of construction and the integrity of community planning processes.

At the **PNDS activities** level, the M&E Plan will develop light methods for assessing whether the quality and reach of Australian-funded support to PNDS is meeting expectations. Some of these expectations are that training adopts adult learning methods; coaching/mentoring is based on an agreed learning plan; and that strategic advice is tailored to the local context.

Methods for exploring second tier objectives, such as improved governance, or unintended outcomes, such as increased conflict or social cohesion, may also be employed. Intensive M&E resources will be required to support PNDS piloting of any new or revised approaches to improve particular program elements. These might include methods for women's participation or support from civil society

organisations to community planning. Delivery partners for this work will be discussed with GoTL on an ongoing basis and may include support from the managing contractor and partners such as The Asia Foundation or local NGOs.

At each of the above levels, the PNDS M&E system will also monitor the extent to which expected risks are continuing to influence the program, and whether emerging factors in the context are posing additional risks.

Australian staff will undertake regular monitoring of PNDS implementation. The PNDS Program Director and staff will engage at a political/diplomatic level with GoTL during PNDS implementation, undertake joint periodic field monitoring visits with GoTL and complete internal reporting requirements (such as annual Quality at Implementation Reports).

An annual **Monitoring and Review Group**, contracted by the Australian Government, with participation by GoTL, will assess the quality of Australian-funded support on an annual basis and identify and recommend responses to strategic and operational challenges. It will cover Australia's bilateral engagement as well as activities delivered by the Managing Contractor and other development partners.

In Year 3, a **PNDS independent mid-term review** will assess progress against end of program outcomes, the efficiency of program management and operations, the appropriateness of monitoring and evaluation arrangements, and the program's ongoing sustainability and relevance. It will make recommendations for how to improve operations and outcomes in the remaining period of support. It will also consider whether or not Australia should provide up to four further years of funding for the remainder of GoTL's original program.

## 8.5 Resources

Taking into account all of the above, Australia will allocate the following resources to M&E:

- Senior M&E Specialist to oversee the PNDS M&E Plan, contracted by the Managing Contractor
- Information Technology and Communications (ITC) Advisor and ITC officers to support GoTL to develop and operate the MIS system
- partnerships with the World Bank for evaluations at goal and end-of-program outcome level;
- partnership with The Asia Foundation for qualitative outcome and context studies;
- potential engagement with local NGOs for monitoring of community level processes and issues, including conflict monitoring
- pool of M&E specialist inputs to carry out specified short-term inputs such as special studies, MIS design and/or advisory support to GoTL implementation of MIS.

## Part C: Risk and cross-cutting issues

This section describes the key risks to the effective implementation of PNDS and provides analysis of the key safeguard and cross-cutting issues.

### 9. Risk

PNDS has the potential to deliver tangible benefits to communities in Timor-Leste and to support more effective GoTL service delivery. However, there are risks inherent in a program of this size and scope, especially given the post-conflict, low-capacity environment in which it is being implemented. By working closely with GoTL towards shared objectives, as part of our New Deal commitment, **Australia will carry some of the operational and reputational risks that arise during the implementation of PNDS.** Similar reputational risks arise in all of our sector investments in Timor-Leste and are an accepted part of working in a young and fragile state.

A risk matrix attached at *Annex 10* sets out risks associated with both PNDS and the PNDS Support Program. It details management strategies Australia will employ during the course of implementing our support for PNDS to minimise risk. Even so there will still be moderately high residual risks for this program. The Australian Government, its managing contractor and other partners will be responsible for reviewing the occurrence of risk, their treatment and minimisation on a regular basis throughout the implementation of the PNDS Support Program. This section discusses briefly some of the primary political and operational risks involved in PNDS, as an introduction to the risk matrix. To avoid repetition, detailed discussion of specific risks (such as community conflict) is contained in *Section 11 – Cross-Cutting Issues*.

#### 9.1 Contextual Risks

PNDS has been established with substantial initial political support. It is, however, being developed and implemented in a fluid political context. Debate on the allocation of national resources, the competence of government service delivery mechanisms and the allocation of governance responsibilities is strong and will continue to evolve in the years of PNDS' implementation. The purpose and scope of the decentralisation agenda is as yet unclear and may change the way in which PNDS is viewed and managed. GoTL's system for policy-making is driven by a set of informal influences and relationships, and a few central decision-makers<sup>53</sup>. Service delivery is hampered by poor administration, poor communication and cooperation between ministries and weak financial disbursement and implementation<sup>54</sup>. Given the political capital that PNDS could build for GoTL, political pressure to disburse funds through PNDS will be immense. GoTL's partners will need to provide strong support to the systems that will allow for diligent management of the program.

The Australian Government recognises the highly politicised reality of the operating environment in Timor-Leste. Australia will need to understand the factors influencing a changing political and policy environment during PNDS implementation. While Australia's support to PNDS is designed to help overcome some of those constraints, they will still affect the implementation of the program. As

<sup>53</sup> Australia, 'Governance for Development Policy Enabling Delivery Strategy' (internal document) pp16-18

<sup>54</sup> AusAID, 'Governance for Development Policy Enabling Delivery Strategy' (internal document) p4

discussed in *Section 5 – Principles for Implementation*, active bilateral engagement will be essential to the effectiveness of PNDS. This includes the ability of Australia to clearly communicate and monitor the quality requirements for Australia’s ongoing support to the program (such as a functioning financial management system or ensuring that trained facilitators are used in the program). Effective coordination between Australia’s sector programs in Timor-Leste will be critical to allow PNDS to play a complementary role and not undermine sectoral systems or divert funding and effort from other important sectoral objectives and service delivery mechanisms.

## 9.2 Operational risks

Timor-Leste is a post-conflict country, with high rates of poverty, low education levels and poor employment opportunities. Community identities and cultures vary within and between sub-districts and local and traditional power arrangements are complex. A program like PNDS introduces risks to this environment, while the environment equally presents considerable risks to PNDS’ success at the local level. These risks – including fraud, elite capture, and conflict - are described in detail in *Section 11 – Cross-Cutting Issues* and in the Risk Matrix attached at *Annex 10*.

Managing operational risks will require substantial effort. Projects will need to be selected with full community participation, address development needs and be managed transparently; facilitators will need to be well-trained and make villagers aware of their rights; the community feedback system must function effectively; and the benefits should accrue widely to community members.<sup>55</sup> Australia’s broad approach to mitigating operational risks is built around the following approaches and activities, which also underpin our efforts to take a Do No Harm approach to implementation (described in more in detail in *Section 11 – Cross-Cutting Issues*).

- **Participatory processes** - the PNDS Program Operations Manual establishes mechanisms to support participation of the broadest possible base within communities in decision-making, including women, people with disabilities and other marginalised groups. As discussed in the Lessons Learned Analysis at *Annex 3*, with broad community participation, infrastructure is more likely to be relevant, used and maintained by communities. It also reduces elite capture and perceptions of inequality.
- **Processes for managing complaints and disputes** – as described in *Section 4 - What will Australia Fund* (p39), Australia is supporting a community feedback system that will support monitoring and enable community members to report on problems and successes. An effective community feedback system is critical for building trust, strengthening governance and managing risk.
- **Field support and monitoring**
  - *PNDS Facilitators* are expected to be on the road for approximately three quarters of their time. As described, in *Section 4- What will Australia Fund* (p28) and the *Lessons Learned Analysis* at *Annex 3*, the success of CDD programs is heavily dependent on skilled and effective facilitators to support participation, planning, decision-making and implementation.
  - The *Field Support Team* will undertake extensive and ongoing field visits and report back to management on key findings – positive and negative. This will allow management to make

<sup>55</sup> Ministry of State Administration & Australia Asia Foundation, *A Pre-Design Study for the National Program on Suku Development–Suku Consultations & Focus Group Discussion Results*, September 2012, pp6-8.



decisions and respond to issues as they emerge. The field support team will verify data in reports, document successes, identify major problems, and channel local voices, allowing local input into program management and problem-solving. They will provide an external cross checks verification processes to mitigate risks such as fraud, environment degradation and elite capture.

- **Capacity building in key skills for operational delivery of PNDS** - design and delivery of contextualised training for facilitator roles in basic construction principles, Public Financial Management, community development/facilitation. The training program will be updated and reinforced based on lessons learned from the M&E and Field Support Team. The program will include a component for training-the-trainer to enable ongoing transfer of skills from facilitators to community members.
- **Evaluation and audit**
  - The Program Operations Manual provides a mechanism for accountability and annual activity evaluation.
  - The MIS, which Australia is helping to design, will provide a foundation for good management of fiduciary risks, a reliable evidence base for impact assessments and success stories that can be shared.
  - The monitoring and evaluation plan, which Australia is helping to design, will include baseline and follow up assessments at regular intervals, as well as special studies.
  - Support for financial processes within the MAE, as well as facilitators will improve reporting and record keeping at all levels.

## 10. Cross-cutting and Significant issues

Building on the accountability framework described in Section 9 above, this section sets out how GoTL has addressed key cross-cutting issues in its Program Operations Manual and how GoA will work to manage or respond to cross-cutting issues over the course of PNDS' implementation.

### 10.1 Conflict

The withdrawal of UN peacekeepers from Timor-Leste in December 2012 and two successful elections demonstrate that Timor-Leste has achieved a notable level of stability for a young nation. However, the situation remains fragile. Localised disputes and conflicts over political power, land and resources have marked Timor-Leste's history since before Portuguese colonisation and 'still reverberate within Timor-Leste today'<sup>56</sup>. Key drivers of community conflict today include ingrained communal differences often based on economic interests, rumour and lack of access to accurate information. Rule of law is contentious and poor socialisation of the law in the community has led to confusion regarding the law and how it is applied<sup>57</sup>.

<sup>56</sup> International Crisis Group (2013) Timor-Leste: Stability at What Cost?

<sup>57</sup> Belun 2009: <http://belun.tl/wp-content/uploads/2012/06/Timor-Leste-Violence-IB3-ENGLISH11.pdf>



Supported by Australia, The Asia Foundation (TAF) conducted suku consultations and focus group discussions to inform the development and design of PNDS. TAF found that the main source of disputes in sukus regarding development projects arise during the implementation phase. Disputes tended to occur because of lack of engagement with traditional authorities and/or other affected community members over the use of natural resources, conflict over who gets primary benefit from the project (and who misses out), and conflict over who obtains paid work through the project<sup>58</sup>. TAF's study also suggested that the introduction of the PNDS program structure in sukus is likely to lead to tension. Possible sources of conflict include jealousy or suspicion around who has decision making power and potential abuse of power, capture of resources for private benefit, financial mismanagement or corruption.

As described above, the POM contains a range of mechanisms to prevent conflict and mitigate an escalation of conflict building on lessons learned on the use of CDD strategies (see *Annex 3 – Lessons Learned* for more detail). This includes processes for broad-based decision making; institutionalising the inclusion of various marginalised groups; external cross-checks and verification processes; a community feedback system to enable community members to report problems; and numerous checks on transparency (see section 9.2 on managing operational risk for more detail). It also includes components on conflict mitigation and mediation in facilitator training and refresher training.

**We assess** that the risk for increased conflict as a result of PNDS remains high. There is some evidence that CDD programs can help overcome conflict and improve community cohesion including through strengthening mechanisms for mediating conflict. A recent World Bank analysis comparing sub-national infrastructure programs in Timor-Leste for example, concluded that enhanced community participation in planning, implementation and oversight associated with the Local Development Program reduced the likelihood of disputes and conflict<sup>59</sup>. However, given the lack of other economic opportunities in the more remote areas, there is a high risk that the injection of PNDS funding creates or exacerbates conflict in communities. Resources are often a source of conflict in Timor-Leste, particularly as decision making regarding use of resources is often exclusionary and lacks accountability and transparency.

**What will we do in response?** Australia will provide support to reduce conflict as a result of PNDS in a number of ways:

- Australia's training of PNDS facilitators has included intensive modules on conflict risk identification, mediation and mitigation strategies to help facilitators working in communities prevent and minimize conflict risks
- Conflict monitoring will be a key component of the PNDS M&E framework being supported by Australia. It will be important to have a strong understanding of how PNDS impacts on communities and why. This information will be used to inform design improvements as implementation progresses;
- conflict risks and incidences will be closely monitored as part of the community feedback system and field monitoring through the Field Support Team;

<sup>58</sup> Australia Asia Foundation (2012) A Pre-Design Study for the National Program on Suku Development (PNDS), Suku Consultations & Focus Group Discussion Results

<sup>59</sup> World Bank (2009). Timor Leste Review of Sub National Development Spending. Study Team Report Working Draft, p87

- Australia is also scoping possibilities for future partnerships with local NGOs to help monitor conflict risks. Local NGOs have a valuable role in supporting community planning and monitoring, particularly in relation to conflict issues thanks to their close relationships at the suku level.

## 10.2 Participation and Elite Capture

The suku chief and prominent village members can provide important leadership in CDD, including by encouraging broad community participation (indeed, the exclusion of pre-existing or customary authorities can reduce community participation and affect accountability negatively). However, there is also a risk that elites exert excessive influence and bias decision making processes.

As discussed in *Annex 3 – Lessons Learned*, infrastructure selected and implemented with broad community participation is more likely to be relevant, used and maintained by communities. It also reduces elite capture and perceptions of inequality. A recent analysis of a sample of PDL projects concluded there was limited evidence for elite capture, with the majority of projects producing infrastructure of wide public benefit and of direct benefit to the poor<sup>60</sup>. Wider analysis of lessons learned from local development programs in Timor-Leste (see *Annex 3 – Lessons Learned* for more detail) show that community participation in community based and community driven development programs in Timor-Leste has been highly varied, depending on facilitator skills and the power of the suku chief<sup>61</sup>.

As described in Section 9.2 above, the POM contains a range of mechanisms to promote inclusion and accountability. They are similar measures to mitigate conflict risks in Section 10.1 above.

**We assess** that some elite capture is inevitable but expects to see change over time as communities grow more confident about holding decision-makers to account.

**What will we do in support?** The work of trained, motivated sub-district facilitators will be an essential component in program success. Experience across CDD programs shows that high-performing facilitators influence the level of success and buy-in to the program. A significant portion of Australia's investment will be directed to training and ongoing support of facilitators. The PNDS Field Support Team will provide ongoing field monitoring and support.

GoTL and GoA will need to understand what is happening in communities through PNDS and adapt the program over time so that it does no harm. Key research questions to guide M&E over the longer term will be to investigate (1) whether PNDS processes are having any negative effects in terms of capture, exclusion and corruption and (2) what positive impacts PNDS may be having in improving inclusiveness and equality in some communities and how this can be replicated in others. Australia's M&E investment, described in Section 4, will include consideration of data and analysis of these questions.

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<sup>60</sup> See Annex 3, and World Bank (2009). Timor Leste Review of Sub National Development Spending. Study Team Report Working Draft, p81

<sup>61</sup> World Bank (2009) Community Based Development and Infrastructure in Timor-Leste: Past Experiences and Future Opportunities, p21

### 10.3 Community level governance and capacity

While donor-led capacity building efforts have supported Timor-Leste's national government considerably since independence, *sukus* have largely been left to their own resources in relation to governance. There will likely be considerable variation in the application of PNDS processes at the village level because village structures are highly dependent on individual community leaders. The administrative capacity of leaders at *suku* and *aldeia* levels is generally very low and many still act in line with the functions given by custom and tradition to leaders. Without substantial monitoring and institutional strengthening at the community level, village leaders and committees are likely to 'do what they think is the customary way' rather than follow the guidelines.

**We assess** that the interaction between national government and community is a key risk for the program. International experience in national CDD programs shows that national program management units tend to very quickly become overloaded with administration and can lose sight of villagers and their struggles and successes. The immediate demands on the national Secretariat to respond to line ministries, MoF, donors, and others often leaves little or no space for focusing on the activities of sub-national PNDS staff, and more importantly, villagers.

**What will we do in support?** Australia takes seriously the lack of capacity to carry out modern governance and administrative processes at the community level. Australia is committed to supporting communities to understand and carry out the processes that are described in the Operations Manual - and this applies to all stages in the process. As described above in *Section 5 How Will We Work? Principles for Implementation*, Australia will support communities primarily through:

- ongoing training and mentoring of quality community facilitators who will provide social, technical and financial support to communities;
- establishment of a Field Support Team to identify and document successes, weaknesses, failures, complaints and problems, and in response to these, support and mentor sub-national staff to overcome the issues, and make suggestions to management for design revisions; and
- a strong monitoring and evaluation framework will allow us to examine how PNDS is impacting communities. Using this information we can determine what needs to be modified to reduce negative impacts of PNDS or to make the most of opportunities PNDS presents.

### 10.4 Gender equality

As described in *Section 1.1 - Context*, women and girls in Timor-Leste are likely to experience greater severity and increased dimensions of poverty. At a national level, assisted by a quota system, Timor-Leste has one of the highest percentages of women in national parliament in the Asia Pacific region. However, at lower levels, women's formalised participation in leadership structures is diluted, and only two percent of the 442 *suku* chiefs are women.

Traditionally, men are head of a broadly defined family, often encompassing relatives to the level of first cousins and aunts and uncles. Timorese communities have a strong role to play in enforcing, and potentially changing, social norms. Women may otherwise have limited opportunities to connect with issues and people outside the home. Women have the primary role for fulfilling household functions but often have little influence on household and community decision making processes. The Independent Completion Report for Australia's water and sanitation program observed that although

women have the primary role in collecting water, “women only exerted minor influence on water system design and location<sup>62</sup>”.

Violence against women in Timor-Leste remains pervasive, constrains development and can restrict women's participation in political, social and economic life. The Committee on the Elimination of Discrimination against Women has expressed concern about the prevalence of a patriarchal ideology with firmly entrenched stereotypes and the persistence of deep-rooted adverse cultural norms and traditions.<sup>63</sup>

Australia has assisted the Government of Timor-Leste to develop a ‘Gender and Social Inclusion Strategy’ for PNDS. This is designed so that women and men from different backgrounds can: contribute to community decisions; play an active role in managing community grants; benefit from PNDS infrastructure; and access job opportunities created by the program. Equal participation of women in PNDS requires that, in suku, women are equally represented on the:

- community Planning and Accountability Committee, which is responsible for ensuring adherence to PNDS processes and principles such as transparency and inclusion;
- community Project Implementation Team, which is responsible for designing, budgeting and implementing projects;
- community Operations and Maintenance Team, which is responsible for planning and budgeting for ongoing project operations and maintenance costs for infrastructure.

In addition, suku project priorities are assessed by a separate Women’s Planning and Accountability Commission. It is targeted that 40 per cent of facilitators who will assist communities to implement PNDS will be women.

**We assess:** that there is likely to be increased, but not universal, participation of women, and that in Australia’s view, a separate women’s accountability commission will improve the depth and strength of women’s engagement. Most community development programs show at least anecdotal evidence of improved opportunities for women while others have shown clear improvements to the community perceptions of women as leaders<sup>64</sup>. In Timor-Leste, Australia’s experience working at a community-level to deliver water and sanitation infrastructure has shown that it is possible for women to accrue important benefits. While the BESIK program found that securing women’s participation in training and water user groups could be difficult at first, the use of targeted strategies can improve participation over time<sup>65</sup>.

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<sup>62</sup> Crawford & Willetts, 10 October 2012, p12

<sup>63</sup> Committee on the Elimination of Discrimination against Women, Forty-fourth session 20 July – 7 August 2009, Concluding observations of the Committee on the Elimination of Discrimination against Women, CEDAW/C/TLS/CO/1, 7 August 2009, paragraph 27

<sup>64</sup> See for example, Chattopadhyay and Duflo (2003) Australia Impact of Reservation in the Panchayati Raj: Evidence from a Nationwide Randomized Experiment.

<sup>65</sup> Measured changes were: An estimated 40,000 women now directly benefit from considerable time saved due to easier and closer access to safe water; 72% of water user groups and community leaders reported that women and men made joint decisions compared with only 37% prior to the project; women’s representation in water user groups is growing: groups formed since 2010 show: 53% have at least 30% women members; 97% have women in technical or management positions and 14% have female leaders, showing an increased acceptance of women in leadership roles; 24% of sub-district facilitators recruited were female.

**What will we do in Support?** Through its ongoing support for PNDS design and systems, training and M&E, Australia will support efforts to improve gender and social inclusion in PNDS. These efforts will be pitched appropriately to GoTL's capacity to integrate them in the early years of the program, with a view to scaling up targeted approaches in future years.

- In the early stages of implementation the PNDS Support Program will focus primarily on bedding down systems and making basic processes work. Australia will support a gender and social inclusion specialist located in the PNDS Secretariat. Australia is also supporting a comprehensive program of training for facilitators which will assist them to promote active participation of women, people with disabilities, youth and other marginalised groups, rather than just attendance; A strong monitoring and evaluation framework will allow the team to examine how PNDS is impacting on gender equality and issues of social inclusion. This information will then be used to determine what needs to be modified to reduce potential exclusion of the most marginalised groups or to make the most of opportunities to improve social inclusion, such as additional support mechanisms or training.
- Australia's support to PNDS also has the potential to open doors for Ending Violence Against Women (EVAW) initiatives within a wider gender equality and community accountability framework. Opportunities for engagement on EVAW via PNDS are being discussed between the teams and will be reviewed over time. Areas identified for possible collaboration include (i) joint work on a national certificate in community education; (ii) PNDS social facilitators being trained in EVAW awareness and referral, and (iii) EVAW CSOs joining PNDS facilitator discussions with communities on prioritising community needs.

## 10.5 Youth, Disability and Social Inclusion

People with disabilities are more likely to be among those who are severely poor. The 2010 Census under-reported the number of Timorese people with disabilities. Of those surveyed, 72 per cent had never attended school and 49 per cent were economically inactive. There are also reports of negative stereotypes and people with *'intellectual or psychosocial disabilities being tied or locked up for long periods of time'*<sup>66</sup>. While GoTL has not yet signed the Convention on the Rights of People with Disabilities, there is strong GoTL support for upholding the rights of people with disability. A National Disability Policy was approved by the Council of Ministers in 2012 and the Disability Working Group (DWG) is a strong civil-society led coordination mechanism with government representatives.

Timor-Leste has a very young population and high youth unemployment. About 75 per cent of the Timorese population is under 30 years and half the population is under 15 years. With limited opportunities for education, training and skilled work, young people often struggle to find employment, identity and a way to contribute to their community.

As described in Section 10.4 on gender equality, Australia has assisted the Government of Timor-Leste to develop a 'Gender and Social Inclusion Strategy' for PNDS which includes steps to enable infrastructure built under PNDS to be accessible to people with disabilities. Technical facilitators will

<sup>66</sup> McCoy, November 2011, citing Government of Timor-Leste, DRAFT National Disability Policy for Timor-Leste "Towards a disability inclusive Timor-Leste" Version: 1.02, May 2011

check designs prior to construction and ‘spot checks’ will be undertaken in villages to verify compliance with this requirement. The POM notes in the guidelines for hiring community labour that special efforts should be made to include people with disabilities to participate and work on projects.

**How will we support social inclusion?** Through its ongoing support for PNDS design and systems, training and M&E, Australia will support efforts to improve gender and social inclusion in PNDS. These efforts will be pitched appropriately to GoTL’s capacity to integrate them in the early years of the program, with a view to scaling up targeted approaches in future years.

- As described in the above section on Gender Equality, in the early stages of implementation the PNDS Support Program will focus primarily on bedding down systems and making basic processes work, including gender representative quota systems for PNDS community organisations, PNDS facilitators, and other national and sub-national teams:
  - Australia will support a gender and social inclusion specialist located in the PNDS Secretariat. Australia is also supporting a comprehensive program of training for facilitators which will assist them to promote active participation of women, people with disabilities, youth and other marginalised groups, rather than just attendance;
  - The Australian Government has worked with the Civil Service Commission to develop a recruitment strategy for the 350 facilitators that has encouraged gender equity in the team, and people with disabilities to apply. The Disability Working Group (DWG) is also disseminating information through its networks.
  - Disability-inclusion awareness has been built into the facilitator training program supported by Australia. Curricula for facilitator training have drawn on disability-inclusion training materials from the DWG and BESIK. The DWG has peer reviewed and co-delivered training, and possible participation of District officers of the Ministry of Social Solidarity, the GoTL ministry responsible for disability, or Timor’s national disabled people’s organisation RHTO (Ra’es Hadomi Timor Oan) is being explored. Australia is encouraging use of its Accessible Design Guide for the design of accessible infrastructure.
- A strong monitoring and evaluation framework will allow the team to examine how PNDS is impacting on gender equality and issues of social inclusion. This information will then be used to determine what needs to be modified to reduce potential exclusion of the most marginalised groups or to make the most of opportunities to improve social inclusion, such as additional support mechanisms or training.
  - Australia might consider piloting disability-specific training with some of the 350 sub-district and district social facilitators before committing to broader training which may, stretch resources (especially limited DWG resources) too thinly. Training a smaller group of facilitators in disability awareness will also help us understand how trained facilitators can impact the participation of people with disability in PNDS at the suku level;
  - Australia will continue to work with GoTL to identify and implement opportunities to increase youth participation in PNDS, such as additional training, reflection workshops and engagement through local NGOs.

## 10.6 Child Protection

While program staff are unlikely to have direct contact with children, Australia will ensure that attention is given to Australia's child protection policy compliance. All PNDS implementing agencies will be required to comply with Australia's a zero-tolerance approach to child exploitation and abuse and child protection compliance standards outlined in Australia's child protection policy:

- **Zero tolerance of child exploitation and abuse** - Australia works to reduce the risks of child exploitation and abuse associated with delivering aid activities and trains its staff on their obligations. Australia will not knowingly engage—directly or indirectly—anyone who poses an unacceptable risk to children. Australia will not fund any individual or organization that does not meet Australia's child protection compliance standards in their operations and activities.
- **Recognition of the best interest of the child** - Australia is a signatory to the United Nations Convention on the Rights of the Child, and Australia is committed to upholding the rights and obligations under this convention. Australia recognises that some children, such as those with disability and children living in areas impacted by disasters, are particularly vulnerable.
- **Sharing responsibility for child protection** - to effectively manage risks to children, Australia requires the commitment, support and cooperation of contractors and civil society organisations. They must meet the terms of this policy and will be held accountable, through contracts, audits and spot checks, for complying with it.
- **Risk management approach** - while it is not possible to eliminate all risks of child exploitation and abuse, careful management can reduce the risks to children that may be associated with aid activities. These are identified during initial risk assessments and are managed for the duration of the activity.
- **Procedural fairness** - Australia uses fair and proper procedures when making decisions that affect a person's rights or interests. Our partners are expected to adhere to this principle when responding to concerns or allegations of child exploitation and abuse.

## 10.7 Land and displacement

Land ownership and conflict over land-related issues is a significant challenge in Timor-Leste. There are competing land tenure systems from the Portuguese, Indonesian and post-independence times, as well as traditional and customary arrangements. A definitive land law has not been passed and the institutions responsible for land administration in Timor-Leste lack capacity. Community land disputes are often resolved by community and traditional leaders. PNDS involves the construction, rehabilitation and maintenance of local infrastructure. While most projects are expected to be developed on land where tenure is secure (e.g. existing health posts, schools), some new projects may only be viable where the community agrees on making new land available (e.g. new roads and footpaths, extensions to water systems).

The POM requires that communities agree that the land is available for the project and will not be contested in the future by a member of the community. It also requires that project prioritisation and verification at every level include assessment of "whether it is able to be constructed and maintained by the community" (taking into account land issues, the environment etc.). In addition, detailed guidance on technical issues relating to verification, surveys, designs, budgeting, construction,

construction supervision and operations and maintenance will be provided in the Technical Guidelines, in accordance with environmental standards.

**We assess** that land and displacement issues may present challenges in implementing PNDS. In some instances this will also involve multiple communities, for example where a road passes through different communities. There will need to be processes to resolve potential disputes.

**What will we do in support?** Australia will, through its management, training and M&E support, help GoTL identify and manage possible disputes around land.. Experience from BESIK demonstrates that infrastructure planned and constructed with an inclusive community planning process tends to be more sustainable. Australia will monitor the development of new land laws and policies. The PNDS Support Program will work with government counterparts to make any necessary changes to PNDS policies and operational arrangements in light of any new land laws or policies. The PNDS Field Support Team will provide ongoing field monitoring and support.

## 10.8 Environment, climate change and disaster risk reduction

Timor-Leste is highly vulnerable to the impacts of climate change and is already subject to frequent, localised natural disasters (such as flooding, high winds and fire). People's livelihoods and infrastructure are highly vulnerable to such events. The Australian Government's Pacific Climate Change Science Program has found with a very high degree of confidence that, over the course of the 21st century in Timor-Leste, sea levels will rise, the intensity and frequency of days of extreme heat will increase, and annual rainfall will generally be lower. Extreme rainfall events are likely to become fewer but more intense. Communities and their infrastructure are at greater risk of climatic impacts including increased damage to infrastructure because of increased flooding, increased surface water run-off, damage to road surfaces during extreme heat events and an increase in the occurrence of landslides. The predicted climate change impacts will put pressure on groundwater supplies which will affect the sustainability and impact on water resources of community water supply systems.

Climate change poses significant risks to almost all development sectors, but in particular to infrastructure where future climate impacts could make infrastructure development redundant or unusable before its expected lifespan can be realised. With the focus of the program being on 'basic village infrastructure', it will be important for Australia and GoTL to plan for investments at the community-level to be resilient in a changing climate.

The PNDS Support Program will build small-scale village infrastructure. Environmental impact could occur as: a) a direct consequence of the construction works (e.g. erosion); and b) a medium-long term impact as a consequence of usage over the life of the asset (e.g. if traffic patterns change, or water courses are deviated). Experience from other CDD programs shows there is potential for environmental impacts to accumulate over time.

The POM contains a number of measures to prevent negative environmental impact through community projects. Environmentally damaging activities are in the non-allowable investments list and project prioritisation and verification at every level includes an assessment of "whether it is able to be constructed and maintained by the community" (taking into account land issues and the environment).



Detailed guidance on technical issues relating to verification, surveys, designs, budgeting, construction, construction supervision and operations and maintenance will be provided in the Technical Guidelines, in accordance with environmental standards. In Timor-Leste environmental protection is covered under *Decree Law No. 5/2011 on Environmental Licensing*. It categorises projects according to potential impacts and outlines requirements for environment impact assessments and any environmental management plans. It is not expected that any of the infrastructure works to be undertaken under PNDS would trigger any of these requirements.

**We assess** that the environmental impacts of PNDS infrastructure should be monitored. We assess that projects funded under PNDS are likely to present minor rather than major environmental risks. Given the program will not have significant negative environmental impacts it will not require referral under the Commonwealth of The Environment Protection and Biodiversity Conservation Act (1999). PNDS may provide the opportunity to implement activities that can protect communities against natural disasters or the risk of climate change. Examples include flood control infrastructure and integrating improved catchment management in the development of a water supply system.

**What will we do in Support?** Through the PNDS Support Program in 2013 and from 2014 Australia will provide short-term technical assistance to monitor environmental issues associated with PNDS implementation and develop strategies to minimise impacts. Environmental and disaster risk reduction considerations have been included in the training materials for technical facilitators, and simple tools for use with communities will be developed. Environmental protection will be integrated into the PNDS and PNDS Support Program M&E Plans, and partnerships with civil society organisations may include monitoring of environmental and land issues. The PNDS Support Program will engage with the Australian Aid Disaster Risk, Environment and Climate Change (DEC) Focal point in Timor-Leste to support the integration of DEC considerations and principles into activities. The PNDS Field Support Team will provide ongoing field monitoring and support.

## 10.9 Sustainability

Sustainability in the context of PNDS is examined from two angles:

- 1) the endurance of benefits from individual PNDS projects; and
- 2) the endurance of systems/processes that underpin PNDS.

### *Sustainability of PNDS systems*

**Sustainability of PNDS processes and systems for providing services and opportunities in Timor-Leste:** Assuming that political support for PNDS remains high and that financial management is solid, the program will have a predictable annual budget. Australia will support MAE and MoF around the PNDS budget allocation and execution. There will also be an incentive for GoTL to maintain the budget if communities gain real economic benefits from the program.

Aside from government systems, sustainability also relies on strong community systems. A lesson from past CDD programs is that program processes should be integrated with existing community structures and lines of authority rather than bypassing them. By working through and alongside these systems rather than subverting them, there is a greater chance of sustained benefits beyond the program.

**We assess:** Sustainability of PNDS systems depends on political support for the program, good financial management and inter-ministerial coordination. Australia is well placed to support GoTL in the first four years, but will need to continue to engage in policy dialogue with GoTL around longer term sustainability.

**What will we do in support?** Assuming suitable arrangements for operations and maintenance (O&M) are made (see below) Australia is confident that the basic functions of PNDS will be financially sustainable for GoTL and communities. In the first four years of PNDS, Australia will fund the extra activities or steps required to support a high quality program. Australia will need to discuss with GoTL how or whether it may take on some of these recurrent costs (such as for training and M&E) at an appropriate time during the first four years. Other Australian programs in Timor-Leste have planned for transition in this way and can share lessons with the PNDS Support Program.

### *Sustainability of PNDS infrastructure*

**Sustainability of infrastructure built through PNDS:** O&M is a major issue in Timor-Leste. The Timor-Leste budget process gives insufficient priority to budget allocations for line ministries across all sectors for running costs, operations and maintenance. Expectations about the division of O&M responsibilities between communities and the Government (line ministries) must be clear, and responsibility for recurrent costs must be clearly assigned ahead of time.

POM sets out guidelines for the O&M of PNDS infrastructure, and requires that infrastructure proposals are developed in conjunction with line ministries where they demand recurrent costs. O&M of smaller infrastructure will often be entirely community funded, and facilitators will need to communicate these expectations clearly as suku select their priorities. Previous community based programs have experienced deterioration of infrastructure due to a lack of clarity about ownership of and responsibility for community assets once built. GoTL budget planning must take into account budgetary implications of CDD programs, including recurrent costs for asset maintenance, but also for crucial personnel, such as nurses for clinics and teachers for schools<sup>67</sup>.

**We assess:** O&M will be a key issue for GoTL's management of PNDS. There is a moderate risk that line ministries will push broader O&M responsibilities to communities in the name of community empowerment, or that communities and government will dispute O&M arrangements.

**What will we do in support?** This will be a key issue for policy dialogue with GoTL. O&M is a concern for each of our sector teams. They are incorporating advocacy and dialogue into their designs around this issue. There are opportunities for cross-program support and sharing of lessons on O&M between PNDS and other Australian infrastructure programs such as Roads for Development and BESIK. Facilitator training is emphasising the importance of O&M in the project cycle, and project guidelines require that members of suku Operations and Maintenance Teams undergo a minimum two day O&M training session to orient them in the key issues.

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<sup>67</sup> Noting the Program Operations Manual does not allow the construction of new schools, new clinics or medical facilities, which would require national government provision of staff and equipment.

## 10.10 Public Financial Management and Administration

Financial disbursements in Timor-Leste are highly centralised, with resulting bottlenecks for the delivery of services in rural areas. While procurement processes have been delegated to line ministries, the Treasury within MoF remains the sole authority to disburse government funds. A request for payment raised in a district must be transported to the capital city. The resulting cheque or funds are then manually transported back to the place of payment. Timor-Leste is implementing a comprehensive program of public financial reform in which Australia is a partner. This will consider the cohesive legislative, regulatory and procedural framework necessary to deconcentrate financial disbursements.

The limited banking sector and access to financial services compounds these issues. **The absence of a fully-developed banking system in rural areas means that cash is the predominant form for financial exchange.** The low value of cash transactions in rural areas, combined with the high costs and difficulties of remote operation have deterred banks from investing in financial services outside Dili. As one of its priority economic development reforms from the Strategic Development Plan, the Government transformed the Timor-Leste Institute for Microfinance into a Category B small commercial bank, the BNCTL, to increase access to banking services and credit in the districts. The Government has also partnered with BNCTL to further expand its reach with the use of mobile banking vans for the delivery of pension payments (cash) in rural areas. The government has recently taken a major step to expand the use of the banking system by requiring all public servants nationally (the majority of salaried workers in the country) to open bank accounts to receive their monthly salary payment.

The use of Suku bank accounts for managing and executing PNDS grants will further expand the use of the banking system, with the creation of approximately 1,000 new accounts (2 accounts for each Suku, plus accounts for government employed facilitators). Increased demand for goods and materials in rural areas (such as materials for construction) and payment of local labour may incentivise local business activity in the longer term, and further increase both demand for, and use of financial services.

**Some of the obstacles to easy transfer of government funds to rural areas relate to the expansion of the conventional banking system, which is costly to use.** The high cost of cashing a cheque in Timor is due in part to the cumbersome interbank settlements system (the system for one bank to exchange the cheques of another bank for cash). In modern economies, the majority of transactions are undertaken using non-cash mechanisms such as cheques, direct transfers and electronic point of sale transfers (EFTPOS). Timor has a relatively antiquated manual interbank settlements system managed by the Timorese Central Bank. Because these systems are not electronic, there is no method for making electronic payments in Timor.

The financial delivery mechanism for PNDS was developed to operate within the current financial system, and create an efficient and accountable transfer mechanism that would minimise risk of further bottlenecks, delays or fund leakages. In addition, as a longer term objective, the PNDS financial mechanisms are consistent with the GoTL's larger objective, of increasing the use of non-cash methods of financial exchange in rural areas.

## 10.11 Decentralisation

‘Pre-deconcentration’, deconcentration or decentralisation reform has been on the agenda for the Government of Timor-Leste since restoration of independence, with the principles of decentralised or deconcentrated government enshrined in the Constitution of Timor-Leste<sup>68</sup>.

In Timor-Leste, decentralisation is framed as a democratic right; a way of bringing the government closer to its population, particularly in the rural and remote areas to both increase the participation of citizens and make government functions better targeted and more efficient<sup>69</sup>. The Strategic Development Plan defines decentralisation as economic development reform to promote state legitimacy, enable local democratic participation for all citizens and contribute to economic and social development through more effective, efficient and equitable public service delivery.<sup>70</sup> There is broad support for the principles of decentralisation, although there remains some debate over the form it should take, the pace at which it should be rolled out, and the resources and requirements for implementation.

MAE has the legal mandate to drive the decentralisation agenda. A *Law on Administrative and Territorial Divisions under Decentralization* was approved in June 2009 which established the future sub-national municipal boundaries based on those of the existing 13 Districts. Other draft decentralisation laws on the process of municipal elections and the operation of local government were not approved. The model most likely to be used for decentralisation in Timor-Leste is that elected municipalities (based on current Districts) will take over responsibility for service delivery within their geographical area, while line ministries play a supportive policy-setting and monitoring role from the centre. This will change the current model of service-delivery in which line ministries use their own deconcentrated sub-national office and units to deliver services.

The Prime Minister has emphasised the need to prioritise the effective delivery of services to the population, and for new municipalities to have the capacity to perform their future role.<sup>71</sup> During the Parliamentary debate on this issue, concerns were raised over the devolution of powers to municipalities – primarily because of the risk of limited capacity in new municipal structures affecting the delivery of key services to the population. There was no agreement on which services should be devolved. Further concerns were raised about the coordination between national and municipal governments. A final issue raised in the National Parliament was the role of the Suku council which was not clearly defined in the draft legislation, exposing a range of different views on how to best utilise its formal and traditional cultural roles. Following the 2012 election, the Prime Minister reiterated his support for decentralisation policy.

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<sup>68</sup> Constitution of Timor-Leste Article 5 and 71

<sup>69</sup> Address By His Excellency The Prime Minister Kay Rala Xanana Gusmão On The Occasion Of The International Conference On Decentralization And Local Government, Dili, 28 May 2013

<sup>70</sup> Strategic Development Plan, p114

Also: Timor Leste 2008. “Decentralization and Local Government in Timor-Leste: Policy Orientation Guidelines for Decentralization and Local Government in Timor-Leste.” MAE, Dili, Timor-Leste.

<sup>71</sup> Program of V Constitutional Government; 4.4.9

### *Decentralisation and PNDS*

There are clear linkages in key principles behind the Government's PNDS program, and its future decentralisation policy. In both cases, there is a strong focus on ensuring that the state meets the needs of the entire population, regardless of their location. There is also a focus on increasing participation and mobilising the knowledge and energy of communities to contribute to and drive national development. As discussed above, both policies have an underlying principle of giving communities a greater voice in their countries future, and greater control over how government policies affect their lives at a local level.

Both PNDS and decentralisation policy face risks to their implementation from human resources limitations in rural areas, with shortages of key technical skills and enabling infrastructure. Both seek to find alternatives to highly centralised systems. Both will rely on good coordination and consultation across the full range of government services so that successful implementation and operation of their policies to make a genuine difference in communities' lives.

CDD models can both support and be supported by decentralisation. CDD can help effective decentralisation by strengthening local capacities and building citizen driven accountability behaviours and mechanisms. In countries where a decentralisation policy is not yet in place or not fully implemented, the process of building capacity at sub national levels using CDD principles can mitigate weak institutional capacities (staff, equipment, procedures, processes, credibility, etc.) through well-coordinated and well monitored implementation<sup>72</sup>.

Decentralisation supports CDD when it brings actual institutional and fiscal devolution of authority and resources to local communities. The considered process outlined by the Prime Minister, the involvement of key institutions such as the MoF and Civil Service Commission, and the explicit reference to ensuring a focus on service delivery are positive indications of the future development of decentralisation policy in Timor-Leste.

Based on current timelines, the Government's PNDS program will be implemented before the finalisation of decentralisation policy, and several years before the first trial Municipalities are implemented. The Government is approaching the issue of community level infrastructure through a participative process to link Suku plans with the Strategic Development Plan, in consultation with all relevant service provision line Ministries. This approach is highly consistent with the key needs it has identified for as priorities for the design and future implementation of decentralised Government. Australian support to PNDS, with its strong focus on building capacity, robust governance systems, emphasis on transparent use of resources, community accountability and coordination for key Line Ministries, is well placed to identify opportunities for harmonisation and synergies.

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<sup>72</sup> Wong, S., & Guggenheim, S. (2005). Community-Driven Development: Decentralization's Accountability Challenge. *East Asia Decentralizes: Making Local Government Work*, p259.