Timor-Leste Governance for Development Investment Design

Program Name:	Governance for Development
Start Date: June 2013	End date: June 2017, plus four years till June 2021 (with additional FMA approval).
Proposed funding allocation:	AUD $61.78 million for the first four years.
Concept Note approved by:	Nick Cumpston (Acting ADG Indonesia Timor-Leste Branch) after Concept Peer Review 6 December 2011 and Independent Appraisal (pre- SPC process)
Quality Assurance Steps:	Independent Appraisal and Design Peer Review

Table of Contents

Executive Summary

The Development Context of Timor-Leste

Timor-Leste has made enormous 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 prioritisation of economic and social development. The Government's *Strategic Development Plan* (SDP), released in June 2011, articulates a vision for using petroleum wealth to develop the economy and alleviate poverty.

However, Timor-Leste faces significant development challenges. In economic terms, Timor-Leste is a middle income economy, but it is also one of the most oil dependent economies in the world. According to the 2013 National Budget, per capita GDP calculated including oil and gas is around $4000 (2011). Non-oil GDP per capita is still low (around $865) with unequal distribution of wealth across the population. The public sector dominates the economy and transfers through Government investment and programs are the overwhelming drivers of growth. Private investment is low and further progress on the structural constraints to growth is needed to expand private investment.

A poorly educated workforce is a constraint to productivity and to the long term development of the economy. While net enrolments rates for primary school have increased in the last few years, the 2010 Census shows that graduation rates from Junior Secondary Schools outside of Dili are less than 10 per cent. Given some 50 to 60 per cent of the population are under the age of 18, the problem could increase. Young jobseekers, even when well educated, currently have limited job opportunities outside government. Formal private job creation is very low with estimates putting the number of new jobs created each year at around 500, compared with around 16,000 job seekers entering the labour market.

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. National infrastructure is either missing or in poor repair. The Government has made investments in national roads, power, water, ports, airports and other vital economic infrastructure one of its biggest priorities and has created a separate Infrastructure Fund to finance these investments. This work involves large upfront investments and on-going budgets for operations and maintenance.

The number of people estimated to be in severe poverty is around 40 per cent, while closer to 70 per cent live on less than US$2 per day[1].

---

[1] 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 percent of the population is poor. The Multidimensional Poverty Index, which tracks health, education and asset measures and is based on 2009-2010 Timorese data, estimates that 68.1 percent of the population is poor and 18.2percent is vulnerable to poverty. The Multidimensional Poverty Index estimated that 38.7 percent of the population in Timor-Leste is in severe poverty.

The Government's plans to address these development challenges

The Strategic Development Plan 2011-2030 **(SDP) plots a path for Timor-Leste to spend its resource wealth to bring about equitable development for all Timorese.** In doing so, it articulates a strong government commitment to reducing poverty in Timor-Leste. The SDP was the election platform for the current Gusmão-led government which now has the mandate of the people to proceed with its implementation.

The SDP provides an overview of the Government's priorities, sets out indicators for 2015, 2020 and 2030, and gives the underlying rationale for the Government's current budget strategy. It sets out development goals in key areas including health, education, water and sanitation including:

- By 2015, providing quality basic education to 93 per cent of Timorese children, and by 2030 giving access to geographically close quality pre-schools or classrooms to children in all 442 sukus (p. 218).
- By 2015, increasing participation of children with disabilities in basic education by 40 per cent, and by 2030 to have a gender-fair society (p. 219)
- By 2015, providing 70 per cent of pregnant women with antenatal care at least four times, and to giving an immunisation package to 90 per cent of children, and by 2013 to having a district hospital in all districts (p. 219)
- By 2015, exceeding the standard of 75 per cent of Timor-Leste's population having access to safe and reliable water, and by 2030 providing all subdistricts with sewerage systems (p. 221).

The SDP also sets out the government's plans to foster economic growth, including using public expenditure to "*build a foundation for social and economic development*", with a view to "*[o]ver time, private sector expenditure and private sector domestic capital formation…supplant[ing] government expenditure as the primary driver of economic growth*". It sets out plans to develop the economy in petroleum, tourism and agriculture, with the following targets:

- By 2030, self-sufficiency in food with a flourishing export trade in a range of agricultural products, including staples, livestock, fruit and vegetables and other cash crops, forestry products and fisheries products.
- By 2030, a sizeable industrial base anchored by the petroleum sector, including oil and gas production and downstream industries such as petrochemicals
- By 2030, a strong and thriving tourism and hospitality industry backed by improved infrastructure, support for local tourism businesses and a skilled local workforce.

It projects an 'annual average growth target of 11.3 per cent to 2020 in real terms and a moderate rate of 8.3 per cent to 2030' (p. 208).

The Government is using its petroleum wealth to finance its investment strategy and has proposed a five to ten year investment program after which public expenditure will return to more normal levels, consistent with the Estimated Sustainable Income of the Petroleum Fund. The opening balance of the fund at the beginning of 2013 is around US$10.8 billion (National Budget); with the

total petroleum wealth (which includes the net present value of future revenues) estimated to be US$26.2 billion. This gap between national income and development outcomes provides a strong *prime facie* case for the Government's ambitious investment agenda. The nature of these investments, how they are prioritised and how efficiently they are managed will have a large impact on the achievement of outcomes set out in the SDP.

The challenge for the Timor-Leste economy is to increase incomes and livelihoods. The SDP assumes that public investment will lead to greater private sector investment and an economy that can transition away from its current dependence on oil and gas revenues. The production of enough jobs to meet the growth in the labour force and investing in the skills required to drive productivity will be key factors in sustaining long term economic growth.

The Government is also using its petroleum wealth to improve services, particularly in the districts. Timor-Leste's poor development outcomes justify an up-front investment in services such as health, education, training, agricultural extension services, water and sanitation. The challenge for the Government is to balance current needs while also building a system to deliver services that it can afford into the future. This includes the initial capital outlays, the ongoing cost of operating and maintaining infrastructure, the cost of providing basic services, and the ongoing costs of cash payments, including the old age pension, a pension for veterans and some limited cash transfers.[2]

The government has demonstrated a clear intention to redistribute resource wealth to poor people in rural areas and has created significant programs for bringing health and other services directly to the people, such as direct grants to schools and SiSCA's – a program of mobile health clinics. The Decentralisation Development Package (PDD1 and PDD2) and the National Program for Sukuo Development (PNDS), have also been implemented, or are currenly under development with a view to bringing small scale infrastructure directly to Districts and villages.

The Government acknowledges that its bureaucratic systems are a challenge to its ability to implement the SDP. It recognises that '*good governance and a professional, capable and responsive public sector are essential for the delivery of government services and the implementation of the Strategic Development Plan*' (SDP p.183). Whilst services are delivered by Line Ministries, they are dependent on central agency systems, including financial management systems for transferring and acquitting money and determining the budget; central systems for managing the workforce; and increasingly centralised systems for construction of infrastructure – including PDD1, PDD2, PNDS, and the Infrastructure Fund. The interdependence of these systems means that meeting SDP targets for improving services like health, education and water and sanitation is linked to improvements in central agency systems.

---

[2] The allocation to the Ministry of Education (excluding a capital budget in the current financial year) has gone from $16.2 million USD in 2004 to $82 million USD in 2012. The allocation to the Ministry of Health has gone from $14 million in 2005 to $49 million USD in 2012. Added to these allocations is budget which has been given directly to infrastructure. The allocation to pensions in 2013 is projected to be $127 million USD; of which $85 million is for war veterans, $38 million for people over 60 years and people with disabilities, and $3.7 million to public service pensions.

Australia in Timor-Leste

The Government of Timor-Leste SDP is the one nationally-owned plan for Timor-Leste's development and development partners need to align their support behind it. Australia and Timor-Leste negotiated a partnership agreement that sets out the principles on which it will base its joint cooperation, and the specific areas Australia will support under the SDP. In particular the *Strategic Planning Agreement for Development* 2011 (SPAD) states that the partnership is founded on mutual respect, friendship and shared responsibility for improved development outcomes. Importantly, the SPAD acknowledges the SDP as the singular development plan for Timor-Leste and signal's Australia's intention to support its implementation.

The New Deal for Fragile States, endorsed at Busan Korea, in November 2011, sets out a number of principles to guide work in fragile and conflict-affected states. It calls for fragile states to be the leaders of their own development, and calls for partners to get behind the one nationally-owned plan for development, as AusAID has done with the SPAD. It also calls for the development of mutual trust and strong partnerships through timely and predictable aid commitments. AusAID is the largest donor in Timor-Leste, and currently provides almost 40 per cent of all Official Development Assistance to Timor-Leste. It is the largest donor in health, rural water and sanitation, rural roads, and public financial management.

The Governance for Development Program

The Governance for Development (GfD) Program will focus on some of the major challenges facing the Government in the implementation of its SDP. Its goal is: *Poverty reduction in Timor-Leste through economic development and delivery of services.* The Government of Timor-Leste has ambitious plans to develop the economy and improve the delivery of services in part by front-loading its investment of petroleum and gas wealth. To achieve its economic targets, it needs to improve the performance of its central agencies.

The Governance for Development (GfD) Program will assist the GoTL to implement the SDP by working with central agencies, including the Prime Ministers' Office, the Ministry of Finance, the Civil Service Commission, the Ministry of State Administration, and the Infrastructure Fund agencies to improve the systems that are most important to economic management and service delivery. GfD will be structured around two core pillars: (I) economic and fiscal policy; and (II) improvements in basic services.

Pillar I: Economic and Fiscal policy

The purpose of GfD is to support the Government to achieve sustainable economic development and poverty reduction; and support the development of a fiscal framework that delivers sustainable government finances, economic growth and meets social needs.

The SDP demonstrates the Government of Timor-Leste's commitment to sustained economic growth and reducing poverty through structural reforms, institution building and public investment. In order for the SDP goals to be met over the next 20 years the Government will need a strong framework for making economic policy decisions, and translating those policies into

sustainable public investments. The SDP is at the apex of the strategic policy framework, the annual budget process is at the frontline. These are strong foundations from which to build and need to be combined with well thought through and clearly articulated fiscal and monetary policy frameworks. The Government has a 5 year budget strategy anchored to investments outlined in the SDP, but fiscal policy over the medium term, including around issues like the ideal level of overall public expenditure, structural reforms, competition policy, productivity, and employment are still being formulated. Some of these economic policy considerations raise questions about how to finance investments and provide incentives. Does the Government borrow or tax? What impact do these decisions have on key indicators like growth, inflation, household incomes, wages?

While these are complex questions, they are a matter for the Government and other economic policy making institutions of Timor-Leste to decide on. GFD will work with government to help build the capacity of central agencies to make these decisions and to adopt and administer these policies. In supporting the Government development partners like AusAID need to be very sensitive to how our assistance is provided. GFD must avoid any perception of interference in economic policy setting. With this in mind, GfD proposes to assist key stakeholders from both within and outside of government to generate and carry high quality analysis to key decision-makers with a view to assisting the Government of Timor-Leste to make better informed decisions on economic policy.

Pillar II: Improvements to Basic Services

The Purpose of GFD is to will help to improve services for Timorese people by supporting central agencies of the Government to deliver on their respective mandates through development of their capacity over the long term.

GfD will work with central agencies including the Prime Minister's Office, the National Development Authority, the Ministries of Finance and State Administration and the Civil Service Commission to resolve constraints to service delivery within the systems that are owned by these agencies. This includes helping the Government through the Prime Minister's Office and the National Development Authority to monitor the implementation of the SDP. GfD will support a budget process that prioritises efficient and effective public investment and improved access to and quality of basic services. We will support the Civil Service Commission to put in place policies that encourage Line Ministries to recruit and manage new staff with the right skills in a timely fashion. GfD will also work with the Ministry of State Administration, to ensure the systems for subnational administration enable the delivery of quality basic services.

Intermediate Outcome: supporting demand for fiscal and economic policy and Improvements to Basic Services

GfD will focus primarily on end of program outcomes relevant to economic and fiscal policy and service delivery. However it will also pursue the intermediate outcome of Government and non-Government Stakeholders contributing to politically possible, technically appropriate solutions. This acknowledges that it is necessary for GfD to work with actors both inside and outside of government in order to achieve GfD's end of program outcomes. Possible activities related to this intermediate outcome are included under each of the detailed outcome area descriptions below.

However GfD also has a role to play in supporting the establishment and consolidation of a strong public policy environment beyond issues that relate specifically to its end of program outcomes.

The end of program outcomes for GfD are outlined below

Governance for Development is an eight year program. These end of program outcomes therefore reflect the behaviour changes we expect to see following eight years of investment through GfD. The program will be broken down into two four year phases. Expectations of change at the four and eight year stage are outlined below:

- **After four years improvements in the relevant to the EOPOs areas are expected**, but these improvements would not necessarily have occurred naturally or organically (ie. without GfD's assistance), and they may not yet be sustainable without AusAID support. We expect that after four years it will also be difficult to demonstrate that these process improvements have achieved change at the impact level – ie. improved economic development and service delivery outcomes. See Annex M for specific indicators of progress at the end of four years.

- **After eight years GfD expects to see central agencies adopt an approach to working that prioritises economic development and improved services**. This would see central agencies proactively self-identifying and seeking ways to address constraints to economic development and service delivery. After eight years we would expect to see more significant change by way of improved economic development and service delivery outcomes.

A budget of $61.78 million is proposed for the first four years of the program (see breakdown in Table below). An independent evaluation will be undertaken at the end of year three to assess adequacy of progress, ongoing commitment of the program's key stakeholders and to inform any necessary redesign before entering into the program's second phase.

Table 1: Budget for GfD Phase 1

Delivery Mechanism	Phase 1 budget (4 years)
AusAID Direct Implementation	$6,580,000
Managing Contractor	$24,000,000
Targeted Budget Support (Performance Linked Aid) with MoF	$20,000,000
Analytical and Advisory Services	$5,200,000
Non-government engagement	$4,000,000
Other Australian Agencies	$2,000,000
TOTAL	**$61,780,000.00**

Approach to Implementation

These end of program outcomes reflect the top level of GfD's hierarchy of objectives and will be the key performance indicators against which program success will be measured. But GfD also recognises that most central agencies in Timor-Leste understandably prioritise the strengthening of their own internal capabilities to enable them to effectively deliver on their mandate. There are very good reasons for GfD to support activities that both directly achieve GfD's end of program outcomes, and those which more indirectly contribute to the end of program outcomes. For example, improvements to systems for getting funds to schools and health posts are reliant on related capabilities, such as the Ministry of Finance being able to build the finance and accounting skills of civil servants.

With this in mind, GfD will support two categories of activities: (1) Activities that support the core mandate of central agencies; and (2) activities that support joint priorities (ie. that directly support GfD end of program outcomes). There will be some overlap between these categories, and it is expected that proportion of GfD activity that is of joint priority will increase over time.

Box 1: The GfD Program will support central agencies with their core mandate and joint priorities

> *Activities that support core mandate* – *in areas that will build the relationship, build GfD's working knowledge in areas relevant to its EOPOs, and/or enable the central agency to indirectly achieve or contribute to the EOPOs in the future. For example, supporting a legal adviser in the Civil Service Commission so that it has a good legal basis for developing its mandate.*
>
> *Activities that support Joint Priorities* – *in areas that are directly relevant to this Program's end of program outcomes. For example, supporting the Ministry of Finance to undertake Public Expenditure Tracking Surveys in the health and education sectors in to identify issues in the flows of funding to health clinics and schools.*

GfD reflects AusAID's intention to move to a more relationship-based engagement in Timor-Leste. Previously, AusAID had delivered the majority of its support through multilateral and private sector partners. It is now developing programs with a greater emphasis on direct engagement with its

Timorese partners. By focusing on what matters to central agencies (ie. strengthening their core mandate) GfD will develop strong relationships with government counterparts which will position GfD as a more effective development partner. This will also enable GfD to build its working knowledge of the context which lends itself to a more informed and better targeted support that makes a difference to poverty.

GfD is built on the assumption that the context will change and the program will need to adjust accordingly. Timor-Leste is an environment where policies and government organisations are in a great deal of flux. The strategy for this program will therefore rest on an engagement through multiple strands, allowing for flexibility in approach while maintaining long term relationships and contacts. GfD will also build in a regular (six monthly) process of review and redesign to ensure that it is responding effectively to the changing context, and to change course if current activities and engagement appear to be having limited traction.

Delivery of the Program

GfD should be understood as a framework for engagement rather than a program, working with key institution in Timor-Leste's Government and with important non-government organisations that play a role in making public policy decisions. The strategy for implementing the program will therefore rest on sustained engagement with our partners in the Timor-Leste Government and in civil society, supported by flexibility in how the program seeks to achieve its outcomes. With this in mind, GfD will have at its disposal a range of Delivery Mechanisms:

AusAID Direct Implementation - ($6.58 million, 4 years): AusAID will be directly involved in the implementation of this Program, with a dedicated implementation team of AusAID staff. The Program Director will be an AusAID senior manager not a contractor and AusAID staff will wherever practical be located with their Timorese counterparts.

A Managing Contractor – (Estimated $26 million, 4 years): A Managing Contractor will assist AusAID to deliver GfD's end of program outcomes and will fill some positions on the GfD Core Team. The Contractor will also be responsible for logistics and procurement and will provide a range of support activities to central agencies and Timorese stakeholders to achieve GfD's end of program outcomes. This will include assistance in monitoring and evaluation, recruitment, training, twinning arrangements, technical advice, research and analysis, and study tours, among other things.

Targeted budget support (Performance linked aid) to the Ministry of Finance (MOF) - (Estimated $20 million, 4 years) This will be the main mechanism via which AusAID supports the Ministry of Finance to deliver on the implementation of its own Strategic Plan. Under this approach, specific mutually agreed conditions (MACs) based on the Ministry of Finance Strategic Plan will be negotiated with development partners through a Ministry-led annual process. These MACs will be monitored throughout the year and once achieved AusAID will provide the Ministry of Finance with an agreed incentive payment which will go into the Ministry's own bank account and form part of their annual budget. This program will focus on supporting the Ministry of Finance to strengthen its own internal capabilities. This mechanism is currently under design for commencement in early 2014 subject to negotiation with the MOF and quality assurance processes.

Analytical and Advisory Services - AusAID is in the process of negotiating a country level partnership with the World Bank ($5.2 million, 4 years) that will be underpinned by an umbrella country-level trust fund. Under the proposed AusAID-World Bank partnership in Timor-Leste, the World Bank Country Manager in Dili would oversee the operations of the Timor-Leste Umbrella Trust Fund and retain overall responsibility for managing the relationship with AusAID. World Bank Sector Task Team Leaders would be accountable to the World Bank Country Manager. This mechanism will be managed by GfD for the broader country program, and include a program of Analytical and Advisory (AAA) work specific to GfD, particularly related to Pillar I and the PFM focused outcomes of Pillar II. This plays to the World Bank's strengths and ensures that the Government can access international expertise on public financial management and economic management issues.

Non-government Engagement - AusAID is also in the process of negotiating a country-level partnership with The Asia Foundation (TAF) ($4 million, 4 years). TAF has a good understanding of subnational governance and the issues. In addition, TAF has relationships with suku (village) councils and other civil society organisations. Its mandate is for work on Justice, including legal aid, legislation, economic development, conflict management and women's participation in development. As with the World Bank, GfD will managed this mechanism on behalf of the broader AusAID country program, but will have a specific program of work related to increasing the quality of public policy debates.

Other Australian Government Agencies - GfD will support a partnership between Timor-Leste's National Directorate of Statistics (NDS) and the Australian Bureau of Statistics. This will be designed to assist the NDS to deliver on its mandate to produce important statistics for managing the economy; identifying the needs of the poor; and tracking the changing picture of poverty in Timor-Leste. This partnership will also support the implementation of the Government of Timor-Leste's plan to see the NDS become an independent statistics agency over time.

Context and Strategic Setting

Poverty in Timor-Leste

According to both income measures, and multi-dimensional measures[3], poverty is widespread In Timor-Leste. The Timor-Leste Survey of Living Standards in 2007 found that 49.9 per cent of the population was below the Government of Timor-Leste's income poverty line of $0.88 USD a day. By the international income poverty measure of $2 USD a day, 72.8 per cent of the population is poor. The 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. The Multidimensional Poverty Index estimated that 38.7 per cent of the population in Timor-Leste is in severe poverty.[4] This reflects the impact of decades of conflict and instability on economic growth and access to services.

A report on the position of people with disabilities in 2011 indicated that they are more likely to be among those who are severely poor. 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. There were reports of negative stereotypes and people with '*intellectual or psychosocial disabilities being tied or locked up for long periods of time'* (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).

There is also evidence that women and girls are likely to experience greater severity and increased dimensions of poverty. In the 2010 census period (Government of Timor Leste, 2010); female adult literacy (in Tetun) was 50.9 per cent compared to male adult literacy of 61.3 per cent; female adult labour force participation rate was 36.3 per cent, compared to male adult labour force participation rate of 72.8 per cent; neonatal mortality in 2009 was 22 per 1000 live births, compared to a regional average of 14; infant mortality was 45 per 1000 live births, compared to a regional average of 21; and the maternal mortality ratio was 557 per 100,000 live births, compared to a regional average of 88 (AusAID, 2012, Health Delivery Strategy, citing the Timor-Leste DHS 2009-2010 and UNICEF's *The State of the World's Children*, 2011).

---

[3] 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. What is clear from these studies is that nearly everyone in Timor-Leste is either poor or vulnerable to poverty, with a substantial proportion of the population one economic shock away from poverty. Regional comparisons are difficult and inconclusive, with datasets telling contrary stories, meaning that it is difficult to make definitive judgements about poverty levels between regions or districts. For example, Lautem and Baucau are significantly less poor according to the Survey of Living Standards, but they are not any better off than the average district according to the Demographic and Health Survey. The datasets agree that Oecussi is very poor and that Dili has less poverty, while they disagree on most other regional variations in poverty and wealth. Poverty is higher in rural areas and agriculture is by far the main economic activity of the poor.

The Government of Timor-Leste's Plans for addressing Poverty

The SDP plots a path for Timor-Leste to spend its resource wealth to bring about equitable development for all Timorese. In doing so, it articulates strong government commitment to reducing poverty in Timor-Leste. The SDP was the election platform for Gusmão-led government which now has the mandate of the people to proceed with its implementation over the next five years. The SDP provides a vision for Timor-Leste's future that Development Partners must get behind and AusAID is keen to be a constructive partner to the Government of Timor-Leste in its implementation.

The SDP sets out the government's plans to foster economic growth, including using public expenditure to "*build a foundation for social and economic development*", with a view to "*Over time, private sector expenditure and private sector domestic capital formation…supplant[ing] government expenditure as the primary driver of economic growth*". It sets out plans to develop the economy in petroleum, tourism and agriculture.

The SDP also sets out development goals in key areas relevant to poverty reduction including health, education, water and sanitation, agriculture and roads:

- By 2015, providing quality basic education to 93 per cent of Timorese children, and by 2030 giving access to geographically close quality pre-schools or classrooms to children in all 442 sukus (p.218).

- By 2015, increasing participation of children with disabilities in basic education by 40 per cent, and by 2030 to have a gender-fair society (p. 219)

- By 2015, providing 70 per cent of pregnant women with antenatal care at least four times, and to giving an immunisation package to 90 per cent of children, and by 2013 to having a district hospital in all districts (p. 219)

- By 2015, exceeding the standard of 75 per cent of Timor-Leste's population having access to safe and reliable water, and by 2030 providing all subdistricts with sewerage systems (p. 221).

- By 2015, all rural roads will have been rehabilitated by locally based contractors to a minimum standard.

- By 2015 the tonnage for rice (grain adjusted for losses) will have increased from 37,500 tonnes to 61,262 tonnes and the productivity of maize will have increased from 1.25 to 1.54 per ha.

Furthermore, the SDP also contains plans to improve central governance systems. The SDP section on Public Sector Management and Good Governance states that the civil service will improve:

- its skills and capabilities especially in key areas such as accounting, procurement, and strategic planning,

- its systems and procedures,

- its culture of performance,

- its management and leadership, and

- its accountability and transparency.

As well as intending to address poverty, the Government has the resources to carry out its plans.
Timor-Leste has significant wealth from oil and gas reserves. It is using its petroleum wealth to
finance its investment strategy and has proposed a five to ten year "big bang" investment program
after which public expenditure will return to more normal levels. Petroleum revenues have grown
substantially since 2006 and are directed into an off-shore Petroleum Fund (PF). In 2012, the
Timorese government estimated the value of the PF to be around US$9.3 billion, with total
petroleum wealth estimated to be US$22.2 billion. The government's actions in the next ten to
twenty years are particularly important as the income from oil and gas is finite.

The Bilateral Aid Relationship

**In November 2011, the Government of Australia and the Government of Timor-Leste committed
to working together under the *Strategic Planning Agreement for Development* (SPAD**). The SPAD
states that the partnership is founded on mutual respect, friendship and shared responsibility for
improved development outcomes. In the spirit of *The New Deal for Engagement in Fragile States*,
the SPAD recognises that the SDP is the single national plan for Timor-Leste's development and
commits Australia to supporting its implementation.

The SPAD includes a high level commitment to cooperate on governance as outlined in the SDP.
This reconfirms the Government of Timor-Leste's commitment to improving civil and economic
governance, including sound macroeconomic policy and management of public resources, especially
stronger public financial management targeted at improving the delivery of basic services by Line
Ministries. This Program seeks to bring effect to these high level commitments.

AusAID Strategic Context

**GfD is consistent with Australia's Aid Policy, *An Effective Aid Program for Australia: Making a real
difference – Delivering real results* (*Effective Aid*).** Effective Governance is defined under *Effective
Aid* as one of five Strategic Goals of the Australian Aid Program. Specifically, it notes that 'a strong
public sector and sound public financial management contributes to better service delivery. Health
workers cannot attend births in villages if funds do not flow from provincial treasuries to pay for
transport. Poor farmers will find it difficult or more expensive to get their produce to markets if
infrastructure is not properly maintained' (*Effective Aid*, p. 37). *Effective Aid* commits Australia to
focus on improving public financial management and the performance of the public service and to
support partner agencies to strengthen their delivery of services to help them be more responsive
and accountable to poor people.

GfD is also consistent with AusAID's Governance Thematic Strategy. This strategy takes *Effective
Aid* as its starting point and further defines AusAID's approach to working in the governance sector.
It defines governance as 'how people, through institutions, decide how to obtain, produce, use and
distribute resources. Broadly, governance is the rules and processes determining how decisions are

made and implemented. Good governance requires the rules and processes to be legitimate, fair, decent, accountable, transparent, efficient and enable collective action to solve problems for the public good. This includes effective government, including sound public financial and public sector management.' (AusAID, November 2011). GfD focuses on the rules and norms in Timor-Leste, broadly called 'institutions', as well as on specific ministries and agencies, referred to as 'organisations'. With its focus on delivering services through more responsive governments, this program aligns strongly with *Effective Aid* the first pillar of the Governance Thematic Strategy. It also aligns with AusAID's framework for working in fragile and conflict-affected states and the first pillar of building more responsive states. It is consistent with the Strategy's observation that 'state building is an endogenous process' and leadership processes 'must be locally-led and owned'. The program design is consistent with Australia and Timor-Leste's commitment to the New Deal for Engagement in Fragile States which proposes new ways of engaging to build mutual trust and support inclusive, country-led peacebuilding and statebuilding.

GfD will also be responsible for resourcing and implementing a Policy Enabling Delivery Strategy, which is aimed at ensuring that AusAID better engages with the Timor-Leste context. This Delivery Strategy includes whole-of-program objectives to ensure that AusAID is integrated and consistent, has trusting working relationships with Timorese stakeholders, and understands and responds to the policy context in Timor-Leste. It is up to each of the programs to translate the whole-of-program objectives into its particular context. Governance for Development has a particular role to play in supporting the implementation of the Policy Enabling Delivery Strategy.

Situation Analysis and Rationale for Governance for Development

Definitions – some key terms

GfD's goal is to assist the Government of Timor-Leste to reduce poverty through 'economic development' and 'improvements in basic services'. These two key terms are critical not just for GfD, but also for AusAID's broader country program and they will be defined in AusAID's Timor-Leste Country Strategy – currently under development and due for completion by the end of 2013. In order to guide program implementation until this time, GfD will adopt working definitions of these terms which will be revisited upon completion of the Country Strategy.

- For the purposes of GfD, **'economic development'** is defined as the process of creating opportunities for people in Timor-Leste to improve their living standards by generating sustainable economic growth and providing opportunities to earn a living.

- A broad definition of **'services'** will be utilised by GfD which captures those areas traditionally considered to fall under the rubric of 'basic services' (health, education, water and sanitation) along with those related to agriculture, roads, village level infrastructure and support to women affected by violence. This broad definition is justified on the basis that government has an extensive mandate for services in Timor-Leste, and because AusAID's large investments in these sectors stand to benefit from an engagement with central agencies through GfD.

Situation Analysis for Pillar 1: Economic and Fiscal policy in Timor-Leste

Economic Policy in Timor-Leste – why is it important to poverty reduction?

The government's economic policy framework will have a large impact on its ability to reduce poverty. Economic policymakers have a range of structural challenges that hamper growth outside the sectors most directly impacted by oil revenue expenditure. Structural constraints limit private investment and employment growth, in the formal manufacturing and services sectors as well as in the primarily informal rural economy. The government can foster private sector development and more broad-based economic growth by through its economic policy framework. The most important of these is agriculture, which dominates the economy and employs about 80 per cent of its workers, largely in the subsistence sector.

Rural livelihoods are largely dependent on agriculture, where farming among the poor is predominantly subsistence and cash cropping is limited. The agricultural surpluses produced face sizeable difficulties in storage and transport of goods to market; land tenure uncertainties restrain investment and curtail lending to agricultural activities. The long dry season, the generally nutrient-poor soil, combined with the limited use of fertilisers are additional factors that limit the growth of rural farm production and rural incomes. The subsidisation of food may have discouraged private production and investment in food production. These factors hamper productivity growth and the willingness of farmers to invest in technology that would increase production.

The challenge for policymakers is to improve the operating environment as well as, certainty and incentives for farmers to produce surpluses. The government has a role to play in agricultural extension – particularly around facilitating seed exchange, seed storage, identifying appropriate irrigation systems, and disseminating information about potential cash-crops, including aquaculture and livestock. At the current time, the government provides limited agricultural extension services. There are few other options for non-farm income or employment in rural areas, although government investment in infrastructure in rural areas (through schemes such as PDD and MDG Suku) has led to the creation of small-scale construction businesses.

In the broader economy, the Government has an opportunity to further improve the policy environment to encourage private business investment. Timor-Leste ranks number 168 on the *Doing Business* indicators. This reflects relatively weak performance across the range of dimensions, particularly registration of companies (albeit improving) and enforcement of contracts. The *Doing Business* survey focuses on the visible business regulatory environment. The treatment of potential private investors in practice is perhaps more important for economic growth. On this score, Timor-Leste has an improving record in some areas in creating a policy framework for investors more conducive to growth. For example, telecommunications had been a regulated monopoly, but the Government awarded two new licences in 2012 and initial evidence is that this has spurred competition, improved service quality and reduced costs for users. In contrast, the availability and depth of financial services outside Dili is extremely limited and this imposes substantial costs. Teachers, for example, commonly spend 20 per cent of the value of their salary exchanging government cheques for cash. Deepening the financial sector and demand for credit is partially about financial regulation and partially about broader policy settings to improve incentives to invest.

The costs of doing business are regarded as high. The Government is investing heavily in an effort to improve infrastructure, but it remains a key constraint to growth. Negotiating access to land is costly and brings uncertainties over tenure and substantial risks for investors. Mandated labour costs in the public and private sectors are now relatively high compared to other countries in South and East Asia and for countries at a similar level of development. The price, availability and quality of key inputs such as water, electricity and telecommunications is high, but there have been some improvements in availability in recent years. The proposals for Public-Private-Partnerships to redevelop the port and airport, if successful, will go some way to improving the quality of these key inputs for private sector development.

The GfD program cannot work on all of the structural issues affecting economic growth. But, it will seek to assist the government with resources, information and analysis to make decisions within an economic framework focussed on sustainable growth and poverty reduction. It will also make a contribution to a select group of economic policies that are particularly important to economic development where there is demand from interested stakeholders.

Fiscal Policy in Timor-Leste - why is it important to poverty reduction?

The gap between national income and development outcomes provides a strong *prime facie* case for the Government's large public investment agenda. However, the Government's economic strategy assumes that major national infrastructure will lead quickly to big improvements in the welfare of average people. The majority of people and certainly the poor of Timor live in rural communities and rely on subsistence farming to survive. So the challenge for the Timor-Leste economy is to increase incomes and livelihoods to reduce poverty. Economic policy is relevant to this challenge because the Government is the major player in stimulating economic development.

The Government is using its petroleum wealth to finance its investment strategy and has proposed a five to ten year "big bang" investment program after which public expenditure will return to more normal levels Petroleum revenues have grown substantially since 2006 and are directed into an off-shore Petroleum Fund (PF). In 2012, the Timorese government expects the value of the PF to be around US$10.8 billion, with the total petroleum wealth (which includes the net present value of future revenues) estimated at US$26.2 billion. While Timor-Leste has a high economic growth rate now, much of this growth is dependent on continued spending of income from its finite oil and gas resources.

The Government of Timor-Leste would benefit from an integrated plan that considers what combination of labour, capital and technology/productivity factors will stimulate the growth of the non-oil economy in a way that creates jobs, and is sustained when the high level of public spending reduces. The plan for economic development needs to inform a fiscal strategy, as well as individual decisions about infrastructure, particularly the use of the government's Infrastructure Development Fund. The Government assumes that investments under this Fund will lead quickly to big improvements in the welfare of average people. However, the nature of the investments may mean that benefits take a long time to flow. An integrated plan would draw on analysis of productivity, the need for capital and the regulatory environment. This analysis would inform the setting of an upper ceiling for spending on infrastructure. Then, within this finite allocation, Timor-

Leste's Infrastructure Fund agencies could go through a cost-benefit analysis of each of the proposals for spending from the Fund.

An integrated plan for economic development would consider what other policies and stimuli are needed, in addition to capital spending. In particular it would consider what government policy settings are needed to address the structural constraints to growth noted earlier. An important part of an economic policy framework is an approach to managing inflation. Inflation can create an additional burden for the poor, by making staples unaffordable, but it can also affect economic growth. The recent IMF Article IV report commented on the risk of public investment increasing inflation and recommended that public spending be phased in a way that is "*better aligned with capacity constraints and the absorptive capacity of the economy*" (p. 8, International Monetary Fund, 2012). One of the key considerations in spending from the Infrastructure Development Fund is whether the projected benefits from the infrastructure justify the potential inflationary impact of the spending. Under an economic policy framework, the Government also considers whether amelioration of the impacts of inflation on the poor are needed.

A fiscal strategy can support the Government's goals to alleviate poverty by providing it with the analysis on to what it can afford to spend in the future, including on basic services. A fiscal strategy also enables the government to improve its spending now, by guiding the balance of allocations between fixed capital and recurrent costs in a way that progresses the Government's goals (eg. can the Government afford both the initial outlay of building a new national hospital, along with drugs wages for doctors and nurses required to run it over the longer term?). Part of a fiscal strategy is the Government's management of revenues, deficits, debt, tax, and expenditure. It is also important for monetary policy to work together with fiscal policy.

There are a number of structures, policies and tools that are relevant to Timor-Leste fiscal strategy. This includes but is not limited to: allocations through the annual budget, the Petroleum Fund and associated policies for investment and spending of petroleum resources, the Infrastructure Development Fund, the Human Capital Development Fund[5], tax and monetary policy, and the Government's approach to managing debt.

The International Monetary Fund's Public Expenditure and Financial Accountability Assessment (PEFA) found that budgeting should move to a multi-year perspective (p. 10, International Monetary Fund, August 2010). For example, once the government establishes a pension, then it has to meet the costs of providing that pension into the future. It is important that the policymakers understand how the cost may increase over time, usually based on actuarial calculations of how many people may become eligible for a pension, the annual payouts necessary and so forth. Likewise, a health system or an education system requires a certain amount of money to run that system every year. How much is required depends partly on how that system works especially the extent and type of services supported. The IMF commented that the budget framework '*does not*

---

[5] The Human Capital Development Fund, established in 2011, is dedicated to develop human capital, including through scholarships, training and development. It receives its allocation through the budget process ($42 million USD in 2013), but individual allocations within the fund are managed by a Board of Directors, headed by the Prime Minister.

reflect the full costs of planned major projects and recurrent costs…moreover wages and fuel costs, could be underbudgeted' (International Monetary Fund, August 2010).

Without this integrated fiscal strategy and clear policies for funding deficits, managing debt, and identifying ideal revenues, there is the risk that the government may not be able to afford the systems that it is setting up today over the longer term. If the systems it establishes today are unaffordable over the longer term, it might need to borrow to meet recurrent costs in the budget. International experience suggests that a substantial fiscal crisis typically forces rapid cuts to social spending, which would disproportionately affect the poor.

It is also important that a fiscal strategy consider what level of investment in services is required to meet development needs. The decision about what constitutes "enough" depends partly on information about needs and partly on the efficiency of the existing spending. It is only appropriate to spend more on health, for example, if expenditure actually increases the reach and quality of health services and has some potential to make a positive impact on health outcomes.

While the Timorese government has increasing allocations to education and health, it has not necessarily done so on the basis of quality information about needs, efficiency, cost or likely impacts. The 2010 PEFA found that budget allocations to Line Ministries are generally guided by information about the Line Ministries' previous allocation and expenditure rates rather than an assessment of social needs or performance (p. 31, International Monetary Fund, August 2010). While the budget documents include information about plans to improve services, *"the annual action plans (AAPs) of the Line Ministries….contain no link to the budget allocation"* (p32). Statistics, an important source of information about social needs, are relatively weak, although improving (p. 52).

Better infrastructure (eg. roads, health posts, schools, water supply systems and toilets) is also required to improve development outcomes. These works are funded from capital budget allocations, most of which are managed by either the Infrastructure Fund agencies,[6] the Decentralised District Development Plans (PDID)[7] and the infrastructure programs, Decentralisation

---

[6] Line Ministries must apply for funds from the Infrastructure Fund for projects valued above USD1 million. Applications are appraised by the Major Projects Secretariat, decided upon by the Council of the Infrastructure Fund (CAFI), procured by the National Procurement Commission, and delivered by commercial contractors under the supervision of the National Development Agency (ADN) and the Major Projects Secretariat (MPS). Although the MPS conducts appraisals, the process is very new and reliant on international advisers. The degree to which CAFI are influenced by appraisals in their decisions on spending is unclear and appraisals do not consider some matters relevant to poverty and sustainable economic development.Until recently, the Ministry of Education has been able to procure its own major infrastructure through Infrastructure Procurement Unit, but this has now been moved within the ADN/MPS system. Although the MPS conducts appraisalsthe degree to which CAFI are influenced by appraisals in their decisions on spending is unclear and appraisals do not consider some matters relevant to poverty and sustainable economic development.

[7] The process of Integrated District Development Planning (PDID) introduces bottom up planning and district level harmonisation for small scale infrastructure development. PDID planning was first used in 2012 and involves the following stakeholders: Communities; Suco Councils; Territorial Delegations (DT); Sub-district Development Commissions (KDSD); District Development Commissions (KDD); The Ministries responsible for Local Administration; Line Ministries; and the National Development Agency (ADN).

Development Package (PDD I and PDD II)[8]. The government is also creating a new subnational infrastructure program entitled the National Program for Suku Development (PNDS). These programs are administered by the Ministry of State Administration (MSA) and the National Development Agency (ADN), with the input of Line Ministries.

These systems are a good start, but they could be more efficient and effective. For example, proposals for major infrastructure (ie. above USD1 million) are considered in isolation from an integrated economic plan. Although the Line Ministries' capital budget has been given to the central funds, there is no fixed amount that must be spent by the central funds on service delivery infrastructure (eg. schools or health clinics), meaning that spending will occur on the basis of "pull" factors as opposed to actual need. The decision-making processes related to minor infrastructure have been in constant change since 2011 which means that Line Ministries find it difficult to influence decisions about spending on minor infrastructure relevant to their portfolios, which are often made without consideration of how, for example, operations and maintenance will be supported over the longer term (Mellors, 12 May 2011). The process of procurement is complex, governed by many different laws and regulations, with responsibility spread across several agencies.

The variance in costs for service delivery in different regions, particularly for remote communities and those living in mountainous terrain, is not currently factored into budgets. At present, there is limited differentiation of budgetary allocations for services between lower cost regions and higher cost regions. As budget execution improves, the differences in these unit costs will become more obvious, as remote service delivery units struggle to deliver services within the available budgets. Regional inequality in access to services has been identified by the Government of Timor-Leste in its assessment of fragility, and if not carefully managed could undermine stability.[9]

Rationale for Pillar 1: Economic and Fiscal Policy

The Government of Timor-Leste genuinely intends to manage its fiscal and economic policy in a way that grows the economy and reduces poverty. This is indicated by the SDP, which sets out comprehensive social and economic targets. It is indicated by the government's increasing allocation of funds to growing the country's 'social capital'. It is also indicated by the government's willingness to try new policies to get development directly to the people, such as SiSCA – a program of mobile health clinics, and such as PDD and PNDS which are programs designed to bring small scale infrastructure directly to Districts and *sukus*. Meeting the needs of the poor has been a dominant

---

[8] PDD was first introduced in 2010 and involved small scale infrastructure projects selected centrally by individual sector Ministries. These projects were then implemented through an amended procedure coordinated by the Ministry of State Administration's (MAE) District Administrators. Since 2012, MAE have taken a more significant role in planning as well as implementation with Line Ministries with proposed infrastructure in this category required to seek budget approval through a PDID process, including the large service delivery sectors of agriculture, water and sanitation, education and health. There was $27 million in PDD1 (projects between $1 - $150,000) and $41.1 million in PDD2 (projects between $150,001 -$500,000). PDD as a program mechanism is intended to be phased out at the end of 2013, to be replaced by the finalised implementation mechanism under PDID.

[9] The report also notes that rural populations are underrepresented and have not had access to equal economic growth. Summary Report, *Fragility Assessment in Timor-Leste*, February 2013, pp. 7, 16 and 21.

priority in politics throughout the resistance period and since independence (Santos, 2012; Ingram, 2013).

While the government is genuinely interested in sustainability, economic growth and poverty reduction it makes decisions about resource allocation (like all political decisions) on the basis of domestic priorities, interests and influences,[10] and does not always have access to the information it needs to enable it to manage its resources and policies to best achieve these goals.

The Government of Timor-Leste will support the adoption of an integrated fiscal framework if it is in its interest. As one commentator observed, *'the ultimate success of a fiscal framework will depend on the political commitment to implement it'* (Baunsgard & Polawski-Ribeiro, 2012) .Analysis therefore needs to be framed in a way that is persuasive to these interests, particularly those stakeholders with an interest in sustainability and poverty reduction. Key decision-makers and influential stakeholders need to understand how an integrated fiscal framework will meet their individual and collective interests. The persuasive carrying of analysis is could therefore be key to the development of a fiscal framework.

The content of a fiscal strategy is ultimately a sovereign matter. AusAID, however, can contribute to this process by assisting the Government of Timor-Leste, and stakeholders outside of government to generate and carry analysis to key decision-makers to inform their decisions about fiscal strategy.

Analysis to support the development of an integrated fiscal framework could cover many and varied topics. An integrated fiscal framework is dependent on good analysis about social needs, the efficiency and likely impacts of government spending, the future costs of policies, projections about economic growth and revenues, projections of inflation and the sequencing and prioritisation of capital spending, among other things. The work of AusAID will be to assist key stakeholders, and where appropriate to directly generate and carry this information to key decision-makers. Where appropriate, AusAID will also support non-government stakeholders that have an interest in fiscal policy to engage in public policy debate in this area. This is important to do now because the government's decisions in the next ten to twenty years, while its petroleum income is at its highest, have enormous significance for the country's future development prospects.

While the starting point for GfD will be to assist the Government of Timor-Leste to develop its fiscal policy, it may also assist the government in its role of enabling the economy through economic policy to address the structural constraints to growth. This is important because it is ultimately through economic growth that poor people will be able to access jobs and improve their incomes, and through which domestic revenues can increase. It is also important because economic growth is the means to the creation of jobs and the alleviation of income poverty. Again, the government is faced with a myriad of priorities and choices. AusAID's role here is to understand the particular choices and options facing the Government of Timor-Leste, and identify where it can be a good partner to key decision-makers. AusAID's future role may also be to assist key decision-makers

---

[10] For example, the ongoing commitment of the government to fund a high level of veterans pensions is partly based on its debt of gratitude to veterans for their role during the resistance, and the importance of maintaining peace and stability going forward (International Crisis Group, 18 November 2011).

to implement economic policy priorities, if it judges that such assistance would be appropriate, ensuring they are based on good analysis about economic growth and poverty reduction.

Situation Analysis for Pillar 2 - Improved Services

International experience and evidence demonstrates that when people are healthy and well-educated, they are better positioned to increase their incomes through employment and to consequently reduce household poverty. They are also able to make a much greater contribution to their country's economy by being productive and innovative. They tend to earn higher wages and their skills 'spillover' to other workers around them, improving their productivity and therefore raising incomes. Their children are likely to be more educated and earn higher incomes. In Timor-Leste, the poor are reliant on access to government-provided or funded services to address many dimensions of poverty.

In Timor-Leste, the government is the major funder of services.[11] The government has made great progress over the past ten years 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 and it is not surprising that the government struggles to get quality services to all of its citizens. However the government is committed to improving the lives of its people and improving services has good potential to impact on the lives of the poor and strengthen the social contract between the state and its citizens. A brief situation analysis of key service delivery sectors is outlined below:

- **Health systems –** Timor-Leste has some of the worst health outcomes in the Asia-Pacific region. Most of the population are heavily reliant on government health services, but these are often inaccessible for the rural poor and often have insufficiently qualified staff and undersupplies of equipment, medications and essentials like clean water and bleach. There is widespread anecdotal evidence that the insufficient number of existing health clinics are not operating for much of the year. People with disabilities do not have access to specific rehabilitation services or assistance services (McCoy, November 2011). The impact of poor health services on women is reflected in the high maternal mortality rates. The Government reports that only 14 per cent of women get adequate prenatal care and 90 per cent give birth at home12 (p. 26). **Education services –** Most of the population, including the poor are reliant on public education services. Generally poor children are able to get to educational facilities and primary enrolment rates are higher than in some comparable countries. But the quality of the education is very low, with most students graduating from grade three with only a basic level of literacy. Schools do not have appropriately trained staff, sufficient learning materials, or sufficient classrooms and they lack the funding to meet their mandate due to blockages in public financial management and

---

[11] After the government, the Catholic Church is the next major provider of education services – it runs 16% of basic schools and 40% of secondary schools. The poor, however, are concentrated at public schools, as Catholic schools generally charge a small fee. In addition to the government, several NGOs, including Marie Stopes International, Plan, and Health Alliance, as well as various Catholic Church organisations, Pastoral da Crianca, Maryknoll Office for Global Concerns and Mary McKillop Institute for East Timor, provide health services. During the Indonesian occupation, the Church ran health clinics (Worthington, 2011). Various NGOs and Church organisations also provide water and sanitaton services, including Caritas.

[12] The government's report to the Committee on the Elimination of Discrimination Against Women (2009), p.26

administrative systems. Poor children face additional informal barriers to going to school, including the cost of materials and books. Disabled children form only 1 per cent of the school population (McCoy, November 2011) and girls' participation at secondary school is lower than that of boys. The low levels of educational attainment have important implications for the development of the economy, as the availability of an educated workforce is a key constraint to growth.

- **Water and sanitation services –** the population has poor hygiene practices, which increases prevalence of diarrheal disease and is thought to contribute to poor nutrition. People often lack the resources to buy toilets, and affordable toilets are not available in rural areas. There are no guidelines requiring public water and sanitation infrastructure to be accessible to people with disabilities (McCoy, November 2011, p. 29). The Independent Completion Report for AusAID'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" (p12, Crawford & Willetts, 10 October 2012). The government gives little funding to public health campaigns and comprehensive public health education is limited.

- **Agriculture –** As noted above, there is a role for government to play in in agricultural extension services – particularly around facilitating seed exchange, seed storage, identifying appropriate irrigation systems, and disseminating information about potential cash-crops, including aquaculture and livestock. At the current time, the government provides limited agricultural extension services, and has had limited success in securing sufficient resources through the budget process to support this important service.

- **Roads –** The poor condition of basic infrastructure in general and the road network in particular, remains a key constraint to economic (including agricultural) development, and poverty alleviation. Roads constitute the primary mode of transport in Timor-Leste. Due to the poor condition of the relatively dense network of more than 6,000 km of roads, rural people face increased travel times and transportation costs and remain isolated in terms of access to social and economic facilities and services. Poor infrastructure, particularly in the transport sector, has been identified as the major obstacle for women's access to markets and opportunities for economic progress. The current lack of adequate funding by the GoTL for the maintenance of (rural) roads and the prioritization of investments in road rehabilitation over investments in maintenance is considered very cost-ineffective as this approach leads to a quick deterioration of the roads and does not preserve the value of the assets, as would have been the case if the roads would be maintained properly.

There is a strong connection between access to and quality of basic services and poverty reduction. In recognition of this, most of the AusAID program in Timor-Leste has service delivery goals:

- **AusAID is currently designing a new eight year health program,** focused on maternal and child health. It will seek to contribute to better health-related behaviour and to improvements in the provision of health services. It will focus on supporting supply of and demand for improved health services and will include interventions directed at management skills, behaviours and systems at the government and community level.

- **AusAID is also designing an education program**, focused on basic education and technical and vocational education and training, moving into early childhood and secondary education later. It will include work on grants to schools, learning materials, school buildings, teacher training and institutional strengthening.

- **AusAID has a water and sanitation program**, BESIK II that focuses on improved rural water systems, hygiene and sanitation practices, district financial management and community engagement in construction and ongoing management of water systems.

- **AusAID has a large Agricultural Productivity Program**, Seeds of Life III.   Seeds of Life, run in partnership with the Australian Council for International Agricultural Research, aims to improve food security and reduce hunger in Timor-Leste. The program is helping to develop better yielding varieties of crops including rice, maize, sweet potato, cassava and peanuts.

- **AusAID has a rural roads program, Roads for Development.** Its objective is to establish and institutionalise a rural road system for effectively planning, budgeting and managing rural road works using labour based methods, as appropriate. Over the next four years this program will rehabilitate and maintain rural roads and will ensure that at least 1,150km, more than a third of the rural road network in Timor-Leste is kept in good condition. Where possible labour intensive approaches will be used that will maximise the employment opportunities for people in rural areas.

- **AusAID is also designing a program designed to end violence against women and girls.** The program is still under development, but it will likely assist women affected by violence to access appropriate support such as medical and counselling services, assist women to pursue their cases through Timor-Leste's formal legal system and seek to prevent violence by working with men and women to change the widely-held view that violence against women is acceptable.

- **AusAID is working with the Ministry of State Administration (MSA) to develop the National Program for Suku Development (PNDS)** that from 2014 will provide grants of $50 000 - $75,000 to every village in the country to plan, build and maintain their own small scale infrastructure. Depending on village priorities, this could include new irrigation channels, local bridges, motorbike paths and market places, and refurbishment of existing water systems, schools and health posts. While not technically a 'service delivery program', PNDS has significant potential to alleviate poverty at the village level and will require close engagement across a number of central agencies in to operate effectively.

In order for these services to be accessible to large parts of the population a number of sub-systems must work together effectively. Ownership of some of these sub-systems resides with Line Ministries (eg. the Ministry of Education is responsible for payment and performance management of teachers, procurement and distribution of text books), while other systems are owned and managed by central agencies like the Ministry of Finance (eg. the budget process, systems for transferring and acquitting funds). Central government systems relevant to service delivery are administered by the Ministry of Finance, the Civil Service Commission and the Ministry of State Administration.

These central systems have always been important to basic services in Timor-Leste, but they have become increasingly important over the past couple of years as the Government has centralised control of some of sub-systems relevant to service delivery.   For example, the budget for construction of schools, roads, water and irrigation systems was recently taken away from the Ministries of Education and Public Works respectively and placed in centrally managed funds. Similarly, responsibility for civil service recruitment has been taken away from Line Ministries and given to the Civil Service Commission. In addition there are particular challenges associated with the how the parts of service delivery systems owned by central agencies and Line Ministries interact to enable or inhibit the effective provision of services.

- **The Ministry of Finance** has a major role in the systems for the allocation and distribution of money for services. It manages the budget process by which Line Ministries make submissions for their annual budget. The Ministry of Finance is then responsible for disbursing funds to Line Ministries, and manages a complex process for ministries committing, spending and acquitting those funds. Through these systems, it tracks government expenditure and its mandate is to ensure that public money is spent efficiently, effectively and for its intended purposes. There is an official policy of decentralising budget execution to Line Ministries and perhaps later to District Administrations. However the reality is that controls are relaxed as pressure builds to increase rates of execution, with controls tightened again when an agency or ministry fails to spend its budget, or is perceived to have spent money poorly. For the most part, Timor-Leste is characterised by a highly centralised public financial management system.[13]

Furthermore, there are a number of constraints in Timor-Leste's public financial management (PFM) systems that inhibit effective service delivery. These include (but are not limited to) the following:

- Funds and supplies cascade down through several layers of bureaucracy, and accountability cascades back up with the Ministry of Finance (MoF) undertaking spending and acquittals for the whole government. Delays are likely at each layer meaning that there are regular 'dead patches' where service delivery units cannot access funds until previous payments have been acquitted in Dili.

- Resources are supplied on a "pull" basis. For example, schools and health clinics must both request funding as well as travel to collect them in most cases. It is likely that more remote facilities receive disproportionately less, yet costs are likely to be higher because people have to travel further and longer due to remoteness.

- Heavy emphasis is placed on accounting for how money was spent, but the systems to track what the spending achieved by way of services are limited.

- Budget allocations rarely meet development needs in service delivery sectors, and there is an imbalance between allocations for capital and salaries, versus allocations for recurrent costs.

---

[13] In most countries, financial management typically begins as a centralised function, but becomes more decentralised as financial management capacity of line ministries improves.

- The **Ministry of State Administration (MSA)** manages the structure of government and is responsible for District Administrations. It has 13 District Administrations and 65 sub-district administration offices. At present the role of District Administrations is limited to a co-ordination function and they have limited responsibility for the delivery of services which are managed by deconcentrated field offices of Line Ministries. However under its Organic Law MSA has the mandate for '*design, implementation coordination of policy….for the areas of local government, administrative decentralisation, local and rural development*…' (Art 27,Decree Law 41/2012). MSA has a role in overseeing the Integrated District Planning Process (PDID), under which deconcentrated District and sub-District offices of Line Ministries are required to coordinate with each other. It also has the mandate to oversee the implementation of the Government's decentralisation agenda and may have a role in managing decentralised municipalities in the future.

  There is a need to work with MSA and to monitor developments in relation to decentralisation closely because of its potential impact on how services are delivered across Timor-Leste. A number of different proposals have been but forward including the possibility that 13 municipalities (aligned with the current district structure) will assume responsibility for all services within their geographical area, with Line Ministries playing a supportive policy-setting and monitoring role. This would be a significant change to the current model of service-delivery, under which Line Ministries use their own deconcentrated offices to deliver services. Even under the current structure, it is clear that Line Ministries may be required to coordinate delivery of services with District Administrations in the future.

- The **Civil Service Commission** manages systems affecting civil servants in all Line Ministries. This includes the Career Regime,[14] and civil service recruitment, including contributing to decisions about recruitment and dismissal. Line Ministries are required to comply with these policies and procedures especially when it comes to recruitment, performance management, and discipline of its work-force. Some of these policies and procedures have an impact on Line Ministries delivering basic services. Line Ministries have reported that recruitment procedures can take longer than expected. Policies such as the Civil Service Career Regime affect how much civil servants can be paid, which can have an impact on Line Ministries' ability to attract and retain qualified staff, and the ease with which they can vary terms and conditions for different needs and roles.

Rationale for Pillar 2: Improving Service Delivery by Working with Central Agencies

Central agencies are responsible for many aspects of the broader service delivery system that either enable or impede the ability of Line Ministries to deliver quality services to poor people. The interconnectedness of these systems is shown by way of example in the diagram at Annex A. This diagram shows some of the parts of the system that need to work together for services to be

---

[14] The Career Regime, introduced in 2008, establishes civil service job classification levels and pay scales. It also establishes the process whereby the Government approves ministerial structures, known as the 'establishment'.

delivered to the people. The shaded boxes represent parts of the system that are controlled by central agencies. It shows that the SDP targets for improving the 'social capital' of the Timorese people are unlikely to be met without improvements in these systems.

At the current time, central agencies are not necessarily focused on service delivery. They are relatively new institutions that are understandably focused on strengthening their own internal capacity, and see service delivery as the responsibility of Line Ministries.

GfD aims to increase effectiveness of government services for the poor by working with central agencies to improve the aspects of the service delivery system that they are responsible for. It will also seek to build connections between central agencies and Line Ministries with a view to strengthening the service delivery system as a whole. AusAID, with its work in Line Ministries (including the Ministries of Education, Health and Public Works), along with GfD's work in central agencies (Ministries of Finance, State Administration, the Civil Service Commission, and Infrastructure Agencies), is in a good position to bring together stakeholders to support the Government of Timor-Leste to bring about sustainable improvements to Timor-Leste's whole service delivery system.

By doing so, GfD will increase the return on AusAID's large investments in service delivery sectors and contribute to increased efficiencies in AusAID's own program. The majority of AusAID's program in Timor-Leste is directed towards the improvement of government services and work with central agencies is necessary for this to succeed. If GfD did not exist, each of AusAID's service delivery programs would need to have their own interactions with central agencies. There are six to eight central agencies, each with their own complex structure, mandate, and stakeholders. It is duplicative, inefficient and impractical to expect Timor-Leste's central agencies to form relationships and understanding of each of AusAID's service delivery focused programs (and vice-versa).

The GfD Program is an efficient and effective way to make sure that AusAID is contributing to a better overall system for the delivery of services. The core of Pillar II is to work on unblocking the public financial management and administrative constraints to delivery of basic services.

Governance for Development – Detailed Program Description

Program Overview

The Governance for Development (GfD) Program will focus on some of the major challenges facing the Government in the implementation of its SDP. Its goal is:

Poverty reduction in Timor-Leste through economic development and delivery of services.

The Government of Timor-Leste has ambitious plans to develop the economy and improve the delivery of services in part by front-loading its investment of petroleum and gas wealth. To achieve its economic targets, it needs to improve the performance of its central agencies.

The Governance for Development (GfD) Program will assist the GoTL to implement the SDP by working with central agencies, including the Prime Ministers' Office, the Ministry of Finance, the

Civil Service Commission, the Ministry of State Administration, and the Infrastructure Fund agencies to improve the systems that are most important to economic management and service delivery. GfD will be structured around two core pillars: (I) economic and fiscal policy; and (II) improvements in basic services.

Pillar I: Economic and Fiscal policy

The purpose of GfD is to support the Government make decisions about economic and fiscal policy. GfD will provide resources to support the Government make decisions to: achieve sustainable economic development and poverty reduction; and support the development of a fiscal framework that delivers sustainable government finances, economic growth and meets social needs.

The SDP demonstrates the Government of Timor-Leste's commitment to sustained economic growth and reducing poverty through structural reforms, institution building and public investment. In order for the SDP goals to be met over the next 20 years the Government is going to need a strong framework for making economic policy decisions, and translating those policies into sustainable public investments. The SDP is at the apex of the strategic policy framework, the annual budget process is at the frontline. These are strong foundations from which to build and need to be combined with well thought through and clearly articulated fiscal and monetary policy frameworks. The Government has a 5 year budget strategy anchored to investments outlined in the SDP, but policies on fiscal policy over the medium term, including around issues like the ideal level of overall public expenditure, structural reforms, competition policy, productivity, and employment are still being formulated. Some of these economic policy considerations raise questions about how to finance investments and provide incentives. Does the Government borrow or tax? What impact do these decisions have on key indicators like growth, inflation, household incomes, wages?

While these are complex questions, they are a matter for the Government and other economic policy making institutions of Timor-Leste to decide on. GFD will work with government to help build the capacity of central agencies to make these decisions and to adopt and administer these policies. In supporting the Government development partners like AusAID need to be very sensitive to how our assistance is provided. GFD must avoid any perception of interference in economic policy setting. With this in mind, GfD proposes to assist key stakeholders from both within and outside of government to generate and carry high quality analysis to key decision-makers with a view to assisting the Government of Timor-Leste to make better informed decisions on economic policy.

Pillar II: Improvements to Basic Services

The Purpose of GFD will help to improve the access to and the quality of basic services for Timorese people by supporting central institutions of the Government to deliver on their respective mandates through development of their capacity over the long term.

GfD will work with central agencies including the Prime Minister's Office, the National Development Authority, the Ministry of Finance, the Civil Service Commission and the Ministry of State Administration to help to resolve constraints to service delivery within the systems that are owned by these agencies. This includes helping the Government through the Prime Minister's Office

and the National Development Authority to monitor the implementation of the SDP. GFD will support a budget process that prioritises efficient and effective public investment and improved access to and quality of basic services. We will support the Civil Service Commission to put in place policies that encourage Line Ministries to recruit and manage new staff with the right skills in a timely fashion. GFD will also work with the Ministry of State Administration, to ensure the systems for subnational administration enable the delivery of quality basic services.

Intermediate Outcome: supporting demand for fiscal and economic policy and Improvements to Basic Services

GfD will focus primarily on end of program outcomes relevant to economic and fiscal policy and service delivery. However it will also pursue the intermediate outcome of Government and non-Government Stakeholders contributing to politically possible, technically appropriate solutions. This recognises that Government is just one of many stakeholders with an interest in the country's development, and that it is necessary for GfD to work with actors both inside and outside of government in order to achieve GfD's end of program outcomes. Possible activities related to this intermediate outcome are included under each of the outcome areas descriptions below. However GfD also has a role to play in supporting the establishment and consolidation of a strong public policy environment beyond issues that relate specifically to its end of program outcomes.

The end of program outcomes for GfD are outlined in the Figure below

Governance for Development is an eight year program. These end of program outcomes therefore reflect the behaviour changes we expect to see following eight years of investment through GfD. The program will be broken down into two four year phases. Expectations of change at the four and eight year stage are outlined below:

- **After four years improvements in the relevant to the EOPOs areas are expected**, but these improvements would not necessarily have occurred naturally or organically (ie. without GfD's assistance), and they may not yet be sustainable without AusAID support. We expect that after four years it will also be difficult to demonstrate that these process improvements have

achieved change at the impact level – ie. improved economic development and service delivery outcomes. See Annex M for specific indicators of progress at the end of four years.

- **After eight years GfD expects to see central agencies adopt an approach to working that prioritises economic development and improved services**. This would see central agencies proactively self-identifying and seeking ways to address constraints to economic development and service delivery. After eight years we would expect to see more significant change at the impact level by way of improved economic development and service delivery outcomes.

A budget of $61.78 million is proposed for the first four years of the program (see breakdown in Table below). An independent evaluation will be undertaken at the end of year three to assess adequacy of progress, ongoing commitment of the program's key stakeholders and to inform any necessary redesign before entering into the program's second phase.

Table: Budget for GfD Phase 1

Delivery Mechanism	Phase 1 budget (4 years)
AusAID Direct Implementation	$6,580,000
Managing Contractor	$24,000,000
Targeted Budget Support (Performance Linked Aid) with MoF	$20,000,000
Analytical and Advisory Services	$5,200,000
Non-government engagement	$4,000,000
Other Australian Agencies	$2,000,000
TOTAL	**$61,780,000.00**

Approach to Implementation

These end of program outcomes reflect the top level of GfD's hierarchy of objectives and will be the key performance indicators against which program success will be measured. But GfD also recognises that most central agencies in Timor-Leste understandably prioritise the strengthening of their own internal capabilities to enable them to effectively deliver on their mandate. There are very good reasons for GfD to support activities that both directly achieve GfD's end of program outcomes, and those which more indirectly contribute to the end of program outcomes. For example, improvements to systems for getting funds to schools and health posts are reliant on related capabilities, such as the Ministry of Finance being able to build the finance and accounting skills of civil servants.

With this in mind, GfD will support two categories of activities: (1) Activities that support the core mandate of central agencies; and (2) activities that support joint priorities (ie. that directly support GfD end of program outcomes). There will be some overlap between these categories, and it is expected that proportion of GfD activity that is of joint priority will increase over time.

Box 2: The GfD Program will support central agencies with their core mandate and joint priorities

> *Activities that support core mandate* – *in areas that will build the relationship, build GfD's working knowledge in areas relevant to its EOPOs, and/or enable the central agency to indirectly achieve or contribute to the EOPOs in the future. For example, supporting a legal adviser in the Civil Service Commission so that it has a good legal basis for developing its mandate.*
>
> *Activities that support Joint Priorities* – *in areas that are directly relevant to this Program's end of program outcomes. For example, supporting the Ministry of Finance to undertake Public Expenditure Tracking Surveys in the health and education sectors in to identify issues in the flows of funding to health clinics and schools.*

GfD reflects AusAID's intention to move to a more relationship-based engagement in Timor-Leste. Previously, AusAID had delivered the majority of its support through multilateral and private sector partners. It is now developing programs with a greater emphasis on direct engagement with its Timorese partners. By focusing on what matters to central agencies (ie. strengthening their core mandate) GfD will develop strong relationships with government counterparts which will position GfD as a more effective development partner. This will also enable GfD to build its working knowledge of the context which lends itself to a more informed and better targeted support that makes a difference to poverty.

The GfD Program is built on the assumption that the context will change and the program will need to adjust accordingly. Timor-Leste is an environment where policies and government organisations are in a great deal of flux. The strategy for this program will therefore rest on an engagement through multiple strands, allowing for flexibility in approach while maintaining long term relationships and contacts. GfD will also build in a regular (six monthly) process of review and redesign to ensure that it is responding effectively to the changing context, and to change course if current activities and engagement appear to be having limited traction.

END OF PROGRAM OUTCOME 1: The government has a fiscal framework that supports sustainable government finances, economic growth and meets social needs.

The first end of program outcome is for the government to have a fiscal framework that supports sustainable government finances, economic growth and meets social needs. In particular, this Program will work with key government decision-makers, influencers of decisions and producers of knowledge and analysis on the following specific aspects of a fiscal framework:

- The government's management of the economy through debt, revenues, tax, monetary policy.

- The government's decisions about resource allocation (budget and infrastructure fund).

- Budget allocations using analysis about different social needs and the most efficient and effective ways for spending to meet those needs.

- Major capital expenditure for stimulating economic growth and building infrastructure for basic services.

Activities and Delivery Mechanisms under End of Program Outcome 1

The primary activities under EOPO 1 relate to the production of analysis that is needed for a fiscal framework, and the carriage of this analysis to key decision-makers. Specific activities are outlined below:

- The *National Directorate of Statistics (NDS)* has the government mandate to produce statistics for managing the economy including the Consumer Price Index and National Accounts. It also produces statistics useful for identifying the needs of the poor and the changing picture of poverty. These include the Census and the Household Income and Expenditure Survey. The Government of Timor-Leste has plans for NDS to become an independent statistics bureau over time. AusAID will work with the NDS and ABS over the next year to develop a program of support in this area. Delivery mechanisms: include a partnership with the Australian Bureau of Statistics (4 years), the Performance Linked Aid Program with the Ministry of Finance and possible supplementary support from the managing contractor.

- *The Office of the Prime Minister (OPM) has requested AusAID assistance to monitor the implementation of the SDP*, and in doing so, measure the efficiency and effectiveness of government spending. The OPM was instrumental in producing the SDP and is the source of many key economic policies. The OPM has also requested assistance from AusAID of a more administrative nature, including by establishing new and streamlining existing systems for office management.   GfD will work with the OPM in the coming months to scope and design this program of work.   Delivery Mechanisms: The managing contractor will be the delivery mechanism for this activity.

- The OPM has also asked for AusAID assistance to transition Timor-Leste's National Development Agency (ADN) into an Economic Planning and Investment Agency (EPIA). Among other functions, the SDP states that the EPIA will have a role in economic planning and evidence-based policy to drive development and economic growth, including coordinating with the Ministry of Finance during the budget process and collaborate on determining the funding levels required to pursue economic development-related strategies and projects' as well as 'undertake research and track economic, social and financial indicators' (p.190, Government of Timor-Leste, 2011). Delivery Mechanisms: This support will be delivered through the GfD managing contractor.

- Under GfD AusAID will continue to support the Infrastructure Fund Agencies to implement their mandates for appraisal and procurement of major capital projects (supported since 2011) 2011. The Major Projects Secretariat produces appraisals of proposed capital works, and these appraisals go to the Council of the Infrastructure Fund (CAFI) to assist in their decisions. The level of influence that these appraisals exert over government decision-making is unclear, but they have potential to be a good source of information about how capital works can contribute to fiscal goals, as well as meet the strategic priorities of facilitating economic development and meeting social needs. Delivery Mechanism: This support will continue under GfD and will be delivered through the GfD managing contractor.

- The Department of Macroeconomics in the Ministry of Finance has the formal mandate for 'carrying out comprehensive research, economic analysis and advise [*sic*.] the government, on all

issues that will impact the Timorese economy' (Ministry of Finance Timor-Leste, 2012). The Strategic Plan for MoF proposes that it will develop capacity in macroeconomic analysis, developing the macroeconomic framework, as well as capacity in monitoring economic trends and measuring growth. It also states that it will work to ensure that the budget is informed by more robust macroeconomic analysis. This is all positive, but current capacity and the actual intention of this organisation to develop this mandate requires further investigation. <u>Delivery Mechanism</u>: GfD will support this activity through the Performance Linked Aid Program with the Ministry of Finance.

Intermediate Outcome Activities related to Outcome 1

There are several stakeholders outside of government that have an expressed an interest in working with the Government of Timor-Leste on Fiscal Policy. The IMF produces analysis about the fiscal policy of Timor-Leste. The IMF's intermittent Article IV reports include a dialogue with key stakeholders about fiscal policy. The IMF has also presented on the effects of inflation to the Council of Ministers, Timor-Leste's cabinet equivalent, although there is some suggestion that these products have limited influence over government decision-making. Apart from the Article IV consultations, the IMF has provided a range of fiscal and economic analysis activities when requested – for example the Government recently engaged it to review the approach to managing the PF using short-term inputs and it has been involved in developing the national accounts data. The IMF's day to day influence in Timor-Leste is hampered by the lack of a resident representative. GfD will seek to encourage greater engagement from it on fiscal policy issues. The World Bank partnership may also be drawn upon to fund AAA activities relevant to fiscal policy.

Determining how analysis can be carried persuasively to key decision-makers and influential stakeholders will be critical to the success of this end of program outcome. It is likely that Timorese producers of information will be more trusted and persuasive than international producers of information. Further options for support will be investigated in implementation

END OF PROGRAM OUTCOME 2: The government makes decisions about economic policy that supports sustainable economic development and poverty reduction

This end of program outcome will require limited investment in the first 18 months of the Program and will initially be focused on a program of analysis to better understand the economic constraints to growth in Timor-Leste (see brief overview of these constraints in Annex B). Over time, GfD may assist key decision-makers to implement select economic policies, if such assistance is appropriate, ensuring the policies are based on good analysis about economic growth and poverty reduction. The GfD program cannot work on all of the structural issues affecting economic growth. But it will assist the government with resources, information and analysis to make decisions within an economic framework focussed on sustainable growth and poverty reduction. It will also make a contribution to a select group of economic policies that are particularly important to economic development. Key areas for initial investigation by GfD, and possible future support are outlined below.

Activities and Delivery Mechanisms under End of Program Outcome 2

- *GfD will undertake a broad scoping of key economic constraints to growth, to identify where its efforts under this pillar should be concentrated on in the medium term.* The scoping work will not be analysis, but involve: i) identifying and sorting through the most important issues and constraints to growth; ii) identifying gaps in analysis and knowledge about these issues and whether there is a policy consensus about how to address these issues; and iii) identifying the interest and ability of policymakers to take these issues forward. The economic scoping work will cover: macroeconomic issues, public finance, microeconomic and structural issues, international linkages, poverty and gender equality. Some of the analysis for these issues and support falls under the fiscal part of pillar 1, pillar 2 and also under the intended AusAID Rural Development Strategy, which is to be undertaken in the second half of 2013. Annex F contains an initial identification of policy issues in these groups. Delivery mechanisms: A mix of approaches will be used for this analysis – AusAID staff, short-term inputs through the managing contractor and possibly outputs from the World Bank AAA.

- GfD is currently providing support to financial sector development through the INFUSE (Inclusive Finance for the Underserved Economy) program that is implemented by UNCDF, with support from UNDP. This program has a mix of interventions to support the capacity development and the policy framework for two large microfinance institutions. INFUSE also works with the Central Bank of Timor-Leste, providing policy development support on a long-term basis. The ADB, World Bank and IFC are also providing financial sector policy and capacity building support through a wide range of measures, partly funded by AusAID via Pacific and other regional initiatives, primarily on a short-term inputs basis. A range of bilateral donors (New Zealand and the European Union) have undertaken financial education programs. Delivery mechanism: The intention of GfD is to continue supporting financial sector development and likely through implementing partners, although the appropriate mechanism in the medium-term is unclear. The nature of the support and implementing partner will depend on Government interest in further improving policy frameworks to encourage financial deepening, particularly the Central Bank and Ministry of Commerce and Industry. GfD will work with interested partners during 2013, to identify partners with entry points, interest and capacity to take this work forward.

- *GfD will continue to provide telecommunications regulatory support to encourage greater access, better services and further reductions in telephony costs.* In 2011 and 2012, AusAID and the World Bank provided technical support to the Government as it sought to introduce greater competition to the sector. This liberalisation started in 2012 and in early 2013, two new mobile telephony and data operators, subsidiaries of large Indonesian and Vietnamese Telcos, began offering services. Delivery mechanism: GfD will continue to support the regulation of the newly liberalised mobile telephony sector through the managing contractor.

- *GfD and AusAID will continue to support improvements in the business environment through implementing partners.* At present, the key actors are the IFC and ADB, which have provided support to: the development of a Public Private Partnership framework and process for the port and airport redevelopment (Ministry of Transport and Communications); 'one-stop' shops for business registration (Ministry of Commerce and Industry); capacity development of the commercial bank with the most customers (BNCTL); and assessments of the business environment (*Doing Business* surveys). Delivery mechanism: engagement with the IFC and ADB.

Intermediate Outcome Activities under Outcome 2

GfD is supporting a range of stakeholders to generate analysis, engagement and interest among policymakers and civil society about the country's key economic constraints. The World Bank AAA work, research by The Asia Foundation, public discourse of government and development partners working on issues such as telecommunications regulation, financial sector development and business regulation is expected to stimulate this demand. GfD is also currently exploring options in partnership with The Asia Foundation to support the strengthening of Timorese public policy capacity, including possibly through the establishment of a Timorese public policy think tank. The scoping work of economic constraints is intended to identify possible new areas and partners where further analytical work and support to policy development should be concentrated.

END OF PROGRAM OUTCOME 3: Central agencies have a budget process that supports improved access to services

As noted above, there are several issues with the budget process. Each year the Ministry of Finance produces a budget circular which outlines the process for developing the budget for the following year.   However Line Ministries often do not understand the budget process or associated timeframes well. They do not necessarily know how to structure their budget submissions so that they are persuasive. There are also weak links between the budget and policy objectives (Mellors, 12 May 2011) minimal priority given to budget allocations for operations and maintenance.   The Directorate of Budget in the Ministry of Finance is the primary central agency stakeholder, with responsibility for setting and managing the process by which Line Ministries make their annual budget submissions.

Activities and Delivery Mechanisms under End of Program Outcome 3

- Support the implementation of the *Ministry of Finance's 5 year Strategic Plan* through a targeted budget support program (performance-linked aid) that uses partner-country system.   Timor-Leste's Minister of Finance has invited AusAID to support the implementation of its *Strategic Plan* by way of a targeted budget support (performance-linked aid) investment that uses country partner systems in order to strengthen them. The Strategic Plan sits under the SDP and captures the full range of reforms that will be required to enable the Ministry of Finance to enable the implementation of the SDP.   Under this approach, specific PFM-related performance improvements will be agreed with development partners through a Ministry of Finance-led detailed design process that will take place throughout 2013. AusAID funds will be disbursed when these performance improvements are objectively assessed as achieved. This program will predominantly focus on supporting the Ministry of Finance to strengthen its core mandate. But it will position GfD over time to be better able to leverage sustainable PFM improvements, and shift the nature of dialogue from administrative and non-strategic issues, to more strategic economic and PFM matters. This delivery mechanism was considered by AusAID's Strategic Program Committee in April and approved to proceed to detailed design.

- Increasing Line Ministry understanding of the budget process.   Most Line Ministries have insufficient funds and issues with the way that budgets are constructed (eg. not enough money for operations and maintenance) so that they are incapable of implementing their mandates. In

order to improve this situation, Line Ministries must be able to produce budgets that comply with the Ministry of Finance's budget circular, and are fully considered during the budget process. GfD proposes to support the Ministry of Finance to socialise the budget circular more effectively with Line Ministries. GfD will also connect up these efforts with complementary engagement at the Line Ministry level through our service delivery programs so that Line Ministries understand and are better placed to develop budget submissions that are persuasive to the Ministry of Finance. Delivery Mechanisms: Technical assistance through GfD Managing Contractor and over time, through the targeted budget support program.

- Improve the budget process so that there is more time for Line Ministries to prepare written and oral submissions. At present Line Ministries indicate that they have limited time to prepare high quality submissions to the Ministry of Finance. GfD will seek information and assistance from AusAID's sector programs to work with the Ministry of Finance to bring a Line Ministry perspective to the preparation of the budget circular so that sufficient time frames are allowed for Line Ministries to prepare quality submissions. Delivery Mechanism: The concept for the targeted budget support program proposes that it include a requirement for the Ministry of Finance to amend the regulations to the Budget and Financial Management Law to include an indicative budget calendar that provides mandatory and sufficient time for ministries to prepare budget submissions. GfD will engage closely with the Ministry of Finance through the Performance Linked Aid Program to ensure that this is included in the longer term design for the program. This effort can also be supported by technical assistance delivered through the Managing Contractor if necessary.

- Ministry of Finance and other relevant decision-makers having a greater understanding of the costs of services and the importance of budgeting for operations and maintenance. At present Line Ministry budgets are based on allocations from the previous year's budget rather than any understanding of the true cost of services. While some Ministries (health in particular) have made efforts to cost basic packages of services, this has had limited influence over budget allocations. This means that the allocated budget is unlikely to match Line Ministry plans, which are unlikely to reflect a realistic assessment of costs linked to social needs. GfD will work with AusAID sector teams and the Ministry of Finance to inform surveys aimed at establishing the true cost of services. Delivery Mechanism: This activity is only in the very early stages of consideration, but could be supported through the GfD Managing Contractor

Intermediate Outcome Activities under Outcome 3

Line Ministries have some of the strongest incentives to seek improvement in the budget process. They will therefore be an important partner under this end of program outcome, along with AusAID's sector teams. Other stakeholders with an interest in the budget process include the President, who has an agenda for better government funding of operations and maintenance, the World Bank and the Asian Development Bank (ADB), who have both engaged with the government on the importance of operations and maintenance funding. Civil society organisations including *Lao Ha'matuk* and *Rede Feto*, also regularly scrutinise and provide public commentary on the budget. Women Parliamentarians and other gender equality advocates may be engaged to build their capacity to scrutinise budget submissions and decisions from a gender perspective. The Parliament

has a role in the budget process, as does the Budget Review Committee of Parliament. During implementation, GfD will investigate ways to assist these stakeholders to carry information and analysis persuasively to key decision-makers relevant to the budget process.

END OF PROGRAM OUTCOME 4: Central agencies systems support the timely and reliable transfer of financial resources to service delivery managers

Service delivery managers, such as principals and health workers, do not generally receive their financial allocations in a timely and reliable way which limits their ability to provide education and health services. There are many underlying causes of this problem and under this end of program outcome, GfD will seek to build its knowledge of what causes this constraint, and seek to address those where responsibility resides with central agencies, in particular the Ministry of Finance.

The absence of a fully-developed banking system in rural areas means that cash is the dominant form of financial exchange (Whimp, Draft August 2012). As noted above, many service delivery workers have to travel long distances to get funds and it is likely that the more remote facilities receive disproportionately less because they have to travel further to get it. Resources are often late or not received by these facilities, due to a failure to comply with difficultacquittal procedures.

The Directorate of Treasury in the Ministry of Finance is responsible for disbursing funds to Line Ministries, and manages a process for acquitting funds which is focused on tightly controlling inputs**. Its mandate is to support effective controls around government money, so it does not disburse the next tranche of funding until the previous tranche has been acquitted. This Directorate is currently responsible for processing invoices and acquittals for the whole of the Government of Timor-Leste.

It is important to note that working with central agencies alone will not improve financial flows to the service delivery frontline. This is because sizable and significant parts of the systems that must function to enable funding to flow easily to the service delivery frontline actually rest with Line Ministries. For example, processes within Timor-Leste's Ministry of Infrastructure for annual allocation to individual Directorates of recurrent budget are largely pre-determined by the number of permanent employees on the payroll and the scope to re-prioritise such expenditure from one year to the next appears limited (Mellors, p.12). In the Ministry of Health resourcing for service delivery at the sub-district level is bundled up with resourcing for administration at the district level. When coupled with the lack of accountability for service delivery outputs, it is possible that administration costs that are paid for at the district level are being privileged over the needs of service delivery at sub-district level (Mellors, p.14). It is likely that similar issues also exist in other Line Ministries.

In recognition that Line Ministries also have an important role to play in freeing up funding flows to the service delivery frontline, AusAID's education, health, water and sanitation and rural roads programs will all work with Line Ministries to improve their internal PFM systems. Furthermore, AusAID's support for the PNDS program also proposes providing significant resources to assist the MSA to establish mechanisms for disbursing government grants directly to all of Timor-Leste's 442 villages – an effort that has required a significant level of engagement and negotiation with the

Ministry of Finance, and which has been facilitated in part by interim GfD personnel. GfD's role, therefore, is to work with the Ministry of Finance to unblock the parts of the system that it owns in order to ensure the timely and reliable transfer of funds for services, and to connect up these efforts with the efforts of AusAID's sector teams.

Activities and Delivery Mechanisms under End of Program Outcome 4

- Supporting the development and roll-out of the Financial Management Information System (FMIS) to Line Ministries and Districts with provision for printing cheques. The Ministry of Finance has established an information system to support financial management across the whole of government. The various modules of the FMIS (Budget, Payroll, Accounting, Procurement, Contract Management, Asset Management, Management Dashboard and the Transparency Portal) could form a strong basis for improving PFM practices within Line Ministries and at the subnational levels. Provision for printing cheques at the District level should increase efficiencies by reducing the need for District Managers to travel to Dili to manually collect envelopes of cash which are then manually distributed (also manually) to service delivery units like health posts and schools. Delivery Mechanism: The Targeted Budget Support mechanism is the most appropriate mechanism to support the role out of the FMIS. However if necessary, this support could be supplemented with technical assistance from the GfD Managing Contractor.

- Improving the financial literacy of civil servants. Currently the financial literacy of civil servants across government is limited. While it is important to roll out the FMIS to enable the devolution of financial management, there is little point in doing this if civil servants in Line Ministries and Districts have limited financial literacy and minimal capability to operate the system. The Ministry of Finance has already established a Financial Management Training Centre, and there is high demand from Line Ministries to undertake training. But there is a need to significantly scale up the training capacity of the centre in order to meet demand across Government. Delivery Mechanism: The Targeted Budget Support mechanism is the most appropriate mechanism. However if necessary, this support could be supplemented with technical assistance from the GfD Managing Contractor.

- Improving processes for Line Ministries to acquit funds. As noted above, acquittal processes are currently cumbersome and time-consuming for Line Ministries. GfD will look for opportunities to work with the Ministry of Finance to streamline existing acquittal processes and will work with the Ministry of Finance to bring a Line Ministry perspective to these reforms through engagement with AusAID sector programs. But there are natural limits to the volume of resources that can be provided through Timor-Leste's existing system, and the more appropriate long term reform effort is to move towards results based accounting (discussed below). Delivery Mechanism: The Targeted Budget Support mechanism is the most appropriate mechanism to support the role out of the FMIS. However if necessary, this support could be supplemented with technical assistance from the GfD Managing Contractor.

- Moving towards results-based accounting where service delivery managers are given funds with clearly defined expectations of what results are expected would significantly open up funding flows to the service delivery frontline. This would require the Ministry of Finance to place less

emphasis on tight control of inputs and would allow service delivery managers more discretion to choose the mix of inputs best suited to producing the expected results. However this approach would only succeed if managers have the skills, information and authority to deploy resources to produce specific results, and if linking funding to performance will create sufficient incentive for managers to use resources to achieve the agreed performance targets. Little of this can be guaranteed at present, so this should be considered a long term objective. <u>Delivery Mechanism</u>: The Targeted Budget Support mechanism is the most appropriate mechanism. However if necessary, this support could be supplemented with technical assistance from the GfD Managing Contractor.

- <u>Tracking where the money goes – Public Expenditure Tracking Surveys (PETS)</u>. At the moment, there is very little information regarding how much money is reaching the service delivery frontline, and what it is achieving when it gets there. Being able to understand this and eventually moving to routinely tracking resources for and received by schools, health posts and water and sanitation providers will be key to improving funding flows to the service delivery frontline. <u>Delivery Mechanism</u>: The concept for the Targeted Budget Support mechanism proposes that the Ministry of Finance and Line Ministries undertake PETS in health and education as one of performance improvements necessary to trigger disbursement of aid funding. This is therefore the appropriate mechanism to support this activity, but the World Bank also has extensive experience undertaking PETS. GfD could also draw on the World Bank AAA partnership to support this if necessary. <u>AusAID will encourage partners (the World Bank and Government of Timor-Leste) to incorporate a strong gender perspective into the PETS.</u>.

- <u>Exploring options for de-concentration of treasury functions</u>, including possibly District Treasuries. At present, the Ministry of Finance has held back the introduction of district treasuries, to first focus on better embedding its central systems and practices. However, deepening deconcentration, or indeed decentralisation of services outside Dili will require a more substantial presence to facilitate payments and transfers to increase the efficiency of service delivery. The establishment of treasury functions at the district level would enable this. <u>Delivery Mechanism</u>: The Targeted Budget Support mechanism is the most appropriate mechanism. However if necessary, this support could be supplemented with technical assistance from the GfD Managing Contractor.

Intermediate Outcome Activities under Outcome 4

The Ministry of Finance's main mandate is to ensure the proper control and management of treasury funds. At present, the Ministry of Finance implements this mandate by accounting for inputs as opposed to outputs or outcomes. This results in a system of 'narrow pipes' that it is difficult to push more funds through, and it is unlikely that this situation will improve unless these controls are relaxed. While this would better enable service delivery, it may also increase the risk of leakage, which is not in the Ministry of Finance's main interest. A compromise is likely required to achieve a more service-delivery oriented public financial management system, and this will more likely come about by involving stakeholders with a main interest in reforming the system in this way.

Line Ministries who deliver services have an obvious interest, particularly the Ministry of Education which has an interest in being able to disburse money directly to schools rather than through District

Education Offices. The Ministry of State Administration (MSA) may also have an interest linked to its potential role in deconcentrated or decentralised treasury functions, either through District Administrations, or decentralised municipalities. In the past, the MSA used financial systems to disburse funds at the District level under the PDD program, and it will need to disburse funding in the newly designed PNDS program.

There are also a number of other key stakeholders with a potential interest in driving reform under Outcome 4. The Prime Minister has an expressed interest in greater devolution of financial authority. The Civil Service Commission may have an interest if District Treasuries are established, due to its role in recruiting civil servants. The Parliament sets some of the rules for grants and acquittals, as does Parliamentary Committee C on Public Finances. There are also a number of Timorese NGOs with an interest in monitoring service delivery that could form useful partners under this outcome area (eg. Timor-Leste Education Coalition, Hasatil, Matadalan Institute). The World Bank has an interest, particularly through Public Expenditure Reviews and Public Expenditure Tracking Surveys. GfD will seek an engagement with each of these actors in implementation to assess interest and options to generate demand for reforms that support the timely and reliable transfer of resources to the service delivery frontline.

END OF PROGRAM OUTCOME 5: Ministry of State Administration sub-national systems support service delivery

For the purposes of public administration, Timor-Leste is divided into 13 districts, with the 13 districts further sub-divided into 65 sub-districts. As is common in many countries, Timor Leste's district administrations are an extension of a national agency with general responsibility for local-level governance, the Ministry of State and Administration (MSA). Most Line Ministries also have representatives in most or all districts, but only a few have a presence at sub-district level. At present, sub-national Line Ministry offices operate in relatively independent silos.

Under its Organic Law MSA has the mandate for 'design, implementation coordination of policy….for the areas of local government, administrative decentralisation, local and rural development…' (Art 27,Decree Law 41/2012). MSA has a role in overseeing the Integrated District Planning Process (PDID), under which deconcentrated District and sub-District offices of Line Ministries are required to coordinate with each other. It also has the mandate for coordinating, monitoring and communicating about services at a subnational level.

At present Timor-Leste does not have a formal system of decentralisation, although there is a commitment to 'decentralisation or deconcentration' in the constitution, and MSA has the legal mandate to drive this agenda. There have been various attempts to do this over the past ten years and laws to establish such a system have been drafted and presented to Parliament, but have not passed. Prime Minister Gusmão has reiterated his commitment to decentralisation and recently began touring the Districts to consult with the population on the issue. A range of models for decentralisation have been considered, but one possibility is that elected municipalities (based on current Districts) will take over responsibility for service delivery within their geographical area, with Line Ministries playing a supportive policy-setting and monitoring role from the centre. This is a significant change to the current model of service-delivery, in which Line Ministries use their own deconcentrated sub-national office and units to deliver services.

Even under the current structure, it is probable that Line Ministries will need to coordinate their delivery of services more closely with District Administrations. MSA has a lead role in PDID, the

process by which deconcentrated District and sub-District units of the Line Ministries are required to coordinate with each other. It has also had a lead role in the administration of PDD, the fund for sub-national infrastructure. Some of this mandate has been split amongst the MSA and two Secretaries of State (for Local Administration and Local Development respectively), and the National Development Agency (ADN) but the precise responsibilities are yet to be determined.

There has been ongoing negotiation in relation to the role and mandate of the Minister of State Administration and his two Secretaries of State, and their particular policy preferences are not yet clear. It is therefore not possible to identify a clear end of program outcome at this stage, but it is highly likely that MSA will have an ongoing mandate in relation to how government is organised at the sub-national level, and that this role will be potentially significant for how services are delivered in Timor-Leste.

Activities and Delivery Mechanisms under End of Program Outcome 5

GfD will seek to build a relationship through a program of core work with MSA building on interactions with AusAID's support for the Government of Timor-Leste's PNDS Program and the Minister. In doing so, it will be respectful of the fact that AusAID's program of support to the National Program of Suku Development (PNDS) is the lead relationship holder with the MSA. GfD would like to work in areas that best allow it to understand changes to systems for subnational administration, but it will have to balance this interest with work that best builds the relationship and a good partnership. While it is negotiating this work program, the GfD Program will provide ongoing support to a legal adviser in the MSA. Given the unsettled nature of the Government's reform agenda in this area GfD will seek to understand the following questions, rather than pursue a particular set of reforms:

- What will MSA's future role in planning the sub-national services be, either through District Administrations or Municipalities, and through the PDID or other processes?

- What will MSA's future role in communicating between the population and government be? What about its role for communicating between local authorities and central government?

- What is MSA's future role in monitoring the provision of services and needs in the community?

- Will the MSA continue to have a role in sub-national infrastructure, through PDD and PNDS? How will it relate to the Secretaries of State (for Local Development and Local Administration respectively) and the ADN?

- Decentralisation has the potential to create negative impacts for women who may be left out of important decision-making processes. Does the MSA have any plans in place to mitigate this risk?

Intermediate Outcome Activities relevant to Outcome 5

Given that the precise end of program outcome for this work area is not yet known, it is difficult to identify demand side partners at this early stage. However our initial assessment suggests that other relevant stakeholders to this outcome area include the subnational offices of Line Ministries,

who may have to coordinate with District Administrations, or work through municipalities, The Asia Foundation, which is keen to monitor service-delivery at a sub-national level as well as the President, who has expressed an interest in services at a subnational level.   The United Nations Capital Development Fund has been working on decentralisation issues with the MSA for a number of years and has piloted municipal arrangements in a number of districts through their Local Development Program. They are currently designing a new phase of assistance and will be an important partner in policy dialogue with GfD and the government on decentralisation issues.

MSA will have a role to play in engaging communities at the sub-national level in relation to planning, consultation, implementation and monitoring of activities implemented under the PNDS program. As noted above, AusAID is supporting this effort directly through a separate, but closely related program, but the remit of AusAID's PNDS support program is confined to that specific program. GfD will work closely with AusAID's PNDS support team to learn from their experiences and to ascertain whether there is a broader role for MSA in engaging communities around the delivery and monitoring of services, infrastructure and other government funded activity at the sub-national level.   If this mandate develops, GfD will look for opportunities to support citizen engagement, including potentially with the Timorese NGOs mentioned under outcome area four. However engagement by GfD at this level will need to be carefully considered in what is presently a crowded space – there are already community-level groups established by Line Ministries to oversee management of water facilities, and health and education services, while PNDS will also establish village committees for the implementation of this program. There are also numerous village-level groups established to service NGO and development partner programs.

END OF PROGRAM OUTCOME 6: Central agency HR systems enable service delivery

Centralised procedures for recruitment have an effect on the timely recruitment of staff by Line Ministries and the centralised Career Regime sets pay scales across the civil service. The Civil Service Commission is responsible for overseeing matters related to civil service policy. It has systems for civil service recruitment and dismissal that apply to the whole civil service. It is developing its mandate for human resources management and training and is one of the key stakeholders in the Career Regime. There are a number of structures for training, and accreditation of training for civil servants that reside with Central Agencies. Under this end of program outcome, GfD will engage with these central human resources systems, with a view to understanding and positively influencing their impact on service delivery. Its focus at first will be assisting central agencies – the CSC in particular – to better track the results and implications of its decisions.

Activities and Delivery Mechanisms under End of Program Outcome 6

GfD will seek to build its knowledge of the human resources systems and understand the different perspectives on where the blockages and constraints to service-delivery are. Which options it pursues will depend on the interest and openings presented by the Civil Service Commission and other stakeholders. Possible areas of focus include:

- A scoping study to consider how the Civil Service Commission can best to integrate a training function and the National Institute of Public Administration (brought under the CSC mandate following the 2012 election). Delivery Mechanism: GfD Managing Contractor

- The development of core policies and processes for the management of the civil service, including a human resources and communication strategy, a human resources manual, and recruitment procedures. The GfD Program will work with the CSC to encourage joint monitoring of the impact of these policies on service delivery. In the meantime, GfD will provide ongoing support to a legal adviser and human resources advisers in the CSC. Delivery Mechanism: GfD Managing Contractor

- Working with the Civil Service Commission to establish or build effective modalities for Line Ministries providing their input into civil service policies. The Civil Service Commission has already demonstrated a commitment to whole of government policy consultation through the establishment of a network of human resources practitioners, referred to as GJPRU (supported by AusAID). This is a good forum for Line Ministries to better understand Commission policies and give feedback on practical human resources issues. This could form an effective model on which to base future engagement. Delivery Mechanism: GfD Managing Contractor.

- Strategies for coordinating different mechanisms for building civil service capacity, including training within ministries, the Human Capital Development Fund, and any future training offered by CSC, and investigation of ways for CSC to value-add to this process. Delivery Mechanism: The GfD Managing Contractor.

- Systems for monitoring the effect of recruitment practices on service delivery including timeliness of recruitment, whether the best person recruited, and transparency and perceptions of recruitment actions. Delivery Mechanism: The GfD Managing Contractor.

- Working with the Civil Service Commission to ensure that policies and laws on career development, performance management, work conditions and ethics respond to gender equality concerns and take into consideration the specific needs and interests of women and people with disabilities. This will build on work already underway with the Commission. Delivery Mechanism: The GfD Managing Contractor.

Intermediate Outcome Activities under Outcome 6

Line Ministries are the main stakeholder with an interest in human resources systems that enable service delivery. In addition, the Ministry of Finance is a relevant stakeholder, for a range of reasons, including the potential budgetary impacts of civil service pay and conditions, and because of the potential connections between the Financial Management Information System and the Personnel Management Information System (currently not linked). Other stakeholders with a mandate for skills development include the National Labour Force Development Institute (INDMO), an autonomous regulatory body for vocational education which accredits training for the civil service and the general population, and the Human Capital Development Fund. Private sector training providers are also a potentially significant stakeholder in influencing the government's policy on civil

service training. They potentially stand to gain much should the Government of Timor-Leste choose a model of public service capacity development that allows accreditation of private sector providers over direct government provision.

As noted above there is already a commitment on behalf of the Civil Service Commission to engage with Line Ministries around the impacts of reforms that it has led. GfD will build on this commitment with a view to supporting further engagement of this nature over time and as the work program under this outcome area becomes clearer.

INTERMEDIATE OUTCOME: Government and non-government stakeholders contribute to politically possible, technically sound solutions to issues relevant to Pillars I and I

As described under each of the outcome area descriptions above, GfD will integrate the intermediate outcome into each of its substantive outcome areas. This recognises that Government is just one of many stakeholders with an interest in the country's development, and that it is necessary for GfD to work with actors both inside and outside of government in order to achieve its end of program outcomes, particularly those for which there political support is lacking.

However GfD also has a role to play in supporting the establishment and consolidation of a strong public policy environment beyond issues that relate specifically to its end of program outcomes. Key to this effort will be the establishment of a country-level partnership with The Asia Foundation. This will have a specific program of work related to GfD linked to promoting a diverse public policy environment, including possibly through the establishment of an independent Timorese public policy think tank similar to the National Research Institute in Papua New Guinea. GfD will also seek to understand and potentially engage with the broader set of actors that shape public policy in Timor-Leste including the Parliament, advocacy CSOs, the Catholic Church, private sector and business actors, Academia and Political Parties. The Asia Foundation is currently undertaking further scoping work for AusAID in this area which will potentially form the basis of a work program for GfD in addition to this partnership.

Lessons Learned and Principles for Implementation

Australia has supported public financial management and the public sector since Timor-Leste's independence through a mix of programs delivered bilaterally and multilaterally. A detailed discussion of these investments, totalling just under $103 million since 2002 is at Annex C

AusAID has learned much from its past experience. There have been several evaluations and reviews of the 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. A case study has been prepared reviewing the process of Australian government support for Civil Service reform from 1999 to 2012, at Annex D. These evaluations and studies point to the following four key lessons, which are outlined in further detail at Annex C. These lessons have been translated into principles for GfD's implementation.

Principle 1 Focus technically appropriate, politically possible reform

The GfD Program adopts the philosophy of supporting "technically sound, politically possible" policy and programs (Faustino, Occasional Paper No. 12, May 2012). Policy and programs need to be "politically possible" because the best, most durable institutions15 will be led by Timorese stakeholders, who have the political capital to initiate and maintain new ways of doing things. Policy and programs also need to be "technically appropriate" because they need to be capable of making a difference to poverty, and helping to build the state for the long term. Under GfD 'technically appropriate' is considered to mean an approach or approaches that are likely to achieve program objectives in the context. In implementation, therefore, the GfD Program will work with local actors to achieve the end of program outcomes that are outlined above, but it will not be prescriptive about the pathway that is followed to achieve the end of program outcomes – there will be no one 'technically correct' pathway, and we will take existing systems as the starting point. The approach will be to identify the Timorese stakeholders who have an interest in the end of program outcomes (including those outside of government), and to explore with partners possible solutions to the issue.

This also means that the GfD Program will stop supporting areas of work if it makes the assessment that there is not sufficient Timorese ownership or mandate, or the work is clearly unable to contribute – either directly or indirectly – to program outcomes. Responsibility for these decisions will ultimately rest with the Governance for Development Program Director, but will be taken following consultation with the Minister Counsellor and broader GfD team, and will usually follow detailed consideration at the review and redesign Workshop (see Annex M for further detail).

Annex D provides examples of where AusAID funded advisers favoured the implementation of technical solutions for which there is limited political support. Pushing reforms of this nature has the potential to waste Australia's aid investment and damage important relationships with partners. It is important that GfD and its implementing personnel reform that is technically appropriate and able to be implemented in the current political environment.

Principle 2: Build and maintain strong relationships

Timorese culture places a strong emphasis on relationships, and it is only by building strong and effective relationships with key program partners that GfD will succeed. Influence, legitimacy and information all flow from relationships of trust. A report on the culture of the civil service likened it to being based on the Timorese principles of family. Those with a trusting relationship, are afforded respect, loyalty and access to information (p15, Butterworth, 2011).

While some of these connections are dependent on such things as patronage, a shared history in the resistance movement or familial relationship, the research suggests that it can also be developed through 'predictability of professional relationships that are analogues of familiar, and tested, customary social organization proximity' (p15, Butterworth, 2011). Becoming an insider, through developing relationships, brings with it the advantages of reciprocal goodwill and loyalty to shared goals. The contrary case, being an outsider, can bring with it mistrust of motivations (p10,

---

[15] "Institutions" is a reference to the formal and informal rules and norms that determine how decisions are made and implemented.

Butterworth, 2011). These observations align with AusAID's experiences in previous programs. The Independent Completion Report for the Public Sector Capacity Development Program (PSCDP) makes 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 (p34, Emmott, 22 July 2012).

GfD will work with central agencies on what matters to them – strengthening their core mandate - not only to build a strong relationship with these agencies, but also because it equips central agency to better manage the economy and enabling poverty reduction through service delivery. For example, the Ministry of Finance will find it challenging to make improvements to the systems for getting funds to health clinics and schools if its own workforce does not have the necessary financial and accounting skills to develop and implement the necessary changes.

The role of GfD's Timorese staff will be critical to the success of this relationship building effort. Not only do they have the language skills and more nuanced understanding of the political and cultural context in which GfD is operating, but they are also better placed in terms of ability to invest in building relationships over the longer term. That is, Australian-based staff are constrained by AusAID'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 GfD's Timorese staff. GfD will also seek to co-locate some of these with key government counterparts in order to increase frequency and quality of interactions and create greater opportunities to build trusting relationships.

The GfD Program also aims to facilitate relationships across government and between government and non-government stakeholders. Part of the agenda of the GfD Program is to build understanding of the connection between central systems and improved development outcomes for poor people. This will be most effectively done by increasing the positive interactions between central agencies and Line Ministries involved in service delivery.

Principle 3: In order to improve services for the poor, public sector reform programs need to concentrate on what actually enables service delivery.

The GfD Program will work with central agencies to assist their systems to enable basic services. It will also have strong relationships with the AusAID Sectoral Programs working in health, education, water and sanitation, roads, agriculture, and rural development and eliminating violence against women, all of which are in the process of developing close relationships with Line Ministries. A review by the Office of Development Effectiveness into central agency reform states '[w]hile long term sustainability will depend on how these entire systems evolve over time, donor support will be far more effective if it addresses the key blockages limiting improvements in service delivery' (Foster, March 2010).

By focusing on central government systems, the GfD Program will enable these other programs. It will help AusAID service delivery programs to better understand those central agency systems that are having an impact on service delivery and, together, identify opportunities to improve them. This program will coordinate interactions with central agencies ensuring that multiple AusAID interactions do not over-burden Timorese central agencies. It also has the benefit of ensuring AusAID's work is integrated, coherent, and builds the system as a whole.

Principle 4: Adapt to the changing environment and maintain engagement over the longer term.

Timor-Leste, like many post-conflict societies, is a dynamic institutional environment. In the ten years since independence, the structures of government and major policies have changed rapidly, and the pace of change seems likely to continue.[16] New institutions are regularly created and this can take time away from consolidating the capacity of those that already exist. In some cases an overlapping mandate or a proliferation of mandates can lead to unclear responsibilities or competition between organisations. Some of the flux in institutions is demonstrated in the case-study on civil service reform, at Annex D.

While lesson four indicates that it is important to specifically focus public sector reform efforts on the parts of the system that enable services, supporting institutions to deliver their core mandate over an extended period of time is important when the politics or policy settings relevant to a particular agency are in a state of flux. This enables development partners to maintain a small involvement with organisations and assist them to look for positive ways forward, and adjust engagement as circumstances change. Supporting the organisation's priorities is a way for the program to stay close to the change, learn from multiple sources of information, build trust and have multiple strategies for pursuing end of program outcomes.

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

Sustainability, Gender and Disability

Sustainability

The purpose of the GfD is to contribute to the reduction of poverty through an appropriate fiscal framework that assists the government to manage the economy to increase jobs and incomes; and to ensure that government can afford to continue funding services in the future. GfD will also seek to improve services to address many of the dimensions of poverty that exist for people in rural areas.

One of the key factors in ensuring sustainability of benefits is the commitment of stakeholders to these outcomes. The GfD Program works not only on building the capability of central agencies to deliver on these outcomes (eg. through improved systems and processes) it also aims for central agencies and key stakeholders to be motivated to adopt and embed changes over time.

---

[16] There are two Secretaries of State which have the mandate for matters which used to be within the mandate of the Ministry of State Administration. The *Secretary of State for State Admin*istrationhas the mandate for PDID. The *Secretary of State for Administrative Decentr*alisation has the role for managing PDD.

For Pillar I, it will do this by carrying persuasive analysis to key decision-makers, and by bolstering the existing commitment of some stakeholders to sustainability and poverty reduction. GfD will work with partners outside of government on Pillar I and by doing so it will enhance external pressures to sustain sound economic management practices. For Pillar II, it will do this by opening the central agencies to the realities of service delivery at a community level, in an effort to increase motivation and commitment to addressing these issues. By encouraging joint results measuring of the impact of central reforms on service delivery and involving Line Ministries in the process of finding solutions to central agency issues, GfD operates on the premise that their interests will apply pressure to central agencies to keep a service-delivery orientation.

The other factors that impact on sustainability, both during implementation and after the conclusion of the program, are:

- The cost of activities. One of the factors which impacts upon sustainability is the affordability of new policies and processes. To be supported by the GfD Program, an activity needs to be "technically appropriate and politically possible". This includes it being affordable to the Government of Timor-Leste over the longer term.

- Organisational integration and capacity development. One of the factors that affect sustainability is the degree to which the activities effectively integrate with organisational systems and build capacity. Annex I sets out the GfD process for developing work plans on specific activities with central agencies. One of the required standards is that the discussion about activities must include discussion about the full range of factors relevant to the development of capacity, including factors such as work cultures, incentives, policies, systems, tools and authority patterns, as well as knowledge and skills. The GfD Program will be assisted in this discussion by its Logistics and Operations sub-Team, which includes specific capacity development expertise.

- Monitoring and Evaluation at the Activity Level. Another factor that affects sustainability is whether the specific activities supported by GfD are producing the changes that they were designed to bring about, and to constantly question about whether these changes are sustainable over time. The GfD Team will be assisted in setting up monitoring and evaluation systems for each activity by its Operations Team, which includes monitoring and evaluation expertise. These monitoring and evaluation systems will provide GfD and the central agency, with information on the effectiveness and sustainability of the current approach. The regular policy dialogue and review and redesign process will be the focus for adapting the approach on the basis of performance information.

- Monitoring and Evaluation at the Whole of Program Level. In addition to specific activity-level monitoring and evaluation activities, the GfD Program will have a Monitoring and Evaluation Framework (MEF) that will regularly assess what has changed and why, and also what is not happening/changing and why. The program-level MEF will also test the key assumptions of the theory of change and will give the GfD team information to evaluate the success of its approach and to consider whether adaptions are necessary. The six monthly review and redesign process will be the opportunity for the GfD Program to consider

sustainability issues, and whether changes in strategy are required in response to the changing context.

Gender and Disability

The Governance for Development Program addresses a number of cross-cutting issues. Guiding its activity implementation are the Australian aid policies:

- Promoting opportunities for all – Gender equality and women's empowerment.

- Development for All: Towards a disability-inclusive Australian aid program 2009-2014.

The 'Promoting Opportunities for All' policy aims for initiatives to 'effectively respond to gender issues, ensuring women and men benefit from the initiative, and mitigate negative impacts on women' (p 18). The 'Development for All' policy, under its two-track approach aims for all initiatives and projects to be disability-inclusive, 'to ensure they include a disability perspective and are fully accessible to all persons with disabilities'.

In Timor-Leste girls have access to primary school, and are enrolled in equal numbers, but the quality of the education is very poor and they are under-represented in enrolments at secondary school and in technical and vocational training. 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. It seems that girls experience problems primarily with the quality of services, while people with disabilities face issues both in access and quality of services. Like men and boys, women and girls in rural areas of Timor-Leste are generally constrained by a lack of economic opportunities, but this is compounded by social and cultural norms that discourage women and girls from speaking up, challenging inequalities in and around their households and communities, and seeking assistance.

The shape of a country's economy impacts on its ability to close gender gaps. Rapid expansion of new economic opportunities has the potential to shift gender relations significantly. For example, when textile factories opened in Bangladesh, centuries of cultural constraints on women's mobility disappeared almost overnight and when factories in Cambodia started requiring secondary school education for the women it employed, the enrolment of girls in school leapt up in neighbouring areas and quickly overtook enrolment of boys. However, social and cultural norms often change more slowly and concerted efforts are needed to ensure that women's greater economic independence does not result in increased violence against women and other expressions of backlash.

On the other hand, economies based on extractive industries, where power gets concentrated in the hands of fewer people and the contestation of power is greater, can force women further to the margins and reverses incentives to make transformative changes. Improvements in gender equality can stagnate, and gender inequalities in the public and private spheres may become even more entrenched, as has been the case in Papua New Guinea. As a resource-based economy, Timor-Leste faces a challenge in this respect and improving gender equality needs to be factored in at the level of macro-economic policy decisions.

Pillar I of the GfD Program also has a focus on the economic policy framework. Specific aspects of this economic policy framework will be of particular relevance to the economic empowerment of women and people with disabilities. The GfD Program will make decisions along the way about which economic policy issues it works directly on. Program staff will engage with partners to encourage the consideration of economic policy issues from a gender perspective. GfD will enable decision-makers to access data and evidence on how gender equality contributes to efficiency and effectiveness of the investment. The potential to contribute to the alleviation of poverty for females and people with disabilities will be part of this decision.

Pillar II of the GfD Program, with its focus on basic services, is expected to indirectly make a contribution to improvements for women and girls and people with disabilities. Pillar II is aimed at improving services by working on the central agency systems that are needed to enable quality and accessible services. AusAID's sectoral programs in health, education, water and sanitation and eliminating violence against women will work directly on the quality and access issues. The combined impact of the GfD Program and the AusAID sectoral programs will be to contribute to better quality, more accessible services. People with disabilities will benefit from services being more accessible, and both girls and women, and people with disabilities, will benefit from services being higher quality and investments in service delivery responding better to women's and girls' particular needs and constraints.

The GfD Program will encourage the production of analysis that enables key decision-makers to better understand the particular needs of women and girls, and people with disabilities into economic, fiscal and service delivery policy. The GfD Program will also encourage analysis of how and to what extent the allocation of resources, through the budget, and through the Infrastructure Fund, promotes equality between women and men and empowerment of persons with a disability. In particular it will:

- Work with the National Directorate of Statistics to support it in ensuring its core statistical products effectively collect and analyse sex-disaggregated data and data about people with disabilities.

- Work with a variety of stakeholders to encourage demand for such data and analysis among policy makers.

- Work to support information about the specific needs of women and girls and people with disabilities being carried effectively to key decision-makers in decisions about resource allocation (the budget and the Infrastructure Fund).

- Work to support analysis on the effectiveness and efficiency of government services in meeting social needs including consideration of the specific needs of women and girls and people with disabilities.

- Encourage more attention to cost-benefit analysis and greater emphasis on demonstrating value for money of different options for achieving improved outcomes in terms of equality so that Line Ministries are better able to defend gender and disability oriented budget requests.

The GfD Program supports central agencies in their core work, and training is likely to form part of this support. A report on the culture of the civil service found that training is a key route to advancement in the civil service – a route that women are often excluded from (p. 19, Butterworth, 2011). AusAID's water and sanitation program in Timor-Leste addressed this issue by ensuring that women were equally represented in training. Its Independent Completion Report found that, '[u]se of quotas for female participation in committees and training proved an effective strategy to address gender inequality' (p. 10, Crawford & Willetts, 10 October 2012). On the basis of this experience, the GfD Program will adopt a similar strategy and work with central agencies to ensure that women are included equally in training supported by the Program. In addition, training on gender-responsive policy planning and formulation may be considered for key stakeholders in the civil service, although it is noted that there is presently limited demand for this amongst key-stakeholders, including the Ministry of Finance.**The GfD Program has the interim objective of supporting government and non-government stakeholders to contribute to politically possible, technically sound solutions under Pillar I and Pillar II.** It will look to incorporate a gender and disability perspective to this work which may include**:**

- supporting a collaboration with the Asia Foundation, which has a mandate to make a contribution to inclusive policy processes that factor in the needs of women, girls, men and boys differentially, along with the needs of people with disabilities.

- working with the Secretary of State for the Promotion of Equality and the Women Parliamentarians Group as stakeholders to assist them to consider the budget from a gender and disability perspective and lobby for specific items to be funded or to be reformulated from a gender perspective. This will assist them to better understand budgets and advocate for particular inclusions or changes.

The GfD Program will use the two AusAID Policies as a guide in identifying other activities and areas that have the potential to specifically address areas of significant gender inequalities and promote the inclusion of women and girls and people with disabilities. GfD' s standards for activity design require that all activities identify strategies to ensure they are inclusive of beneficiaries, including people with disabilities, and women and girls. GfD will seek expert advice on a part-time basis to assist in ensuring that these standards are met and that activities consider gender equality issues, particularly at the activity design stage. The six monthly review and redesign process will be the opportunity for the GfD Program to consider trends and emerging issues or opportunities in relation to gender equality. The monitoring and evaluation framework will include indicators related to integration of gender equality issues and will monitor the performance of the program in this objective.

Delivery Mechanisms

GfD should be understood as a framework for a whole of portfolio engagement in Timor-Leste's governance sector. The GfD Program is built on the assumption that the context will change and it will need to adjust, because Timor-Leste is an environment where policies and government organisations are in a great deal of flux. This dynamism is partly because Timor-Leste is a newly independent nation with many needs to meet in a short period of time. The strategy for

implementing the program will therefore rest on more informed engagement with central agencies and non-government stakeholders in Timor-Leste, with clarity at the outcome level supported by flexibility in how the program seeks to achieve these outcomes. With this in mind, GfD will have at its disposal a range of Delivery Mechanisms to enable it to deliver on its end of program outcomes:

AusAID Direct Implementation

AusAID wants to be more directly involved in the implementation of this Program, and will provide five staff on the implementation team. Through direct involvement in implementation, AusAID will develop good relationships and knowledge of the development context. This will enable it to effectively engage in policy dialogue and make decisions about the implementation of GfD. Its past approach, of implementing programs through a managing contractor and multilateral agencies, left it ill-informed about the context, and without relationships of its own. Learning from the experience of other governance programs in AusAID, GfD will include contracted staff working alongside AusAID staff to complement the skill base and deliver on all required program outputs as part of the GfD 'Core Team'. AusAID's role in directly implementing GfD is outlined in further detail under the Management and Accountability section below.

Managing Contractor

A Managing Contractor will assist AusAID to deliver GfD's end of program outcomes with AusAID and will fill some positions on the GfD Core Team. The Contractor will report directly to AusAID, and will provide a range of support activities for central agencies and Timorese stakeholders to achieve GfD's end of program outcomes. This will include assistance in monitoring and evaluation, recruitment, training, twinning arrangements, technical advice, research and analysis, and study tours, among other things. The Contractor will be expected to develop the systems to be able to deliver this support flexibly and quickly. Its role and the respective roles and responsibilities of the Managing Contractor and AusAID are outlined at Annex K.

Targeted budget support (Performance linked aid) to the Ministry of Finance (MOF)

This will be the main mechanism via which AusAID supports the Ministry of Finance to deliver on the implementation of its own Strategic Plan. Under this approach, specific mutually agreed conditions (MACs) based on the Ministry of Finance Strategic Plan will be negotiated with development partners through a Ministry-led annual process. These MACs will be monitored throughout the year and once achieved AusAID will provide the Ministry of Finance with an agreed incentive payment which will go into the Ministry's own bank account and form part of their annual budget. This program will focus on supporting the Ministry of Finance to strengthen its own internal capabilities. This mechanism is currently under design for commencement in early 2014 subject to negotiation with the Ministry of Finance and quality assurance processes.

Analytical and Advisory Services

AusAID is in the process of negotiating a country level partnership with the World Bank ($5.2 million, 4 years) that will be underpinned by an umbrella country-level trust fund. Under the proposed

AusAID-World Bank partnership in Timor-Leste, the World Bank Country Manager in Dili would oversee the operations of the Timor-Leste Umbrella Trust Fund and retain overall responsibility for managing the relationship with AusAID. World Bank Sector Task Team Leaders would be accountable to the World Bank Country Manager. This mechanism will be managed by GfD for the broader country program, and include a program of Analytical and Advisory (AAA) work specific to GfD, particularly related to Pillar I and the PFM focused outcomes of Pillar II. This plays to the World Bank's strengths and ensures that the Government can access international expertise on public financial management and economic management issues.

Non-government Engagement

AusAID is also in the process of negotiating a country-level partnership with The Asia Foundation (TAF) ($4 million, 4 years). TAF has a good understanding of subnational governance and the issues. In addition, TAF has relationships with suku councils and other civil society organisations. Its mandate is for work on Justice, including legal aid, legislation, economic development, conflict management and women's participation in development. As with the World Bank, GfD will managed this mechanism on behalf of the broader AusAID country program, but will have a specific program of work related to GfD linked to promoting a diverse public policy environment. GfD may also seek a broader engagement with additional non-Government actors over time.

Other Australian Government Agencies

GfD will support a partnership between Timor-Leste's National Directorate of Statistics (NDS) and the Australian Bureau of Statistics. This will be designed to assist the NDS to deliver on its mandate to produce important statistics for managing the economy; identifying the needs of the poor; and tracking the changing picture of poverty in Timor-Leste. This partnership will also support the implementation of the Government of Timor-Leste's plan to see the NDE become an independent statistics agency over time.

Implementation Approach

Approach to policy dialogue and engagement with partners

The GfD Program uses an approach to policy dialogue and negotiation that was developed during the Pilot Phase, based on the lessons from the Office of Development Effectiveness' 2012 review into Policy Dialogue. As set out in Annex J, its policy dialogue and negotiation approach is to:

- Allow AusAID and Timorese stakeholders enough time to reflect, add new information, consider new proposals, and consult where necessary, so that agreements reflect 'true agreement', as much as possible
- Be clear about each party's boundaries and desired objectives
- Elicit information exchange. Be open to new information and understandings about how to achieve these objectives
- Be respectful of Timorese hierarchy and decision-making processes.

This approach will be applied to GfD's engagement with each key program partner as it relates to the end of program outcomes. GfD will establish an Engagement Agenda for each end of program outcome (see Annex E), that will change over time as GfD's understanding of the issues deepens, as reforms progress and as new opportunities emerge. The review and redesign process, discussed below under Monitoring and Evaluation, will be a key time for reviewing and updating GfD's Engagement Agenda.

One of the key tools for ongoing analysis of the context is the Institutional and Stakeholder Snapshots (see template at Annex G)**.** This will be used to document key changes in the legal and policy mandate of each of the main central agencies (both formal and informal), describe the engagement between those central agencies and AusAID, describe the interests and relationships with other stakeholders, including non-government stakeholders, and describe options for pursuing EOPOs. This will assist AusAID to determine whether it should change its approach in response to the changed context. It will also ensure that GfD captures changes over time, and will be useful as a monitoring and evaluation product, and for orientation of new staff.

Working with central agencies

The GfD Program teams are in the process of negotiating programs of work with each of their key central agency partners iteratively. Once agreement has been reached, the GfD Program has an indicative process to translate agreement at the policy level into more detailed work-planning which is set out in Annex I. This program will have design and M&E experts on its staff to assist the GfD team to develop work plans with central agencies that are underpinned by robust program logic and meet AusAID's quality standards (also identified in Annex I). Work programs will be assessed against these standards, before being approved by the GfD Program Director.

In work planning, GfD's emphasis is on providing central agencies with coherent support to achieve objectives. It will explore with Central Agencies the full range of support options as outlined in AusAID's *Capacity development Operational Policy* (October 2009) and will ensure that when an adviser is selected as the most appropriate form of support the process outlined in the *Use of Advisers in the Australian Aid Program – Guidance Note 1: Operational Policy Implementation Checklist* is utilised. *Working with other Australian government departments, other development partners and Civil Society.*

Working with Other Development Organisations and Australian Government Partners

The GfD Program will also work with a number of development organisations, other Australian government departments and civil society organisations. The initial set of partners has been selected according to who has a mandate, capability, and/or relationships that are relevant to its objectives. These include the World Bank (WB), the Asia Foundation (TAF), the International Finance Corporation (IFC) and the Australian Bureau of Statistics (ABS). It may also establish new relationships and engagement with additional Timorese non-government partners. Annex I sets out the relevance of each of these organisations to this program. The designs with each of these

organisations are still evolving and the standards and processes for further developing these are also set out in in Annex I*.*

Working with AusAID's Sectoral Programs

The GfD Program will work with central agencies to support their systems to enable improvements to services, but it will also have strong relationships with the AusAID Programs working in health, education, water and sanitation, agriculture, roads, PNDS and with the AusAID program focused on eliminating violence against women. Each of these programs has close relationships with Line Ministries through which AusAID has developed, or is developing, knowledge, experience and networks. This will enable a two-way information flow between GfD and AusAID sector programs so that each can understand better the perspectives of central agencies and Line Ministries respectively and reflect these perspectives in their engagement with partners. It also enables AusAID to use its presence in different parts of Timor-Leste's government to facilitate better relationships, co-ordination and networks across government.

The GfD Program will *complement* the work of AusAID's service delivery programs from a central agency perspective, rather than working directly in Line Ministries. AusAID's health and education programs are currently in design but they will both include public financial management and human resources components. Both of them also aim to work on infrastructure like schools and health facilities. AusAID's water and sanitation program, BESIK II and Roads for Development are both working to influence greater budget allocations to operations and maintenance and have activities focused on public financial management.   Seeds of Life is also supporting the Ministry of Agriculture and Fisheries to lobby for an increased budget for extension services, and our EVAW program (currently in design) will seek to assist the Ministry of Social Solidarity to increase the budget allocation for services for women affected by violence.

AusAID's predecessor public administration program, the PSCDP, placed human resources advisers in Line Ministries. GfD will not do this as the Independent Completion Report for the PSCDP found that those advisers were generally too isolated to have much of an impact. Furthermore, effective programs need to have a close understanding of the context and to develop trusting relationships with counterparts. While this Program can develop this in central agencies, it would be spreading itself too thinly to try and develop these relationships with Line Ministries as well. This approach could also be duplicative and create coordination issues for both AusAID and government partners.

The nature of work undertaken jointly by GfD and AusAID's service delivery programs will depend on the quality and nature of relationships between the Line Ministries and the central agencies. As discussed in the Timor-Leste Program's Policy Enabling Delivery Strategy (2012), there are several factors working against effective relationships between ministries and there are limited mechanisms in Timor-Leste to facilitate coordination. Where increasing interactions between central agencies are likely to bear fruit, GfD will work with AusAID's sector teams to facilitate this. However there may be circumstances where increased contact without significant preparation proves detrimental to the cause of service delivery.

In short, the GfD Program will leverage AusAID's presence in different Line Ministries to contribute to central agency systems that enable Line Ministries to deliver basic services.

Working with Additional Partners

GfD may wish to work with additional partners in the future. It will generally make this decision at a review and redesign process, according to the partnership criteria which are outlined at Annex I.

Accountability, Governance and Management Structures

Accountability to the Government of Timor-Leste

The GfD Program will be accountable to the Government of Timor-Leste through specific annual Ministry and agency level accountability arrangements. This will be complemented by annual high-level discussions of the *Strategic Planning Agreement for Development.* Governance for Development will also have an annual high-level policy forum, which it will use to convene different high-level stakeholders around issues of common concern to the program.

Ministry and agency-specific accountability and work-planning arrangements

GfD will have Ministry and agency-specific accountability and work-planning arrangements. The appropriate Ministry and agency-level accountability structures are being explored with each organisation, but where possible, GfD will use existing coordination mechanisms within that organisation for its work-planning and reporting on work undertaken and results. As outlined in Annex H, GfD will have these meetings every six months, in August and February, in alignment with the government's planning cycle. For example, in the CSC, the most appropriate mechanism could be for GfD to align with the relevant monthly Commissioners' meetings, which is the CSC's own structure for planning. The work-planning process outlined in Annex I will include a decision on the appropriate accountability structure. These arrangements will be captured in a Subsidiary Arrangement to be signed by the Minister for Finance in her role as Minister responsible for Aid Co-ordination.

High-level Policy Forum

The program will not have one multi-Ministry oversight committee.[17] Instead, it will hold an annual high-level policy forum, on topics relevant to the program and involving senior representatives of relevant central agencies. This high-level forum is an opportunity for policy dialogue, information sharing, and a practical focus on issues of common concern. It is also a chance for the Program to highlight its work. The High Level Policy Forum will not be used for workplanning purposes – this will be done through the agency-specific mechanisms outlined above.

---

[17] The decision not to have multi-Ministry oversight committee reflects the experience of the predecessor public administration program, the Public Sector Capacity Building Program. The Independent Completion Report observed *'The governance arrangement of PSCDP has not worked, and this is a common experience where stakeholders with interest in only one activity are brought together without a shared agenda under one umbrella. If AusAID wishes to model aid effectiveness, the governance of any program needs to be within existing government structures rather than in parallel.'* (p31, Emmott, 22 July 2012).

This structure responds to the finding of the Office of Development Effectiveness' Review into Law and Justice Programs (2012). Similar to the governance sector, this evaluation found that justice sector reform generally involves a number of institutions, each with their own organisational culture. It recommended bringing government stakeholders together around policy topics, and practical issues of concern to them, rather than around aid coordination and management.

Management Structure

The GfD Program will be implemented by an AusAID-led implementation team, supported by a managing contractor. The GfD Program Director will be supported by the AusAID Governance Director and a small team, both based in Canberra. The GfD Program Director is accountable to the Minister Counsellor Dili and will be supported by a Program Monitoring and Support Group.

As noted above, AusAID wants to be more directly involved in the implementation of this Program, and has allocated five staff to the implementation team. Learning from the experience of other governance programs in AusAID, GfD will include contracted staff working alongside AusAID staff to complement the skill base and deliver on all required program outputs. As the Managing Contractor is directly involved in program implementation through the Core Team Structure, tasking can take place within the Core Team structure, which will reduce the need for separate tasking and reduce the administrative burden on the program. The GfD management structure is outlined in brief below, and in greater detail at Annex K.

GfD Core Team

The program will be managed and implemented by a core team, composed of AusAID and contracted staff. The proposed staffing structure for the GfD Core Team is at Annex K. The Core Team will be headed by an AusAID Director, an AusAID Deputy Director for Programs and Policy, and a contracted Deputy Director for Logistics:

- The Program Director is an AusAID EL2. He or she has overall responsibility for engagement with key program stakeholders, setting the strategic of the GfD Program and monitoring its performance. His or her role is more akin to that of a Team Leader under a traditional managing contractor, than to the role of an AusAID Counsellor. The Managing Contractor reports to the Program Director.

- The Deputy Director Policy and Program is responsible for putting in place systems and procedures to ensure policy coherence within GfD and to support the Program Director to drive policy coherence across the AusAID country program.

- The Deputy Director Operations is responsible for providing high quality logistical and technical support to the program

Three implementation teams will be established and will be charged with implementing the substantive work program of GfD. The role of these teams is to (1) develop closer relationships and understanding of designated central agencies; (2) develop and manage a work program with those agencies that assist them to deliver their core mandate; and (3) progress the end of program outcomes relevant to their designated agencies. These will include:

- The <u>Fiscal and Economic Policy Team</u> will work with a wide variety of stakeholders – the key decision-makers, those who influence decisions, and the producers of knowledge and analysis relevant to outcome areas one and two. This will include further developing relationships with the Prime Minister's Office, the Infrastructure Fund grouping of agencies the Central Bank, and the proposed new Economic Planning and Investment Agency.

- The <u>Public Financial Management</u> Team is the primary relationship manager for the Ministry of Finance. The Ministry of Finance is the key stakeholder for end of program outcomes three and four through its Directorates of Budget and Treasury, so this team will also be responsible for progressing these outcomes. It will also be responsible for ongoing monitoring and management of the targeted budget support program.

- The <u>Public Administration Team</u> is the primary relationship manager for the Ministry of State Administration and the Civil Service Commission. These agencies are the key stakeholders for end of program outcomes five and six, so this team will also be responsible for progressing these outcomes.

The Implementation teams will be supported by two teams with cross program responsibilities:

- The <u>Policy and Program Coordination Team</u> will be headed by the Deputy Director Policy and Coordination will have primary responsibility for policy coherence across GfD and in AusAID's whole of program approach to key central agency issues, and for sharing the learning from GfD across the rest of the country program.

- <u>The Operations Team:</u> headed by the Deputy Director Operations, the Operations team will assist the implementation teams with the design of activities consider an appropriate range of delivery options and are focused on measuring result. The operations will translate designs into activities and deliver the activities with program partners. The Operations Team will consist entirely of contracted personnel.

The GfD Core Team will have an independent office in Dili. AusAID staff and contractor staff will be located together in this office. It is also AusAID's intention to secure co-location arrangements with central government ministries or agencies on either a part-time or full-time basis for key implementation staff, particularly GfD's Timorese personnel. This offers real benefits to the program in terms of developing relationships, understanding government business and government priorities, and being accessible and open to government counterparts.

Canberra's role: the Program Enabling Team

The Core Team in Dili will be supported by a small Program Enabling Team in the Timor-Leste Section in AusAID Canberra. This team will take on responsibility for as much of the internally AusAID-focused business processes as possible in order to ensure that the Dili-based GfD Core Team can focus on implementing GfD – building relationships, understanding the context and engaging with partners. Given that the managing contractor will be working 'hand in glove' with AusAID's direct implementation team, it is also important to maintain a degree of separation in the management of the contract, and as such the contract with the GfD Managing Contractor will be administered by the Canberra-based Program Enabling Team.

The Program Enabling Team will also take on responsibility for overall management of the implementation of the Policy Enabling Delivery Strategy which includes specific activities to build skills in political economy analysis, partnership brokering, and other areas, as well as systems and approaches to ensure policy engagement coherence. The Program Enabling Team will also manage Canberra-based stakeholders. It will participate in the six monthly review and redesign process to assist in setting the strategic direction of the Program.

Role of the Minister-Counsellor and Ambassador

The Minister-Counsellor leads the whole AusAID Country Program and has overarching responsibility for the performance of the GfD Program, the Program Team, for overall Country Program Policy Coherence, and for the overall development relationship. The Minister-Counsellor, in particular, will take a leadership role in interactions with Ministers and in the annual high-level policy forum, discussed above. The Ambassador will also have a representational role to play at senior levels, and in relation to the annual high level policy forum.

The Managing Contractor

A Managing Contractor will share responsibility, with AusAID, for implementing the Program. The Managing Contractor will fill positions on the GfD Core Team and manage logistics, procurement and program management. GfD will provide a range of development assistance activities to central agencies and Timorese stakeholders, including assistance in monitoring and evaluation, recruitment, training, twinning arrangements, technical advice, research and analysis, and study tours, among others. The Contractor will develop the systems to deliver this support flexibly and quickly.

It is important that the respective roles and responsibilities AusAID and the Managing Contractor are clear in implementation. These roles and responsibilities are outlined in further detail at Annex K. Performance assessments of the Contractor will therefore be carried out by an independently contracted consultant, under the supervision of the Canberra Governance Director, as discussed in the Monitoring and Evaluation section, below.

Program Monitoring and Support Group

GfD will have a Program Monitoring and Support Group of up to four people, who will provide short-term inputs to support the quality of program implementation over its lifespan. The Program Monitoring and Support Group will play the role of a 'critical friend' and will provide advice to improve the performance of the program from both a technical and political/relationships perspective. The Group will be engaged by way of a competitive selection process conducted by the Managing Contractor on AusAID's behalf. It is intended, as much as possible, to select members who can have longstanding experience and understanding of the Timorese context and who can engage with the program over the long-term. The Group will provide advice on whether progress to the end of program outcomes is adequate; whether there is sufficient Timorese interest and ownership of activities; and whether approaches adopted by the program are technically appropriate and politically possible. On the basis of this questioning, it will make recommendations as to whether alternative pathways should be pursued.

Monitoring and Evaluation

Purpose and approach

GfD is unlikely to have a direct impact, of itself, on the overall program goal of reducing poverty. It will only do this through the combined efforts of GfD and AusAID's broader country program, which has a heavy emphasis on reducing poverty by improving services. With this in mind, it will be necessary to continuously measure the program's success and evaluate whether efforts under GfD maintain a 'line of sight' through Line Ministries (and AusAID's support to them), to improved services. This whole of program contribution will be monitored through the Timor-Leste country level Performance Assessment Framework which is currently under development.

The monitoring and evaluation (M&E) for the Timor-Leste GfD program serves two primary purposes. The M&E needs to provide robust assessment of progress, particularly for external stakeholders. It also needs to provide information for program management; enabling the program to adapt and learn, test the many assumptions upon which the program has been developed, and improve over time.

M&E Focus

The focus of the M&E is multilevel. Rather than develop one M&E process that can assess all these areas in the same way, it is proposed that the GfD M&E be conceptualised as five interrelated processes, each with a different focus. This is outlined in further detail at Annex M, but includes monitoring and evaluation that focuses on:

1. GfD activities. GfD will include a range of work areas. There needs to be good quality activity monitoring for each of these work areas, that identifies both the outputs and/or outcomes of these activities, along with monitoring that identifies how each activity *contributes* to the desired end of program outcomes of GfD. The assumptions made about why these work areas were originally undertaken will also need to be regularly tested to provide information for program management about the ongoing value of each area.

2. Progress towards the end of program outcomes. There are six end of program outcomes identified for the GfD program, together with the key intermediate outcome, which the program theory of action proposes will need to be achieved in order to make a significant contribution to the overall program goal. Progress and assumptions around the six end of program outcomes, together with progress and testing of assumptions around the intermediate outcome are major area of monitoring and evaluation which needs to be comprehensively covered through the GfD M&E. While these outcomes will not be fully achieved until the end of the first phase of the program, it is important that the program is accountable for the work it is undertaking, and is therefore able to demonstrate that it is making sufficient progress towards those end of program outcomes.

3. AusAID capability. A central aspect of the rationale of GfD is that AusAID itself needs to develop additional capabilities in order to be more effective in the Timor-Leste context. This includes AusAID increasing its understanding of central government systems and AusAID

having more integrated policy positions which it can utilise in its engagement with the Timorese government. These changes are captured in the Policy Enabling Delivery Strategy. As outlined, above it is appropriate to identify indicators of progress towards these outcomes in order to hold AusAID accountable for the required internal capacity development. It is also appropriate to identify evaluation questions that help address the assumptions underlying these outcomes.

4. <u>Quality of relationships.</u> GfD will enter into a number of important relationships as it seeks to achieve its program outcomes. In addition, the AusAID program in Timor-Leste is looking to work with Government of Timor-Leste in a way that sees AusAID positioned as a trusted and effective development partner. Relationships are very important to achieving GfD outcomes and the views and the perceptions of partners are about the quality and utility of these relationships is therefore an important area to monitor. Towards this end, additional attention will be given to monitoring, in a confidential way, the views of significant Government and non-government partners.

5. <u>Changes in the context as relevant to GfD.</u> As noted above, Timor-Leste is a dynamic and rapidly changing context. The GfD program has undertaken extensive assessment of the context in developing its current strategy or theory of action. However as the context changes with new influences, new stakeholders, different sets of relationships and new risks and opportunities, GfD will need to reconsider its theory of action and how to best adapt to changing that context. Information about change in the context which is relevant to GfD will come from multiple sources and may be well known to some parts of AusAID. However it will be important for program monitoring to systematically capture and record significant changes in the context that are relevant to GfD. This will ensure that GfD program management has a process to address changes in context. It will also provide a record of explanation about changes to program approach and activity.

Data collection and analysis

Data sources are currently being explored and further developed during the interim GfD program. At this stage it is possible to identify a range of existing and potential sources of data that could be utilised to provide evidence and information into each of the five M&E processes identified above. These data sources will likely serve more than one more than one of the M&E focus areas, contributing to some efficiency in the overall assessment approach and are outlined in detail at Annex M.

Review and Redesign Process

Given that the work of the GfD Program will evolve in response to the changing environment and different opportunities in Timor-Leste, it will use a six-monthly process of review and redesign to ensure that it is responding effectively to the changing context. This is a whole of GfD process, where it considers relevance and utility of work areas, progress towards end of program outcomes, quality and impact of relationships, changes and development in AusAID and its ability to work within the Timor-Leste context and finally changes in that context itself. It will be an opportunity for the program to consider in what way it needs to adjust its strategy to remain relevant to the context

and on track to achieve end of program outcomes. It is the time for different teams in GfD to step out of the detail of work areas and consider the whole reform environment.

The review and redesign process will involve the whole core team of the GfD Program and the Canberra-based Program Enabling Team and will be attended by at least two people from the Program Monitoring and Support Group. It will usually be conducted as a two day workshop, will draw heavily on monitoring and evaluation information and will be sequenced to occur at appropriate points in the Timor-Leste Government's budget process and this Program's annual cycle.

Reporting

A whole of GfD program report will be produced following each review and redesign process that identifies program progress and challenges, summarises the overall analysis of that progress and challenges to date and outlines any agreed changes to program focus or direction. This report will be provided to AusAID senior management. It will also serve as the basis for AusAID internal reporting systems including Quality at Entry and Annual Program Performance Reports. The report will be produced one month after the review and redesign meeting by the GfD M&E Adviser.

Program Communication

In addition to this formal program report, ongoing communications will be required from GfD, both internally to different audiences in AusAID, as well as externally to audiences within Timor-Leste and possibly beyond. This is an important task and these communications will draw upon both the formal report and other information such as case studies, specific activity reports and interviews with key stakeholders to maintain a proactive communication approach that ensures effective communication between all stakeholders in the program. A communications strategy will be developed and managed by a dedicated communications officer located within the policy and program coordination team in GfD.

Roles and responsibilities

The core staff of GfD will include a full-time monitoring and evaluation Adviser. In addition to this person other core staff and Advisers will have monitoring and evaluation responsibilities. These are outlined in Annex M.

Evaluation

While it is proposed that evaluative questions are applied throughout the life of GfD, a whole of program evaluation will be undertaken at the end of year three of the program in preparation for any major program redesign or readjustment prior to entering the second phase of the program. This whole of program evaluation will focus in particular upon major program assumptions, looking to see the way in which the whole strategy and approach of GfD is coming together to make a significant contribution to the program goal.

Contractor Performance Assessment

Performance assessments of the Contractor will be carried out by an independent contracted consultant, under the supervision of the Canberra Governance Director. The applicable policy is the Contractor and Adviser Performance Assessments – Guideline April 2012. This is to address one of the potential draw-backs of a joint team structure, which is that AusAID may not have the necessary independent perspective to appraise its immediate co-workers. Managing it from Canberra gives the assessment its necessary independence and objectivity.

Risk and risk management

The theory of action/ theory of change for GfD rests upon several fundamental assumptions. The program assumes that Government of Timor-Leste service delivery programming and fiscal and economic policy are significant determinants for poverty alleviation in the country. It further assumes that the current context in Timor-Leste, in particular the current Government, is conducive to changes in government policy and programming that will contribute to poverty alleviation.

In addition the program assumes that AusAID is currently well positioned to contribute to improvements in both the area of service delivery and fiscal and economic policy. This is underpinned by further assumptions around AusAID having the capabilities, management commitment, resourcing, and policy commitments to make this contribution. The design assumes that AusAID has been able to identify the most significant barriers to change and has a range of reasonable points for engagement to support change.

Within the specific areas of program work, the design includes several assumptions around how AusAID can work effectively to contribute to improvements in service delivery and economic and fiscal policy, including the way it can influence individuals, networks and organisations, both government and non-government. Each work area itself has assumptions about appropriate partnerships and relationships with individuals and groups, and assumptions about appropriate starting points and ways of operating.

These assumptions have been drawn from extensive analysis and consultation and can be reasonably applied at the current time (although these assumptions vary in their certainty and some are of more significance than others). However it is clear that in the context of Timor-Leste with a range of internal and external influences and actors, many or all of these assumptions could change. The program therefore has a wide range of risks that it must regularly review.

As noted above the program risks range from risks external to the program working within the context of Timor-Leste, risks that relate to the type of program being undertaken which is heavily reliant upon AusAID's capabilities and approach, and risks which are internal to the program and have to do with individual work areas, relationships and partnerships. These risks are listed in more detail in Annex N, together with identified risk management approaches.

Overall management of this broad range of risks requires a dynamic and highly capable program which is managed and implemented in a way that enables it to change and respond as required. The GfD design is deliberately different to previous AusAID programs of government capacity

building and governance support in Timor-Leste in order to provide this different approach. In itself this is a major risk, going outside more typical AusAID approaches to programming.

At the same time it is clear that continuing previous programming approaches would also be a very high risk approach. Review of lessons learned in preparation for the GfD design indicates that AusAID support in Timor-Leste has been a long history of government capacity building and systems development which was of some value but unable to support significant sustained change. There have been some instances of AusAID support for effective change but these have consistently come from programs that have been managed in a more engaged, politically informed, responsive and flexible manner. Continuing with a standard program approach, pre-planned and implemented by others on behalf of AusAID, while it may be more familiar for AusAID runs the very high risk of ineffective use of Australian government aid money.

Timor-Leste is currently focused on policy and program decisions that are likely to have long-term implications for development trajectory in the country. For AusAID to fail to engage effectively in these policy and program processes risks the AusAID development program missing significant opportunities to contribute to sustained poverty alleviation in Timor-Leste. On balance given the extensive lessons learned from previous programming, the proposed GfD approach, while high risk, can be considered the least risky approach for effective governance engagement in Timor-Leste.

Acronyms

ADN	*National Development Agency*
ABS	*Australian Bureau of Statistics*
CAFI	*Council of the Infrastructure Fund*
CSC	*Civil Service Commission*
EOPO	*End of Program Outcomes*
GfD	*Governance for Development Program*
IF	*Infrastructure Fund*
IFC	*International Finance Corporation*
MSA	*Ministry of State Administration*
MoF	*Ministry of Finance*
MPS	*Major Projects Secretariat*
NPC	*National Procurement Commission*
PDD	*Decentralisation Development Package*
PDID	*Decentralised District Development Plans*
Pilot Phase	*Governance for Development Interim Program and Pilot Phase (July 2012 to February 2014 $13.5 million USD)*
PNDS	*National Program for Suku Development*
PMO	*Prime Minister's Office*
PSCDP	*The Public Sector Capacity Development Project*

	(2006-2012 $42 million USD)
TAF	*The Asia Foundation*
UNCDF	*United Nations Capital Development Fund*
UNDP	*United Nations Development Program*
WB	*World Bank*

References

Adrien, M.-H.et al., 2002. *Organizational Assessment: A Framework for Improving Performance,* Ottawa, Canada: International Development Research Centre.

AusAID, 1 December 2011. BESIK 2012-2020 Program Design Document Version 2, s.l.: AusAID.

AusAID, 17 December 2012. Timor-Leste Health Program 2013-2021 Concept Note, s.l.: AusAID.

AusAID, 2011. *Learning Options,* s.l.: AusAID.

AusAID & Government of Timor-Leste, 2008. *Review of Public Sector Capacity in East Timor,* s.l.: AusAID.

AusAID, November 2011. Effective Governance Thematic Strategy, s.l.: s.n.

Australian Government , July 2011. An Effective Aid PRogram for Australia: Making a real difference - Delivering real results, s.l.: s.n.

Bowman, S., 2012. *The media in East Timor,* s.l.: AusAID (internal).

Braithwaite, J., Charlesworth, H. & Soares, A., 2012. *Networked Governance of Freedom and Tyranny,* s.l.: ANU E Press.

Butterworth, D., 2011. Opportunity and Obligation in Timor-Leste's Civil Service: An Anthropological View of the Informal Organisation, s.l.: World Bank.

Carden, F., 2009. *From Knowledge to Policy,* Canada: IDRC - International Development Research Centre.

Crawford, P. & Willetts, J., 10 October 2012. Past reflections, future plans: An independent evaluation of AusAID's support to rural WASH in Timor Leste, s.l.: AusAID.

Davis, K., November 2010. Functional and Organisational Review of the National Institute of Public Administration (INAP): Review Report, s.l.: AusAID.

Economics Advisory Group, 2012. *Priorities for Economic Growth in Timor-Leste,* s.l.: AusAID (internal).

Emmott, S., 22 July 2012. The Public Sector Capacity Development Program in East Timor: Evaluation Report, s.l.: s.n.

Engel, R. & Vieira , L., August 2011. International Contributions to State-building in Timor-Leste: The Undermining of State Legitimacy?, s.l.: Norwegian Peacebuilding Resource Centre.

Faustino, J., Occasional Paper No. 12, May 2012. Development Entrepreneurship: A Model for Transformative Institutional Change, s.l.: The Asia Foundation.

Goodwin-Groen, R., Ibrahim, F. & Hawkins, D., 2012. Financial Services for the Poor Scoping Mission Report Timor-Leste 2012, s.l.: AusAID.

Government of Timor Leste, 2010. *Census 2010 Publication 2 (English),* s.l.: s.n.

Government of Timor Leste, 2010. *Census 2010 Publication 3 (English),* s.l.: s.n.

Government of Timor-Leste, 2011. *English Census Summary (2010),* s.l.: Government of Timor-Leste.

Government of Timor-Leste, 2011. *Strategic Development Plan 2011-2030,* s.l.: s.n.

Hall, C., 2010. Review of the Ministry of Education's Financial Management Processes, s.l.: AusAID.

Hawkins, D., 2012. Poverty mapping for Timor-Leste, s.l.: AusAID.

Hohe, T., 2002. The Clash of Paradigms: International Administration and Local Political Legitimacy in East Timor. *Contemporary Southeast Asia,* p. 24:3 page 569..

Hulme, D., January 2013. *Poverty and development thinking: synthesis or uneasy compromise?,* s.l.: The University of Manchester. Brooks World Poverty Institute.

Ingram, S., 2012. Making and shaping public policy in Timor-Leste: institutions, actors and the weight of political history, s.l.: AusAID.

International Crisis Group, 18 November 2011. *Timor-Leste's Veterans: An Unfinished Struggle?,* s.l.: s.n.

International Crisis Group, 21 February 2012. *Timor-Leste's Elections: Leaving Behind a Violent Past? Asia Briefing 134,* s.l.: International Crisis Group.

International Monetary Fund, 2012. *Timor-Leste Article IV Report,* s.l.: s.n.

International Monetary Fund, 31 October 2012. Media Release: 'The Democratic Republic of Timor-LEste Begins Participation in the IMF's General Data Dissemination System', s.l.: s.n.

International Monetary Fund, August 2010. Democratic Republic of Timor-Leste Public Financial Management - performance Report, s.l.: s.n.

Jones, N. & Walsh, C., 2008. *Policy briefs as a communication tool for development research,* s.l.: Overseas Development Institute Background Note.

Kuehn, S., April 2011. *Briefing Note on the Decentralization Process in Timor Leste,* s.l.: Timor-Leste Local Governance Support Program.

Laing, A., 2011 (draft). Technical Working Paper Timor-Leste: Ministry of Education Economic Efficiency Assessment, s.l.: s.n.

La'o Hamutuk, 2012. *RDTL General State Budget for 2012.* [Online] Available at: http://www.laohamutuk.org/econ/OGE12/10OJE2012En.htm [Accessed 31 July 2012].

Leftwich, A. & Wheeler, C., 2011. Politics, Leadership and Coalitions in Development - Findings, Insights and Guidance, s.l.: AusAID.

Lemos dos Santos, F., 2012. The narrative of the promises made at independence and their influence on policy dialogue, s.l.: AusAID (unpublished).

Macpherson, R., 2010. Educational administration in TImor Leste: Language Policy and Capacity Building Challenges in a Post-Conflict Context. *International Journal of Education Management,* pp. 186-203 (25:2).

Martinez, 11-31 May 2011. Joint Design of Support to the Timor-LEste Health Sector, s.l.: s.n.

McCoy, M., November 2011. Disability Inclusive Development: AusAID Timor-Leste Program Report, s.l.: AusAID.

McPherson, R., 2010. Educational Administration in Timor-Leste, s.l.: s.n.

Mellors, 12 May 2011. Timor Leste Water and Sanitation Sector Financial Management Analysis Final Report, s.l.: AusAID.

Ministry of Finance Timor-Leste, 2012. *Strategic Plan,* s.l.: s.n.

Moore, K., Grant, U., Hulme, D. & Shepherd, A., December 2008. *Very poor, for a long time, in many ways....,* s.l.: University of Manchester Brookes World Poverty Institute Working Paper #124.

NORAD, 2007. Review of Development Cooperation in Timor Leste Final Report, s.l.: NORAD.

OECD, August 2008. State Building in Situations of Fragility Initial Findings, s.l.: OECD.

O'Farrell, G., June 2012. Organisational and Functional Review of the Civil Service Commission, s.l.: AusAID.

SEFOPE & National Directorate of Statistics, 2010. *Timor Leste Labour Force Survey 2010,* s.l.: Government of Timor-Leste.

Shoesmith, D., 1-3 July 2008. Remaking the State in Timor-Leste: the Case for Constitutional Reform. Melbourne, s.n.

Shoesmith, D., 2011. Timor-Leste: On the Road to Peace and Prosperity. *Southeast Asian Affairs ,* pp. 323-335.

The Asia Foundation, 2011. Built on Dreams, Grounded in Reality: Economic Policy Reform in the Philippines, s.l.: The Asia Foundation.

The Asia Foundation, 2012. Trends of Local Governance in Timor-Leste: Suku Governance Performance Scale, Dili, Timor-Leste: The Asia Foundation.

Ulrich, H. P., 2010. Enhancing the effectiveness of international development: a systems approach. *Development in Practice,* pp. 20:2 251-264.

United Nations Development Program, 2011. Timor-Leste Human Development Report 2011: Managing Natural Resources for Human Development, s.l.: UNDP.

United Nations, December 2011. Lessons Learned Review of UN Support to Public Administration and Local Governance in Post-Conflict Situations Timor-Leste, s.l.: United Nations.

Whimp, K., April 2010. Report of Preliminary Observations on Service Delivery Bottlenecks in Timor-Leste, s.l.: AusAID.

Whimp, K., Draft August 2012. Report on PNDS financial transfer mechanisms, s.l.: AusAID.

World Bank, June 15, 2011. *Timor Leste Civil Service Review,* s.l.: s.n.

World Bank, November 2011. Timor-Leste National Health Sector Strategic Plan Support Project, s.l.: World Bank.

Worthington, J., 2011. Good health, strong nation: a case study of religious actors in the Capacity-Building Process in Timor-Leste, s.l.: Undergraduate Thesis: Brown University.

Zwi, A. B. I. G. D. C. V. B. S. C. F. E. &. P. B., 2009. *Timor-Leste Health Care Seeking Behaviour Study,* s.l.: University of New South Wales.

Annex A: The role of Central Agencies in Service Delivery

This Annex depicts the role that central agencies have to play in enabling the effective delivery of services.   It shows that In order for these services to be accessible to large parts of the population a number of sub-systems must work together effectively. Ownership of some of these sub-systems resides with ministries in charge of the services, referred to collectively as Line Ministries (eg. the Ministry of Education is responsible for payment and performance management of teachers, procurement and distribution of text books), while other systems are owned and managed by central agencies like the Ministry of Finance (eg. the budget process, systems for transferring and acquitting funds). Central government systems relevant to service delivery are administered by the Ministry of Finance, the Civil Service Commission and the Ministry of State Administration. This Annex was developed in collaboration with the parts of AusAID's Timor-Leste Program that are working on service delivery issues (eg. the health, education and rural development teams), through a workshop held in Dili in August 2012. This workshop started the process of building a shared understanding of what the key constraints to service delivery are, and where GfD – through its relationships and focus with central agencies – might be able to make a contribution.

The diagram below does not represent an exhaustive investigation of the Timorese service delivery system (eg. it is noted that it does not adequately cover issues such as information flows and the importance of community mobilisation). It needs to be tested against internationally agreed frameworks for understanding service delivery systems. It is included here only to demonstrate that central agencies are responsible for important parts of the service delivery system in Timor-Leste.This diagram will, however, form a useful starting point for further joint investigation into Timor-Leste's service delivery systems by GfD and AusAID's sector teams and will be built on over time as AusAID'swhole of program understanding of constraints to service delivery increases.

Box 3. The importance of central agency systems to education

In November 2012, an AusAID officer interviewed a School Principal at a public school in Aileu District. He said he had not received two out of three school grants during 2012. He needed this money to pay the security guards who ensure that the school building and its materials are not stolen. The security guards were owed over three months' wages. Additionally, the School Principal said that there had been problems with recently built infrastructure. The school had received a water tank to provide water for school toilets and hand-washing, but the water tank had not yet been plumbed into the guttering, and so was useless. Likewise electricity had been extended to a pole nearby the school, but the final connection to the school building had not yet been made. Last year, the school had badly needed a new roof but there was insufficient government funding. The School Principal said that he had been told that the school grants were delayed if even one school in the District provided an incomplete report of the previous grant.

The financial systems governing school grants and the allocation to maintenance of infrastructure are partly set by the Ministry of Finance; and the budget for building new infrastructure is managed centrally by the Ministry of State Administration, the National Development Agency and district planning mechanisms known as PDID. These central systems all impact on the operation of schools such as the one in Aileu District. General analysis of financial systems for education in Timor-Leste found that most of the education budget is spent on staff, and very little is left for running and maintaining schools (p14, Laing, 2011 (draft)). Other analysis of the budget in Timor-Leste has found that little is allocated to operations and maintenance across all services in Timor-Leste.

Sufficient financing

- $ captured by central Ministry funds and supplied on a pull basis
- Budget allocation
  - MoF structure of budget supports link to policy objectives
  - Sectoral ministry able to demonstrative effective use of resources
  - Sectoral ministry able to cost plans, especially operations and maintenance
    - MoF understand costs of operations and maintenance
  - Sectoral ministry skills in budget submission

Regular $ received by the front-line

- Lack banking options
- Efficient disbursement by MoF
- Acquittal process mandated by MoF
  - Need for MoF to stream-line acquittal process
  - Financial skills of sectoral staff

Good quality infrastructure

- Central agency systems for procuring infrastructure
- Suitable companies to build infrastructure

The right infrastructure in the right place

- Coordination and planning mechanisms
- Central agency planning systems
  - Consultation with community
  - Commitment to maintain Infrastructure (and to staff it)
  - Technical assessment
  - Assessment of need

Annex B: Structural factors affecting growth in Timor-Leste

There are many structural challenges in Timor-Leste that hamper growth in the non-oil economy. This Annex provides an introduction to some of the key challenges. This Annex is drawn from in-depth analysis by AusAID's Economics Advisory Group (Economics Advisory Group, 2012). Further information can be found in the United Nations' Development Programs' Human Development Report for 2011 (United Nations Development Program, 2011).

The economy in Timor-Leste is dominated by agriculture, with 82 per cent of workers working in agriculture, mostly in the subsistence sector. Farmers face difficulties in storing and transporting any surpluses to market. Also, land tenure uncertainties restrain investment and almost entirely curtail lending to agricultural concerns. The long dry season, the generally poor quality of land and limited use and unaffordability of 'green revolution' are additional factors that limit the growth of rural farm production and incomes. Additionally, various policy impulses to subsidise food have discouraged private production and investment in food production.

These factors hamper productivity growth and the willingness of farmers to invest in technology that would increase production. The challenge for policymakers is to improve the operating environment, certainty and incentives for farmers to produce surpluses. The government has a role to play in agricultural extension – particularly around facilitating seed exchange, seed storage, identifying appropriate irrigation systems, and disseminating information about potential cash-crops, including aquaculture and livestock. At the current time, the government provides limited agricultural extension services.

There are few other options for non-farm income or employment in rural areas, although government investment in infrastructure in rural areas (through schemes such as PDD and MDG Suku) has led to the creation of small-scale construction businesses.

Timor-Leste has a very low ranking on the *Doing Business* indicators, 168th at present. This reflects relatively poor performance across a range of dimensions – the common theme is that the policy environment is unfriendly to private business investment. *Doing Business* focuses on the visible business environment – the treatment of investors in practice rather than policy. On this score Timor-Leste has a mixed record. Digicel, for example, reportedly put in five years of effort to obtain a mobile telephony licence, but gave up when the policy framework was shifted rapidly. Recent moves in telecommunications deregulation have been more positive. The challenge for policymakers is to improve the certainty, consistency and quality of the business regulatory regime.

Businesses face a relatively high cost of doing business in Timor-Leste. Infrastructure provision is weak, although substantial Government spending is trying to improve this. Mandated labour costs in the public and private sectors are now relatively high compared to regional comparators in South and East Asia. The price, availability and quality of key inputs such as water, electricity and telecommunications is high, but there have been some improvements in recent years. Accessing the many government tenders is difficult for unconnected firms. The government has struggled to ensure the quality of the infrastructure works it tenders.

One of the factors affecting economic growth is the availability of financial services. There are four commercial banks and only one of them has significant presence outside of Dili (p6, Whimp, Draft August 2012). As a result, the population generally does not have access to banking services and cash. Estimates are that 59 percent of the adult population are 'unbanked' (Goodwin-Groen, et al., 2012). Access to financial services is also meaningful for quality of life, as savings and a safe place to save are important ways for people to protect themselves from economic shocks. The limited availability of banking services in rural areas imposes substantial costs and limits private economic activity – for example, by one estimate some teachers spend 20 per cent of the value of their salary exchanging government cheques for cash.

Altogether, substantial structural constraints limit private investment and employment growth, in the formal manufacturing and services sectors as well as in the primarily informal rural economy.

Annex C: AusAID Support to Public Sector Reform Activities in Timor-Leste – History and Lessons Learnt

As noted in the World Bank's evaluation of Public Sector reform efforts, 'the effectiveness and efficiency of a country's public sector is vital to the success of development activities. Sound financial management, an efficient public sector and administrative policy, efficient and fair collection of taxes and transparent operations that are relatively free of corruption all contribute to good delivery of public sectors.' (Independent Evaluation Group, Public Sector Reform: What Works and Why?, p.xiii). However donor efforts to support public sector reform have had a chequered history, and it is important to learn the lessons of past experience.

This annex provides some detail on AusAID's previous support to Timor-Leste in the areas of public sector, public financial management and economic systems, discuss the cumulative lessons from the experience of implementing these programs. It also draws together lessons from a brief review of the literature in this area, and outlines how AusAID will respond to these lessons learned through both the new Policy Enabling Delivery Strategy (PEDS) and the Governance for Development Program (GfD).

Australia's Support to Public Sector Reform in Timor-Leste

Australia has over ten years history in assisting East Timor with its public sector, public financial management and economic systems.

Public administration work

Australia initially provided support through the United Nations Transitional Administration in East Timor (1999-2002) and then through the Australia East Timor Capacity Building Facility (CBF, $15 million) from 2002-2006. This was replaced by the Public Sectoral Capacity Development Program (PSCDP, $42 million plus scholarships) from 2006-2012.

The **CBF** was established as a facility, administered by a managing contractor. It had the broad goal of contributing to the sustainable and effective East Timorese system of governance and public sector management (Finlayson, May 2004, p. 1). Its structure allowed it to support a wide range of activities – it was to provide support to the National Directorate for Planning and External Assistance Coordination (NDPEAC) – but in addition to this, the Facility Coordination Committee could support anything that "developed core processes of effective public administration and the capacity of agencies through other innovative activities".

At the time, this flexibility was intended to enable AusAID to respond to unforseen issues and to Timor-Leste's evolving development agenda. In fact, it meant that the program ended up supporting a broad range of activities with little connection between them – some 53 activities in 21 different directorates over the life of the program (AusAID, November 2009, p. 6). This included activities as diverse as a land adviser in the Ministry of Justice, a vocational education adviser to the Secretariat of State for Labour and Solidarity, and a Health Service Delivery Adviser to the Ministry of Health (Finlayson, May 2004, p. 5).

The work the CBF did with the NPDEAC was more 'public administration' in character than most of the other activities. The NPDEAC was established in late 2003 within the Ministry of Planning and Finance with the mandate of supervising the Government's planning process, including oversight of the agency-level plans, harmonising donor investments, and responsibility for the sector investment plans. The activities of CBF included direct support to the NPDEAC management, assistance with human resources planning, and operational planning.

The **PSCDP** was established in 2006, also administered by a Managing Contractor, to strengthen public sector capacity building institutions and processes to achieve a sustainable and effective system of governance and public administration for the delivery of high quality public services. It was designed to be more public administration-focused than the CBF. Its objectives were reworked in three broad phases; 2006-2008, 2008-2010, 2010-2012.

In the first phase, 2006-2008, PSCDP was intended to support the four agencies with a public sector capacity building mandate; support the Sector Investment Plan (SIP) process (a whole of sector planning process for both government and development partners), implement priority activities from the sector investment plan, and support smaller scale capacity building initiatives across other sectors. In its start-up, however, PSCDP inherited novated advisers from CBF which took up 85 per cent of its budget. This meant that the initial phase of the program was spent sorting through the performance of these advisers, and in many cases terminating the placements, rather than on developing the new program (Emmott, April 2008, p. 5). The Government of Timor-Leste changed in 2007, and the incoming government disbanded the SIP process and three of the counterpart agencies. This institutional and policy shift made much of the intended program of PSCDP irrelevant.

In 2008, the new government announced a year of administrative reform, including the creation of a Civil Service Commission (CSC). In response to this new agenda, and in response to a visit by the PSCDP Monitoring and Review Group (a group of technical experts engaged to assess the performance of the program on a regular basis) which highlighted problems and blockages in service-delivery ministries, PSCDP reformulated its objectives.

The second phase of PSCDP was in 2008. The new objectives were to support the personnel, systems and processes of central agencies, including INAP, the new CSC, the National Directorate of Aid Effectiveness (which took over some of the mandate of the NDPEAC), and the Office of the Prime Minister. In particular it aimed at supporting a regulatory framework for the public sector. It also took on a new objective – to support corporate management, administrative capacities, personnel, systems and processes in Line Ministries. (AusAID, November 2009, p. 7).

The core work with the central agencies consisted mainly of short and long-term technical assistance, including training advisers in INAP and legal services and human resources management advisers in the CSC. Although the program was entitled 'capacity development', in many cases these people performed in-line functions. The Independent Completion Report of PSCDP noted that the mandate and role of central agencies, particularly the CSC, developed well during the life of the program, although it is not able to comment on the impact of these central agencies on the broader public sector, or to attribute the impact of PSCDP inputs (Emmott, The Public Sector Capacity Development Program (PSCDP) in East Timor: Evaluation Report First Draft, 17 June 2012).

The work with Line Ministries took two forms – some of it was tied to administrative reform, such as adviser positions in the corporate services areas of Line Ministries. A fair bit of the work with Line Ministries was unconnected to administrative reform – including things as diverse as improved education on community nutrition, regulation of livestock in the Ministry of Agriculture, and developing a rehabilitation strategy to support people living with disabilities. Much as it had with CBF, activities under this element of the program became isolated from each other (AusAID, November 2009, p. 12).

The third phase of PSCDP in 2010 responded to this perceived "strategic drift". After a review in 2009 "Proposed reform of PSCDP to June 2011", which found that the program should be refocused on human resource development rather than corporate management support, and to close down the flexible fund in support of Line Ministries (instead supporting initiatives in Line Ministries through sectoral programs). These recommendations resulted in the deletion of the objectives of the program which aimed to develop Line Ministries.

A narrower scope, focusing on four central agencies emerged from this reorientation: CSC, INAP, NDAE and the OPM, and selected human resources CSC outreach in Line Ministries. However the objectives of PSCDP were still very high-level and open-ended that adequacy of progress was difficult to assess. The result of "targeting modest support to a wide range of institutions…impact was hard to measure" (Emmott, 17 June 2012, p. 23). While some of this support may have had a good impact, it did not have a cumulative impact of contributing to defined end of program objective.

Public Financial Management and Economic Systems

In terms of public financial management and economic systems, Australia initially provided support through the United Nations Transitional Administration in East Timor (1999-2002). From 2003, its support was through the bilateral Timor-Leste Ministry of Planning and Finance Capacity Building Project (MPFCBP, $30.5 million) (2003-2008). This was replaced by the Planning and Financial Management Capacity Building Program, a partner-executed multi-donor trust fund, administered by the World Bank (PFMCBP, $13 million) (2006-2013). Since 2011, there has also been a direct bilateral program of support to the Ministry of Finance (Direct Funding Agreement, $2.2 million) (2011-2012).

The **MBFCBP** was delivered by a Managing Contractor in two phases. The first phase, 2003-2005 was to assist the national staff of the Timor-Leste Budget Office and Revenue Service in the Ministry of Planning and Finance (MoF) to take over budget and revenue systems that had been administered by international advisers. The second phase, 2005-2008, was extended to include management support to the Ministry of Finance and support to budget execution and procurement. The program was able to make this shift by increasing the use of its Flexible Support Facility, so that it constituted 60 per cent of program funding with the approval of a joint Project Committee chaired by the Timor-Leste Minister of Finance. While the Independent Completion Report was generally positive about this flexibility, it noted that the program objectives changed sufficiently that it could have merited instead a new program with new goals and objectives. The monitoring and evaluation framework and the program outcomes were not adjusted to correspond to the new program direction.

The Independent Completion Report for the program observed that there was a tension between AusAID and the World Bank about the extent to which the goal of the program was to build effective PFM systems or to build capacity for the Ministry to take over existing systems. Both things were done by the Program, with a differing emphasis at different times (Dixon & Habib, March 2009, p. 5). The range of capacity building activities included workshops, mentoring, on-the-job training, planning and development of systems, formal training, and study tours. To measure the impact of these activities, at regular intervals (five times from August 2005 to July 2008), the adviser, the staff members, and the MoF Director undertook a joint assessment of the capacity of the staff to undertake each of the core tasks, scoring each task on a range from 'adviser dependent' to 'independent'. The results of these assessments showed a mixed picture – capacity within the Ministry improved in some tasks and decreased in other tasks commensurate with a reduction in capacity building activities for that task at the time (Dixon & Habib, March 2009, p. Annex G).

By the end of the program, the MBFCBP had made good contributions to a functioning budget office, assisting in the development of capacity for budget preparation, although there were still significant limitations in the budget processes. It had also assisted in budget execution, although with ongoing issue around the quality of spending. It had also assisted in systems and processes for tax administration. The Independent Completion Report observed that it had operated most effectively in building capacity in small discrete areas, but not as a holistic public financial management program which would have done more to improve systems.

The **PFMCBP** commenced in 2008 after a delayed start. It is a multi-donor trust fund, with initial donors including Ireland, the EC, New Zealand and Norway, as well as Australia. There were a number of reasons for moving to this modality (AusAID, 2010); to provide for greater country ownership, harmonise donor support and access World Bank technical expertise. Some of these intentions were realised. It has achieved greater country ownership – the Ministry of Finance is the executing agency and has a high degree of control over the annual planning process (although this could be a function of the Minister's leadership). It also worked to harmonise donor support – most donor support to the Ministry of Finance is provided through the PFMCBP. The full range of World Bank expertise has not been realised – a progress report notes that the World Bank has not provided as many analytical products as hoped, partly because of a lack of demand from government and because the World Bank implementation team has had to spend its time assisting the low capacity Program Implementation Unit within the Ministry of Finance.

The broad goal of the PFMCBP is to strengthen capacity in Timor-Leste's MoF for prudent, effective and accountable planning and management of public finances. Each Directorate in the MoF, including State Finance, Revenue and Customs, Policy Analysis and Research, and Corporate Services has individual objectives, which evolve from year-to-year through the program's annual planning processes. A progress report comments "its broad focus provid[ed] a mandate under which almost any activity could be justified" (AusAID, 2010, p. 6). The Mid-Term Review (Bank, 2010) found that good results had been achieved in reform areas, including a financial management information system, revenue administration and policy analysis. It found however that there lacked an "overarching PFM reform and institutional development strategy, which meant that it had not achieved effective progress on capacity development of staff and the quality of spending."

At the same time as the PFMCBP has been operating, Australia has had a bilateral program of support to the Ministry of Finance, under a small Direct Funding Agreement. This funding agreement has been able to provide quicker and more flexible support than that PFMCBP, which is constrained by World Bank procurement processes. It has supported the development of procurement and financial management information systems. This support has also provided Australia with an opportunity to trial a direct grant to the Ministry of Finance, and the mutual learning around managing risk and fiduciary accountability.

Lessons learned from previous activities

Australia has learned a number of lessons from these experiences of working in these subject areas. Despite capacity building being an intention of all of the programs, only MBFCBP's approach to **capacity development was deliberate and comprehensive,** and adopted a longer-term approach, and a range of tools to implement it.   This sets it apart from the other programsThe draft Independent Completion Report for PSCDP suggests that capacity development outcomes were limited by the fact that it rarely accurately **named the role being performed by the adviser.** That is, in many cases advisers that were performing in-line functions, were expected to also 'build capacity'. It also expected too much change from the placement of a single adviser, when a **range of capacity development strategies were needed** (p18). The CBF (Finlayson, May 2004, p. v) focused too much on developing the **capacity of individuals**, when the focus needed to be on the capacity of the institution.

The Independent Completion Report for the MBFCBP (Dixon & Habib, March 2009) noted that in a fragile state it is important to **focus on improving the system, as well as capacity development**. Teaching staff to administer a poor system, as was done in MBFCBP, is not a good outcome. It suggests conducting an inventory of existing systems and defining at the outset which systems "to work with and which to work on" (p21). The draft Independent Completion Report for PSCDP, however, cautions against an artificial divide between developing and changing policy and implementing it, arguing that often capacity development can only occur at the same time as systems adaption and improvement (Emmott, 17 June 2012, p. 26).

The programs also provided lessons about AusAID's role in discussing policy with the Government of Timor Leste. In each of these programs, AusAID was not always well **positioned to understand the degree of Timorese commitment** to areas of work. In the case of the CBF and the PSCDP, this is partly because AusAID didn't have sufficient staff, was not informed about ministry-level needs, opportunities and risks for support, and **needed to improve analysis and understanding of the sector** (AusAID, November 2009, p. 9&13)**,** (p9). In the case of PFMCBP, the relationship was between the Ministry of Finance and the World Bank. A progress report observed that the World Bank has not always had a close relationship with the Ministry, and its advice was not always well received (AusAID, 2010, p. 7). Like the PSCDP, it was observed that the PFMCBP could have undertaken greater levels of analytical work to guide program implementation or guide discussion with government (AusAID, 2010, p. 7). The draft Independent Completion Report for PSCDP also sounds a cautionary note that the **government may not always be willing or able to discuss areas of reform** (Emmott, 17 June 2012, p. 31).

Another lesson is the extent to which the programs were **under-resourced and/or too broad to manage effectively**. The Independent Completion Report for PSCDP observes that the breadth of areas covered made it very heavy in terms of management and administration, "as the number and type of activities increases, the administrative demands of defining and managing them also grows disproportionately" (Emmott, 17 June 2012, p. 23). It also notes that for the majority of the duration of PSCDP there were less than three AusAID staff managing the program, whose time was mostly dominated by financial accountability concerns (p25). The Report also **cautions against "lump[ing] disparate activities together"** (p33) because of the increased administrative burden (Emmott, 22 July 2012, p. 33) A similar comment was made about PFMCBP – "the wide scope of PFMCBP makes it difficult for the single task team to comprehensively scrutinise the breadth of PFM reforms being undertaken" (AusAID, 2010, p. 6).

The same report observed that government can require additional support to manage the demands created by a new program, especially around recruiting and supervising advisory support. Until the PIU in the Ministry of Finance recruited a Senior Program Manager in 2010, much of this support work needed to be done by the World Bank, at the expense of other program work (AusAID, 2010, p. 5). The Independent Completion Report for PSCDP also noted that an **umbrella governance structure is not necessarily meaningful for government partners**, who do not necessarily otherwise see a reason to come together (Emmott, 22 July 2012, p. 33).

Another lesson from these programs is the risks that can come with very **flexible programs.** In the case of CBF and PSCDP the flexible nature of the programs led to each of them becoming very thinly spread, having many Timorese stakeholders, and losing the chance to have a cumulative impact. For these programs, and for PFMCBP, the **end of program outcomes could have been more clearly defined** and their breadth meant that analysis of the policy and institutional context was equally broad and, there was limited ability measure whether activities had any sustainable impact. The Independent Completion Report for PSCDP observed that there **needs to be a shared definition of what is to change, so that the program "can meaningfully track progress towards mutually agreed outcomes"** (Emmott, 22 July 2012, p. 31).

Lessons Learnt from International Experience of Support for Public Sector Reform

A brief review of the literature related to public sector reform was also undertaken in preparation for this design. This review identified the following

- In a post-conflict, fragile setting, **development partners need to balance institution building efforts with the need for immediate results.** There is a need to meet political and community expectations for improved services, particularly in fragile and conflict affected settings. Long term institution building approaches should be balanced against the need for government to meet immediate demands for improved services (OECD/DAC, 2008 Service Delivery in Fragile Situations: Key concepts, Findings and Lessons, OECD/DAC Discussion Paper).

- Development partners need to **be realistic about what is politically feasible, and prepare for what might become feasible.** The most difficult and crucial changes relate to behaviour and organisational change and public sector reform is an inherently political process in which incentives for change are often weak. Donors need to be realistic about what is politically and institutionally feasible, as well as being opportunistic in preparing the foundations for what

might become feasible in the future (Page xv, World Bank Report, Independent Evaluation Group, 2008 *Public Sector Reform: What Works and Why?,* An IEG Evaluation of World Bank Support). This requires a strong commitment to and investment in analytical and preparatory work, particularly on political issues, and recognition that constraints are rarely only technical in nature.

- **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 found that:

  - AusAID 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,
  - The traditional adviser-national counterpart model has had limited success, and should be abandoned except in exceptional circumstances,
  - 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.

- In a review of all public sector programs funded by the World Bank in the period 1999-2006, the Bank's Independent Evaluation Group found that **public sector and administrative reform efforts frequently failed due in part to the lack of a coherent strategy**, and of clear tools to diagnose public sector and administrative reform (Independent Evaluation Group, Public Sector Reform: What Works and Why?, p.xvi). Ideally, this would be an established national strategy for reform developed by government, however in its absence; there is a need for at least some sort of high level policy forum for dialogue between government and development partners involved in public sector reform (Mick, 2009 *Draft: Improving the Provision of Basic Services, p.16)*.

- **The approach to public sector reform needs to be set in the context of the overall labour market.** There are likely to remain significant skills gaps in the local labour market for some time, and there is a need to review the long term exit strategy in the light of developments in the stock of the highly educated and highly skilled labour. There is a case for building explicit linkages between the public sector reform agenda and the higher education and training programs that are at present only very loosely coordinated. AusAID should encourage the GoTL to use its own revenue to pay realistic salaries to recruit the skills that it needs, using international staff recruited on contract to fill positions for which not qualified national is yet available (Improving the Provision of Basic Services For the Poor: Linkages with Broader Public Sector Reform. East Timor Case Study, p.16)

Annex D: Civil Service Reform - a process of change 1999 to 2012

This case study highlights some of the major shifts in civil service organisations and policies, from the days of the UN Administration 1999 to 2002 and through successive governments from 2002 to 2012. It also describes AusAID's programs in public administration during this time, and how it responded, adjusted, or failed to adjust to the changing environment. Although AusAID provided support to public administration under the UN period, the focus here is on its programs since independence; the Capacity Building Facility (2002-2005 $15 million USD) and the Public Sector Capacity Development Program (2006-2012 $42 million USD).

Indonesian occupation

Under the Indonesian occupation, there was a large civil service, estimated at around 28,000 people. Indonesia provided heavy state subsidies to the civil service (Engel & Vieira , August 2011). The civil service was also low-performing; "characterised by the Indonesian acronym KKN (standing for corruption, collusion and Nepotism)." Timorese today also speak of the culture of deliberate underperformance – a form of passive resistance to Indonesian administration…" (p8, AusAID & Government of Timor-Leste, 2008). There were almost no Timorese in management roles or positions of authority during the Indonesian administration. Timorese people were employed in the civil service but given very little responsibility.

UN Administration

From 1999, the United Nations prepared Timor-Leste for independence. A decision was made to have a much smaller civil service, on the basis that the "state-led" Indonesian model was "inefficient and bureaucratic" (Engel & Vieira , August 2011). As a result, the civil service was cut to 12,000 people. Under the transitional administration, there were a number of organisations relevant to the civil service, including: the Central Administrative Service, an independent Public Service Commission (PSC) and a Civil Service and Public Employment Department (CISPE), and a Civil Service Academy (CSA). The United Nations undertook recruitment and set a civil service pay-scale, which was later criticised for being too compressed, not allowing for professional progression, and de-incentivising good performance. The United Nations also developed a ten year policy for civil service development, called the Capacity Development for Governance and Public Sector Management Framework (GPSM).

Fretilin dominated government 2002-2006

After independence, the first Constitutional Government established fourteen ministries. The Capacity Development Coordination Unit was established, as part of the Office of the Prime Minister to handle capacity building across government. Civil service matters were initially handled by the Ministry of Internal Administration, headed by Minister Lobato. In 2004, the government established Sector Investment Plans[18]. These SIPs were coordinated by the National Directorate for Planning and

---

[18] Sector Investment Plans were developed to implement the National Development Plan. They were formally approved by the Government of Timor-Leste. There were Sector Investment Plans developed for education, health, natural resources

External Assistance (NDPEAC) in the Ministry of Finance and Planning. In 2005, the government was restructured and a new Ministry of State Administration was created, split from the Ministry of Internal Administration and headed by Minister Ana Pessoa. Within this Ministry, the main two areas were the Directorate for the Public Service (NDPS) and a National Institute of Public Admininistration (INAP). These replaced the old Public Service Commission and the Civil Service Academy. A new Sector Investment Plan was created for Public Sector Management in 2005, chaired by Minister Pessoa.

AusAID's response 2002-2006

During this time period, AusAID established its Capacity Building Facility (CBF 2002-2005 $15 million). It was designed prior to independence. Its focus was on assisting the UN with the implementation of the Governance and Public Sector Management Framework. Its initial counterpart agency was the Capacity Development and Coordination Unit. It planned to support capacity development of core administration functions and line agencies.

Over time, the CBF had to respond to changes in the Timorese environment. Once the Sector Investment Plan process commenced, it started to provide support to the NDPEAC within the Ministry of Finance and Planning, and to the NDPS. It did this to try and strengthen the key government process for planning. It also supported a wide range of activities – some 53 activities in 21 directorates overall.

The new AusAID program was designed in 2005, in the lead up to the crisis in Timor-Leste in 2006, and with the participation of Minister Pessoa. The Public Sector Capacity Development Program (PSCDP 2006-2012 $42 million), was intended to continue the work of supporting the NPDEAC, NDPS, INAP and CDCU. As well as this, it planned to continue to support capacity development in Line Ministries.

Crisis in 2006 and a new CNRT-led government

In 2006, there was significant civil unrest, which ultimately resulted in Prime Minister Alkatiri being replaced by Jose Ramos-Horta in July 2006, and the formation of the Second and Third Constitutional Governments. Minister Ana Pessoa continued as the head of the Ministry of State Administration during this time.

In August 2007, there were new parliamentary elections and the election of the Fourth Constitutional Government, headed by Prime Minister Gusmão. Although Fretilin got a narrow lead, a coalition was able to form. This included the CNRT, the PSD-ASDT, PUN, UNDERTIM and PD. The government was led by CNRT, with Ministries being distributed amongst the coalition members. Considerable changes to both organisations and policies followed.

Dr Arcangelo Leite was appointed the Minister of State Administration and Territorial Planning, later changed to Territorial Management (MoSATM). He had a background in public administration,

---

and environment, public sector development, agriculture and fisheries, communications, power, transport, water and sanitation, roads and transport, local government and civil society.

having been the National Director of Territorial Administration. He was from the PD party, and had been educated at STPDN and the Institute of *Ilmu Permerintahan* in Indonesia during the occupation, and brought with him relationships with the Indonesian civil service.

In his 2008 Budget speech, Prime Minister Gusmão announced the year of administrative reform. He announced he would establish a new independent Civil Service Commission, an Anti-Corruption Commission and an expansion of the Office of the Inspector General. Along with these new policies, he abolished the CDCU in the Office of the Prime Minister. He also abolished the process of Sector Investment Plans. This was replaced by a National Priorities Planning process (NPP) which had an annual, rather than a multi-year, focus.

The creation of a Civil Service Commission was controversial at the time, as it was seen as a model from a common-law tradition, rather than a civil law tradition. The existing Directorate for the Public Service in the Ministry of State Administration was transitioned into the independent institution of the CSC. Staff were transferred to the CSC, including the new President, Mr Liborio Pereira. The Prime Minister directly appointed Mr Pereira.

There was duplication in the roles and responsibilities in the organic law of the CSC and the Ministry of State Administraion, and the Ministerial Decree for INAP. This can be partly attributed to the adviser appointed to draft the CSC legislation. This person went ahead with the drafting, despite having not met with the Minister of State Administration. This points to a need to properly orient technical advisers to the political context of their work. Organic laws are very important in Timor-Leste, and so, as a result of these overlapping mandates, in the years following, INAP, the CSC and the MoSATM jockeyed "for position, power and control of various HRD/HRM functions" (p.16, Davis, November 2010).

The creation of the CSC was partly a response to a perception that the civil service had become overly politicised. A UN paper states, 'under the initial government, Fretilin dominated the executive…This led to inequity and politicisation of the civil service systems…the risk of a political manipulation of the civil service regulations (to sustain political gains and control) should have been taken more seriously' (p.37, United Nations, December 2011). Likewise, a joint public service capacity review in 2008 commented 'there is an element of suspicion within Government about the loyalty and commitment of the senior management cadre, part of a larger perception of politicised appointments under the previous government' (para 40, AusAID & Government of Timor-Leste, 2008).

In 2010, the CSC established a procedure for merit-based recruitment (p. 17, World Bank, June 15, 2011). This centralised process caused considerable delays and significant "resentment from ministers" (p. 11, O'Farrell, June 2012). President Pereira addressed part of the issue by delegating the recruitment function back to some Line Ministries (O'Farrell, June 2012), although delays still continued in some areas.

During the IV Constitutional Government, there were a number of other significant policies relevant to the civil service. In 2008, the Council of Ministers passed a Decree Law to establish a new Career Regime, setting out the classification and salary structure of the civil service, replacing that established by the UN. There were some concerns about whether the Adviser who drafted the

Career Regime knew enough about implementation in Timor-Leste. There have been problems in its implementation (World Bank, June 15, 2011). One of the main issues has been the proliferation of special Career Regimes, which are broader than originally contemplated, and may undermine the coherence of the civil service salary structure and increase the cost of the civil service over time.

The CSC successfully carried out the role of converting civil servants from temporary to permanent classifications. In 2011, Prime Minister Gusmão released the Strategic Development Plan 2011-2030. It set out a broad development vision for Timor-Leste, including for civil service reform. As part of this plan, in 2011, the government created a Human Capital Development Fund, with a mandate for human resources training, including of civil servants. The HCDF is chaired by the Ministry of Education, with CSC and INAP representation.

AusAID's response 2006-2012

The PSCDP program, designed prior to the 2006 crisis, had to adjust substantially to the ensuing organisational and policy changes. With the abolishing of the NDPEAC and the CDCU, PSCDP lost two of its main counterparts, and was initially unable to identify a new relevant counterpart.

Once Prime Minister Gusmão annouced his administrative reform agenda, PSCDP was able to respond to this new policy direction, in particular the establishment of the CSC.

The PSCDP made a significant contribution to the success of CSC in this period; it provided an adviser to the Office of the Prime Minister to design the objects, functions and powers of the CSC. Once it was established, it provided a further ten advisers, for various time-periods, in areas including curriculum development, human resources, and outreach. It contributed to President Pereira cementing his position as a technocrat by granting him a scholarship to Charles Darwin University to study a Masters of International Management, and it supported the CSC with a legal adviser, who was instrumental in assisting the CSC to get enabling legislation passed, including performance evaluation (2008), management and leadership (2008), recruitment and promotion (2008), leave and absences (2008), allowances (2010), and a partial role in pensions (2012) (O'Farrell, June 2012).

By contrast to the substantial resources given to CSC, PSCDP provided less resources to INAP and the Ministry of State Administration during this time. There were several signs that INAP was no longer a government priority; it received almost no resources from the Government of Timor-Leste to fulfil its mandate, part of its mandate was given to the CSC, it was unable to get its decree law passed, and its reputation with the rest of government became increasingly poor (Davis, November 2010). Another part of AusAID compounded this problem, by funding training that duplicated INAP training.

Since 2012

In July 2012, Prime Minister Gusmão was re-elected with a strong mandate. He formed government with a coalition between CNRT and PD. He made a number of changes to the organisations governing the civil service.

He further consolidated the position of the Civil Service Commission, by incorporation INAP into the CSC. This was partly a response to the "poor reputation" of INAP, the overlapping mandate it had always had with the CSC, and to the "good reputation" of the CSC. The Ministry of State

Administration and Territorial Administration lost its Territorial Administration Powers, and became the Ministry of State Administration. The New Minister is Mr Jorge Teme.

The Ministry of State Administration's mandate for civil service administration at a subnational level was split – with a Secretary of State for Administrative Decentralisation (Mr Tomas Cabral), a Secretary of State for Local Development (Mr Samuel Mendoca), and the National Development Agency all taking on part of its role in relation to the Decentralisation Development Package (PDD) and the Decentralised District Development Plans (PDID). Although there had been Secretaries of State in the past, they had always had a subordinate status to the Minister. In this case, the Prime Minister specified the Secretaries as having a specific mandate. How the Minister and the Secretaries will manage this split mandate is yet to be settled.

The Prime Minister also announced his commitment to political decentralisation, which heralds further changes to come.

Conclusions

From this discussion, a number of conclusions can be made:

- Advisers pursue reforms that are well-informed and technically appropriate to the context in which they are operating. Drafting legislation is not a purely technical exercise. In many cases it requires politically sophisticated facilitation and consultation skills. This is particularly the case given the status of organic laws in Timor-Leste.

- AusAID needs to develop and use relationships to engage with changes in Timorese policy. Although it was supporting CSC, it did so through a managing contractor and was not initially aware of the impact the centralised recruitment processes were having on service delivery. Its lack of close engagement meant that it missed opportunities to understand, engage with and inform AusAID sectoral programs of the first phase changes to recruitment process or to connect the CSC with sectoral ministries in a way that may have informed the CSC's policy choices. Its mixed messages of support, through PSCDP, also undercut its ability to engage with the CSC. AusAID needs to have a consistent approach when it is engaging with Timorese organisations. It took an inconsistent approach with the CSC, at times providing support, and at other times threatening to pull support out. It also took an inconsistent approach with INAP, providing support to training modules, while also funding an organisation to provide duplicate training. AusAID needs to provide long-term consistent support. If it appears that there is not genuine ownership of an organisation or policy, over a period of time, then it needs to engage with the relevant government stakeholders, and be transparent about its reasons for withdrawing support.

Annex E: Engagement Agenda for each End of Program Outcome

One – the Government has a fiscal framework that supports sustainable government finances, economic growth and meets social needs	What are the views of different Timorese stakeholders to adopting and implementing a fiscal framework? What are the capacities of stakeholders to generate analysis that is needed for a fiscal framework? Investigating these two questions, GfD will focus on the following specific aspects of a fiscal framework: • The government's management of the economy through debt, revenues, tax, monetary policy. • The government's decisions about spending (budget and infrastructure fund). • Budget allocations using analysis about different social needs and the most efficient and effective ways for spending to meet those needs. • Major capital expenditure using persuasive analysis about sustainable economic development and social needs.
Two – The government makes decisions about economic policy that supports sustainable economic development and poverty reduction	What are the interests and perceptions of Timorese stakeholders on economic policy issues and options for economic policy reform. In particular: (i) what is the priority of each economic policy issue for Timor-Leste? (ii) is there sufficient analysis / information to inform the economic policy and is there policy consensus? (iii) in order to contribute to the goal of sustainable economic development, what is unknown about this economic policy issue that needs to be 'known' by key decision-makers and influential stakeholders? What work needs to be done to allow them to be sufficiently informed?
Three- Central agencies have a budget process that supports improved access to and quality of basic health, education,	Increasing Line Ministry understanding of the budget process The Ministry of Finance working with Line Ministries to improve budget submissions Changing the budget process so there is more time for Line Ministries to prepare written and oral submissions the Ministry of Finance and other relevant decision-makers having a greater understanding of the costs of service and the importance of budgeting for operations and maintenance

water and sanitation services	Exploring options to better align the budget allocation to program areas in Line Ministries.
Four- Central agencies systems support the timely and reliable transfer of financial resources to service delivery units	Supporting the development and roll-out of the Financial Management Information System (FMIS) to Line Ministries Supporting the development and rollout of FMIS to Districts with provision for printing cheques Improving the financial literacy of civil servants, including potentially through a Financial Training Centre Exploring options for de-concentration of treasury functions, including possibly District Treasuries Establishing appropriate processes for Line Ministries to acquit funds Tracking where the money goes, through Public Expenditure Tracking Surveys Moving towards results-based accounting.
Five – Ministry of State Administration sub-national systems support service delivery	What will MSA's future role in planning the sub-national services be, either through District Administrations or Municipalities, and through the PDID process or another process? What will MSA's future role in communicating between the population and government be? What about its role for communicating between local authorities and central government? Does this potential role have implications for service-delivery? What is MSA's future role in monitoring the provision of services and needs in the community? Will the MSA continue to have a role in sub-national infrastructure, through PDD and PNDS. How will it relate to the Secretaries of State and the ADN?
Six – Central agency human resources systems enable service delivery	Effective modalities for Line Ministries providing their input into civil service policies, such as the Human Resources Practitioners Network (GJPRU). Strategies for coordinating different mechanisms for building civil service capacity, including training within ministries, the Human Capital Development Fund, and any future training offered by CSC. Ways for CSC to value-add to this process. Systems for monitoring the effect of recruitment practices on service delivery including timeliness of recruitment, whether the best person recruited, and transparency and perceptions of recruitment actions.

Annex F: List of Economic Issues and Sub-Issues for Scoping

The Fiscal and Economic Policy Team will use the following criteria to decide on the priorities for economic analysis:

- What is the priority of this issue for Timor-Leste?

- Is there sufficient information / analysis / is there policy consensus?

- What is unknown that needs to be 'known' by policy makers? What work needs to be done to allow policymakers to be sufficiently informed?

Broad economic policy area	Specific issues	Knowledge/analytical gaps? Priority for increasing growth? Priority for policymakers?
Macroeconomic	• Defining medium term spending consistent with fiscal sustainability • Sustainable growth and potential output in the non-oil economy • Exchange rate policy • Fiscal and monetary macroeconomic levers	Scoping work to identify and support Government through pillar 2
Public finance	• Public spending level and composition • Public investment needs and framework • Management of public debt and financial assets • Managing parastatals • Taxation policy – appropriateness, efficiency, effectiveness, tax mix, incidence	Scoping work to identify and support Government through pillar 2
Microeconomic, structural policy, regulatory frameworks	• Agriculture, forestry and fisheries – institutions and policy objectives • Property rights – certainty, costs of enforcement, protection • Business regulatory environment – ease of doing business • Transport and services – roads, ports, airports • Electricity and telecommunications • Financial services • Land • Labour markets and regulation • Environment for adopting technology, intellectual property, standards provision and management	Scoping work to identify

International linkages and policy	• Investment and capital flows – inflows and outflows • Trade settings • Global and regional integration • Special economic zones	Scoping work to identify
Poverty and livelihoods	• Inflation and the poor • Understanding poor rural households: agriculture potential, utility, productivity of rural agriculture, specialisation, production mix for farmer-households, risk management strategies • Understanding internal migration, urbanisation and poor urban households • Distribution of income • Trajectory for human capital development • Safety nets and social transfers • Demographic trends • Access to assets and savings vehicles • Intergenerational poverty • Nutrition	Scoping work to identify and work with AusAID Rural Development team on its Rural Development Strategy

Annex G: Institutional and Stakeholder Snapshot Template

The Institutional and Stakeholder Snapshot is one of GfD's key tools for ongoing contextual and program analysis. Each GfD will use this template to document key changes in the legal and policy mandate of each of the main central agencies (both formal and informal), describe the engagement between those central agencies and AusAID, describe the interests and relationships with other stakeholders, including non-government stakeholders, and describe options for pursuing EOPOs. This will assist AusAID to determine whether it should change its approach in response to the changed context. It will also ensure that GfD captures changes over time, and will inform the six monthly process of review and redesign.

1. Central Agency:

2. Organisational History:

3. Legal Set-Up:

4. Mandate, structure and key tasks:

5. Key Personnel (key Stakeholders, formal and informal relationships):

6. Management/leadership culture and senior management incentives:

7. Connections, supporters, opponents and related organisations :

8. Legitimacy of the institution and its relative resilience to shocks :

9. History of AusAID Involvement:

10. Relevance to end of program outcomes and Engagement Agenda:

11. What is this central agency likely to ask for help on? And why?

12. What has happened that is relevant to the Engagement Agenda of GfD?

    a. What do we know about the central agency's attitude to these issues? Is there ownership demonstrated by among other things:

        i. A willingness to meet with GfD personnel to discuss support on these issues
        ii. Agency contribution of resources (financial or in kind) to support on issues
        iii. Public statements by key-stakeholders regarding areas relevant to EOPOs
        iv. Information gathered through informal meetings
        v. Are efforts progressing as planned and discussed with counterpart agencies? (if not why not?)

    b. What are views of different people within the central agency?

    c. Who else should we be working with?

    d. How should GfD adjust its strategy to the circumstances?

Annex H: Government and Program Annual Cycle

August - September	Government of Timor-Leste' annual action planning
November	Government of Timor-Leste Budget finalised
December / January	GfD annual monitoring and evaluation report
February	GfD internal Review and Redesign process
February	High-level policy discussion between GfD and key stakeholders
February	GfD has discussions with each central agency around their annual work-plan, and seeks agency-level agreement to areas for AusAID to support this work program. This may need to be a series of meetings. *"based on our discussions over the past few months, we wanted to talk to you about the activities to date, and the priorities for our joint work in the year ahead".*
February / March	AusAID Quality at Implementation Report. Over time it is hoped that key Government of Timor-Leste partners will participate fully in this process. Until this point GfD's M&E system will seek the views of key program partners to feed into the QAI.
March/April	AusAID's annual partnership discussions with the World Bank and the Asia Foundation. Facilitated by GfD, but involving the whole AusAID Timor-Leste program.
July	GfD review and redesign Process
August	GfD has smaller discussions with each central agency related to the Government of Timor-Leste Annual Action Planning and budget processes These conversations will be focused on • Seeking an early indication of work program and priorities for the coming year • seeking feedback on current engagement and support

Annex I: An Approach to Collaboration with Program Partners

This note identifies an approach to developing designs for programs of work with other organisations, including Timorese government ministries and agencies, development partners, and other Australian government organisations.

Background to Governance for Development

AusAID is in the process of designing a new program entitled Governance for Development (GfD). Among other things, this program aims to work with central agencies in Timor-Leste to facilitate service delivery in the areas of health, education and water and sanitation. It will also work with government and other Timorese stakeholders to support the process of ensuring fiscal and economic policy is sustainable, supports economic development and meet the needs of the poor.

The GfD program intends to work primarily with Timorese central agencies. It will not work directly in Line Ministries, but will seek to complement the work of AusAID in health, education, water, sanitation and sub-national procurement by complementing their work from a central agency perspective. A number of broader actors and ideologies influence and frame the central agency policies that affect service delivery and economic policy. The GfD program recognises that effective work in Timor-Leste is based on a close understanding of the policy environment and close working relationships.

The GfD program will also work with a number of development organisation and other Australian government departments, where those organisations have a mandate, capability, and/or relationships that are relevant to its objectives.

Work with Timorese central agencies

The GfD design team has developed engagement strategies for Timorese central agencies (Annex). This strategy is aimed at seeking Timorese views about its end of program outcomes and being open to new information and understandings about how to achieve these outcomes.

The purpose of these meetings, which will be an ongoing feature of the program, is to identify the central agency's interest in collaborating with GfD. GfD wants to support areas that the central agency is interested in working in. As well as working on areas of relevance to GfD's end of program outcomes(joint work), GfD is also open to working on areas of importance to central agencies where that area will build the central agency's capacity to contribute to the objectives in the future (core capacity).

Box 4. Core mandate and Joint Work

> ***Activities that support core mandate*** *– in areas that will build the relationship, build GfD's working knowledge in areas relevant to its EOPOs, and/or enable the central agency to indirectly achieve or contribute to the EOPOs in the future. For example, supporting a legal adviser in the Civil Service Commission so that it has a good legal basis for developing its mandate.*
>
> ***Activities that support Joint Priorities*** *– in areas that are directly relevant to this Program's end*

> *of program outcomes. For example, supporting the Ministry of Finance to undertake Public Expenditure Tracking Surveys in the health and education sectors in to identify issues in the flows of funding to health clinics and schools.*

The engagement strategy document identifies the process for engaging with central agencies on these issues, and reaching agreement on areas of work.

Work-planning Process

Once agreement has been reached on broad areas for GfD support, the GfD team and relevant central agency need to move to a more detailed work-planning process. This process is indicative rather than prescriptive, and the GfD team will use an approach to dialogue that is most fit for purpose for the Timorese partner.

The process is as follows:

1. AusAID develops a policy note identifying the areas of agreed exploration. As much as possible, the policy note should focus on the development outcome that GfD and the central agency are seeking to achieve, rather than on modalities or activities. In other words what outcome do we want to achieve, rather than how it will be achieved.
2. The central agency may want to undertake further analysis or research to investigate issues and generate options for a way forward (eg. the Civil Service Commission opted to undertake a pedagogical assessment to consider options for developing its mandate for training). These studies are useful for identifying a range of options for support. GfD should encourage this. It builds ownership and control, opens up new ideas and increases the practice of evidence-based, or informed decision-making.
3. Once any studies have been completed, GfD and the agency will discuss how to take forward (if at all) options outlined in the studies. This discussion should follow the process set out in the engagement strategy, focusing the discussion on joint work and core capacity work.
4. Discussion should include the appropriate agency-specific accountability structure for the collaboration. Ideally the accountability structure should align with an existing structure within the agency (eg. the Co-ordinating Committee on Financial Management in the Ministry of Finance). Agreement on the relevant accountability structure should be included in the final work plan.
5. Once agreement has been reached on a way forward, GfD will develop a more detailed work planning document. This can take the form of a more detailed policy note. AusAID should tell the agency that the more detailed policy note will need to be appraised against the standards (see below) and agreed to by the GfD Director.
6. It is expected that GfD will have design and monitoring and evaluation expertise within the core team, who can assist in the process of developing these work plans with Timorese counterparts. GfD will focus on producing simple documents that capture the essential points of agreement.
7. Once the work plan has been developed, it will need to pass GfD appraisal, to ensure that it meets the standards, and be agreed to by the GfD Director.

Standards for a Timorese central agency work-plan

1. Identify end of program outcomes (EOPO) – what behaviours are intended to change by the end of the support. Although GfD is an eight year program, some of these EOPOs may have a shorter time-frame.
2. Identify what strategy will be used to achieve these outcomes and how you know this strategy is likely to be effective.
3. Identify how this program contributes to the objectives of GfD, keeping in mind that it can be joint work or core capacity work.
4. Have clear monitoring and evaluation arrangements, including indicators, timing and responsibilities.
5. Identify the contributions to be provided by parties, the budget and the timing. If it is to work on the capacity of the organisation GfD should follow the guidance in AusAID's Capacity development Operational Policy (October 2009), including considering factors such as work cultures, incentives, policies, systems, tools and authority patterns, as well as knowledge and skills, when discussing approaches. If this includes the use of advisers, GfD must follow the process outlined in the *Use of Advisers in the Australian Aid Program – Guidance Note 1: Operational Policy Implementation Checklist* for working with the agency to name and define the role.
6. Identify how GfD will learn from the support – this may be through regular dialogue with the agency, from M&E, from having an in-line adviser.
7. Identify the agency-specific accountability structure for approving work plans and reporting on progress.
8. Identify a plan for ensuring sustainability – who will take on responsibility for the future operations and maintenance of the work (if applicable).

Work with Development Organisations and Australian Government Partners

GfD will also work with a range of development organisations and Australian government organisations. It has identified these organisations because they have a mandate, capabilities and relationships that are relevant to GfD. In the first instance this will include the World Bank, The Asia Foundation and the Australian Bureau of Statistics but the partners with whom GfD will work may expand over time.

GfD recognises that these organisations have their own reasons for wanting to work in Timor-Leste. In some circumstances, GfD is keen to ensure that the collaboration also allows each organisation to deliver on its independent agenda. This because the collaboration will have greater chances of success if it meets the needs of both parties, and also because GfD recognises that it is worthwhile investing in strong organisations operating in Timor-Leste. It is also because it recognises that supporting the independent objectives of organisations enables an organisation to support areas in a holistic, rather than piecemeal, way.

GfD will therefore support these organisations in two kinds of work (i) work that meets the objectives of GfD *and* the organisation's mandate (mutually relevant), and (ii) work that meets the independent mandate of the organisation (independent work).

Box 5. GfD will support - with development organisations and Australian government partners

> *Mutually relevant work – in areas that are directly relevant to GfD's end of program outcomes, as well as the organisations' mandate, such as supporting the National Directorate of Statistics to ensure that its resource allocations are informed by good quality statistical products that provide information on poverty in Timor-Leste(eg. Census).*
>
> *Independent work – in areas that are important to the organisation's independent mandate, for example ensuring there is a strong national statistical relationship between the Australian Bureau of Statistics and the National Directorate of Statistics.*

Engagement of GfD during the organisation's design process

The organisation has the primary responsibility for developing the design documentation, but GfD needs to engage in this process. Its engagement should be focused on:

1. a dialogue with the organisation to identify mutually relevant areas of work.
2. communicating to the organisation that it is willing to support independent work.
3. communicating its expectations for the design and its internal quality process. In some cases, if the organisation has different design procedures, or is less experienced at developing designs, GfD may need to support the organisation to take on design expertise.

The following process outlines an indicative rather than prescriptive approach to designing activities with other Development Organisations and Australian Government Partners.

1. Prior to participating in the design, the GfD team should think about how that organisation's mandate, previous experience, capabilities and relationships are relevant to GfD's end of program outcomes. This preparation work will assist the GfD team to have a more effective dialogue with the organisation, and understand exactly why it is that GfD would seek an engagement with that organisation.
2. The GfD team should share the design standards with the organisation and discuss any questions or responses on terminology. There should be a discussion about whether the standards are appropriate or not able to be met. There should be discussion about timing of the design process, funding envelope, duration of the program.
3. The organisation should develop and share a design plan. There should be discussion about whether there is sufficient input from Timorese partners and time needed to gather information. There should be discussion about whether the organisation is getting sufficient contributions from a person with design expertise (internal or external).
4. There should be dialogue with the organisation to identify mutually relevant areas of work and for GfD to communicate to the organisation that it is willing to support independent work. The areas of mutually relevant work should be agreed.
5. At a suggested minimum GfD should be able to make comments/submissions at the following stages:
   a. Early draft logic/theory of change, and early draft end of program outcomes.

       b.   Final design

       c.   M&E plan.

6. Once the design is completed, it will be subject to expert appraisal to ensure it meets the standards, and to approval by the GfD Director.

7. Once approved, the design will need to be converted into the appropriate format (eg. contract, grant agreement, record of understanding or trust fund). The modality will set out specific reporting and fiduciary requirements for the organisation going forward.

Standards for a development organisation or Australian whole of government partner design

The Organisation is then responsible for developing a good quality investment design, within an agreed timetable and funding limit. The design must meet:

- AusAID quality standards as listed below (adapted from AusAID Strategy and Portfolio Branch, *Investment Design Quality Standards*, December 2012), and
- Its monitoring and evaluation plan should meet Standard 2 for Initiative Monitoring and Evaluation in AusAID's Indonesian and East Timor and Pacific Branches *Evaluation Capacity Building Program Monitoring and Evaluation Standards*, 2012.

The Organisation does not need to follow a particular design template, although AusAID can provide a template if that would be helpful.

The design standards are as follows:

Relevance – the design should state how it will deliver on work that is mutually relevant to GfD and the organisation, and how it will deliver on work that is relevant to the organisation's mandate (this section must reflect discussions with the GfD team to identify areas of mutually relevant work).

Outcomes – the design should define clear end-of-program outcomes. They should be achievable considering resources, time and context. They should identify what behaviours will be changed as a result of the Investment Design ie. Who will be doing what differently by the end of the program?

Situation Analysis – the design should describe the current situation, including relevant social, political and economic context.

Logic – the design should have a defensible program logic, or theory of change, that links the investment interventions to its outcomes. Where relevant, the design should include strategies for sustainable ownership and capacity development. The logic should draw on relevant experiences to explain why the program will work, or if it is experimental, outline a theory for why it may work.

Activities and costing – the design should describe the proposed activities. In many cases, it will not be possible to define all of the activities at the beginning, because the program will need to respond to the changing context. In this case, the design needs to identify a rationale for its chosen initial activities, and a work-planning process going forward that involves AusAID. The design should also set out costings for delivering, managing and monitoring the activities. It should make an argument for why the chosen approach is good value for money. If the activity is one that is intended to be run by the government in future, it will set out an approach to financial sustainability.

97

Risk – the design should identify and assess risks to achieving the outcomes, as well as a process for communicating this risk with AusAID and mitigating this risk going forward.

Monitoring and Evaluation – the design should include adequately resources to collect information to inform decision making and provide evidence of progress towards agreed outcomes. It should be focused on priority information needs and not be overly complex, be clear what will be assessed, by whom, when and how (including baselines), and inform analysis and judgement of contribution to/achievement against higher level outcomes of the investment. It should comply with AusAID's Indonesian and East Timor and Pacific Branches *Evaluation Capacity Building Program Monitoring and Evaluation Standards*, 2012, Standard 2 for Initiative Monitoring and Evaluation.

Gender and Disability – activities should identify strategies to ensure they are inclusive of beneficiaries, including people with disabilities, and women and girls.

Determining who Governance for Development will work with

This program has a number of core partnerships and collaborations which are outlined in the table below. It also has a wider group of stakeholders, who it will interact with and engage with, without necessarily funding all of them. In the future, it may be that this Program considers whether to add another partner or collaboration. It will generally make this decision at a review and redesign Process, according to the following Partnership Criteria. If a partner is to be added, then the program of work with that partner will be developed using the process identified in Annex #, within an agreed upper financial limit for the design. Partnership criteria:

1. This is an organisation whose mandate, relationships, or capabilities *are highly relevant* to the end of program outcomes of this Program
2. This organisation is well positioned and has *sufficient support from Timorese stakeholders* to make a difference to the end of program outcomes
3. Compared to other possible organisations, a collaboration with this organisation *is more beneficial* than with another organisation
4. A collaboration with this organisation is *manageable* within the financial resources of this Program and the Program has enough available staffing resources to manage this collaboration well and make good use of the relationship
5. A collaboration with this organisation represents *good value for money* compared to the likely benefit
6. A funding relationship with this organisation is the best way forward, in comparison to other options, including policy engagement alone.

It may also be, at some time in the future, that a particular Partner or collaboration becomes less relevant to this Program. It may be that a central agency loses the mandate that made it a relevant partner, or another organisation develops a more relevant mandate. This Program's decision about whether to maintain the collaboration will be based on an assessment of the organisation's current and possible future relevance. This will depend on the political economy, whether things are in flux, whether a relevant mandate might develop over time, and whether the relationship is good for

reasons other than the original reason for the collaboration, for example, as a way to learn about possible future opportunities.

Relevance of the organisation	Rationale for the partnership / mutually relevant areas of work	Indicative funding, modality, and timing of the design
The Asia Foundation **Capabilities –** it has an international reputation for conducting politically engaged program strategies. It has experience of modalities that can be used to improve public policy and public accountability. In Timor-Leste, it has a good understanding of subnational governance and the issues of service delivery at a subnational level. It has tried mechanisms to improve subnational service delivery, by bringing suku chiefs together. **Relevant relationships and understanding-** The Asia Foundation has been programming in Timor-Leste since 1992, and established an office in 2000. It has relationships with suku councils and other civil society organisations. It has worked with the Ministry of Finance to conduct surveys on customs and tax. **Mandate-** its mandate is for work in legal areas, including legal aid, legislation, economic development, conflict management and women's	An interim outcome of the Governance for Development Program is to support government and non-government stakeholders to find "politically possible, technically sound" solutions to issues under Pillar I or Pillar II. The Asia Foundation works to encourage constructive input by non-government stakeholders into government policy processes. It will do so in the formation of government policy and in communicating about the efficacy of government services at the community level. In addition, the Asia Foundation will make a contribution to "politically possible, technically sound" solutions in relation to: • Providing government stakeholders with information relevant to the "bottom up fiscal envelope" – what resource allocation is needed to meet social needs (outcome 5) • In particularly it will look for opportunities for information on what resource allocation is needed to meet the social needs of women and girls and people with disabilities. • Providing input into policy processes about the best way to coordinate and plan government services at a subnational level (outcome 3) • Providing information to government stakeholders about	$2 million USD over four years through a grant agreement with an annual work-planning process attached. The design process is underway and is intended to be concluded in the second quarter of 2013

100

participation in development	whether financial resources are reaching service delivery units at community level (outcome 1).	
The Australian Bureau of Statistics **Capabilities –** as a national statistics office, the ABS has the expertise and institutional backing to produce quality statistical products. Through its international program, it has experience in supporting country statistics offices in the Pacific and Indonesia. **Relevant relationships and understanding –** the ABS has been working with the National Statistics Office in Timor-Leste (NDE) since 2010. It has relationships at the most senior level and at the working level. **Mandate –** ABS will assist the NDE in statistical leadership development and management support, including its independence and influence. ABS will also assist the NDE to improve its the methods and statistical business processes that are used to collect, compile and disseminate statistics.	GfD proposes that the government will have a fiscal framework that supports sustainable government finances, economic growth and meets social needs. This involves increasing the capacity of domestic stakeholders to produce quality analysis for a fiscal framework and working with domestic stakeholders, including the NDE, to carry this analysis in a persuasive way to key decision-makers and influential stakeholders for use in key decisions about: • The government's management of the economy through debt, revenues, tax, monetary policy. • The government's decisions about spending (budget and infrastructure fund). • Budget allocations using analysis about different social needs and the most efficient and effective ways for spending to meet those needs. • Major capital expenditure using persuasive analysis about sustainable economic development and social needs. The ABS will: • assist the NDE to produce quality and timely statistical products needed for a fiscal framework, including a Consumer Price Index and National Accounts, and statistics	Upper limit of $2 million USD over four years through an Australian Government Record of Understanding. The design process is underway and is intended to be concluded by 2013.

	useful for identifying the needs of the poor and a changing picture of poverty, including the Census and the Household Income and Expenditure Survey. • Assist the NDE to carry this information in a persuasive way to key decision-makers and influential stakeholders for use in key decisions as listed above. Ensure its core statistical products effectively collect and disaggregate data about the position of women and girls and people with disabilities.	
The World Bank **Capabilities** – Through its Analytical and Advisory Assistance Services, the World Bank produces analytical reports and studies, policy discussions, consultations, workshops and other activities, relevant to a wide range of development topics. **Relevant relationships and understanding** – the World Bank has worked in Timor-Leste since the end of Indonesian occupation in 1999 and has working-level relationships in a number of sectors. Significantly for the GfD Program it has worked closely with the Ministry of Finance through the AusAID-funded PFMCBP Program (2006-2013) and it produced the Timor Leste Civil Service Review (2011). **Mandate** – Under its recent four year strategy, released in March 2013, the World Bank indicated	Outcome one of the Governance for Development Program is for the government to have a fiscal framework that supports sustainable government finances, economic growth and meets social needs. This involves carrying persuasive analysis relevant to a fiscal framework to key decision-makers and influential stakeholders for use in the following key decisions: • The government's management of the economy through debt, revenues, tax, monetary policy. • The government's decisions about spending (budget and infrastructure fund). • Budget allocations using analysis about different social needs and the most efficient and effective ways for spending to meet those needs. • Major capital expenditure using persuasive analysis about sustainable economic development and social needs.	Upper limit of $10 million USD over four years through a country-level trust fund. This allocation will be for spending on the entire country program, not just GfD. The design process is underway and is intended to be concluded in the second quarter of 2013.

102

that it will have programs in Timor-Leste in roads and telecommunications infrastructure, health and education, access to finance, and agricultural projects.	Outcome two of the Governance for Development Program is for the government to make decisions about economic policies that support sustainable economic development and poverty reduction. As part of this outcome, AusAID will work to build its own understanding of economic policy priorities for Timorese decision-makers. The World Bank will: • assist GfD, and where there is demand, the Government of Timor-Leste to better understand the economy of Timor-Leste, the perceptions of key stakeholders, and the potential for economic policy reform to contribute to economic growth. • undertake analysis relevant to a fiscal framework and carry this information in a persuasive way to key decision-makers and influential stakeholders, so that they use a fiscal framework in the above key decisions. look for opportunities to build the capacity of Timorese stakeholders to carry out persuasive quality analysis needed for a fiscal framework.	
The International Finance Corporation (IFC) **Capabilities –** IFC has capabilities in both enabling the business environment and in working in Timor-Leste. **Relevant relationships and understanding –** IFC has been active in Timor-Leste since 2004 and has	Outcome two of the Governance for Development Program is for the government to make decisions about economic policies that support sustainable economic development and poverty reduction. As part of this outcome, AusAID will work to build its own understanding of economic policy priorities for Timorese decision-makers. It will also decide whether to work on select economic policy priorities.	IFC's activities in Timor-Leste are funded through a Pacific Regional Mechanism. At present the Timor-Leste Program will provide no further funding, but will engage at the country level with the IFC team. Possible

103

relationships with the Chamber of Commerce, the Ministry of Finance, the Ministry of Justice, the Ministry of Commerce, Industry and Environment, the Central Bank of Timor-Leste and other banks including ANZ and Bank Mandiri, and microfinance institutions Moris Rasik and Tuba Rai Metin (TMR), and the business sector. **Mandate –** Under its four year strategy, released in March 2013, the IFC will continue to focus on private sector development. It will keep working on the business environment, particularly access to finance and barriers to entrepreneurship, and to encourage private involvement in infrastructure development such as ports and airports.	The IFC will: • Assist AusAID to better understand the economy of Timor-Leste, the perceptions of key stakeholders, and the potential for economic policy reform to contribute to economic growth. • Look for opportunities to make a contribution to an economic regulatory framework that supports sustainable economic development and poverty reduction.	further contributions will be considered in future years.
Inclusive Finance for an Under-served Economy (INFUSE) Jointly executed by the United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF) **Capabilities –** it has expertise in banking and financial services. **Relevant relationships and understanding –** it started in 2008 and has working level relationships with the Central Bank of Timor-Leste (BCTL), microfinance institutions Moris Rasik and Tuba Rai	Outcome two of the Governance for Development Program is for the government to make decisions about economic policies that support sustainable economic development and poverty reduction. As part of this outcome, AusAID will work to build its own understanding of economic policy priorities for Timorese decision-makers. It will also decide whether to work on select economic policy priorities. INFUSE will: • assist AusAID to better understand the economy of Timor-Leste, the perceptions of key stakeholders, and the potential for economic policy reform to contribute to economic growth. • Look for opportunities to make a contribution to an economic	AusAID recently extended its arrangement to fund INFUSE at no cost until June 2014. A design process for GfD's future engagement will be conducted in the coming months. Future funding allocations will be determined through this process.

Metin (TMR), National Insurance Timor-Leste, and the Ministry of Commerce, Industry and Environment. **Mandate** – it has a mandate to strengthen inclusive finance at the policy, infrastructure and retail level.	regulatory framework that supports sustainable economic development and poverty reduction. • In particular look for opportunities for microfinance programs to alleviate poverty by working with women and people with disabilities.	

Annex J: Approach to negotiation and policy dialogue

The guiding principle of negotiation and policy engagement under GfD is that any agreement on joint work needs to meet AusAID and Timorese needs. With this in mind, during engagement, GfD personnel will:

- Seek Timorese views before expressing AusAID's
- Be clear about GfD's boundaries and desired end of program outcomes
- Be open to new information and understandings about how to achieve these end of program outcomes
- Support a mixture of agreed activities that support joint and core work.

It will use a defined negotiation process. The purpose of defining this process is to give AusAID and Timorese stakeholders enough time to reflect, add new information, consider new proposals, and consult where necessary, so that agreements reflect "true agreement", as much as possible. This process can be adjusted to meet the particular needs of either party.

This document sets out:

1. The negotiation process
2. Preparation to be done prior to each meeting
3. Dialogue during the meeting
4. Work to be done after each meeting

Documents for the negotiation strategy include:

1. Goal and objective statement for this Program
2. Engagement agenda for each central agency grouping (separate document – see Annex E)
3. An email pro forma for reporting to the broader GfD team on meetings.

The negotiation process

The negotiation process is set out in the diagram below. In most cases there will need to be multiple meetings with each of the stakeholders, to allow time for reactions, new information and enough discussion before agreement is reached. The process can be longer or shorter, depending on the stakeholder.

Prior to meetings, GfD personnel will identify who the meetings need to be with, as well as the sequencing of meetings. This list will be developed based on the Engagement Agenda and Institutional and Stakeholder Snapshots. This list will be added to as new stakeholders are identified.

Staff will need to prepare for each of the meetings, including practising how to present the new program, and how to discuss the boundaries for the negotiation. This will be done as a whole team, to ensure everyone is using consistent messages.

The Engagement Agenda defines the Program's areas of interest, and where it wants to test if there is an appetite for joint areas of work. There are also some hard-gates, or areas that the Program

generally will not support, and these should be kept in mind during the negotiation. These include: buildings and infrastructure, elections, and the MDG suku program. Some areas, including computer systems, and general training for the civil service will need to be handled carefully, and will only be supported in relation to specific and defined service-delivery outcomes.

Diagram of the negotiation process:

Negotiation process

Meeting one:
- Plan the opening of the discussion depending on the previous interactions (if any) .
- Outline the intention to have a series of meetings to allow for new information, consultation and reflection.
- By the end of series of meetings want to reach agreement on areas of work.
- Introduce "goals and objectives" and discuss (see discussion, above, about ways to introduce the objective).
- Finish the meeting by summarising where we are at in the process, that we want to give time to react/think about/consult. Preface another meeting

Things to give
Goals and objectives page

Background preparation
Engagement agendas and plan the discussion

Meeting two/three:
- Prior to the meeting, plan how to focus the discussion on the issues from the "Engagement Agenda"
- Ask for reactions, new information about the areas previously discussed.
- If new areas of potential work are identified, or lots of new ideas get as much detail as possible but ask for more time to discuss with the GfD Program Director.
- Be clear about the other side being able to take more time *also*.
- Finish the meeting by summarising where we are at in the process, that we want to give time to react/think about/consult, check that ready to commit to joint areas of work at the next meeting (or willing to commit to us taking proposal for joint areas of work to the Minister, if more appropriate).

Background preparation
Engagement agenda and plan the discussion

The last meeting:
- Reference earlier discussions
- We would like to reach agreement on joint areas of works (or a proposal to take to the Minister).
- We would like to formalise our agreement on areas of work under this program.
- What is the best way to do this? Letter, meeting note? Memorandum of Understanding?
- We will need to have more discussions around the best way to support you to move forward on this area of work and starting points (depending on the issue we may be able to point to an existing program of support being the vehicle for this.

Background preparation
Engagement agendas and plan the discussion

Preparation to be done prior to each meeting

- Practice and have a script around how you describe the program.

- Consider who from AusAID should attend (consider appropriate seniority and when a meeting should be a Timorese-only meeting)

- Plan the formality of the approach. In most cases, start with a letter to the Minister outlining the purpose of the meetings, and asking for permission to meet with a number of *stated* technical areas, in preparation for a meeting with the Minister on policy and strategic matters.

- Consider the best sequencing of meetings (when we need to start at a more senior level first)

- Plan out the number of meetings with each stakeholder and objectives for each meeting (usually multiple meetings because we want to ensure both sides have adequate time for reflection and consultation before reaching agreement).

- Discuss and decide on respective roles in meetings: go in pairs (at least). One to carry the discussion, one to observe the process and to jump in if required to ensure that the meeting doesn't go further than it is intended to go.

- Decide who will do a summary of the meeting and next decisions.

- Take interpreters to all the meetings – talk them through the words that are likely to be used, give them the background, test with them how they interpret what you say.

Generally, GfD personnel will ask views about the subject area first to avoid the perception that it is seeking to "impose ideas" and to encourage stakeholders to volunteer information. Once the stakeholder has given his/her general views, the GfD personnel will introduce ideas to develop and focus the discussion.

As a general rule, the first meeting can be quite open, but the discussion should be more focused in the second and third meetings. The form of words for each meeting will be developed separately, depending on the issues to be discussed, and the history of interactions with the stakeholders.

Dialogue during the meeting

- Follow the agreed roles: one of you to carry the discussion, one of you to observe the process.

- Talk about the engagement process and where you are up to within it (eg. we have been talking about this new program, we now at the point to negotiate areas of support, having a series of meetings to allow for new information, consultation and reflection, and by the end want to reach agreement on areas of work).

- If necessary during the meeting help each other to ensure that it doesn't go further than it is intended to go. If new areas of potential work are identified, or lots of new ideas get as much detail as possible but ask for more time to discuss with the GfD Team, and the GfD Program Director in particular. Be clear about your counterpart being able to take more time *also*.

- At each meeting indicate our openness to new information. Are our assumptions right? Is there more we need to know?

Work to be done after each meeting

- Those who went to the meeting should debrief:

  o Was there engagement/ownership? Was there reluctance or a lack of clarity?
  o Consider additional/joint meetings. Isf there a need to have meetings with others (more senior? more junior? different areas?)

- What do we take from the meeting? (eg. ways of working, the engagement process, Agreement on joint areas of work, areas of disagreement/controversy) Document the meeting (using the email pro forma to the whole sub- team)

- If necessary, record officially any agreements reached at the meeting, by letter or by agreed meeting records.

Annex K: Governance for Development Management Structure

The GfD Program will be implemented by an AusAID-led implementation team, supported by a managing contractor. The GfD Program Director will be supported by the AusAID Governance Director and a small team, both based in Canberra. The GfD Program Director is accountable to the Minister Counsellor Dili and will be supported by a Program Monitoring and Support Group.

As noted above, AusAID wants to be more directly involved in the implementation of this Program, and has allocated five staff to the implementation team. Learning from the experience of other governance programs in AusAID, GfD will include contracted staff working alongside AusAID staff to complement the skill base and deliver on all required program outputs. As the Managing Contractor is directly involved in program implementation through the Core Team Structure, tasking can take place within the Core Team structure, which will reduce the need for separate tasking and reduce the administrative burden on the program. This team structure is depicted in the diagram at the end of this Annex.

GfD Core Team

The program will be managed and implemented by a core team, composed of AusAID and contracted staff. The Core Team will be headed by an AusAID Director, an AusAID Deputy Director for Programs and Policy, and a contracted Deputy Director for Logistics:

- The <u>Program Director</u> has overall responsibility and strategic oversight of the GfD Program. He or she is an AusAID employee, but his or her role will be more akin to that of a Program Team Leader, than a traditional AusAID Counsellor. He or she will lead engagement with senior Government of Timor-Leste and other partners and lead the development of coherent and consistent AusAID policy positions in areas within GfD's remit. He or she has overall oversight of the Budget. He or she reports to the Minister-Counsellor and is responsible for advising the Minister-Counsellor on issues of policy, coherence and engagement.

- The <u>Deputy Director Policy and Program</u> is responsible for putting in place systems and procedures to ensure policy coherence within GfD and to support the Program Director to drive policy coherence across the AusAID country program. Key systems responsibility will include the engagement strategy agenda, Institutional and Stakeholder Snapshots, and communications.

- The <u>Deputy Director Operations</u> is responsible for providing high quality logistical and technical support to the program. He or she will need to understand issues and policies and be able to generate options to translate agreed support into action, including working on logistics and procurement for programs of support. Key systems responsibility include managing budgets and finances, reporting cycles, monitoring and evaluation, and work plans and designs.

Three implementation teams will be established and will be charged with implementing the substantive work program of GfD. The role of these teams is to (1) develop closer relationships and understanding of designated central agencies; (2) develop and manage a work program with those

agencies that assist them to deliver their core mandate; and (3) progress the end of program outcomes relevant to their designated agencies. These will include:

- The Fiscal and Economic Policy Team will work with a wide variety of stakeholders – the key decision-makers, those who influence decisions, and the producers of knowledge and analysis relevant to outcome areas 1 and 2. The first task of the Fiscal and Economic Policy Team will be to undertake a deeper scoping of the relevant stakeholders and their interests and mandates. This will include further developing relationships with the Prime Ministers' Office, the Infrastructure Fund grouping of agencies the Central Bank, and the proposed new Economic Planning and Investment Agency. It will be headed by an AusAID EL1 and have four additional full-time staff, including an Economist, a senior Officer (OB6) for Statistics and a Senior Officer for Economic Policy (OB6). It will have access to part-time Banking, Public Investment and Macroeconomics Expertise. This team will also manage the collaborations with the International Finance Corporate, INFUSE Micro-finance, the Australian Bureau of Statistics and work in the telecommunications reform

- The Public Financial Management Team is the primary relationship manager for the Ministry of Finance. The Ministry of Finance is the key stakeholder for end of program outcomes one and two through its Directorates of Budget and Treasury, so this team will also be responsible for progressing these outcomes. It will also be responsible for overseeing the implementation and management of the targeted budget support program (discuss in detail at Annex O). It will be headed by an AusAID EL1 and include a Public Financial Management Outreach Adviser and three additional full-time staff, as well as a part-time Budget Support and Public Financial Management Advisers. Given the importance of ongoing monitoring and management of the targeted budget support program. GfD will seek to co-locate at least one officer at the Ministry of Finance on a full-time basis.

- The Public Administration Team is the primary relationship manager for the Ministry State Administration and the Civil Service Commission. These agencies are the key stakeholders for end of program outcomes five and six, so this team will also be responsible for progressing these outcomes. It will be headed by an AusAID Senior Officer (OB6), include two additional full-time staff and have access to part time Human Resources and Legal Advisers.

Within the Implementation Teams, the AusAID team leader will be responsible for managing the staff within their team, advising the Director on the strategic direction for the outcome areas, oversight of the budget for their focus area, and managing the relationship with government and other counterparts. The Implementation teams will be supported by two teams with cross program responsibilities:

- The Policy and Program Coordination Team will be headed by the Deputy Director Policy and Coordination. It will include a full-time Communications Officer, a Political Economy Analysis/ Civil Society (PEA/CS) Manager, and a Partnerships Manager for the collaborations with the World Bank and the Asia Foundation. The Policy and Program Co-ordination team will have primary responsibility for policy coherence across GfD and in AusAID's whole of program approach to key central agency issues, and for sharing the learning from GfD across the rest of the country program.   It will be responsible for internal and external communications, assist

teams with tools and approaches to understand the political economy and relevant stakeholders in their area of work and lead the Six Monthly review and redesign (outlined below). This team will also oversee engagement with the World Bank and the Asia Foundation.

This team will also be partly responsible for implementing the Policy Enabling Delivery Strategy . As part of this role his team will commission relevant research, develop policy briefing notes and organise regular seminars on central government systems (eg. briefings for the rest of AusAID on the budget process and training on how to understand the budget documents for specific sectors). It will also establish and oversee a mechanism for ensuring that AusAID has integrated policy positions on the budget civil service systems, public financial management, and that these positions are used in AusAID's engagement with the Gvernment of Timor-Leste.

- The Operations Team: headed by the Deputy Director Operations and will include a Monitoring and Evaluation Manager, and a Design Manager and Partnership Broker on retainer. These positions will assist the Sub- teams with the substantial work of assisting central agencies to design programs of work that consider an appropriate range of capacity development supports and are focused on measuring results. The Monitoring and Evaluation Manager will also manage the GfD Performance Assessment Framework. The Partnership Broker will enable the Sub- teams to establish its partnership approach where appropriate and part-time gender and disability experts will provide ongoing support to ensure that activity level designs adequately address disability and gender issues. 19. Another aspect of this team's role will be to build the skills of the GfD Core team in monitoring and evaluation, partnership brokering and policy dialogue. The Operations Team will include a small Logistics and Procurement sub-team, which will be co-located with the GfD Core Team (discussed below), but will include Finance and Budgeting staff.

The Office

The GfD Core Team will have an independent office in Dili. The Core Team, including AusAID staff and contractor staff will be located together in this office. The logistics and procurement sub-team will be located in close proximity to this office. It is AusAID's intention to secure co-location arrangements with central government ministries or agencies on either a part-time or full-time basis for key implementation staff, particularly GfD's Timorese personnel. This offers real benefits to the program in terms of developing relationships, understanding government business and government priorities, and being accessible and open to government counterparts.

Canberra's role: the Program Enabling Team

The Core Team in Dili will be supported by a small Program Enabling Team in the Timor-Leste Section in AusAID Canberra. This Program Enabling Team will be headed by the Canberra-based Director for Governance who will be supported by two EL1s and an APS5. This team will take on responsibility for as much of the internally AusAID-focused business processes as possible, including internal AusAID performance and quality processes, Financial Management Act approvals, contract management and Aidworks. The intention of this structure is to ensure that the Dili-based GfD Core

Team can focus to the greatest extent possible on implementing GfD – building relationships, understanding the context and engaging with partners – rather than on AusAID administration. Given that the managing contractor will be working 'hand in glove' with AusAID's direct implementation team, the contract with the GfD Managing Contractor will be administered by the Canberra-based Program Enabling Team.

The Program Enabling Team will also take on responsibility for overall management of the implementation of the Policy Enabling Delivery Strategy which includes specific activities to build skills in political economy analysis, partnership brokering, and other areas, as well as systems and approaches to ensure policy engagement coherence. The Program Enabling Team will also manage Canberra-based stakeholders. It will participate in the six monthly review and redesign to assist in setting the strategic direction of the Program. The Canberra-based Director Governance also oversights AusAID's program of support to the National Program for Suku Development (PNDS), also in AusAID's governance portfolio. The Canberra Director will ensure appropriate connection and similarity of approach in the two programs.

Role of the Minister-Counsellor and Ambassador

The Minister-Counsellor leads the whole AusAID Country Program and has overarching responsibility for the performance of the GfD Program, the Program Team, for overall Country Program Policy Coherence, and for the overall development relationship. The Minister-Counsellor, in particular, will take a leadership role in interactions with Ministers and in the annual high-level policy forum, discussed above.

While the Minister-Counsellor is responsible for the overall development relationship with Timor-Leste, this is placed within Australia's broader bilateral relationship with the country. Responsibility for managing this relationship resides with Australia's Ambassador to Timor-Leste, who is a critical stakeholder and will need to be regularly consulted during the program implementation phase. The Ambassador will also have a representational role to play at senior levels, and in relation to the annual high level policy forum.

Program Monitoring and Support Group

The GfD Program will have a Program Monitoring and Support Group of up to four people, who will provide short-term inputs to support the quality of program implementation over its lifespan. The Program Monitoring and Support Group will play the role of a critical friend and will provide advice to improve the performance of the program from both a technical and political/relationships perspective. It is intended, as much as possible, to select panel members who can have longstanding experience and understanding of the Timorese context and who can engage with the program over the long-term. The Group will provide advice on whether progress to the end of program outcomes is adequate; whether there is sufficient Timorese interest and ownership of activities; and whether approaches adopted by the program are technically appropriate and politically possible. It will then make recommendations as to whether other approaches should be tried.

The GfD Core Team Structure:

Minister-Counsellor Dili
Overall Country Program Policy Coherence
Development Relationship

GfD CORE TEAM

Program Director GfD
GfD Strategic oversight
Engagement with GoTL and other partners
Drive country program policy coherence
Lead country program analytical agenda

Deputy Program Director, Policy and Co-ordination

Deputy Program Director, Operations (ARF)

POLICY AND PROGRAM CO-ORDINATION TEAM

Drives policy coherence across GfD and in AusAID's broader approach to engagement with central agencies

Communications Officer (ARF)

PEA/Civil Society Manager (ARF)

Partnerships Manager TAF & WB (LES)

PUBLIC FINANCIAL MANAGEMENT TEAM
OUTCOMES 1 & 2
Key R'ship: MoF

Assistant Director

PFM Outreach Adviser (ARF)

Senior Officer (LES)

Senior Co-ordinator (LES)

Program Officer (LES)

Part-time advice: Snr Budget and PFM Advisers (ARF,PT)

PUBLIC ADMINISTRATION TEAM
OUTCOMES 3 & 4
Key R'ships: MSA, CSC

Senior Officer (LES)

Co-ordinator (LES)

Co-ordinator (LES)

Part-time advice: HRM/HRD Adviser (ARF,PT), Legal Adviser (ARF, PT)

FISCAL AND ECONOMIC POLICY TEAM
OUTCOMES 5 &6
Key R'ship:MoF, EPIA/NDA,PMO

Assistant Director

Economist (ARF)

Senior Officer Statistics (LES)

Senior Officer Economic Policy (LES)

Senior Officer Analysis (LES)

Senior Co-Ordinator (Statistics LES)

Part-time advice: Adviser Banking/PIM/ Macro (ARF)

OPERATIONS TEAM
Provides high quality logistical support to enable the delivery and ongoing design of GfD

Design Manager (ARF, PT)

M&E Manager (ARF)

Partnership Broker (ARF, PT)

Gender and Disability Experts (ARF, PT)

Logistics and Procurement sub-Team
(*structure to be specified by tenderer*)

Role: implementation of the GfD Program

AusAID PROGRAM ENABLING TEAM

Director Governance
PEDS Implementation
M&E, P&Q
Design Support
AusAID Internal Processes
Staff Management
Australian stakeholder management

PROGRAM ENABLING TEAM

Assistant Director PEDS Implementation and Sector Liaison (EL1)

Assistant Director Program Enabling (EL1)

Senior Co-ordinator Program Enabling (APS5)

Role: to manage internal AusAID business processes relevant to GfD.

LEGEND
Red Text = AusAID Position
Black Text = Contracted Position
Emboldened Text = Direct report to PD
LES = Locally Engaged Staff

114

The Managing Contractor

A Managing Contractor will share responsibility, with AusAID, for implementing the Program. The Managing Contractor will fill positions on the GfD Core Team and manage logistics, procurement and program management. GfD will provide a range of development assistance activities to central agencies and Timorese stakeholders, including assistance in monitoring and evaluation, recruitment, training, twinning arrangements, technical advice, research and analysis, and study tours, among others. The Contractor will develop the systems to deliver this support flexibly and quickly.

It is important that the respective roles and responsibilities AusAID and the Managing Contractor are clear in implementation. As noted above, AusAID and the Managing Contractor will work 'hand in glove' in the implementation of GfD and it is important to maintain objectivity in managing the performance of the Managing Contractor. Performance assessments of the Contractor will therefore be carried out by an independently contracted consultant, under the supervision of the Canberra Governance Director, as discussed in the Monitoring and Evaluation section, below.

Staff selection

AusAID will select people to fill the positions on the Core Team jointly with the Managing Contractor. The Contractor will use a recruitment strategy and networks to ensure that it gets the best possible people short-list of potential candidates for positions, including people from Timor-Leste. The Contractor will be responsible for managing the deployment, contracts, salaries and conditions of contracted Core-Team staff. AusAID will be responsible for the AusAID Core Team Staff.

Management of GfD Staff

- **Performance Management of Contracted GfD Core Team Staff.** The Managing Contractor will be responsible for running the process for performance review and management for contracted core team staff, and AusAID will be responsible for the content of performance review and management. The GfD Program Director will be responsible for the substantive input into performance review and management of the contracted Deputy Director for Operations. The AusAID team leader in each of the sub- Teams will be responsible for the content of performance review and management of the contractor staff in those teams. The AusAID Deputy Director will be responsible for the substantive input for positions in the Policy and Program Coordination Team. If there is an internal dispute, then the matter should be raised with the line manager in the first instance, but if it cannot be resolved, then it can be taken to the GfD Program Director.

- **Performance Management of AusAID GfD Core Team Staff.** AusAID will retain responsibility for performance management of all AusAID employees

- **Performance Management of the Operations Team.** The Deputy Program Director, will manage the *content and process* of performance review for people in the Operations Team, including logistics and procurement staff.

Logistics and procurement

The Contractor will be responsible for managing logistics and procurement under the Deputy Director Operations. It will run a small office, co-located together with the Core Team, for this purpose. The GfD Core Team will involve the Logistics and Procurement team at an appropriate stage of the engagement strategy with Timorese counterparts, so that they contribute to ideas for ways to support areas of work as well as carrying out the tasks necessary to provide the support. At an appropriate point, they will be brought into the engagement with government to help generate options for activities that contribute to the end of program outcomes. This will include such things as assistance in monitoring and evaluation, recruitment, training, twinning arrangements, technical advice, research and analysis, and study tours, among others. As such, the logistics and procurement team will need development expertise as well as logistics and procurement skills, especially capacity development expertise.

The logistics and procurement sub-team will include the following expertise:

- Human resources and adviser management, especially in recruitment

- Logistics and procurement

- Capacity building and training

- Office management, including interpreters and translation, administration, office systems, reporting.

- Financial management and budgeting, including monthly financial reports to the Director and to each Sub- team.

Approach to procurement

It is proposed to tender for a Contractor that can fulfil two distinct sets of services:

- The first set of services is to fill and manage the positions in the GfD Core Team. As described above, AusAID and the Contractor will jointly sit on the recruitment panel for the staff for the positions in the core team. The key skills for this package of services are an established track record in human resources – ability to identify a pool of quality people, run a recruitment process, manage contracts and terms and conditions, run a performance process, and deal with human resources issues. Once the people are recruited, the Contractor will have the ongoing task of managing their contracts. This set of services will not necessarily require the contractor to have an in-country office, although it will need headquarters support.

- The second set of services is logistics and procurement. As described above, the Contractor will need to run a small Logistics and Procurement Sub-team, co-located with the GfD Core Team in Dili. The Logistics and Procurement Sub-team will need to have development expertise as well as a proven track record in logistics and procurement, including human resources and adviser management, capacity building and training, office management, and financial management and budgeting. The Deputy Director Operations, engaged by the

116

Contractor, will manage the Logistics and Procurement Sub-team. The Contractor will be asked to bid for this set of services on the basis of having or being able to recruit expertise in office management, financial management, capacity building coordination and human resources management.

Advisers – reporting, management and orientation

Reporting and management

There are three kinds of advisers under this Program and different reporting and management arrangements will apply to each.

Each of the GfD teams will have short term advisers to provide it with particular expertise. These are specified in the staffing chart. This was an approach used during the Governance for Development Interim Program and Pilot Phase and it provided a number of benefits. The Program was able to secure experienced and capable advisers who were not available to be located in Timor-Leste full-time but were available for high quality technical and political inputs. By using the same Advisers for short-term inputs over an extended time period, the Program was able to use them in a program role, as they were able to build relationships and understanding over time. Periodic adviser inputs also helps to avoid dependency by Government counterparts, enabling space for those counterparts to take responsibility for their ongoing work tasks.

As with staff positions, the Contractor will be responsible for the *process* of recruitment, salary and conditions, contract management, and performance assessment and management. The contractor will ensure that the adviser provides a report after each mission, the contents of which will be agreed prior to each in-country visit. Central government agencies and other Timorese stakeholders may have in-line technical advisers as part of a program of support to a particular end of program outcome area. As described above, if an adviser is contemplated, the Program will use the process outlined in the *Use of Advisers in the Australian Aid Program – Guidance Note 1: Operational Policy Implementation Checklist* for working with the agency to name and define the role. This Operational Policy includes guidelines on management of the Adviser. It states that Advisers are, in the first instance accountable to, and managed by, the organisation/s in which they are working.

The Contractor will be responsible for assisting the central agency to recruit the right person, but the recruitment will be directed by the central agency. The Contractor will manage the salary and conditions and contract for the Adviser in accordance with AusAID's Adviser Remuneration Framework. It will also carry out the *process* of performance assessment and management, but it will work with the central agency so that the central agency controls the *content of* performance assessment and management. The Contractor will discuss Adviser performance with central agencies every six months to assist the central agency to complete the performance assessment. If the central agency has a problem with the adviser, then the Contractor will explore the central agency's options under the contract. Advisers will complete Adviser reports directly to the central agency, but these reports will be made available to GfD where the central agency agrees that this is appropriate.

The GfD Core Team will not have a role in managing in-line Advisers. If GfD has issues with the advice being provided by an Adviser, then it is to discuss it with the central agency at a policy level as part of a discussion about the overall program of support. The GfD Core Team can have contact with the Adviser, as part of informing itself about its work, but this contact must be undertaken openly,

transparently and with the full knowledge of GfD's central agency partners. GfD must be careful of perceptions, especially around the Adviser's duties of confidentiality to the central agency.

As part of a program of support, the GfD Core Team may want a <u>technical expert to carry out a discrete task</u>, for example develop a training program, or carry out a piece of analysis. Depending on the nature of the task, GfD and the central agency will have input into the nature of the task, but the Contractor will generally do the whole performance assessment and management, as well as contract management of such advisers.

Orientation and seminars
The GfD Program will invest in orientation and learning for those associated with the program. It will have an initial orientation package for new staff and advisers. It will also have ongoing information sessions at least six times a year. These sessions will be on Timor-Leste systems, such as the career regime structure, the government budget process, and the structure of government and the status of laws. It will also have sessions on key skills such as monitoring and evaluation, partnership brokering, and working effectively in Timor-Leste. These sessions will be an opportunity to bring people in different parts of the program together, promote informal networking, and contribute to the effectiveness of staff and advisers. These sessions will also be available to other stakeholders, including government.

Annex L: Theory of Change

The Governance for Development has built an understanding of the policy making and implementation process in Timor-Leste[20], especially the role of influential stakeholders and ideas. This Annex summarises this understanding and describes the theory of change that will be used by the Governance for Development Program to respond to the Timor-Leste context.

Situation Analysis - policy-making and implementation in Timor-Leste

In order to understand how the Governance for Development Program can make an effective contribution to the government's plans to manage the economy and improve services, it is important to first understand the process by which policies are made and implemented in Timor-Leste at the current time.

In Timor-Leste, significant policy decisions relating to economic management and service delivery are made by a core group of decision makers, particularly the Prime Minister, but also the Parliament, the Council of Ministers, the President and other Ministers. This reflects the political structure of Timor-Leste, but it also reflects the political culture of strong charismatic leaders.

The *Strategic Development Plan* (SDP) is the chief policy document emanating from this core group of decision-makers. They also control other policy decisions include the creation of the Infrastructure Fund and the Decentralisation Development Package, intended to develop the economy, drive local-level infrastructure in rural areas and support the creation of a Timorese business sector.

This core group of decision-makers make their decisions within a social, economic and cultural context. There are both influential ideas and influential stakeholders that make up this context. These ideas and stakeholders have varying degrees of influence, depending on the issue at hand. One example of an influential idea is the moral obligation of the State to protect the most vulnerable people (Gusmao, February 2013). The specific processes by which influential stakeholders exercise their influence is varied, and includes formal policy processes and informal interactions[21].

At the current point in time, government ministries are not necessarily influential when it comes to determining policy direction. They are seen as implementers of government policy rather than informers of it (in this case Government Ministries are to be distinguished from Ministers themselves, most of who are amongst the core group of significant decision-makers).

---

[20] The strategy was developed following a selected range of research and analytic enquiry including stakeholder mapping by the AusAID team, analysis on themes in political speeches since independence (Lemos dos Santos, The Narrative of the Promises, May 2012), analysis on the role played by the Church and the media (Bowman, 2012), political economy research on significant stakeholders and public policy processes by an academic and the Asia Foundation, political economy analysis on procurement by the Asia Foundation, an AusAID analysis of the Timorese economy (Economics Advisory Group, 2012), and widespread reading of the political, economic, historical and anthropological literature of Timor-Leste.

[21] Some of the processes used by non-government stakeholders are described further in Ingram's paper on Timorese policy processes (Ingram, 2012).

Once policy directions are developed by this core group of decision-makers, the decisions are handed to government ministries to implement. At this level there are in turn a number of ways of working that shape how government ministries develop and implement the policy decisions that are handed to them. This mixture of factors has developed within a cultural, historical and organisational context. Some of these factors are more dominant in some parts of the government than others. One example is that policy implementation relies heavily on the formal legal mandate of a government ministry (Pereira, November 2012). This is partly an inheritance from the Portuguese bureaucratic tradition. Another is the significance of relationships within government ministries. Influence, legitimacy and information all flow from relationships of trust. A report on the culture of the civil service likened it to being based on the Timorese principles of family. Those 'inside' the circle, with a trusting relationship, are afforded respect, loyalty and access to information (p15, Butterworth, 2011).

This policy making and implementation process has a number of implications for AusAID Programs, including the Governance for Development Program. If AusAID wants to ensure that policies are informed and evidence-based, then it needs to work with a wider group of stakeholders than just government ministries. It needs to understand who the key decision-makers and influencers of policy are for the issues they are working on. It also needs to know the influential ideas that drive those policies. Over time, it needs to work with government ministries to increase their own analytical capability and credibility, to become informers of public policy as well as implementers.

To do this, AusAID needs to understand how the policy environment is operating and to be able to identify openings for positive contributions for reform. The best way to do this is by building its relationships with Timorese stakeholders. To do this AusAID needs to be aware of historical perceptions and support Timorese plans and ambitions, rather than trying to impose its own agenda.

Governance for Development – Theory of Change

This understanding of how policy is made and implemented in Timor-Leste has influenced the content and approach of AusAID in this design of the Governance for Development Approach. The theory of action is represented in below. In particular:

- The GfD Program has identified a number of areas to work on, the outcome areas defined in this document. These areas of work (based on situational analysis and discussions with key stakeholders) relate to elements of fiscal and economic policy which are important for making a difference to poverty reduction and those specific parts of the central agency system which are necessary for effective service delivery, namely the budget process, the transfer of money, human resources and subnational administration.

- The GfD program will focus on building strong relationships with central agencies and other organisations as the key means by which to engage on matters most important to service delivery and economic and fiscal management. It is also important for it to understand the interests and positioning of significant decision-makers and influential stakeholders in these areas.

- Through these relationships, the GfD program will also build its knowledge and understanding of the policy making process and Timorese context. This will better equip AusAID to support progress towards the end of program outcomes by developing solutions in partnership with Timorese stakeholders that are technically appropriate and politically possible.

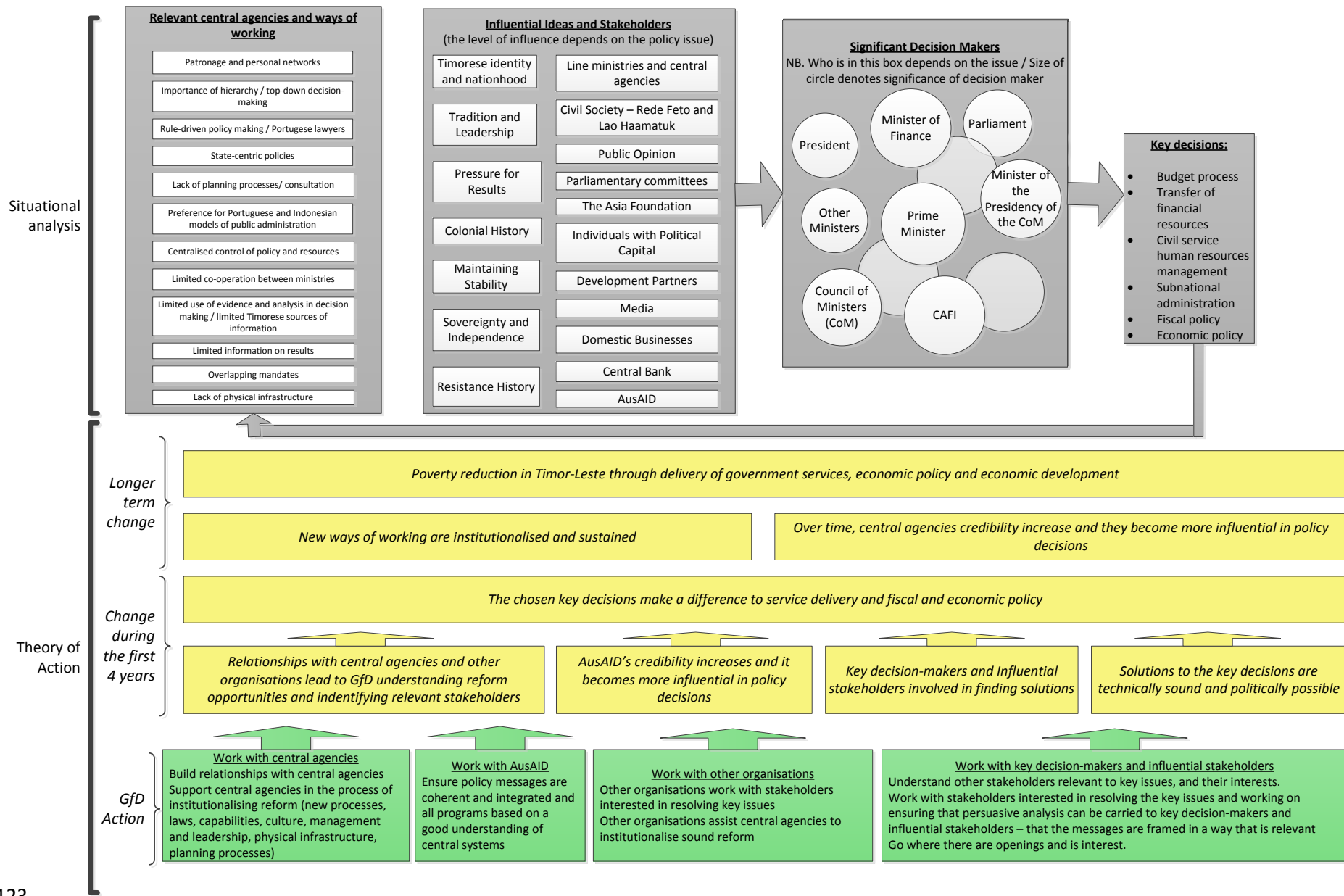## The GfD Program will work with the whole policy making process

- GfD starts with identifying the significant decision-makers and influential stakeholders relevant to its end of program outcomes.

- It works on finding approaches to addressing the end of program outcomes with significant decision-makers and influential stakeholders. It does this by through working with and bringing together stakeholders with an interest in the end of program outcomes, and by working to carry persuasive information and analysis to Timorese stakeholders.

- It also works with the whole policy implementation process by working with central agencies, and supporting collaborations with other organisations, to implement "technically appropriate, politically possible reform". This includes understanding how central agencies operate (eg. the importance of relationships and legal mandate). It also involves building on opportunities to minimise the negative aspects of the informal institutional rules – for example ensuring that legal assistance does not inadvertently contribute to the problems of overlapping mandates.

- Over time, by working with a number of stakeholders, and by working with central agencies to institutionalise ways of working that are technically appropriate (ie. achieve the end of program outcomes) and politically possible, these reforms will be sustained. In the longer term, it is theorised, the ability of central agencies to contribute to service delivery and fiscal management will build their credibility to influence policy processes as well as implement them.

- GfD and AusAID's service delivery programs will explicitly seek to broker increased interactions and flows of information between central agencies and Line Ministries so that respective interests and incentives are well understood and a more collaborative approach to problem resolution is established. Over time, it is expected that this will lead to an enhanced service delivery orientation in the overall service delivery system.ding AusAID credibility

- The GfD Program also works on increasing its own credibility, and AusAID's credibility, as a development partner. It does this through ensuring its policy messages are coherent, all AusAID programs understand and work with central systems, and through its relationships with Timorese stakeholders.

Rigorous monitoring towards outcomes

- The GfD Program is not prescriptive about the route to reform, as long as it is "politically possible and technically appropriate". This is flexibility with a purpose – it will monitor and track progress towards the end of program outcomes as it goes along to ensure the program is on track.

The Theory of Change of the GfD program is depicted in the diagram on the following page.

Figure 1. Theory of action for the GfD Program

Situational analysis

Relevant central agencies and ways of working

- Patronage and personal networks
- Importance of hierarchy / top-down decision-making
- Rule-driven policy making / Portugese lawyers
- State-centric policies
- Lack of planning processes/ consultation
- Preference for Portuguese and Indonesian models of public administration
- Centralised control of policy and resources
- Limited co-operation between ministries
- Limited use of evidence and analysis in decision making / limited Timorese sources of information
- Limited information on results
- Overlapping mandates
- Lack of physical infrastructure

Influential Ideas and Stakeholders
(the level of influence depends on the policy issue)

- Timorese identity and nationhood
- Tradition and Leadership
- Pressure for Results
- Colonial History
- Maintaining Stability
- Sovereignty and Independence
- Resistance History

- Line ministries and central agencies
- Civil Society – Rede Feto and Lao Haamatuk
- Public Opinion
- Parliamentary committees
- The Asia Foundation
- Individuals with Political Capital
- Development Partners
- Media
- Domestic Businesses
- Central Bank
- AusAID

Significant Decision Makers
NB. Who is in this box depends on the issue / Size of circle denotes significance of decision maker

- President
- Minister of Finance
- Parliament
- Other Ministers
- Prime Minister
- Minister of the Presidency of the CoM
- Council of Ministers (CoM)
- CAFI

Key decisions:
- Budget process
- Transfer of financial resources
- Civil service human resources management
- Subnational administration
- Fiscal policy
- Economic policy

Theory of Action

Longer term change

Poverty reduction in Timor-Leste through delivery of government services, economic policy and economic development

New ways of working are institutionalised and sustained

Over time, central agencies credibility increase and they become more influential in policy decisions

Change during the first 4 years

The chosen key decisions make a difference to service delivery and fiscal and economic policy

Relationships with central agencies and other organisations lead to GfD understanding reform opportunities and indentifying relevant stakeholders

AusAID's credibility increases and it becomes more influential in policy decisions

Key decision-makers and Influential stakeholders involved in finding solutions

Solutions to the key decisions are technically sound and politically possible

GfD Action

Work with central agencies
Build relationships with central agencies
Support central agencies in the process of institutionalising reform (new processes, laws, capabilities, culture, management and leadership, physical infrastructure, planning processes)

Work with AusAID
Ensure policy messages are coherent and integrated and all programs based on a good understanding of central systems

Work with other organisations
Other organisations work with stakeholders interested in resolving key issues
Other organisations assist central agencies to institutionalise sound reform

Work with key decision-makers and influential stakeholders
Understand other stakeholders relevant to key issues, and their interests.
Work with stakeholders interested in resolving the key issues and working on ensuring that persuasive analysis can be carried to key decision-makers and influential stakeholders – that the messages are framed in a way that is relevant
Go where there are openings and is interest.

123

Annex M: Monitoring and Evaluation Approach

Purpose and approach

GfD is unlikely to have a direct impact, of itself, on the overall program goal of reducing poverty. It will only do this through the combined efforts of GfD and AusAID's broader country program, which has heavy emphasis on reducing poverty by improving services. With this in mind, it will be necessary to continuously measure the program's success and evaluate whether efforts under GfD maintain a 'line of sight' through Line Ministries (and AusAID's support to them), to improved services. This whole of program contribution will be monitored through the Timor-Leste country level Performance Assessment Framework which is currently under development.

The monitoring and evaluation (M&E) for the Timor-Leste GfD program serves two primary purposes. The M&E needs to provide robust assessment of progress, particularly for external stakeholders. It also needs to provide information for program management; enabling the program to adapt and learn, test the many assumptions upon which the program has been developed, and improve over time.

GfD has many component parts to achieve its desired end of program outcomes. Those component parts include activities and partnerships with government and non-government stakeholders, together with other relationships and engagement with government and non-government entities. In some situations these activities and partnerships contribute directly to end of the program outcomes. In other situations they contribute indirectly through contribution to the intermediate outcome of the program and/or through enhancing the legitimacy and effective working relationships of AusAID itself. GfD also works in cooperation with other sectoral AusAID programs in Timor-Leste. The modality is therefore a mixture of projects, program and facility, guided by a 'learning by doing' or 'action reflection' implementation approach. This mitigates against a simple approach to M&E and requires different M&E processes across the program.

The program rationale or Theory of Action suggests that working across this range of activities, partnerships and stakeholder engagements, together with the specified program team skills and other specialised resources, will be the most effective wayto achieve the desired outcomes. The rationale further asserts that achieving that range of outcomes together with those types of relationships and engagements, will make a substantial contribution towards improved Government of Timor-Leste service delivery and fiscal and economic policy implementation. In line with AusAID intentions, the program rationale explains how these improvements are expected to contribute to poverty alleviation in the country. These are significant assumptions upon which the program has been established and suggest that the approach to M&E needs to be a mixture of monitoring and formative evaluation. That is, both checking progress and checking assumptions during program implementation.

M&E Focus

The focus of the M&E therefore is multilevel. Rather than develop one M&E process that can assess all these areas in the same way, it is proposed that the GfD M&E be conceptualised as five interrelated processes, each with a different focus. These include monitoring and evaluation that focuses on:

1. GfD activities
2. Progress towards the end of program outcomes
3. AusAID capability
4. Quality of relationships

5. Changes in the context as relevant to GfD

The following sections provide detail around each of these areas. Following this attention will be given to how information will be analysed and reported and what roles and responsibilities will be assigned for monitoring and evaluation within the GfD team.

GfD activities

GfD will include a range of work areas. There needs to be good quality activity monitoring for each of these work areas, that identifies both the outputs or outcomes at the activity level, along with monitoring that identifies how each activity *contributes* to the desired end of program outcomes of GfD. The assumptions made about why these work areas were originally undertaken will also need to be regularly tested to provide information for program management about the ongoing value of each area.

Work with central agencies

The work with Timor-Leste' central agencies will focus around agreed programs of work. The work plans developed for these will include attention to agreed outputs and outcomes. These specific outputs and outcomes will be monitored and reported through the resources made available for the work plans (that is the M&E needs to be part of the agreed work plan and resources and responsibilities assigned to undertake this). This information will be reported to GfD and the Government of Timor-Leste on an agreed regular basis. Some of this information will be utilised directly as part of monitoring GfD end of program outcomes.

In addition it is noted that these work programs will focus on the *core capacity work* of the central agency, *joint work* that is directly relevant to the outcomes of GfD, or some combination of both. It is a requirement in preparation of the work plan with the central agency to establish the rationale for this focus, with a clear statement or description of what will be achieved and how this will contribute directly to the outcomes of GfD. Therefore, in order to contribute to program management, there will be additional monitoring by GfD to specifically examine how each work area is contributing directly or indirectly to GfD end of program outcomes and the degree to which this matches the assumptions under the rationale. This will be managed by the GfD M&E Adviser, utilising the information available from various sources as outlined below.

Work with other stakeholders (Australian government departments, other development partners and civil society)

Similar to the above arrangement, agreements will be entered into with other stakeholders to undertake work that supports the GfD outcomes. These will include partnership arrangements as well as other forms of contractual agreements. As part of those formal agreements, a monitoring and evaluation plan will be established to ensure regular and comprehensive information is made available about activities undertaken, outputs and outcomes achieved. As above the work plan is expected to assign resources and responsibilities for this monitoring. This information will be regularly reported to GfD as part of the agreement. Some of this information will be utilised directly as part of monitoring GfD end of program outcomes.

Work undertaken with these other stakeholders will serve a number of purposes in the GfD program. In some situations this will include direct contribution to the end of the program outcomes. In others, the work will make a more indirect contribution. It will be important that all agreements are accompanied by a clear statement of the rationale and assumptions about the agreed work and relationship with that agency and how this is intended to contribute to GfD end of program outcomes. There will be additional monitoring by GfD, managed by the M&E Adviser, to assess this contribution. In this way, attention will also be given to exploration of how well the original rationale or assumptions are still valid.

Headline Results and Reporting Against the Comprehensive Aid Policy Framework

The Comprehensive Aid Policy Framework (CAPF) sets out 30 'headline results' which the Australian aid program has committed to deliver between 2012-13 and 2015-16. The headline results were approved by Cabinet and are to be reported each year through the Annual Review of Aid Effectiveness (ARAE). Reporting against headline results will be central to demonstrating Australia's contribution to development in a way that can be aggregated across programs and inform reporting on agency effectiveness. The headline results relevant to Governance for Development fall under two of the CAPF's five strategic goals: sustainable economic development and effective governance. The headline results relevant to Governance for Development are:

- Number (x) of poor women and men with increased incomes (sustainable economic development);

- Number (x) of countries supported to improve public financial management (effective governance);

- Number (x) of public servants trained (effective governance)

- Number (x) of civil society organisations supported to track service provision (effective governance)

Results against these indicators will be captured through activity level monitoring and evaluation and aggregated at the program level in order to contribute to broader country program reporting against the headline results. Progress towards end of program outcomes

There are six end of program outcomes identified for the GfD program, together with the key intermediate outcome, which the program theory of action proposes will need to be achieved in order to achieve a significant contribution to the overall program goal. Progress and assumptions around the six end of program outcomes, together with progress and testing of assumptions around the intermediate outcome are major area of monitoring and evaluation which needs to be comprehensively covered through the GfD M&E.

Outcomes

GfD needs to both demonstrate and understand its progress towards its identified end of the program outcomes. While these outcomes will not be fully achieved until the end of the first phase of the program, it is important that the program is accountable for the work it is undertaking, and is therefore able to demonstrate that it is making sufficient progress towards those end of program outcomes. Towards this end, a series of indicators have been developed drawing from the expected change process for each outcome area.

Assumptions

In addition, it is recognised that progress towards each outcome areas needs to be managed in a flexible and responsive way, changing approaches and resources as required to achieve the outcome. This information is very important for program management because it enables GfD to adjust to situations, taking up new opportunities and changing strategies as necessary. Alongside indicators of progress therefore, there needs to be questioning of the internal assumptions about how these outcomes will be achieved. This regular testing of assumptions provides for new information and challenges to existing strategies for change. This can be achieved by regular application of key evaluative questions to each outcome area.

The indicators and evaluative questions for each outcome area are summarised in the table at Annex O.

It will be the responsibility of each program team to monitor and report on its progress towards those outcomes for which is has prime responsibility. That is they will be required to gather evidence to assess progress against indicators and to address the evaluative questions. They will be supported in this work by the GfD M&E Adviser, but are expected to utilise the range of information and data sources outlined below, as well as others made available

through their work, to be able to confidently explain their evidence based assessment of progress. This will be part of the reporting required in preparation for the six month review and redesign meetings as explained below.

AusAID capability

A central aspect of the rationale of GfD is that AusAID itself needs to develop additional capabilities in order to be more effective in the Timor-Leste context. This includes AusAID increasing its understanding of central government systems and AusAID having more integrated policy positions which it can utilise in its engagement with the Timorese government.

These changes are captured in two additional end of program outcomes. As outlined, above it is appropriate to identify indicators of progress towards these outcomes in order to hold AusAID accountable for the required internal capacity development. It is also appropriate to identify evaluation questions that help address the assumptions underlying these outcomes.

These indicators and evaluation questions are outlined in the table to be found at Annex O.

Responsibility for the assessment will rest with the AusAID Timor-Leste Performance and Quality team. In cooperation with the GfD M&E Adviser this team will utilise the evidence base from the data sources identified below to assess progress towards the indicators as well as gather information that answers the evaluation questions. They will make this information available to the AusAID GfD team during the six month review and redesign. They will also report the information to senior AusAID Timor-Leste management.

Quality of Relationships

GfD will enter into a number of important relationships as it seeks to achieve its program outcomes. In addition, the AusAID program in Timor-Leste is looking to work with Government of Timor-Leste in a way that sees AusAID positioned as a trusted and effective development partner.

Relationships are very important to achieving GfD outcomes and the views and the perceptions of partners are about the quality and utility of these relationships is therefore an important area to monitor. Towards this end, additional attention will be given to monitoring, in a confidential way, the views of significant Government and non-government partners. Drawing upon the model developed in the AusAID program in the Solomon Islands (in its assessment of its partnership relationship with the Government of Solomon Islands), GfD will develop a regular confidential process to receive feedback from key partners, including senior Government of Timor-Leste officials. This enquiry will focus on: the progress of GfD, the contribution of GfD towards Timor-Leste objectives and aspirations and the quality of the working relationship with AusAID.

This process will be managed by the GfD M&E Adviser. Information will be gathered every six months, collated in a way that precludes identification of individual respondents and utilised as part of the six month review and redesign process for GfD. A summary report will also be made available to AusAID senior management in Timor-Leste.

Change in the context as is relevant to GfD

As noted in the design document, Timor-Leste is a dynamic and rapidly changing context. The GfD program has undertaken extensive assessment of the context in developing its current strategy or theory of action. However as the context changes with new influences, new stakeholders, different sets of relationships and new risks and opportunities, GfD will need to reconsider its theory of action and how to best adapt to changing that context.

Information about change in the context which is relevant to GfD will come from multiple sources and may be well known to some parts of AusAID. However it will be important for program monitoring to systematically capture and

record significant changes in the context that are relevant to GfD. This will ensure that GfD program management has a process to address changes in context. It will also provide a record of explanation about changes to program approach and activity.

Regular assessment of significant changes in the context will be undertaken drawing upon multiple sources of information. This will include utilisation of the updated institutional and stake holder snapshots which were developed for the initial engagement approach during the development of GfD. The GfD M&E Adviser will manage this process. The summary of key changes will be made available to the six month review and redesign meeting.

Data collection and analysis

Data sources are currently being explored and further developed during the interim GfD program. At this stage it is possible to identify a range of existing and potential sources of data that could be utilised to provide evidence and information into each of the five M&E processes identified above. These data sources will likely serve more than one more than one of the M&E focus areas, contributing to some efficiency in the overall assessment approach. They include:

- Activity reports from the agreed work areas, especially where these reports include relevant outcomes data (e.g. Statistics)
- Core program staff reports (including both AusAID and contractor staff)
- Reports from technical Advisers including Advisers on retainer, in line technical Advisers and technical experts
- Interviews and confidential discussions with government ministers and key staff from central and line agencies
- Multi-lateral assessments (World Bank, IMF)
- Updated institutional and stakeholder snapshots prepared by program teams
- AusAID program sector reporting
- Government of Timor Leste policy and program information and reporting systems (for example, FMIS, budget data, quarterly statements on budget expenditure, government line agencies reporting and performance management systems)
- Independent interviews with key AusAID partners
- Independent interviews with other informed stakeholders including other development partners
- NGO reports and surveys
- Managing contractor reports
- Other sources as identified

Program teams will be responsible for identification of the data sources to be utilised for assessment of end of program outcomes. The GfD M&E Adviser will be responsible for assessing quality and reliability of data sources ensuring a suitable range of data is utilised for each performance area.

In addition a rolling program of the targeted research will be undertaken. This research will be focused upon:

- Areas that have been identified as potential new areas for GfD engagement
- Areas that have been identified as significant for learning for the program
- Areas where the current processes and dynamics are unclear and where more enquiry is required
- Other areas as identified by GfD

The analysis of these wide-ranging sets of information is important. The information collected will need to be collated against each of the five focus areas. That is information around each area will need to be extracted from the particular data sources and bought together under each topic.

Following this collation process, information will be initially analysed to present a concise picture of what is known about the area to date including emerging issues, risks, and achievements. This information will then be made available to the six monthly review and redesign process which is a key component of the GfD management approach.

Review and Redesign Process

Given that the work of the GfD Program will evolve in response to the changing environment and different opportunities in Timor-Leste, it will use a six-monthly process of review and redesign to ensure that it is responding effectively to the changing context.

This is a whole of program process, where it considers relevance and utility of work areas, progress towards end of program outcomes, quality and impact of relationships, changes and development in AusAID and its ability to work within the Timor-Leste context and finally changes in that context itself. It will be an opportunity for the program to consider in what way it needs to adjust its strategy to remain relevant to the context and on track to achieve end of program outcomes. It is the time for different teams in GfD to step out of the detail of work areas and consider the whole reform environment.

The review and redesign process:

- Will involve the whole core team of the GfD Program and the Canberra-based Program Enabling Team,

- Will usually consist of a two day workshop,

- Will draw heavily on monitoring and evaluation information made available through the processes outlined above

- Will be attended by at least two people from the Technical Panel

- Will require preparation from each of the sub-teams,

- Will occur at appropriate points in the Timor-Leste Government and this Program's annual cycle

Reporting

Following whole of program analysis, through the six monthly review and redesign process, a whole of GfD program report will be produced that identifies program progress and challenges, summarises the overall analysis of that progress and challenges to date and outlines any agreed changes to program focus or direction.

This report will be provided to AusAID senior management. It will also serve as the basis for AusAID internal reporting systems including Quality at Entry and Annual Program Performance Reports.

The report will be produced one month after the review and redesign meeting by the GfD M&E Adviser.

Program Communication

In addition to this formal program report, ongoing communications will be required from GfD, both internally to different audiences in AusAID, as well as externally to audiences within Timor-Leste and possibly beyond. This is an important task and these communications will draw upon both the formal report and other information such as case

129

studies, specific activity reports and interviews with key stakeholders to maintain a proactive communication approach that ensures effective communication between all stakeholders in the program. A communications strategy will be developed and managed by a dedicated communications officer located within the policy and program coordination team in GfD.

Roles and responsibilities

The core staff of GfD will include a full-time monitoring and evaluation Adviser. In addition to this person other core staff and Advisers will have monitoring and evaluation responsibilities. These are outlined in the following table.

Monitoring and evaluation task	Primary responsibility
Activity monitoring	Government of Timor-Leste departments and other stakeholders together with relevant GfD work teams. M&E Adviser
Collection of information about progress towards end of program outcomes	GfD work teams M&E Adviser
Collection of information about changes in AusAID	AusAID Timor-Leste Performance And Quality Team
Collection of information around quality of relationships	GfD Operations Team M&E Adviser
Contextual analysis	GfD Operations Team M&E Adviser
Research	Contracted technical experts M&E Adviser
Collation of evidence and information for the six month review and redesign meeting	GfD work teams M&E Adviser AusAID Performance and Quality Team GfD Operations Team
Six month review and redesign meeting	GfD senior staff team
Production of six month program report	M&E Adviser
Completion of the program QAI	AusAID Timor-Leste Program Enabling Team
Program communication	GfD Policy and Program Coordination Team

Evaluation

While it is proposed that evaluative questions are applied throughout the life of GfD, a whole of program evaluation will be undertaken at the end of year three of the program in preparation for any major program redesign or readjustment prior to entering the second phase of the program.

This whole of program evaluation will focus in particular upon major program assumptions, looking to see the way in which the whole strategy and approach of GfD is coming together to make a significant contribution to the program goal.

Contractor Performance Assessment

Performance assessments of the Contractor will be carried out by an independent contracted consultant, under the supervision of the Canberra Governance Director. The applicable policy is the Contractor and Adviser Performance Assessments – Guideline April 2012. This is to address one of the potential draw-backs of a joint team structure, which is that AusAID may not have the necessary independent perspective to appraise its immediate co-workers. Managing it from Canberra gives the assessment its necessary independence and objectivity.

GfD Progress towards End of Program Outcomes: Indicators and Evaluative Questions

Pillar One: Fiscal and Economic Policy					
Outcomes sought	After 12 months, what will be the indicators that GfD is on track to achieve these outcomes?	After 24 months	After 36 months	After 48 months	At end of program what will be the indicators that GfD has achieved the desired outcomes?
The government has a fiscal framework that supports sustainable government finances, economic growth and meets social needs. The government makes decisions about economic policy that supports sustainable economic development and poverty reduction	Analysis is in place about key fiscal and economic policies. Analytical gaps in the economic and social space have been identified	Government ministries are seeking to work with AusAID, and others, on developing analysis of economic policy	There is capacity in relevant Government ministries to utilise policy analysis and advice. Those same ministries now have the capacity to communicate policy analysis and advice into the political systems. GoTL is consulting widely on economic policy advice and analysis	Agencies supported by AusAID can identify the influence they now have around economic analysis and advice utilised by the GoTL decision makers. Independent and high quality analysis is reflected in government economic decision making	GoTL has a budget framework that supports sustainable government finances and poverty reduction for men, women and PWD Economic policy decisions are being made within a framework that encourages sustainable economic growth and poverty reduction for men, women and PWD
	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point (in preparation for the next phase)

132

	Is the analysis still relevant to emerging government economic initiatives? *What does the analysis suggest about focus areas and strategies for change?*	*Is AusAID working in timely and responsive ways that remain relevant to economic reform and policy development?*	*Is the Government using the advice being provided?* *Who within the government is listening to and communicating the analysis and advice?* *What contrary advice is being offered, by whom and why impact is this having?*	*Are changes in government economic decision making being reflected in new policies and changed implementation?*	*Is implementation of the new framework contributing to poverty reduction for men, women and PWD?* *Is better economic policy supporting increased attention to poor men, women and PWD?* *Is the economic policy framework able to be sustained within ET social and political environment?*
Pillar Two: Service Delivery					
Outcomes sought	*After 12 months, what will be the indicators that GfD is on track to achieve these outcomes?*	*After 24 months*	*After 36 months*	*After 48 months*	*At end of program what will be the indicators that GfD has achieved the desired outcomes?*
Central agencies have a budget process that supports improved access to and quality of basic health, education, water and sanitation services.	*GfD has a thorough analysis of the systemic barriers to effective service delivery.* *GfD understands the intention of key stakeholders for systems of*	*At least one activity in each of the areas of budget, delegated financial management, procurement and HR that is likely to lead to improved efficiencies and effectiveness of*	*Line Ministries are advocating for systemic change utilising evidence from ongoing research activities.* *Central agencies begin to do analysis of quality of*	*Line Ministries are able to enter confidently and independently into the budget process with MoF.* *Line Ministries have greater credibility with MoF Re:*	*MOF has the skills, systems and motivation to work with line agencies towards more effective service delivery.* *Ministry of State Administration has*

Central agencies systems support the timely and reliable transfer of financial resources to service delivery units. *Ministry of State Administration sub national systems support service delivery.* *Central agency HR systems enable service delivery.*	*subnational administration.* *Relevant Line Ministries and central agencies have met together to undertake initial discussions around bottlenecks and barriers to effective service delivery*	*those systems, is underway.* *Regular linkages and discussions are taking place focused on barriers to effective service delivery, between relevant Line Ministries and central agencies.*	*spending.* *Strong leadership and management capability is evident in agencies and senior staff can drive policy agenda.* *.*	*budget proposals and execution.* *Central agencies use their analysis on quality of spending to influence and improve the appropriateness of budget allocation, execution and resource allocation, and interactions with Line Ministries.* *Policies/new reforms are institutionalised* *Central agencies are working to develop policy to consolidate and sustain system changes*	*the skills, systems and motivation to assist in the coordination of Line Ministry services at a subnational level.* *School and health centres receive more timely and more reliable transfers of funds than previously* *Procurement processes ensure Line Ministries have equipment and services on time and to the standard required.* *Line Ministries are able to use central government systems to more efficiently recruit and performance manage their staff.*
	What evaluative questions would be important to ask at this point	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point (in preparation for the next phase)*
	What are the barriers to central	*How comprehensive are*	*Will the changes sought lead to*	*How have improved budget processes*	*Are men, women and PWD receiving*

	agencies engaging more with Line Ministries on policy, spending and bottleneck issues? And, vice versa (i.e., Line Ministries engaging up)? *Why are these barriers in place?* *What else needs to change beyond these areas for services to be effectively delivered?*	*these activities in terms of more effective service delivery?* *Are these activities changing the way decisions are made?*	*service delivery improvement?* *How is the analysis of quality of spending impacting upon decision-making about spending?*	*and/or improved spending analysis contributed to changes in service delivery for men, women and PWD?* *Are Line Ministries and central ministries able to identify and work together other barriers to service delivery?*	*better services? Who has contributed to the changes?* *What were the most important influences?* *What limitations to effective service delivery for men, women and PWD remain and why?*
Intermediate outcome	*After 12 months, what will be the indicators that GfD is on track to achieve these outcomes?*	*After 24 months*	*After 36 months*	*After 48 months*	*At the end of phase 1 of the program*
Government and non-government stakeholders contribute to politically possible and technically sound solutions to issues relevant to Pillar One or Pillar Two.	*Key partners demonstrate their interest in engaging in policy debate and influence.*	*Key partners have increased capacity to undertake and communicate analysis and research on ET policy issues*	*There are an increased number of informed voices contributing publically to the debate on economic policy and direction and/ or service delivery.* *GoTL counterparts have a stronger understanding of*	*There are a diverse range of informed voices contributing publicly to the debate on economic policy and direction and/or service delivery.*	*There are a diverse range of informed voices contributing publicly to the debate on economic policy and direction and/or service delivery*

			the approach that AusAID takes to its support.		
	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point	What evaluative questions would be important to ask at this point (in preparation for the next phase)
	Are these the right partners? What skills and capacities do they need to be effective agents of influence in policy debates?	What is the reach of this communication? Are agencies and Line Ministries using this information and analysis to inform policy? In what way is AusAID support for these partners influencing the reputation and legitimacy of AusAID as a development partner in Timor-Leste?	Is the GoTL willing to listen to new voices? What else needs to change for government to be willing to respond to informed voices?	Are these public debates influencing policy development?	Are these public debates influencing policy development to a degree which is contributing to changed economic policy and direction and/or changed approaches to service delivery? Are the public debates focused on the needs and experiences of poor men, women and PWD?
Pillar Three: Changes in AusAID					
Outcomes sought	After 12 months, what will be the indicators that GfD is on track to achieve these outcomes?	After 24 months	After 36 months	After 48 months	At end of program what will be the indicators that GfD has achieved the desired outcomes?

136

AusAID understands central government systems as they relate to service delivery and uses that knowledge in its programs. *AusAID has integrated policy positions on the budget, civil service systems, statistics, public financial management and uses this policy positions in its engagement with the Timorese government.*	*Inconsistences in policy positions between AusAID program are identified* *AusAID sectoral programs have a basic understanding of central ministries' administrative systems, processes and procedures relevant to their program.* *AusAID has a budget strategy and a comprehensive analysis of government expenditure.* *AusAID program PFM resources are linked up between sectoral teams and GfD* *.*	*AusAID understands the operating environment (post-conflict/fragile state) and invests in regular analysis of the political economy* *AusAID has used the budget strategy to engage with the GoTL in a consistent and coherent manner.* *AusAID sectoral programs understand government expenditure and use this knowledge to engage more effectively than previously with counterparts.* *AusAID sectoral programs have a detailed understanding of central ministries' administrative systems, processes and procedures relevant to their program.*	*There are coherent policy positions across the AusAID program in relation to budget, civil service systems, statistics, and public financial management.* *AusAID program analytical efforts are coordinated across the program to maximise their joint utility and impact for programming choices.*	*Regular program review and redesign indicates sustainability of existing assistance.*	*Programs of health, education and water and sanitation confidently and persuasively interacting with central government agencies in the areas of budget negotiation, procurement, and human resource management.* *AusAID is considered a reliable, responsive development partner* *The AusAID program is considered by government and non-government stakeholders to be relevant to the Timor-Leste context.*

	What evaluative questions would be important to ask at this point	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point*	*What evaluative questions would be important to ask at this point (in preparation for the next phase)*
	What have been the major reasons for inconsistency in policy positions between AusAID programs to date? *What else needs to change to enable AusAID to have more consistent an integrated program in Timor-Leste?*	*What further staff capacities and development or changes in AusAID systems need to be undertaken to contribute to integration and consistency across program areas?*	*What impact are these policy positions having on the way AusAID engages with GoTL?* *What are the implications for the working relationship?* *In what way are these integrated positions contributing to improved program outcomes?*	*What have been the major changes in the AusAID program that have contributed to more integrated and cohesive work?* *In what way are these changes contributing to increased and more effective program outcomes?*	*What further changes are required in the way AusAID works in Timor-Leste to improve its contribution to poverty alleviation for men, women and PWD in the country?*

138

Annex N: Risk matrix

Risk (what will prevent you chieving the objective/s?)	Existing Controls (what's currently in place?)	Risk rating with existing controls in place			Is risk rating acceptable? Y/N	Proposed Treatments (If no further treatment required or available, please explain why)	Person Responsible for Implementing Treatment/s	Implementation Date for Proposed Treatment/s	Target rating when Treatments are in place		Proposed
		Consequence (refer to matrix)	Likelihood (refer to matrix)	Risk Rating (refer to matrix)					Consequence (refer to matrix)	Likelihood (refer to matrix)	Risk Rating (refer to matrix)
The government of Timor-Leste undergoes changes diverting it from its commitment to poverty alleviation through the SDP	This risk is outside AusAID control	Major	Unlikely	Moderate	Yes						
Timor-Leste undergoes civil unrest which diverts both government and other stakeholders from a focus on poverty alleviation	This risk is outside AusAID control	Moderate	Possible	High	Yes						
Solutions to key service delivery and economic challenges that address the needs of the poor in Timor-Leste are not able to be developed with current government resources and capabilities.	the GFD program is focused upon development of solutions that are appropriate within the Timor-Leste context	Major	Possible	High	Yes						
There are changes in the significant decision-makers in Timor-Leste and GfD is not positioned to engage with these changes	GfD is designed to regularly update its understanding of context and key decision makers and be	Major	Unlikely	Moderate	Yes						

	able to respond to changes in that context.									
Influential ideas and actors in Timor-Leste that are contrary to GfD approach, continue to exert policy influence on the government of Timor-Leste	The program will continue to monitor other influences on the governme nt of Timor-Leste in to understan d different policy and program influences	Major	Possible	High	Yes					
Central agencies ways of working continue to limit opportunity for structural or organisational change.	GfD is positione d to work in flexible ways with central agencies to support their capacity and organisati onal developm ent as required	Major	Possible	High	Yes					
Key decisions made by the government of Timor-Leste related to either service delivery or budget and fiscal policy are made without reference to the relevant central agencies where GfD has sought to build capacity and policy ability	GfD will work with a range of partners and influential actors, beyond central agencies and Line Ministries , in order	Major	Unlikely	Moderate	Yes					

	to influence governme nt policy and decision- making									
AusAID is unable to form effective relationships and partnerships with sufficient influential stakeholders	*GfD will prioritise developm ent of relationsh ips and partnersh ips as part of the program strategy. These partnersh ips and relationsh ips will be assessed regularly according to their expected utility for the program*	*Major*	*Unlikely*	*Moderate*	*Yes*					
AusAID is unable to maintain effective relationships and partnerships with sufficient influential stakeholders due to staff churn associated with the AusAID posting cycle	*GfD will prioritise developm ent of relationsh ips and partnersh ips as part of the program strategy, with a particular emphasis on recruiting effective O-based staff (not subject to posting*	*Major*	*Unlikely*	*Moderate*	*Yes*					

	cycle) to primarily carry relationships with Timorese stakeholders.										
AusAID is unable to maintain the full range of relationships with central agencies which would allow it to respond in a timely way to new policies and government structures such as decentralisation or establishment of new government agencies	GfD will prioritise development of relationships with central agencies as part of the program strategy. Regular monitoring should allow for identification of gaps and any requirements to change priorities in relationships.	Major	Possible	High	Yes						
AusAID maintains good working relationship with central agencies but is unable to influence them to focus on service delivery	GfD will utilise a range of strategies to encourage a focus on effective service delivery. Regular monitoring will provide information about progress in this	Major	Possible	High	Yes						

area											
Central agencies choose to focus on service delivery but other issues such as corruption, lack of capacity or insufficient resources limit their ability to operate in different ways	*GfD. will maintain updated assessments of central agencies and their ability to take up and maintain new ways of operating*	*Major*	*Likely*	*High*	*No*	*Senior management may need to take up additional issues with government of Timor-Leste in partnership and other high level discussions*	*Senior AusAID management in Timor-Leste*	*As required*	*Major*	*Possible*	*High*
Because of a close relationship with central agencies there is a perception that AusAID is meddling or interfering with government of Timor-Leste policy decisions therefore negatively impacting upon both AusAID's relationship in Timor-Leste and the effectiveness of the particular central agency	*GfD will work on solutions that have strong Timor-Leste' ownership and where there are Timor-Leste champions to lead and direct the solution*	*Moderate*	*Unlikely*	*Moderate*	*Yes*						
The political economy and practicability of Timor-Leste ministries means that central and line agencies are unable to work together for solutions	*GfD and other AusAID programs will work together to find ways for mutually acceptable solutions to be developed together with line*	*Major*	*Possible*	*High*	*Yes*						

	and central ministries								
Despite developing effective relationships and/or providing sound technical advice, AusAID fails to influence government decision-making	*AusAID will seek to work with a range of stakehold ers and partners to influence governme nt decision-making. Regular monitorin g will check on progress.*	*Severe*	*Possible*	*High*	*Yes*				
The information that AusAID brings forward is considered unpalatable to the government and therefore AusAID influence is minimised	*AusAID will work with governme nt and non-governme nt stakehold ers to develop solutions and policy advice which is in line with governme nt of Timor-Leste policy and intentions*	*Severe*	*Unlikely*	*High*	*Yes*				

144

The information that AusAID brings forward is potentially destabilising for the current government of Timor-Leste	AusAID will work with government and non-government stakeholders to develop policy advice and solutions which is in line with government of Timor-Leste policy and intentions and which contributes to peaceful and sustained development for the country	Major	Unlikely	Moderate	Yes						
The information that AusAID brings forward around a fiscal framework is adopted only partly, leading to unsustainable solutions or spending.	The program will seek to provide integrated and holistic technical advice, drawing from the best available technical resources. It will attempt to ensure that information is provided	Major	Possible	High	No	??					

	in full in a way that is accessible to decision-makers.										
Information that AusAID brings forward around economic policy is adopted only partly, therefore limiting sustained economic development or failing to reduce poverty	*The program will seek to provide integrated and holistic technical advice, drawing from the best available technical resources. It will attempt to ensure that information is provided in full in a way that is accessible to decision-makers.*	*Major*	*Possible*	*High*	*No*	*??*					
The information put forward by AusAID leads to a fiscal or economic framework on Timor-Leste which is unable to be sustained	*The program will seek to provide technical advice which is relevant and applicable to the context of Timor-Leste*	*Major*	*Unlikely*	*Moderate*	*Yes*						

GfD is unable to maintain a balance between improving service delivery and giving attention to economic and fiscal policy.	*GfD Program management will be responsible for both areas of the program and will be required to demonstrate progress towards all end of program outcomes*	*Moderate*	*Possible*	*High*	*no*	*AusAID senior management will need to hold program management responsible for achieving end of program outcomes*	*Senior AusAID management in Timor-Leste*	*At the annual QAI and APPR processes*	*Moderate*	*Unlikely*	
The non-government stakeholders with which GfD partners or seeks to influence do not have the capacity to communicate either politically or technically the solutions developed by the program	*GfD will choose its partners and stakeholders it seeks to influence carefully based on ongoing and updated assessments of both their capacity and their ability to influence key decision makers*	*Major*	*Unlikely*	*Moderate*	*Yes*						

The AusAID program in Timor-Leste is unable to maintain a sufficient understanding of central agencies and line agency government systems, leading to partial and ineffective engagement with the systems.	*GfD will work to support overall AusAID understanding of government systems and ways of operating in cooperation with the Timor-Leste program enabling team*	*Major*	*Possible*	*High*	*No*	*AusAID senior management will need to hold the program enabling team responsible for adequate communication and capacity development of all relevant sections of the AusAID program in Timor-Leste*	*AusAID senior management in Timor-Leste*	*Ongoing*	*Major*	*Unlikely*	
AusAID is unable to develop integrated policy positions across all of the Timor-Leste program	*The AusAID Timor-Leste program enabling team will be responsible for supporting integrated policy development across the Timor-Leste program.*	*Major*	*Possible*	*High*	*No*	*AusAID senior management will need to hold GfD responsible for support to develop integrated policy positions across all of the Timor-Leste program*	*AusAID senior management in Timor-Leste*	*Ongoing*	*Major*	*Unlikely*	*Moderate*
AusAID has policy positions but lacks capacity and experience to utilise these positions effectively in its engagement with the Timorese government	*AusAID senior management in Timor-Leste will be responsible for ensuring staff have relevant capacity and experienc*	*Major*	*Possible*	*High*	*No*	*AusAID senior management will need to assess staffing and other requirements and ensure resources are available to meet these requirements*	*AusAID senior management in Timor-Leste*	*Ongoing*	*Major*	*Unlikely*	*Moderate*

	e to implemen t the program as designed										
Changes in AusAID management in Timor-Leste undermine support for GfD approach	*The program approach is clearly outlined in the design document which will be subject to formal AusAID appraisal and approval*	*Major*	*Possible*	*High*	*No*	*The program will seek to readily communicate its approach internally to AusAID senior management and other stakeholders in order to maintain support for the approach*	*Program management*	*Ongoing*	*Major*	*Possible*	
Change in AusAID in Canberra undermine support for GfD approach	*The program approach is clearly outlined in the design document which will be subject formal AusAID appraisal and approval*	*Major*	*Possible*	*High*	*No*	*The program will seek to readily communicate its approach internally to AusAID senior management and other stakeholders in order to maintain support for the approach*	*Program management*	*Ongoing*	*Major*	*Possible*	*High*
AusAID budget cuts undermine GfD approach	*the GfD program will form part of the Australia n governme nt commitm ents to developm ent support in Timor-*	*Major*	*Possible*	*High*	*No*	*This is beyond the control of the Timor-Leste program*					

	Leste										
AusAID focus on short-term results undermines GfD process of engagement and focus on sustained long-term change	*The program approach and long-term nature of its work is clearly reticulated in the design document which will be subject to AusAID formal approval and appraisal processes*	*Major*	*Possible*	*High*	*No*	*The program will seek to readily communicate its approach internally to AusAID senior management and other stakeholders in order to maintain support for the approach*	*Program management*	*Ongoing*	*Major*	*Unlikely*	*Moderate*
AusAID is unable to attract a managing contractor with sufficient skills and capacity to implement the GfD approach	*Selection of the managing contractor will be through AusAID normal tendering processes*	*Major*	*Unlikely*	*Moderate*	*Yes*						
GfD is unable to attract the right technical and other staff to implement the program as designed	*Emphasis will be given in the tendering process to a managing contractor who is able to undertake a wide ranging recruitment process*	*Major*	*Unlikely*	*Moderate*	*Yes*						

AusAID is unable to maintain a long-term commitment to GfD thereby limiting the sustained and effective outcomes of the program	*The program approach including its long-term nature is clearly explained in the design document which will be subject to AusAID approval and appraisal processes*	*Major*	*Possible*	*High*	*No*	*The program will seek to readily communicate its approach internally to AusAID senior management and other stakeholders in order to maintain support for the approach*	*Program management*	*Ongoing*	*Major*	*Unlikely*	*Moderate*