

Aide-Mémoire (Final)

June/July 2009 Visit

This Visit and Aide-Mémoire

1. This third Monitoring & Review Group¹ (MRG) mission visited the Timor-Leste Rural Water Supply & Sanitation Program (RWSSP) from 28 June to 3 July 2009.
2. We met Departmental Directors and others from the Ministries of State Administration, Rural Development, Health and Infrastructure. We held discussions with the RWSSP / IDSS team and AusAID Post and met other agencies with programs in the sector, including USAID's DWASH program and some of the NGOs (CPT, HTL, ProBem, UNICEF and WaterAid). We also visited District/Sub-District offices and water systems in Bobonaro and Manantuto.
3. This Aide-Mémoire will be the only record of the MRG visit on this occasion, although the MRG stands ready to provide follow-up or further comment on any of the issues raised.

Context

4. Key contextual events include the recent finalisation of the Whole of Program-Life Work Plan (WPLWP), the drafting of a 2009/10 Activity Work Plan, the drafting of a revised M&E Framework, the outcome of a recent Office of Development Effectiveness (ODE) Working Paper evaluating Australian aid to water and sanitation service delivery in Timor-Leste, and the ongoing design of further AusAID support to water and sanitation in Timor-Leste through the Water and Sanitation Initiative (WSI). In addition the Government of Timor-Leste's (GoTL's) budget allocations to the sector for 2010 are currently being discussed in the context of accelerated decentralisation of services.
5. Importantly RWSSP has a new Program Team Leader, Keryn Clark, who has brought a new depth and breadth of sector and Timor-Leste experience to the program. The MRG congratulates her on her comprehensive grasp of, and engagement with, the complex policy, institutional and organisational issues facing the sector and the program.
6. The finalisation of the WPLWP, after an extended design phase and prolonged discussion of issues arising, has meant that there is now a greater level of activity – but this is only relatively recent. But there is a sense, now, of progress being made under a well-

¹ Comprising Peter Bazeley (independent consultant and Team Leader), Chris Dureau (IDSS representative), Sr Elias Moniz (Timor-Leste Department of Water & Sanitation) and Marcus Howard (AusAID Infrastructure Adviser, Canberra). Natalie McKelleher and Jose Perreira from Post accompanied the MRG in many of its discussions, as did Keryn Clark, Team Leader of RWSSP, and Tom McAloon, USAID's Chief of Party for the DWASH program.

managed program that is addressing the right things in the right places. Given this new sense of confidence at program level, the MRG has this time focused more on the program's external environment and performance / aid-effectiveness issues relevant to AusAID's wider engagement, and that of other donors in the sector including USAID.

An uncertain policy, institutional and public expenditure environment

7. There is a new policy emphasis, from the very top of government, on the role of water and (perhaps to a lesser extent) sanitation in rural development. One feature of that is the emergence of a new player to the sector in the form of the Directorate of Rural Development, which has its own funds and programs. It is not yet clear how the various institutional roles and mandates will be resolved, although GoTL is committed to avoiding duplication.

8. Notwithstanding that new policy direction, policy and public expenditure choices determining the nature and scale of the development of the rural water supplies and sanitation sector(s) contain mixed messages. To date, GoTL has not committed sufficient funding to the sector to meet its own (or MDG) targets for access to clean water and basic sanitation. This will impact not just on sector performance, but also – rather significantly – on the fundamental design of the RWSSP, which is largely one of building capacity for the delivery of services through GoTL systems and enhanced financial allocations. (As opposed to funding significant levels of service delivery itself.)

9. RWSSP has provided key briefing materials to Ministers in this discussion and a number of scenarios are being discussed – some suggesting that a significant increase in financial allocations to the sector may be tabled. However, at the same time, an interesting discussion has emerged on the fungibility of donor finance and the extent to which increased donor finance to a sector may be used to justify a reduction in GoTL finance to that sector.

10. That is a difficult one to square until such a time as there are comprehensive Medium Term Expenditure Frameworks for sectors based on commonly-agreed policy objectives and measures of sector performance, the costs of delivering on those objectives, and the respective (and agreed) contributions of government and donor finance.

11. The issue emphasises the centrality and urgency of RWSSP's work on the development of sector MTEFs. (And of ultimately getting donor finances on, or shown alongside, the government budget. Once that is achieved fungibility is no longer the same issue.)

12. We **recommend** that RWSSP review the sufficiency of its planned input to developing sector MTEF's, possibly considering both more intensive and longer-term assistance to that pivotal process.

13. Failing a substantive increase in sector financing, RWSSP will need to review the extent to which its very significant capacity-building function remains proportionate to the level of service delivery possible.

14. But other policy issues also need to be resolved too if there is to be both rapid and sustainable improvements to access to water and sanitation. A key one is the ownership of assets once installed, and an allocation of responsibility for their operation and maintenance that is realistic and achievable in both social and financial terms.

15. Ultimately this relates to the agreement there is (or any lack of it) between AusAID and other development partners in the sector (such as USAID) and the top-end of

government about outcomes, sector performance, and the necessary levels of finance. It is not something that can be resolved at the level of the RWSSP in its relationship at Departmental level, but rather something that Post captures in the context of performance management at the level of the Country Strategy and the policy dialogue with GoTL around that.

Decentralisation

16. While the relevant Bills are still before Parliament, it seems likely that the delivery of water and sanitation services (among others) will be some of the first to be decentralised, initially through a limited number of pilot Municipalities evolved from current District administrations. This is significant for RWSSP, in a number of ways.

17. Firstly, it means that RWSSP needs to reflect on where, institutionally, it is pitching its efforts. (Noting, in passing, the confused institutional arrangements at central level, above.) Secondly it may represent an opportunity to make greater use of government systems, which needs (within bounds) to be progressed aggressively (see below). Thirdly such support to decentralised service delivery could readily include the introduction, in part, of some interesting performance-based incentives for enhanced service delivery, potentially utilising additional resources for service delivery likely to be available under the WSI. And fourthly, while tangential to RWSSP's objectives, it would also usefully support GoTL's decentralisation program.

18. We recommend that RWSSP/RWASH continues to engage vigorously in the decentralisation process and supports the expansion of robust models for the management and financing of service delivery at that level.

Use of partner systems

19. RWSSP design specifies four phases to the transfer of planning, contracting and management responsibilities from the Managing Contractor (MC) to government:

- Phase I: MC plans, contracts and manages delivery;
- Phase II: Government plans; MC contracts and manages;
- Phase III: Government plans; MC contracts; Government manages;
- Phase IV: Government plans, contracts and manages.

20. But a more subtle analysis of capacity in different areas and at different levels (and probably at different times) needs to be reflected, just as the Aid Effectiveness agenda suggests that we must be more aggressive in channelling aid through government systems (unless there are good reasons not to). (So a 'Phase V' would capture the hand-over of financial resources, too.) Best practice, as well as principles set out in the Accra Agenda (for example), suggest that capacity of partner systems will only be developed by actually channelling funds through them, and that – as the Ministry of State Administration highlighted in its discussion of decentralisation – we will otherwise perpetuate a chicken-and-egg situation of never getting to use government systems because we've never strengthened them through using them.

21. We recommend that RWSSP re-assess the 'Four Phase' model in the context of the program's now greater understanding of capacity, of where any fiduciary or other risks exist, and – in particular perhaps – of the structures and systems to be supported under

decentralisation, and consider a more finessed, performance-based, and potentially more rapid, approach to towards the use of government systems. (In consultation with Post.)

Access for Clean Water & Sanitation Initiative (WSI)

22. Up to AUD 12 million over two years (Australian F/Ys 2009/10 & 2010/11) is likely to be available to Timor-Leste from WSI to support the objectives of increasing access, making services more sustainable, improving the health and quality of life of the poor and enhancing aid effectiveness. As highlighted in the last MRG report, this provides an opportunity to shift the balance of AusAID's water and sanitation activities in Timor-Leste a little more towards financing service delivery (as opposed to capacity building).

23. The decentralisation process (see above) also represents an exciting opportunity to consider the use of WSI funds in – in part at least – promoting water and sanitation objectives within the mandates of the new Municipalities, potentially also pursuing aid-effectiveness objectives including, perhaps, performance-based allocations through government systems. Annex 1 discusses this in more detail.

24. We **recommend** that part of the WSI allocation is used to support the expansion and improvement of decentralised service delivery in water and sanitation and that RWSSP investigates and designs (at least for the second year of WSI funding) a model of performance-based financing through local government systems.

25. We also **recommend** that this is used as an opportunity to establish, at high level, policy dialogue with GoTL on the definition of 'what success looks like' in the sector, joint expectations, and mutual accountability for results.

Revised M&E Framework

26. The program has recently produced a [draft] revised Monitoring & Evaluation Framework. It is much improved from the one reviewed at the last MRG: it is strategic, well thought-through and, in our opinion, forms the basis of a robust M&E and performance management system that is fit for purpose.

27. We have only three minor comments:

- i. The framework should probably more clearly distinguish between the generation of information for program management purposes (and possibly contract performance), and the generation of (much more limited) information suitable for the purposes of AusAID performance management at country-program level and above.
- ii. The framework should also capture the aid effectiveness, alignment and harmonisation agenda and, in particular, the performance markers that might trigger progression through the 'four phases' of the program and greater use of government systems.
- iii. While this is clearly understood, the distinction needs to be made that this is an *RWSSP* performance framework, and that one activity of RWSSP is to support the development of a wider *sector* performance framework for use by GoTL and Development Partners. (Recognising, for example, USAID's DWASH program as an important contributor to the wider sector strategy.)

28. We **recommend** the adoption of the proposed revised framework, recognising that it will continue to be refined.

Draft Annual Rolling Work Plan, July 2009 – June 2010

29. Annex 2 provides some detail on our analysis of this important planning and accountability document. The document errs towards the now-familiar pattern of RWSSP planning documents providing excessive description of low-level activities without sufficient reference to expected – and quantified – results and outcomes.

30. The document should also now be updated to provide a response to the recent ODE Working Paper.

31. We recommend that the draft 2009/10 Annual Rolling Work Plan be revised now to include a section on RWSSP's [already prepared] management response to the ODE Working Paper 1, and then be accepted by AusAID. A more substantive review of the Annual Plan is recommended within 3 months. A revision of the Whole of Program Life Work Plan should be prepared following the Mid Term Review proposed for early 2010.

GoTL Queries to the MRG

32. The MRG was not able to address a couple of queries raised by GoTL and the **RWSSP Team Leader should follow-up** or clarify these with the respective Ministries:

- MoH/EHD had a query over the scholarship program, under which none of their staff was included in the 20 sent to Surabaya, Indonesia;
- DNSAS suggested that there could and should be greater involvement of DNSAS staff in tender and selection processes for contractors or NGOs under the program.

Mid-Term Review (MTR)

33. While the program's approved budget extends to 2012, the Managing Contractor's contract extends only to September 2010 in the first instance. RWSSP's Mid-Term Review needs to be timed appropriately.

34. There have been significant shifts since program design in the policy, institutional and fiscal environment in which the RWSSP operates and some questions raised over issues such as the balance to be struck between capacity-building and service delivery, the extent to which high-level water and sanitation targets are likely to be met, and aid effectiveness considerations such as the use and configuration of TA and the use of government systems. The important issue of the level of GoTL funding to the sector will be informed by the next Budget, due in November 2009. (But it is sometimes not finalised until several weeks later.)

35. The MTR will be central to any discussion over the configuration of the second half of the program, and the specification of any new or extended management contract. Its timing is also therefore critical.

36. We **recommend** that Post, GoTL and the program start planning the MTR for, probably, February 2010. (i.e. as soon as possible in the new year, but allowing for the GoTL 2010 Budget to be announced perhaps as late as January.)

37. The MRG will provide some pointers for recommended TOR in follow-up to this week's mission.

Acknowledgements

38. We are very grateful to all the government, donor, NGO and program staff who kindly gave us their time and opinions, and to the RWSSP staff and AusAID Post for – as usual – arranging such an efficient and effective programme of meetings and visits. We much appreciate it.

Annex 1

Timor-Leste Access for Clean Water and Sanitation Initiative (WSI)

The Australian Government has made a global commitment of \$300 million for the WSI over to 2009/10 and 2010/11 [Australian] financial years. An allocation of \$12 million from this global fund is earmarked for Timor-Leste. During the past two months, consultations have taken place in Timor-Leste and in Australia about how these funds might be used.

In its second visit (October 2008), the MRG made the following recommendation:

“We recommend that any further tranches of AusAID funds for RWASH sector, (for example under AusAID's *Access for Clean Water and Sanitation Initiative*) be provided in the form of performance-based finance where clear progress is being made in policy regulation, capacity, resources allocation and budget execution”

The MRG has reviewed the Draft Program Framework for the WSI in the light of this recommendation and its relevance to the current context. We note that consideration has been given to options for how these funds could be allocated and what aid modality should be used. We endorse the overall framework's suggestions for allocating the funds through five funding packages. We also endorse the recommendation that these additional funds should (initially at least) be delivered through the existing contractual mechanisms set up by AusAID through RWSSP.

In regard to the recommendation made as part of the previous MRG visit, there are indications of initial consultations and growing awareness about how to address policy gaps, especially in setting a road map for the production of a sanitation policy and identifying the challenges for a policy on water. Water has been absent from national priorities during the past two years, but appears to be a higher priority for 2010. There has also been effort on the part of DNSAS and EHD to increase technical and delivery capacity for RWASH services especially in the selection and training of district and sub-district staff. Finally, a substantial increase for water and sanitation, including for rural areas, is now being debated within GoTL's 2010 Budget preparation process. It is therefore appropriate that the release of additional funds from WSI be considered in the light of some progress having been made in the areas noted in the above-mentioned MRG recommendation.

However the current Draft Framework for the WSI does not adequately explore ways in which this fund could be used as **an opportunity for discussion** with the partner government about the drivers that will determine our ability to reach MDGs and the joint expectations of both the GoA and the GoTL in relation to achieving these. The final drafting of the AusAID Country Program Strategy and the availability of the additional \$12 million provide a convergence of opportunity for the Australian government to consider with the GoTL what success in RWASH should look like and what are the mutually agreed commitments of both partners. (See also para 25 above.)

It is clear from our discussions that there is now a stronger interest in rural development and WASH is seen as an important part of this. Recent developments have shown that there are a number of contesting Ministries attempting to define their roles and responsibilities in relation to rural development and to service delivery in water, sanitation and health behaviour change. Within this context we think it is also important that AusAID engages with higher levels of government such as National Planning and Finance as well as service delivery ministries other than the currently chosen line ministries of Infrastructure and Health.

The proposed allocation of funding over the two financial years is \$4 million for the first year and \$8 million for the second. Where it may not be timely for the first year's allocation, due to begin in July 2009 to be used for the purpose of promoting such discussion, the second year's allocation could provide better opportunity for reaching performance-based agreements.

For the first year, one of the five packages of assistance proposed is to facilitate collaboration between the Ministry of State Administration and Territorial Management (MSA) in their Local Development Program (LDP) and the District level staff of SAS and MoH. Where the LDP provides a useful process for identifying community priority, SAS and MoH are able to provide technical support to ensure that the designs are functional, sustainable and integrated to health behaviour change as well as supported beyond implementation. For this reason funding proposed for the LDP provides a useful opportunity to develop a set of process and performance-related criteria between MSA and DNSAS and MoH. More specific reference to and exploration of this should be made in the WSI Draft Program Framework.

Annex 2

RWSSP Draft Rolling Annual Work Plan, July 2009 to June 2010

A Rolling Annual Work Plan is a planning document for RWSSP and AusAID that both i) describes activity in terms of inputs and outcomes and ii) meets a contractual requirement of AusAID to demonstrate that the activity is adequately planned and implemented. As a general comment the document meets AusAID contractual requirements for an Activity Plan but it falls short in its other purpose as an effective planning and management tool. There is too great a focus on inputs and activities unrelated to expected outcomes, which is unsatisfactory for a program that has been in a planning phase for 20 months. Nor is there a sense of the context of RWSSP in the rural water sector more generally. A good work plan should show to AusAID and GoTL achievements that can be expected over the next year for a proposed investment of \$ 14.5 million. It fails to do this. However, RWSSP is making good progress on improving this situation through the work of the new Team Leader and development of the M&E framework and it is recognised that this will take time.

Because of timing the Annual Plan was prepared without the benefit of access to Working Paper 1: East Timor which is part of the Independent Evaluation of Australian Aid to Water Supply and Sanitation Service Delivery in East Timor and Indonesia Report, July 2009. This is not the fault of the contractor but major recommendations do arise from the ODE review and these must be reflected in both updates to the Whole of Program Life Work Plan and the 2009/10 annual plan. A response and work plan changes should not wait for the next annual plan which is due in 12 months' time.

Specific Issues with the Annual Plan's function as a planning document are:

- **Section 2:** 'Activity Description' describes the expected whole of life results framework of a 10 year intervention and provides a log frame for RWSSP with a goal, purpose and component description. While this section includes expected high-level results over the whole of life work plan it does not inform the reader of intermediate achievements that can be expected. Nor does it answer the question of whether RWSSP is on track compared to the overall plan. A description of intermediate milestones would allow the GoTL and AusAID to determine the success to date of RWSSP. The statement that this annual plan is focused on the first two stages of four proposed phases of the Whole of Program Life Work Plan is self-limiting and does not reflect actual progress with MoH and the potential to work through existing local government mechanisms. RWSSP should allow itself a wider scope.

In sub section 2.6 'Monitoring' there is a statement that setting of targets is a difficult task in East Timor. While it is accepted as a difficult task a program worth 28.7 million does require targets, based on agreed expectations, that demonstrate the value for money of a significant investment of donor funds. It represents a significant portion of the funds available to the sector in East Timor and RWSSP achievements do need to be judged in terms of effectiveness.

- **Section 3:** 'Review of Progress and Implementation'. Much of this section is taken up by reporting what occurred in 2008/09 which is an AusAID requirement. The detail would probably fit better in a separate progress report and allow this section to focus on lessons learned and management actions that arise from these. As mentioned above this section should include a management response to the ODE report for East Timor.

- **Section 4: 'Implementation Strategy'.** Activities are described in general terms but no expected resultant outcomes are given. This is due to a lack of institutional analysis noted in the ODE review and no development of a sector road map that allows for description of intermediate achievements.

Sub section 4.4 'Confirmation of Partner Government Inputs' is limiting for RWSSP which describes itself as following a sector-wide approach. This part should be updated to include a description of sector resources including other GoTL inputs through MoSA, Rural Development and inputs of other donors, especially USAID's, DWASH program and civil society groups.

The draft 2009/10 Annual Rolling Work Plan should be revised now to include a section on RWSSP's [already prepared] management response to the ODE Working Paper 1, and then be accepted by AusAID. A more substantive review of the Annual Plan is recommended within 3 months. A revision of the Whole of Program Life Work Plan should be prepared in the context of the Mid Term Review proposed for early 2010.