



# Roads for Development R4D

## **Building a Sustainable Rural Road Network in Timor-Leste**

### Concept Note

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Australian Government  
AusAID



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# 1 Introduction

1. The proposed Roads for Development program (R4D) will be designed for 5 years starting in 2012. Subject to approval to proceed by an AusAID concept peer review, the program will be jointly designed by the ILO and AusAID. Subject to final approval by AusAID and the ILO, the program will be implemented by the ILO with AusAID funding and ongoing policy engagement. R4D is expected to become the main donor program for improving and maintaining rural roads in Timor-Leste in the coming years with an explicit objective of strengthening institutional capacity and developing systems and procedures for the management of rural roads.
2. This Concept Note was prepared by the ILO and is the outcome of a wide range of consultations that have taken place since mid-2009 between government stakeholders, AusAID and other donors involved in rural roads development, culminating in a stakeholders' workshop on 3 March 2011. The workshop was attended by representatives of the Ministry of Infrastructure (MoI), Ministry of State Administration, Ministry of Economy and Development and the Secretary of State for Vocational Training and Employment (SEFOPE). Leading donors in the roads sector also attended the workshop, including AusAID, Asian Development Bank (ADB), European Commission (EC), World Bank, JICA and Norway.<sup>1</sup> In this workshop and during various consultative meetings, the Government of Timor-Leste (GoTL) has indicated that it supports the proposed program as rural roads development is one of its key priorities.
3. The concept for the proposed program builds on the lessons learned from completed and on-going rural roads and capacity development programs and projects in Timor-Leste, in particular the TIM-Works Project which is being implemented by the ILO through SEFOPE. TIM-Works is currently the largest program in the rural roads sub-sector. TIM-Works started in 2008 and is co-funded by the EC, Norway, Ireland, AusAID and GoTL. The ILO's effectiveness in implementing TIM-Works was confirmed by the findings of the independent mid-term evaluation and the results oriented monitoring mission engaged by the EC. Given its experience, technical expertise and demonstrated performance in labour-based rural roads development and capacity building projects in Timor-Leste and internationally, the ILO is the most appropriate implementing partner for R4D.<sup>2</sup>
4. There is broad recognition among stakeholders of the need to ensure and sustain adequate rural roads access as a pre-requisite for local economic development and poverty alleviation and to provide rural employment opportunities. This recognition, together with the results achieved through labour-based rural roads works, provides an opportunity to up-scale and institutionalize the successfully demonstrated activities in this sub-sector.
5. The current proposal reflects priorities of GoTL and the Australian Government.<sup>3</sup> The main thrust of the proposed R4D is to develop and institutionalize adequate capacities and instruments in the public sector that will enable GoTL to effectively and equitably plan, budget and implement investments in rural road rehabilitation and maintenance.
6. R4D will adopt a holistic approach and will build synergies and complementarities with other on-going and planned interventions in the rural roads sector. Through R4D, AusAID and the ILO aim to take a leading role in policy dialogue with the government for the sub-sector, particularly to positively influence budget allocations. The program will support government policy formulation and help develop strategies and operational procedures for the management of rural roads. It will also take a leading role in coordinating donors in the sub-sector.

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<sup>1</sup> The Ministry of Finance and Spain were also consulted ahead of the workshop.

<sup>2</sup> Since 2005 ILO has been a lead agency in developing and implementing appropriate labour-based approaches and technologies for planning and implementing rural road development and capacity building projects in Timor-Leste. Its involvement has yielded significant results and has been well received by GoTL and donors. Prior to TIM-Works, ILO-implemented projects include the labour-based rural road construction project in Maliana (2005) and the Serbisu Ba Dame Project (2007). Labour-based approaches in rural infrastructure works optimize the use of productive labour and complement the use of labour with essential equipment necessary to meet the specified technical and engineering standards.

<sup>3</sup> Including the provision of better rural roads, the creation of employment through labour-intensive public works and strengthening capacities of the Government for effective and accountable financial planning and management of investments.

7. Considering current operational capacity and funding constraints within GoTL, it is envisaged that, complimentary to its capacity building activities, R4D will initially provide direct implementation support and investments in rural roads. R4D will directly manage funding of rural road works from donor resources and support the government to implement rural road works from its own budget. As capacities within GoTL develop,<sup>4</sup> it is foreseen that R4D's direct investments and operational support will be gradually phased out, with the GoTL increasingly taking over these responsibilities. As capacity increases Australia will also look to provide funding to the rural roads sector through GoTL financial management systems to reduce transaction costs and to support policy dialogue on budget allocations and systems strengthening.

8. Whilst the proposed R4D will build on the lessons from TIM-Works and other similar interventions, R4D will have infrastructure as the central objective with employment generation being a secondary but still important aspect. Given its focus on skills development and employment generation, SEFOPE was an appropriate institutional home for TIM-Works. However, with this shift in emphasis it is deemed appropriate and more sustainable to place R4D with MoI as the line ministry that is responsible for the rural roads network. R4D's capacity building activities will focus on assisting MoI in establishing its capacities at the national, regional and district levels. This will be done in a phased manner, taking into account absorption capacities and the necessary alignment with the on-going decentralization process. Considering the current uncertainties regarding the pace and direction of the decentralization process, the design of R4D will incorporate sufficient flexibility to ensure the continued effectiveness of the capacity building activities throughout the life time of the program.

#### **Box 1: Selected Development Indicators**

1. Almost 50% of the population lives below the national poverty line of US\$ 0.88/day
2. Poverty in Timor-Leste is predominantly a rural phenomena with 3 out of 4 poor living in rural areas
3. About 77% of the population lives in rural areas and for 88% of the rural poor the main source of livelihoods is subsistence agriculture
4. UNDP HDI ranking of Timor-Leste is 120 out of 169 countries
5. 70% of total employment across all sectors is considered to be "vulnerable employment", meaning people employed in precarious situations (informal employment)
6. 29% of women suffer from malnutrition
7. Very limited service delivery capacities in the public and private sector
8. A lack of many basic infrastructure facilities and services and a poor condition of existing infrastructure. It takes, on average, one hour to reach the nearest clinic and bus stop.

## **2 Contextual Analysis**

### **2.1 Key Development Issues**

9. Timor-Leste is one of the least developed countries in the region. Its non-oil economy is characterised by slow and volatile growth, although there has been recent strong growth in urban centres, Dili in particular. The economy is essentially agriculture-based, with about 72% of the total population of 1.1 million living in rural areas. Subsistence farming provides the main source of livelihoods for the large majority of rural people with limited production of agricultural products, mostly coffee, for cash income. Agricultural productivity is low compared with other countries in its region. Timor-Leste is off track to achieve most of the Millennium Development Goals.

10. The country has experienced conflict and instability. At independence in 1999 more than two thirds of its infrastructure was destroyed and much of its administrative capacity returned to Indonesia. Like all post-conflict fragile states, Timor-Leste has a high level of risk of returning to conflict which may again prevent development and promote further social unrest. However, since 2008 Timor-Leste has experienced a period of stability and as a result GoTL has now explicitly shifted its focus from stabilisation to what it terms "growth and development for all".

11. Despite development efforts in recent years, the poor condition of basic infrastructure in general, and the road network in particular, remains a key constraint. In a transport sector study commissioned by the

<sup>4</sup> In parallel, through the EC-funded CORE project (for which the ILO is also proposed as implementing partner) capacities among the small-scale local contractors/construction companies will be developed.



ADB in 2006 the poor condition of the roads was cited by the interviewed households as the major cause of poverty and the largest constraint to local economic development. It was followed by the lack of access to income generating opportunities, which is closely associated with the existing poor road conditions that prevent easy access to market activity centres.

12. Another serious problem for the economy is the inability to create employment opportunities for the rapidly expanding labour force, particularly in rural areas. Due to the lack of rural employment opportunities, Timor-Leste is experiencing large-scale rural-urban migration. This immigration results in strong pressures on scarce resources, facilities and services in overstretched urban areas, particularly in Dili. The limited job prospects in Dili, have furthermore promoted the growth of a sub-culture of young men engaging in organized crime and violence, with the potential to spill over into civil unrest.

## 2.2 The Condition of the Rural Roads Network

13. Timor-Leste has a relatively dense road network, with a total estimated length of 6,036 kilometres. It includes 1,426 km of national roads, 869 km of district roads, 716 km of urban roads and 3,025 km of unpaved rural roads.

14. Overall, the road network is in a bad condition. A recently completed study funded by the EC surveyed 730 km of rural roads accessible by vehicle and found about 69% of these to be in a bad or very bad condition. It is therefore estimated that 90% of the total rural roads network is in a bad or very bad condition. National and district roads are also in poor condition.<sup>5</sup> Systematic routine, recurrent or periodic maintenance on maintainable roads hardly takes place (with the exception of maintenance activities on some donor-funded projects like TIM-Works).

15. Roads constitute the primary mode of transport in Timor-Leste, carrying 70% of freight and 90% of passengers. Due to the poor condition of rural roads, rural people face increased travel times and transportation costs and are isolated in terms of access to social and economic facilities and services (like local markets, schools, health facilities, job opportunities, government services and banking services).<sup>6</sup> The current rural road access problems seriously constrain the scope and incentives for local economic development and agricultural diversification.

## 2.3 The Complexity of Procurement and Implementation of Rural Road Works

16. The management of the rural roads sector is fragmented with different government agencies and various procurement processes involved.

17. GoTL significantly increased its capital budget in 2011. While the capital development allocation from the consolidated fund of US\$89 million was less than in 2010, the budget included a new and substantial Infrastructure Fund with an allocation of US\$599 million in 2011 that is projected to increase to US\$672 million in 2015. Three quarters (US\$ 449 million) of the Infrastructure Fund in 2011 is allocated to national electricity generation and transmission infrastructure. The Infrastructure Fund includes a substantial allocation to the MDG Suco program in 2011 (US\$65 million) to provide houses across the nation along with small-scale infrastructure in solar power, water and sanitation and roads in addition to other community-based works. The consolidated fund includes a substantial allocation to the Decentralized Development Program (PDD) (US\$44 million) for road, power, and water and sanitation infrastructure at the aldeia (sub-village), suco (village), sub-district and district levels. Programs such as the PDD and the MDG Suco Program are meant to promote more equitable development of rural areas while giving ownership to people to rebuild their communities.

18. The procurement of works under the MDG Suco Program and the PDD will be managed by the Ministry of State Administration for works up to a value of US\$150,000, whereas the newly established National Development Authority (NDA) will manage procurement of works under the PDD for works

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<sup>5</sup> About 80% national and district roads are (or used to be) paved. An ADB study in 2005 showed that about half of the paved roads are in a poor condition.

<sup>6</sup> The Timor-Leste Survey of Living Standards mentions for example that only 63% of the rural population stated that their nearest vehicle passable road is accessible during the rainy season.

from US\$150,000 up to US\$500,000. NDA will also have a major function as a monitoring and certifying institution for all works planned and implemented under the Infrastructure Fund.

19. Line ministries (including MoI) will continue their roles as previously and can procure works between US\$500,000 and one million dollars whilst larger works will go through the Major Projects Secretariat within the Ministry of Finance and the Procurement Commission under the Office of the Prime Minister.

20. Although not managing the procurement processes under the PDD, MoI still plays a key role in support to planning, contracts preparation and contracts supervision for works under the PDD. It seems likely that MoI through its Directorate for Roads Bridges and Flood Control (DRBFC) under the Secretary of State for Public Works will continue to play a key role in rural roads development particularly with regards to planning, design and supervision of works. A Rural Roads Department under the Director of DRBFC is being established and as such likely to become the hub for rural roads planning and management, even though it will not be directly involved in the procurement of works.

21. While support for road works has increased in recent years, the priority of the government has been national and district paved roads. Despite the development need, funding for rural roads has been variable. The 2011 Budget has no provision for rehabilitation and maintenance of rural roads.

## **2.4 Capacity Constraints in Delivering Investments in Rural Roads Development**

22. Current technical and managerial capacity constraints in the public and private construction sector in Timor-Leste seriously inhibit GoTL's capacity to manage and implement investments in infrastructure, including investments for rehabilitating and maintaining the rural roads network (using small-scale domestic contractors). Due to a lack of professional staff in the government's technical agencies, combined with a limited capacity in the private construction industry, the delivery rate of public works schemes has in the past been very low. With specially managed infrastructure funding starting GoTL's 'Pakote Referendum Package' in 2009 and continuing through PDD and the MDG Suco program, disbursement levels have increased significantly, however without matching planning or supervision capacity resulting in inadequate quality and inefficiency.

23. DRBFC is responsible for the maintenance and operation of all roads in Timor-Leste. At the central level, DRBFC has sections for Planning and Design, Operations, and Administration and Finance. Procurement is co-ordinated and administered by the Procurement Unit within the MoI. Each of the five regional offices is headed by a regional engineer, with roughly a supervisors and an assistant supervisor for each district.

24. Although there has been a massive increase in budget and work commitments of DRBFC,<sup>7</sup> the number of engineers has remained static since 2001.<sup>8</sup> DRBFC uses the private sector as much as possible for design, construction and contract supervision as well as construction itself to reduce the work load of its staff. While this reduces the workload for the line staff, it does not remove the need for good management and supervision skills. At the same time capacity constraints of the domestic private construction sector limit the scope for outsourcing work to the private sector.

25. Although growing in numbers,<sup>9</sup> the number of qualified domestic contractors and engineering consultants in Timor-Leste is still too low, especially at district level, to meet implementation requirements for investments in the rural roads network. Many new small contractors have appeared at the local level due to recent government contract packages but they are lacking in technical skills, as well as the necessary experience and discipline of effective contract management.

26. GoTL is at present preparing the development of a register of contractors in a number of classes according to their technical and financial capabilities. This register, once established, could act as a

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<sup>7</sup> Including programs, both government and donor-funded, for which DRBFC also has management and supervision commitments. For example, DRBFC was responsible for 55 road projects in 2009.

<sup>8</sup> At present there are only seven degree level engineers in DRBFC. Secondly, there is a limited availability of adequate numbers of technical staff to plan and supervise road rehabilitation or maintenance programs.

<sup>9</sup> DRBFC states that there are about 180 small contractors with experience implementing road maintenance and rehabilitation but the technical and managerial competencies of these contracts are still often sub-standard, as experienced for example in TIM-Works.

prequalification list for different-sized construction contracts. All contractors need to be registered with the contractors' association (AECCOP). AECCOP was responsible for issuing contracts to its members under the GoTL's small infrastructure procurement process in 2009.

## 2.5 Timor-Leste Government Priorities, Policies and Strategies

27. To substantially improve the quality of life of its people and to reduce the incidence of poverty, GoTL has committed to the development and improvement of a well-connected and coherent road network<sup>10</sup> and other key infrastructure, which are seen as being fundamental to the country's development. The need to promote the development of the currently nascent domestic private sector is also recognized and prioritized as private sector capacities are much needed, for example to deliver investments in road infrastructure.

28. The improvement of rural infrastructure and the promotion of employment opportunities are hence key development priorities for GoTL. Infrastructure has been the official National Priority No 1 from 2009 to 2011, which includes rehabilitation and maintenance of rural roads and the creation of employment through promotion of labour-based methods in public works. The elevated status of infrastructure as the number one priority has also been mirrored in the increased GoTL budget allocation to infrastructure over the last couple of years. However, rural roads have not been prioritized within these substantial allocations to infrastructure.

29. Public infrastructure works programs that provide essential basic infrastructure, generate short-term employment, and contribute to the development of long-term and sustainable job creation also constitute pillars of the 2011 National Priority Working Group on Rural Development. The Ministry of Economy and Development, the Secretariat of State for Vocational Training and Employment and the Ministry of Infrastructure participate in this working group.

30. The summary of the **Strategic Development Plan**<sup>11</sup> (SDP) for the coming 20 years emphasises infrastructure, including roads, in achieving accelerated sustainable development. The SDP acknowledges that scaling up GoTL's fiscal envelope is not enough to deliver improved infrastructure and that there is a need to increase the investment in the building of a national capacity to implement the SDP.

31. A number of other current and past strategies have also defined roads as a priority but have not been officially adopted or utilised and will be superseded by the SDP. The proliferation of planning documents with limited government ownership highlights the need for practical engagement that will strengthen GoTL's ability to manage its resources for rural roads. R4D will be fully embedded in GoTL structures which will facilitate GOTL-led planning and implementation of rural roads works.

## 2.6 Priorities of the Australian Government and the UN

32. Improving infrastructure, including through labour-intensive initiatives, is a key objective in the *Australia Timor-Leste Country Strategy 2009 – 2014*. A key priority for the Australian Government is building local capacities so that Timorese professionals can work on Timorese challenges. The strategy emphasizes the need for strong donor coordination to help ensuring real progress on national priorities and to avoid the creation of unsupportable financial obligations for GoTL. Australia aims at playing a stronger role in donor coordination, policy analysis and policy dialogue.

33. R4D is well aligned with outcome 2 of the United Nations Development Assistance Framework: *By 2013, vulnerable groups experience a significant improvement in sustainable livelihoods, poverty reduction and disaster risk management within an overarching crisis prevention and recovery context*. The program also contributes to ILO's Decent Work country outcomes relating to increased rural employment and improved safety nets through infrastructure investment, livelihood improvement and local business development.

<sup>10</sup> Requiring investments in the country's highways, all-weather paved district roads that connect the country's 13 districts and all-weather community roads that reach local communities.

<sup>11</sup> *From Conflict to Prosperity: Timor Leste's Strategic Development Plan 2011-2030*. Office of Prime Minister April, 2010. The final version of the SDP is expected to be released by GoTL in July 2011.

## 2.7 Related Donor-supported Programs and Projects

34. Road sector development in Timor-Leste relies heavily on external assistance. Support mainly focuses on up-keeping the main roads with few projects focussing on the improvement and maintenance of the rural roads network and related capacity building activities.

35. **ADB:** Early ADB support included two emergency infrastructure rehabilitation projects and the *Road Sector Improvement Project*.<sup>12</sup> Together with AusAID, ADB is financing the US\$15 million *Infrastructure Management Project*.<sup>13</sup> Through its *Road Network Development Sector Project (RNDSP)*, the ADB is providing a US\$46 million grant that includes the improvement of 232 km of national roads and the establishment of a maintenance program for national roads. The ADB's Japanese-funded, US\$3 million, village access project *Our Roads, Our Future* will support local governance and community-based infrastructure works. This includes the improvement of selected village roads in three districts and enhancing the involvement of communities in road works and small community infrastructure. The ADB is also considering supporting two GoTL national roads projects – the Road Network Upgrading Project on the north coast and the Road Network Rehabilitation Project in the west of the country. The first of these projects would be supported by loans from the ADB and Japan.

36. **Japan:** The Government of Japan has provided more than US\$30 million in grants for both technical assistance as well as capital works (focussing on national and district roads). In addition, through the Japanese Fund for Poverty Reduction, US\$3 million has been allocated for *Our Roads, Our Future*. Japan is considering a loan to support the Road Network Upgrading Project through the ADB.

37. **World Bank:** GoTL has formally applied for a US\$20 million grant to implement the Bank's *Road Climate Resilience Project*. The project will invest in the Dili-Ainaro road to improve its climate resilience. It will include maintenance funding linked to the ADB RNDSP, pilot testing of emergency planning and response system, and training for MoI staff and contractors. The four-year project is expected to commence in July 2011.

38. **European Commission:** For a number of years the EC has provided some US\$ 50 million through *Rural Development Programs* (RDP I, II and III). As part of these programs, road rehabilitation works were funded. The EU also co-finances TIM-Works. Currently the EU is preparing RDP IV. Rural road rehabilitation and capacity building of small-scale contractors is one of the components of RDP IV (i.e. the €10 million *CORE* project with MoI). *CORE* is a 4 year project planned to start in mid 2011. *CORE* will complement R4D by building private sector capacity in contract management and delivery. *CORE* capacity building will target 64 local contractors for rural road rehabilitation and maintenance. *CORE* will have close links to MoI and the contractors trained by *CORE* will be used by R4D to implement rural road maintenance and rehabilitation. *CORE* will be implemented by the ILO which will facilitate close coordination.

39. **AusAID:** AusAID has contributed A\$2.25 million to *TIM-Works*. AusAID is co-financing the ADB's *Infrastructure Management Project*. AusAID is also funding the ILO-implemented *Youth Employment Promotion Project* (YEPP), which includes a component for creating employment opportunities for youth in the maintenance of rural roads. SEFOPE will continue implementing labour-intensive employment schemes as a social safety net but the AusAID support to rural road infrastructure will in future be channelled through the new R4D.

40. **Norway and Ireland:** Norway and Ireland have provided co-financing support to TIM-Works.

41. Consultations have been undertaken with the key donors in the rural roads sector. Arrangements for coordination and collaboration through R4D have been discussed and there is general support for the proposal and a willingness to cooperate. The ADB has indicated that they support AusAID and the ILO taking a lead role in the rural roads sub-sector and will coordinate with R4D.

<sup>12</sup> Including rehabilitation of 123 kms of national/district roads and routine maintenance on 45 kms of roads using labour-intensive methods

<sup>13</sup> The advisory inputs in this project will conclude by June 2012 with a scholarships program continuing until June 2013.



## 3 Roads for Development

### 3.1 Outline of the Concept

42. R4D will support GoTL in planning, budgeting and implementing investments in rural road rehabilitation and maintenance, using labour-based methods where appropriate. While the ADB is the lead donor on national roads, the proposed R4D with AusAID support will lead on rural roads.

43. Accelerating capacity building and increasing investment levels for the rehabilitation and maintenance of the rural roads network of Timor-Leste are considered key priorities for GoTL and AusAID. As capacity building is a long-term process, the proposed support through R4D should reflect this and it is proposed that R4D be designed for a period of 5 years.

44. Capacity building will be central to R4D from inception and will mainly focus on strengthening capacities in the public sector by supporting MoI in establishing functional management and technical capacities as well as developing supporting policy/strategy and operational tools. AusAID has developed a staged approach to capacity development that will be integrated into the design of R4D. The approach sets out four stages of capacity for different functions – dependent, guided, assisted and independent.<sup>14</sup> The design will consider the stages that MoI (and district administrations) are at and develop appropriate capacity building activities for these stages. Subject to confirmation by the design, achieving an ‘assisted’ level of capacity is considered a reasonable end-of-program outcome.

45. The design will specify requirements for a detailed needs analysis at the inception of the program to guide capacity building activities. Capacity building activities will be guided by GoTL’s Technical Assistance Policy which is under development. Preliminary discussions on this policy have emphasised the need to distinguish between different technical assistance functions, namely strategic advice, operational work and capacity building.

46. R4D will initially also provide substantial direct operational assistance and investment support in the planning and delivery of rural road rehabilitation and maintenance. This direct support will be implemented in partnership with the GoTL agencies, in particular with the Department of Rural Roads within MoI. A mixed approach including direct implementation is appropriate given the current capacity constraints in the public sector and the clear and pressing need for the rehabilitation and maintenance of rural roads. To focus solely on capacity building at this stage would likely result in a further deterioration in the rural road network before adequate public sector capacity is built to manage the necessary investments. Direct support will also demonstrate the process and benefits of rural road rehabilitation and maintenance and need for appropriate budget allocations to this sub-sector.

47. Direct implementation will complement capacity building by providing an effective platform for on-the-job learning for the professional staff of MoI. However, care will need to be taken to ensure that direct implementation is supporting, rather than substituting for, capacity building activities. Co-sponsoring (jointly funding) with GoTL for the placement of district-level staff is envisaged to ensure core operational capacities at district level. As capacities are being developed and assuming GoTL investment levels and staffing increase, R4D’s role will gradually evolve and focus increasingly on advisory support.

48. R4D aims to integrate labour-based methods, using a balanced mix of labour and equipment, into the rural roads system where cost effective and appropriate. Integrating labour-based methods in the sub-sector will reduce the need for imported equipment and materials and instead increase the use of local resources to implement road rehabilitation and maintenance works. Labour-based road works will provide short-term employment opportunities and an injection of cash income into rural communities. Wage rates will be set in consultation with GoTL at a level that ensures an adequate supply of labour without

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<sup>14</sup> AusAID *A Staged Approach to Assess, Plan and Monitor Capacity Building*, May 2006. The ‘dependent’ stage is defined as one where “The adviser controls the particular work function and may do most of the work, takes the decisions or is highly influential in the decision-making process.” In the ‘guided’ stage “the adviser still has a high level of control, but counterparts can undertake the straightforward elements of the function under supervision or guidance.” In the ‘assisted’ stage “counterparts are now taking prime responsibility for the function, can handle most of the complex aspects and know when they need to ask for assistance.” In the final, ‘independent’, stage “counterparts are now fully competent to do the whole function. They may still use an external adviser for highly technical work that occurs only once a year or on an ad hoc basis.”

distorting local labour markets. Contracting out road works will contribute to private sector development. Contractors trained under CORE and TIM-Works will be eligible to bid for works under R4D.

49. R4D builds on experiences of earlier rural roads development projects, in particular TIM-Works and other relevant capacity building projects (like the AusAID-funded Rural Water Supply and Sanitation Program). Lessons learned from TIM-Works, as well as similar programs elsewhere in the world, indicate the appropriateness, cost-effectiveness, feasibility and replicability of:

- the application of labour-based approaches
- the quality control and quality assurance methods used in these programs
- capacity building methods that include a strong emphasis on on-the-job training and coaching, supplemented with class-room training
- the targeting of beneficiaries in the creation of short-term employment<sup>15</sup>
- the use of local small-scale private contractors and community contractors for rehabilitation and maintenance works respectively.

50. R4D will have national coverage. Selection of specific road works will be undertaken in accordance with GoTL policy but R4D will promote equitable national coverage in line with needs, taking into consideration past, on-going and other planned investments in the sector, including linkages to investments in national and district roads.

51. R4D will take a leading role in supporting GoTL planning and implementation of rural road works and coordinate activities with other donors.<sup>16</sup> At present, donor-supported activities at policy and operational level in the rural roads sector are not well coordinated. However, with R4D providing the necessary advisory support to GoTL leadership of rural roads, including a central role for GoTL in donor coordination, it is expected that the overall effectiveness and sustainability of the interventions of the various stakeholders in the rural roads sector can be improved.

52. R4D's capacity building activities will be aligned with GoTL's decentralization process. Considering the uncertainty of the direction and pace of this process, R4D's design will be sufficiently flexible to ensure that its interventions can respond to the actual implementation of decentralization. The design of R4D will need to specify criteria to guide a flexible approach to decentralization to avoid too much flexibility leading to drift in the program's objectives and priorities.

53. Despite the uncertainty around decentralization, it is logical that the central counterpart institution for R4D is the new Rural Roads Department within the DRBFC of MoI. MoI should be in a position to technically oversee and influence rural road rehabilitation and maintenance. However, the R4D will clearly have to work with all the processes and institutions involved in rural road management to be effective. R4D will operate in a dynamic environment so there needs to be flexibility built into the design for necessary adjustments throughout the duration of the program.

54. As well as a lack of clarity around responsibility for rural roads, there is currently no national plan or specific budget allocation for rural roads. R4D will support the MoI in developing plans and budget requests. It is expected that with increasing management capacity, annual plans and sound systems, budget allocations will increase and eventually reach a sustainable level for the ongoing management of the rural road network. AusAID and the ILO will pursue policy dialogue with MoI, the Ministry of Finance, other relevant agencies and relevant ministers to build support for increased budget allocations to rural roads.

55. R4D activities will be closely coordinated with other relevant capacity building projects (including CORE and Japanese and ADB-funded capacity building projects). Technical assistance under R4D will include support to DRBFC's regional offices and district administrations involved in rural roads development and maintenance. Coordination with the AusAID-funded YEPP will focus on establishing linkages related to the provision of sustainable employment opportunities for youth in the domestic

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<sup>15</sup> With youth and women constituting respectively 50% and 30% of the labour-force in TIM-Works and substantial cash injections in the local economy realized through the transfer of cash wages and the involvement of small-scale local contractors.

<sup>16</sup> Key policy and program documents that should be considered in the design of R4D include: (i) Strategic Development Plan; (ii) National Employment Strategy 2011-2015; (iii) Rural Roads Master Plan, and; (iv) TIM-Works maintenance technical guidelines.

construction sector, through the employment mediation services of the Employment and Career Guidance Centres network established in partnership with SEFOPE.

### 3.2 Goal and Objective

56. The overall goal of R4D is to *contribute to rural poverty reduction and livelihood improvement by supporting the Government of Timor-Leste's objective of a rehabilitated, upgraded and maintained rural road network.*

57. The immediate objective of R4D is: *The Government of Timor-Leste effectively and equitably plans, budgets and implements investments in rural road rehabilitation and maintenance, using labour-based methods where appropriate.*

### 3.3 Proposed Outcomes and Indicative Activities

58. Proposed outcomes and indicative activities under R4D are provided in Table 1. The design process will specify detailed end-of-program outcomes that are achievable within the proposed timeframe and resources and determine appropriate activities.

**Table 1: Proposed Outcomes and Indicative Activities of Roads for Development**

	PROPOSED OUTCOMES	INDICATIVE ACTIVITIES
1	GoTL makes adequate financial allocations to rural road rehabilitation and maintenance, through its annual budget process, and implements reforms to strengthen road management systems, including procurement	1.1 Support Mol to request increased allocations for rural roads through the annual budget process. 1.2 Policy dialogue with Mol, Ministry of Finance, Ministry of State Administration, National Development Agency and relevant ministers in support of increased budget allocations to rural roads and reforms to road management systems 1.3 Consideration of providing funds for road rehabilitation and maintenance through GoTL systems to support policy dialogue on budget allocations and system strengthening
2	Mol (in particular the Rural Roads Department within the DRBFC and Regional Offices), and District Government Offices effectively plan and deliver investments for improving and maintaining the rural roads network– using labour-based methods, where appropriate – with external advisors providing support and assistance with more complex tasks <sup>17</sup>	2.1 Engage and coordinate with stakeholders and other relevant programs 2.2 Prepare and implement comprehensive training programs for relevant GoTL staff at a central, regional and district level 2.3 Support DRBFC in establishing and operationalizing the Rural Roads Department and strengthening its Regional Offices and involved District Government Offices 2.4 In partnership with Mol, develop and implement a rural roads maintenance policy and system 2.5 Provide technical assistance in the preparation of cost estimates, rural road master plans and annual budgets and plans at district level 2.6 Provide leading support and inputs in finalizing and institutionalizing policies/strategies related to rural road investment and the application of labour-based approaches 2.7 In partnership with Mol, develop and apply operational tools for comprehensive rural road management systems (including master plans, Management Information Systems and Geographic Information Systems) 2.8 Review and advise on technical specifications, procurement procedures, and internal and external quality control; and support relevant institutions to adopted harmonized processes
3	Rehabilitation of 600 km of rural roads and maintenance of 750 km of roads using a labour-based approach - creating 2 million work days for 33,000 beneficiaries (at least 30% women) in rural communities	3.1 Establish road selection criteria and identify roads for inclusion in the program 3.2 Climate risk assessments of identified roads 3.3 Field survey and preparation of tender documents 3.4 Selection criteria for contractors, invitation to tender and awarding of contracts 3.5 Engage local communities in the implementation of work and supervision of contracts 3.6 Provide socialization and facilitation support to involved local contractors and communities and promote: i) adherence to occupation health and safety standards; ii) gender equality; iii) environmental awareness and; iv) HIV/AIDS awareness. This will be done through various promotional activities and inclusion of relevant conditions and clauses in applicable procedures 3.7 Monitor cost effectiveness, employment creation, and impact on rural communities, with selected districts subject to detailed impact evaluation, to support policy dialogue

<sup>17</sup> Consistent with the reaching an 'assisted' level of capacity for most functions as defined by the AusAID staged approach to capacity development.

### 3.5 Budget Estimate

59. The envisaged AusAID contribution to R4D is up to US\$30 million. These contributions are subject to clarification during the design of R4D and annual budget appropriations. As capacity building is a long-term process, further funding may be required beyond the currently envisaged 5-year implementation horizon. It is expected that GoTL will contribute to the cost of national staff working with R4D and increase its own budget for rural road investments during the life of R4D.

60. The direct rehabilitation works will cover 600 km of rural roads and will include spot improvement of problem sections and in other cases rehabilitation of the entire road. Wherever possible, highly technical engineering solutions will be avoided. For budgeting and programming purposes the direct investment costs for rehabilitation works have been estimated at an average of US\$30,000 per kilometre. R4D will directly implement maintenance of 750 km of roads. The cost of routine maintenance for roads with no maintenance backlog is estimated at an average cost of US\$800 per kilometre per year. The design process will test the appropriateness of these average cost estimates. R4D will support MoI to prepare detailed cost estimates for rural road rehabilitation and maintenance in different geographic areas and integrate these estimates into planning and budgeting. The preparation of cost estimates will be informed by the experience of TIM-Works and integrated into a unit cost database that was developed in MoI with ADB support.

### 3.6 Delivery and Implementation Arrangements

61. To enable an effective and smooth transition from the on-going TIM-Works, it is recommended to retain to the extent possible technical assistance personnel and trained technical staff of the TIM-Works project, whilst building the R4D structure within MoI. This will require TIM-Works to be extended from its current completion date of 30 June 2011 to at least the start date of R4D, anticipated to be February 2012.

62. Technical responsibility for R4D will be assigned to a Project Coordinator, with technical backstopping support provided by the ILO Regional Office in Bangkok. Day to day administrative and financial services support will continue to be provided by the ILO Office for Timor-Leste and Indonesia in Jakarta, as delegated to the ILO Liaison Officer in Dili.

63. While the majority of the staff will be national and recruited by MoI, international staff and consultancy inputs will also be required, considering current capacity constraints in Timor-Leste. By ensuring that GoTL counterpart staff are available, effective information and knowledge exchange can take place.<sup>18</sup> Locally-recruited technicians and engineers will be employed under GoTL remuneration conditions and initially paid for by R4D but increasingly by GoTL (this practice is successfully applied in TIM-Works and YEPP).

### 3.7 Gender Issues

64. R4D will be designed in line with ILO policies and processes on gender equality and AusAID guidance on integrating gender equality into activity design. The ILO's mandate on gender equality is to promote equality between all women and men in the world of work. This mandate is grounded in the International Labour Conventions.<sup>19</sup> The ILO's gender policy<sup>20</sup> states that mutually reinforcing action to promote gender equality should take place in staffing, substance and structure. The policy is being made operational through an ILO action plan on gender equality,<sup>21</sup> which facilitates gender responsive design, resourcing and delivery of the work of ILO. Further, the employment intensive investment branch of the ILO work at several levels to promote decent job opportunities for women in construction. The Guide on Labour Policies and Practices<sup>22</sup> recommends several practical steps for achieving a gender mix on site and in administration.

<sup>18</sup> It is recommended that the local staff working under TIM-Works is retained and transferred to R4D with the exception of some technical staff who will remain working for SEFOPE for the supervision of road maintenance works under YEPP employment generation program.

<sup>19</sup> Discrimination (Employment and Occupation) Convention, 1958 (No. 111), Equal Remuneration Convention, 1951 (No. 100), Workers with Family Responsibilities Convention, 1981 (No. 156) and Maternity Protection Convention, 2000 (No. 183).

<sup>20</sup> Policy on Gender Equality and Mainstreaming in the ILO, 1999.

<sup>21</sup> ILO Action Plan for Gender Equality 2010-2015.

<sup>22</sup> Employment Intensive Infrastructure Programmes: Labour Policies and Practices, 1998 (Blue Guide).



65. R4D will encourage women's participation in road works and emphasise this with contractors and their staff. From experience there it is necessary to work actively on gender encouraging women's participation in construction as the sector is dominated by men. It will be important to understand the barriers to women's participation and to develop appropriate measures to overcome these. Proposed outcome 3 includes an indicative target of 30% female participation in rural road works. This target is based on the experience of TIM-Works and recognises the range of other demands on rural women's time that mean that equal participation is unlikely to be feasible or desirable. The design process will test the appropriateness of this indicative target.

66. The approach to gender issues in R4D will build on the successful practices that have been applied in TIM-Works. To ensure that women have equal opportunity to participate in the planning and implementation of road works, inclusive community engagement and information sharing will be central to the implementation of R4D. Provisions will be included in contract documents outlining requirements for involving women and providing incentives for doing so. Intensive awareness raising campaigns will be organized at various levels among stakeholders. The output-based (i.e. task-work) system used under TIM-Works will be further refined and continued as it facilitates the engagement of female workers by allowing flexibility in working hours.

67. In addition to encouraging women's participation in road works, further consideration and analysis will be undertaken through the design phase (or if necessary following program inception) on the following issues:

- Ensuring women's priorities are taken into account in the planning of road works, including selecting and prioritising roads for rehabilitation and maintenance
- Managing tensions or conflict between men and women arising from the direct income provided by road works (e.g. potential negative reactions to income-earning opportunities for women, insufficient women's control over income, use of income for socially-damaging activities)
- Managing negative gender impacts of road works arising from the presence of outside workers in or near communities (likely to be minimized by the focus on using local workers)
- Promoting women's involvement in the management of local contracting companies.

### 3.7 Child Protection

68. The design and implementation of R4D will adhere to the ILO policies, including a strict prohibition on child labour, and implement appropriate safeguards for children who may accompany their parents or guardians to road works sites. The ILO's global report on child labour<sup>23</sup> sets out a global action plan to protect children and eliminate child labour in the world of work. This plan gives strategic directions for its operations at the country, regional and global levels and outlines key actions to be taken. The plan provides a clear vision<sup>24</sup> for a world without child labour and member states commit themselves to the elimination of the worst forms of child labour by 2016.

### 3.8 Environmental Safeguards

69. R4D will be designed in line with ILO policies and AusAID guidance on integrating environment into activity design. The Constitution of Timor-Leste prescribes, amongst other environment objectives, that the "State should promote actions aimed at protecting the environment and safeguarding the sustainable development of the economy". The State Secretariat for the Environment (SEMA), under the Ministry of Economy and Development, has the responsibility for environment impact assessment. The design of R4D will consider how environmental impact assessment for roads can draw on SEMA's role.

<sup>23</sup> The End of Child Labour Within Reach: Global report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work 2006.

<sup>24</sup> The global action plan rests on three pillars (i) supporting national responses to child labour, in particular through more effective mainstreaming of child labour concerns in national development policy frameworks, (ii) deepening and strengthening of the worldwide movement as a catalyst and (iii) promoting further integration of child labour concerns within overall ILO priorities, such as Decent Work Country Programs.

70. Labour-based approaches are by nature relatively environmentally friendly. However, even with these types of interventions there are environmental impacts. It will be important for R4D to make an assessment of the main impacts caused by rural road rehabilitation works and to provide technical guidance on how to mitigate negative impacts, including an environmental impact assessment methodology that is coordinated with SEMA's approach to impact assessment. Environmental issues will be integrated into R4D capacity building activities.

71. R4D will not only mitigate possible adverse environmental effects related to its rehabilitation works but it will also improve the environmental impact of existing roads by:

- providing robust designs (including drainage structures and civil engineering and bio-engineering slope-stabilization and protection measures)
- focussing on improving and maintaining already existing road alignments
- applying environmentally-sound work methods that make a balanced use of locally available resources and
- maintaining rehabilitated roads.

### **3.9 Climate Change**

72. Climate change is a significant risk to the long-term sustainability of the road network in Timor-Leste. Australian Government projections<sup>25</sup> of the likely impact of climate change on Timor-Leste indicate that average annual rainfall will increase over the long term. However, these increases are likely to occur in those months with already relatively high rainfall. Extreme rainfall events are likely to become fewer but more intense and therefore may have a more significant impact on the road network.

73. To enhance the sustainability of the rural road network, the impact of projected higher and more intense rainfall will be considered in the design of both the capacity building and direct investment components of R4D. Consideration will be given to whether modifications to the proposed road works, such as additional drainage or enhanced maintenance, are necessary to manage the expected impact of increased rainfall as a result of climate change. The design will include cost estimates for such modifications. The design will outline the process by which detailed climate risk assessments will be undertaken and integrated into the planning of road rehabilitation and maintenance. As far as practicable, developing appropriate skills and processes in understanding and managing climate risks will form part of the capacity building activities of R4D.

## **4. Design Issues and Timelines**

74. R4D will be jointly designed by the ILO and AusAID. The ILO will lead the process and prepare the design document. The design team should include members with the following skills (or combination of skills): labour-based infrastructure works; institutional capacity building; monitoring and evaluation and/or program logic; gender equality and social safeguards; and environment and climate change.<sup>26</sup> GoTL stakeholders will be engaged throughout the design mission and the process will be structured so that they are part of key design decisions. Prior to fielding the design mission it is recommended that preliminary work is undertaken, including bilateral consultations and discussions between AusAID and the ILO in Dili with GoTL stakeholders, and the collection of information that will facilitate an effective design mission.

75. The following time-line is envisaged for the design process:

- Peer Review and approval of the Concept Note: June 2011
- Design mission and consultations: July 2011
- Finalization Design Document: August 2011
- External Appraisal: September 2011

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<sup>25</sup> *Climate change in Timor-Leste – a brief overview of future climate projections*, Commonwealth Scientific and Industrial Research Organisation (CSIRO) for the Department of Climate Change and Energy Efficiency, September 2010.

<sup>26</sup> Depending on the availability of suitably qualified personnel, specialists on particular issues may be involved only at certain stages in design mission.

- Peer Review and approval of the Design Document: September 2011
- Formal Approval by ILO, AusAID and GoTL and mobilization: October-December 2011
- Start implementation activities: February 2012.

This schedule will facilitate a smooth transition from TIM-Works to R4D.

## 5. Risks

76. A number of possible risks have been anticipated in preparing this Concept Note. A risk assessment matrix is outlined below. By building on successfully demonstrated approaches in TIM-Works and other capacity building and rural infrastructure programs, and by coordinating with relevant programs, it is expected that the risks can be minimized and mitigated.

77. An immediate risk to program implementation is the possibility that GoTL's current commitments to R4D may not materialize. This is a key point that needs to be addressed during the design and firm commitments from GoTL need to be solicited. In the longer term, there is a risk that GoTL will not make the increased budget allocations necessary to institutionalize an effective system for rural road rehabilitation and maintenance. They may consider that R4D will provide sufficient funds to this sector and divert their resources elsewhere. This risk will be managed through policy dialogue and by demonstrating the suitability of labour-based methods.

78. The government's procurement policy has been changing yearly and impacts on the implementation of road works, in particular quality. This risk will be mitigated by building in flexibility within the program to respond to a changing procurement environment and to engage the government in dialogue on procurement policy issues.

79. The possibility of civil unrest is an important external risk. By providing short-term employment R4D will contribute to reducing this risk. R4D will build on the experience of TIM-Works in managing the risk that the project could contribute to conflict at a local level by appropriately addressing sensitivities around land ownership and ensuring, as far as practicable, that the benefits of road works are equitably distributed between and within communities.

**Table 2: Risk Assessment Matrix**

Outcome 1. GoTL makes adequate financial allocations to rural road rehabilitation and maintenance, through its annual budget process, and implements reforms to strengthen road management systems, including procurement.		
Assumption	Assessment of Risk	Mitigating Actions
Road infrastructure and rural development remain key priorities for GoTL and the political will can be maintained and built upon after elections in 2012	Low	Policy dialogue, drawing on the impacts of TIM-Works and R4D as implementation progresses, to maintain and build political commitment to rural infrastructure
Outcome 2. Mol (in particular the Rural Roads Department within the DRBFC and Regional Offices) and District Government Offices effectively plan and deliver investments for improving and maintaining the rural roads network – using labour-based methods where appropriate – with external advisors providing support and assistance with more complex tasks		
Assumption	Assessment of Risk	Mitigating Actions
Leadership and staff commitment within Mol and other relevant agencies is sufficient to build capacity and other factors such as staff turnover do not undermine capacity building	Medium	The design process will seek to build leadership commitment through the close engagement of senior officials. Capacity development activities will be planned and implemented to manage the risks posed by staff turnover, including by focussing on team performance as well as individual skills. A long term perspective (5 years) and clear strategy for phased hand over will provide for sustainable institution building
Impact of the planned decentralization process, institutional changes and the roles of various institutions on the proposed program can be properly assessed during the design process	Medium to High	R4D, based in Mol, will work with and support institutions directly involved in rural road planning, procurement and management and will adopt a flexible approach which can adapt to a changing environment
Donors in the roads sector, particularly the rural roads sub-sector, are willing to coordinate improve the effectiveness of investments	Low	R4D will promote and support GoTL-led coordination of the rural road sub-sector. Rural road specifications, policies and procedures adopted by the Rural Roads Department, established with the support of the R4D, will pave the way for harmonization and improved effectiveness of investments
A labour-based approach is adopted by	Low	Experience from TIM-Works indicates that labour-based approaches are

GoTL wherever cost effective		feasible and appropriate and can be cost effective. Evidence of cost effectiveness and impacts in terms of employment creation and income distribution will be documented and information shared
Transparent processes will ensure sound financial management	Medium	Established financial management and procurement processes will be reviewed and safeguards proposed where necessary. Improved budget planning and procurement systems will allow better control over GoTL allocation and spending. Donor funds will be managed according to stipulated regulations
<b>Outcome 3.</b> Rehabilitation of 600 km of rural roads and maintenance of 750 km of roads using a labour-based approach - creating 2 million work days for 33,000 beneficiaries (at least 30% women) in rural communities		
Assumption	Assessment of Risk	Mitigating Actions
Identification and selection of roads can be done in a fair and transparent manner based on established selection criteria	Low to Medium	Identification process and selection criteria will be established taking into consideration existing planning mechanisms at the local level. Plans prepared on a yearly basis will be made public and will allow flexibility in road selection over the duration of the program
Sufficient number of competent companies will tender for works	Low to Medium	Experience from TIM-Works indicates that there is no shortage of small-scale contractors willing to participate in rural road works. A cadre of trained contractors has graduated from TIM-Works and a number of new companies will be trained under CORE, which is expected to start ahead of R4D
Communities are willing to participate in labour-based works	Low	Experience from TIM-Works indicates that this is not a problem, provided that local communities are involved in the identification and planning process, as will be done
No natural disasters affecting road work progress	Low to Medium	Adequate construction specifications and standards – in particular related to drainage, erosion control and pavements – will be used to minimize the erosive effects of rains on the roads. The maintenance regime will also reduce possible adverse effects of heavy rains and floods on the condition of the roads
Environmental impacts of road works are minimised	Low	Drawing on the experience of TIM-Works, R4D will make an assessment of the main impacts caused by rural road rehabilitation works. R4D will provide technical guidance on how to mitigate against negative impacts, including developing an environmental impact assessment methodology
Peace and stability will prevail	Low to Medium	Risk assessment will be done from time to time for areas with physical interventions. Should conflict arise in a certain area, project activities will be put on hold or, if conflict is protracted, be redirected
Land access issues and distribution of benefits do not contribute to conflict	Low	Building on the experience of TIM-Works, appropriate procedures will be implemented for accessing land and ensuring benefits are equitably distributed within and between communities
Direct income for men and women from road works does not contribute to tensions or conflict within communities and road works do not lead to negative gender impacts from the presence of outside workers	Low to Medium	Drawing on the experience of TIM-Works and appropriate analysis, measures will be put in place to monitor and manage any adverse gender outcomes, including providing socialization and facilitation support to involved local contractors and communities and promoting gender equality and HIV/AIDS awareness

## 6. Monitoring and Evaluation

80. A Monitoring and Evaluation (M&E) framework will be developed by the program to ensure accountability and transparency in the use of resources, to monitor progress and achievements, and to ensure that lessons learned in the implementation of R4D are distilled and shared with stakeholders, including the GoTL and donors. The M&E framework will be fully compliant with the reporting, monitoring and evaluation requirements of AusAID. The M&E framework will cover all program outcomes, including GoTL resource allocations, capacity building and direct investments. The framework will measure gender outcomes and adherence to child protection and environmental safeguards.

81. Key information related to the progress of R4D will be captured by the program's Management Information System (MIS). As much as possible this will use government monitoring systems. R4D will work to strengthen GoTL systems for monitoring the delivery and impact (including gender impacts) of rural road works, including by ensuring that the Roads Management Database developed by MoI (through the support from JICA) captures information about the roads rehabilitated and maintained through R4D.



82. For monitoring the achievement of the program's effects and impacts a series of studies will be conducted. Base-lines will be established at the beginning of the program and regular follow-up studies will be implemented to enable an evaluation of the performance of the program against its intended results. Detailed impact analysis, disaggregated by gender, will be targeted to selected districts to make efficient use of evaluation resources.

83. Sound M&E systems, including targeted impact analysis, that generate robust information on the benefits of rural road rehabilitation and maintenance and the effectiveness of labour-based methods will contribute to policy dialogue on budget allocations and support to system strengthening.

## **7. Recommendation**

84. There is a broad and unanimous support at all levels among all the stakeholders for the proposed R4D. The proposed program reflects key priorities of GoTL and the Australian Government and is expected to make a major contribution to capacity building, local economic development, employment creation and poverty alleviation in Timor-Leste. It is recommended that the ILO, AusAID and GoTL proceed with the design of R4D, as outlined in this Concept Note.