Roads for Development (R4D)

Phase 2 Investment Concept Note

|  |  |  |  |
| --- | --- | --- | --- |
| C:\Users\Matt Bond\Dropbox\Current\R4D\R4D pics\best\P1010812.JPG | C:\Users\Matt Bond\Dropbox\Current\R4D\R4D pics\best\P1010816.JPG | C:\Users\Matt Bond\Dropbox\Current\R4D\R4D pics\best\P1010834.JPG | C:\Users\Matt Bond\Dropbox\Current\R4D\R4D pics\best\P1010865.JPG |

Version 1.1

Final, 19 August 2015

**Contents**

[Abbreviations ii](#_Toc424633113)

[A. Investment summary 1](#_Toc424633114)

[B. Problem/issue definition and rationale for investment (Why?) 2](#_Toc424633115)

[C. Proposed outcomes and investment options (What?) 3](#_Toc424633116)

[D. Implementation/delivery approach (How and with whom?) 4](#_Toc424633117)

[E. Risk assessment approach (What might go wrong?) 6](#_Toc424633118)

[F. Proposed design and quality assurance process (What are the next steps?) 6](#_Toc424633119)

[Annex 1. Risk assessment tool 9](#_Toc424633120)

[Annex 2. Safeguards screening checklist 12](#_Toc424633121)

[Annex 3. Phase 1 program logic and M&E framework—critique 14](#_Toc424633122)

[Annex 4. Comparison of ILO and typical commercial contractor program delivery costs 16](#_Toc424633123)

[Annex 5. Issues to address in a second phase 19](#_Toc424633126)

[Annex 6. Stakeholders consulted 25](#_Toc424633136)

[Annex 7. ICM terms of reference 28](#_Toc424633137)

# Abbreviations

ADB Asian Development Bank

ADN Agencia de Desenvolvimento Nacional

AUD Australian Dollar

DFAT Department of Foreign Affairs and Trade (Government of Australia)

DRBFC Directorate of Roads, Bridges and Flood Control

ERA Enhancing Rural Access (EU project)

GoA Government of Australia

GoTL Government of Timor-Leste

ICM Investment Concept Mission

ICN Investment Concept Note

ILO International Labour Organization

IMG Independent Monitoring Group

M&E Monitoring and Evaluation

MoF Ministry of Finance

MPW Ministry of Public Works

MoU Memorandum of Understanding

PDID Integrated District Development Plan (Plano Dezenvolvimento Integrado Distrital)

PMU Project Management Unit

RE Regional Engineer

R4D Roads for Development Program

RRMP Rural Roads Master Plan and Investment Strategy

RRWG Rural Roads Working Group

SDP Strategic Development Plan

SEPFOPE Secretaria de Estado ba Formasaun Profisional no Empregu
 (Secretary of State for Vocational Training and Employment)

TA Technical Assistance

ToR Terms of Reference

# Investment summary

|  |  |
| --- | --- |
| **Investment concept title** | Roads for Development, Phase 2 |
| **Proposed start date and timeframe** | Jan 2017 to Dec 2020 |
| **Proposed funding allocation** | TBA |
| **Current program fund annual allocation** | AUD 6.5 p.a. |
| **Risk and value assessment result** | Low RiskLow Value |
| **Consultation** | IOB (International organisations, UN section), Pacific AEB (Peter Kelly), ILO, various donors, Government of Timor-Leste |
| **Proposed design pathway** | FAS/AS/HOM Review |
| **Draft AidWorks initiative number** | INK211 |

**Purpose.** This Investment Concept Note (ICN) responds to DFAT terms of reference (dated 12/5/15, Annex 7) regarding a potential second phase of the Roads for Development (R4D) program. The main purpose of the ICN is:

‘*to recommend whether a second phase of R4D should be designed…[and to make] recommendations on what, if any, modifications should be made to the program’s 2012 design document and current program model, should a second phase of the program be approved’*.

**Current program outline.** R4D strengthens development and management of a quality rural roads network in Timor-Leste using labour-based methods. It provides broad institutional support to the Ministry of Public Works, Transport and Communication (MPW) and builds the capacity of Government of Timor-Leste (GoTL) agencies and local private contractors to improve the rural road network. R4D is currently implemented by the United Nations’ International Labour Organization (ILO). The current, initial phase of activities runs from 2012 to February 2016. To date, R4D has let 83 contracts to local contractors worth $15.4m to rehabilitate and maintain 248km of rural roads.

In-principle agreement has been reached between ILO and DFAT for an extension of R4D to Dec 2016. An overview of the program design, including the intended outcomes and monitoring and evaluation (M&E) framework, is provided in Annex 3.

**Investment Concept Mission (ICM).** In-country activities for the ICM were undertaken between 22/6 and 2/7 by a three-person team: Matthew Bond (Team Leader), Charles Melhuish (Rural Road Specialist) and Darrell Hawkins (DFAT Rural Development Officer). Paul Crawford (M&E Specialist) provided desk-based inputs. A broad range of stakeholders were consulted during the in-country activities, which included site visits to Bobonaro and Aileu municipalities (refer to Annex 6).

# Problem/issue definition and rationale for investment (Why?)

**Problem definition.** The R4D Program Design Document (PDD) notes that road transport is the primary mode of transport in Timor-Leste and outlines the constraints on economic development and poverty alleviation caused by the poor rural road network.[[1]](#footnote-1) Poor roads increase barriers to service provision (for example health services) and increase the cost and time taken to transport goods to and from markets.[[2]](#footnote-2) When the PDD was prepared, there was no authoritative assessment of the extent and condition of the rural road network. The Rural Roads Master Plan and Investment Strategy (RRMP), prepared with R4D support, quantifies the extent of the problem. The rural road network extends to 4952 km, of which 1675 km are ‘core’ roads serving populations of 500 or more people. Of the core roads, only 13% are in good condition. Almost two thirds are in bad or poor condition and require rehabilitation. The RRMP data was used to calculate the World Bank’s Road Accessibility Index (RAI) for Timor-Leste. Compared with an average of 90% for East Asia and the Pacific, Timor-Leste’s RAI is just 49%. Establishing GoTL capacity to manage a targeted program of rehabilitation and regular maintenance of the rural road network remains an important precondition for other development in Timor-Leste.

**Rationale for continued Australian aid investment.** Rural roads remain a stated priority for GoTL. The Program of the VI Constitutional Government of Timor-Leste identifies rural road improvement and maintenance as an important area for investment and mentions R4D explicitly as the means for addressing this priority. Improving rural roads is part of the GoTL Strategic Development Plan and falls within one of four priority areas (basic infrastructure) announced by the GoTL Prime Minister for the 2016 budget.

Supporting quality rural road infrastructure also continues to align with the priorities of the Government of Australia (GoA) program for Timor-Leste. The draft GoA Aid Investment Plan (AIP) continues a commitment to rural development. It notes that investing in rural roads will contribute to the overall impact of the Australian aid program in Timor-Leste and underpin the achievement of other rural development activities such as the Market Development Facility, TOMAK (Farming for Prosperity) and BESIK. The AIP, covering the period 2015/16 to 2018/19, envisages a bilateral program of approximately AUD60m p.a. of which AUD15m p.a. would be directed to improving rural livelihoods including AUD5-6m p.a. for rural roads.

All stakeholders consulted during the ICM were supportive of GoA continuing to support rural road development. Despite this verbal support, GoTL engagement during the first phase of R4D—both with respect to financial contributions and strategic oversight—was much less than anticipated (or required for a successful second phase). This remains the significant risk to program. Offsetting this risk are: i) the high priority being placed on rural roads by GoTL political leaders, ii) the synergies that exist between rural roads and other GoA development programs, and iii) the platform established by the initial phase for long-term capacity development. On balance, the ICM supports a follow-on phase of GoA assistance in the rural road sector. The overarching condition is that adequate GoTL commitment can be secured to continuing the program.

# Proposed outcomes and investment options (What?)

**Outcomes.** The current R4D program demonstrates the outcomes that GoA could support in a follow-on phase. The program has three outcomes directed towards an overall objective:

**Objective:** The GoTL is effectively planning, budgeting and managing rural road works using labour-based methods, as appropriate

**Outcome 1:** MPW is effectively planning, budgeting and delivering rural road works, using labour-based methods as appropriate

**Outcome 2:** Local civil works contractors effectively implement investments in rural road works, using labour-based methods where appropriate

**Outcome 3:** Rural road development adequately resourced and planning and implementation of investments effectively coordinated between Government agencies and (donor) projects

These outcomes—that work together to strengthen GoTL’s capacity to sustain a quality rural road network—remain broadly relevant for continued GoA support. R4D progress reports, Independent Monitoring Group reports and the Mid-Term Review note a range of constraints which have prevented R4D from achieving all its targets in the initial phase (as discussed in Annex 5). In particular, challenges remain with securing GoTL leadership and budget for rural roads. Nevertheless, R4D reports affirm that where work has been completed, benefits accrue to rural communities. These benefits include both improved access to services arising from better roads and financial benefits through participation in construction activities.

R4D contracts for road rehabilitation and maintenance have directly benefitted 50 communities, with a total population of 131,318 (59,428 women and 58,757 men). Direct participation by beneficiaries in rehabilitation and maintenance works total 412,256 person-days (112,877 for women and 299,379 for men). Anecdotal reports, including during the ICM field visits, suggest that women in rural communities benefit strongly from better, lower-cost access to markets and services. A total of 47 women have also benefited training for company directors (27 women) and engineers/supervisors (20 women), representing 10% of overall trainees from local contractors. Women report having increased opportunity to operate businesses, contributing both to leadership and economic empowerment outcomes. R4D is currently completing a women’s impact study that will describe and quantify these benefits.

**Investment options.** The current R4D program reflects a number of appropriate choices about how to support the rural road sector. Firstly, the program works to build government capacity in the only GoTL department with a primary responsibility for roads—the Ministry of Public Works’ Directorate of Roads Bridges and Flood Control (DRBFC). It also aims to strengthen the way DRBFC engages with other ministries and government departments. Secondly, rather than seeking to build new roads, the program works to sustain and improve the existing rural road network. Given the poor condition of the current network, and the weak commitment to maintenance, the choice to focus instead on improving and maintaining existing, priority roads is appropriate. A conscious decision has been made to use local contractors for civil works and build their capacity to provide long-term support to the sector. Employment and income-generation for local communities have been maximised by adopting labour-based construction methods wherever possible. These elements of the current program provide a model for future GoA investment.

The ICM supports building on the overall approach of the current R4D program. The experience of the Australian aid program in other sectors, including agriculture (Seeds of Life) and rural water, sanitation and hygiene (BESIK), has been that 10-15 years of concerted effort is required to drive institutional change and for government to build its capacity to take on service delivery. Experience from the first phase, however, points to a number of refinements to the current approach that could plausibly foster more impact. These include:

* **Stronger government leadership.** To achieve its targets for road rehabilitation, the current R4D program has involved significant amounts of ‘capacity substitution’ where R4D program staff carry out design, contracting, training and supervision roles that in the medium term must be undertaken by GoTL. The MTR notes that, ‘*R4D is currently filling the role of a pseudo rural roads department within MPW*’, an observation shared by the ICM.[[3]](#footnote-3) A second phase must reflect greater institutionalisation of rural roads services delivery within DRBFC and a steady reduction in capacity substitution by R4D.
* **Planning within MPW.** R4D was delivered largely in the absence of GoTL policy or strategy for rural roads. The recently completed RRMP fills this gap. It offers the basis for coherent planning and budgeting for rural roads, at national and municipal levels. A second R4D phase should involve much stronger GoTL planning, using the RRMP as the basis (this assumes that the plan is endorsed by GoTL—refer discussion in Annex 5).
* **Municipal focus.** While R4D physical works have taken place in rural areas, much of the focus within government during the first phase has been on systems and capacity at a national level. There is opportunity in a second phase for greater focus at the municipal level. This will certainly involve capacity building for MPW municipal staff, but could also include better coordination and collaboration with municipal stakeholders outside MPW and a much greater involvement of Municipal Administrations in planning and advocacy.
* **National expertise.** Consideration should be given to increasing the use of national consultants within the program. MPW, particularly DRBFC, may be able to fill critical staffing gaps with contractors, some of whom may later be absorbed into the public service. R4D should also consider recruiting senior Timorese staff into its team.

# Implementation/delivery approach (How and with whom?)

**Delivery options.** Potential options for GoA support of rural road development include: budget support; direct investment in infrastructure; co-funding with another development partner; and a bilateral program. While analysis of these options was not explicitly documented in the original R4D Concept Note, it is clear that a bilateral program was selected as the most appropriate implementation approach.[[4]](#footnote-4) The context that led to that decision remains largely unchanged. Budget support is currently not feasible for GoA’s aid program in Timor-Leste, except within Ministry of Finance where some direct support is provided. In the absence of strong GoTL capacity to maintain the rural road network, direct investment in infrastructure will not be sustained and investment will be wasted. Consultations with other development agencies during the ICM (Annex 6) indicate that no other agencies have established rural road programs since R4D commenced.[[5]](#footnote-5) ADB is reportedly considering a rural roads project, commencing in 2017, which may open opportunities for collaboration or joint programming.[[6]](#footnote-6)

Given the foundation created by the existing R4D program, a second round of bilateral program support is recommended for a follow-on phase, but only if GoTL commits to providing adequate support (note Recommendation 1 at Section G). This would build on the considerable momentum that has been generated to date. Relationships have been established between the existing program and a wide range of staff within MPW, DRBFC and MPW’s Directorate of Corporate Services (DGCS). MPW staff at municipality level have been engaged in rehabilitation and maintenance work across 11 of Timor-Leste’s 13 municipalities. Systems for designing and contracting work packages have been developed and are being institutionalised in DRBFC and DGCS. Almost 100 local civil works contractors have been trained and contracted to carry out rural road works. Furthermore, of great importance, the RRMP has now been drafted and provides a basis for rational planning and resource allocation to rural road improvement. It is appropriate to build on this foundation and momentum. GoA and ILO, with GoTL support, have agreed in principle to extend the current program until December 2016. This will enable a second phase to follow on from existing activities without interruption.

One significant change to the delivery approach for a second phase is that GoA funding is likely to be directed only to technical assistance and capacity building of GoTL and local contractors. In the first phase, GoA funds were used for a mix of physical works and capacity building. Phase 1 experience demonstrated that the cost of rehabilitation works is three to four times that envisaged in the PDD. This revised cost, combined with the declining value of the Australian dollar, means that GoA funding for a second phase will not be sufficient to contribute meaningfully to physical works as well as meet the cost of TA. Consequently, it is recommended that within the overall program partnership, GoTL funds would be allocated to MPW operational costs and civil works for road rehabilitation and maintenance, and GoA funds would provide technical assistance and focus on capacity building.

**Outline feasible delivery options; consider GoTL obligation and commitments**

**Identify resource/capability implications**

***Q4. Who should the program delivery partner be? What are the factors that DFAT should consider when selecting a partner?***

**Delivery partner.** Selection of the delivery partner for a second phase of R4D could involve a new agreement with the current implementing agency (ILO) or open tender for a new managing contractor. ILO has expressed interest in delivering a follow-on phase of R4D. The principal advantages and disadvantages of continuing with ILO are summarised below:

|  |  |
| --- | --- |
| **Advantages** | **Disadvantages** |
| Opportunity to build on existing good relationships that the program has with government and other stakeholdersPotential for strong coordination with the EU ERA project, also being implemented by ILONo hand-over process required, minimising risk to program disruptionStrong international sectoral experience should contribute to approaches and program materials | ILO may follow a ‘business-as-usual’ approach and fail to adapt the program to the changing contextCurrent successful performance of ILO is heavily dependent on the existing project team, key members of which may need to be replaced prior to a second phase commencingWeak provision of corporate support services to the ILO team during the initial phaseSlow recruitment processes delay staff replacement  |

On balance, the ICM team considers that the advantages of continuing with ILO outweigh the potential disadvantages. A brief analysis of the financial costs of partnering with ILO compared to the use of commercial managing contractors by the Australian aid program (**Error! Reference source not found.**) suggests that on current exchange rates, the cost of using ILO would be slightly greater than using a commercial contractor. Considering the additional costs of preparing and managing a tender process, the resource constraints faced by DFAT, and the significant risk of losing existing relationships and context knowledge, the ICM recommends that DFAT consider negotiating a new contract with ILO for a second phase.

A delivery agreement with ILO would need to provide flexibility regarding the extent and composition of the technical advisory team. Whether R4D continues to work across the whole country or is scaled back to a limited number of municipalities will depend on how much funding is made available by GoA and GoTL.

# Risk assessment approach (What might go wrong?)

Experiences from the initial phase of R4D provide a practical basis for analysing the significant risks that need to be managed and the adequacy of the mitigation strategies previously proposed. DFAT’s risk assessment tool has been completed (**Error! Reference source not found.**). Principal risks identified during the ICM include:

* GoTL does not prioritise rural roads, reflected by low organisational commitment and insufficient allocation of funds to MPW for rehabilitation, maintenance and operations.
* Elections in Timor-Leste in 2017 result in a change in government priorities that shifts resources away from rural roads.
* Delayed payment of roads contractors caused by problems within the GoTL procurement system discourages private sector involvement.

As part of a design update process for a second phase, the ICM team suggest that a detailed review is completed of risks from the first phase—both envisaged and those that emerged—and the efficacy of the mitigation measures. This should form the basis of a tailored risk management strategy for the second phase. In particular, this should consider DFAT’s capacity to influence policy dialogue and secure senior GoTL commitment to the program. These were critical risk mitigation measures in the first phase that proved largely ineffectual.

Safeguard issues, including child protection and environmental protection, appear to be well handled in the current program. Of note, R4D is perhaps the only roads project that secures environmental licences for all its activities. The Safeguards Screening Checklist is attached as **Error! Reference source not found.**.

# Proposed design and quality assurance process (What are the next steps?)

**Design update.** As noted above, the existing R4D program remains relevant to the priorities and context in Timor-Leste and provides the basis for a second phase. Rather than a full re-design, the ICM team recommends that a design update is undertaken. The main shifts proposed for a second phase are described in Section C (and discussed further in Annex 5). Given that R4D is to be extended until December 2016, there is adequate time to complete the design update prior to a second phase commencing in 2017.

It is recommended that the existing ILO R4D team are engaged to revise the PDD, supported by independent GoA-appointed technical experts. To build stronger GoTL ownership of the next phase, GoTL stakeholders—particularly from MPW and DRBFC—must play a strong role in the design update process. This should include activities specifically designed to secure GoTL commitment to funding road works, and engaging meaningfully in capacity development investments.

Key steps in preparing for a second phase may include: i) a process of high-level engagement between the bilateral partners to reach agreement on the nature and extent of GoTL investment in a second phase (by December 2015); ii) meetings with EU to coordinate the design processes for R4D and ERA (timed to fit with the ERA design timetable); iii) a multi-stakeholder workshop to specify the key amendments to the original design informed by Phase 1 risks/challenges and achievements (by March 2016); iv) drafting and peer review of the design update document (including M&E plan) and amended scope of services (by June 2016); v) approval and finalisation of contracts (by September 2016); vi) mobilisation of the Phase 2 team (by October 2016). This timing is based on DFAT deciding to re-engage ILO as the implementing partner. If this is not the case and DFAT opts for a commercial contractor, then the timing would need to be condensed considerably.

**Issues to address.** The ICM identified a range of issues that have emerged during the R4D implementation (refer to Annex 5). Some of these need to be addressed before a final decision is taken on proceeding with a second phase. Other issues should be considered as part of the design update. The most critical issue to address prior to committing to a second phase is securing GoTL commitment to a multi-year allocation of substantial funding for rural roads. If the second phase is to run for four years, the total investment required by GoTL is in the range $80-100m. Funds for civil works (road rehabilitation and maintenance) must be matched with adequate operational budget and staffing for the municipal MPW teams. If GoTL commitment to this investment cannot be secured then a second phase is not recommended or would require radical restructuring from the current R4D program (such as restricting the program to a few districts and modelling good practice). Additionally, given the fluctuating budget allocated to MPW and to roads, it would be prudent for GoA to structure the proposed second phase of R4D in two 2-year phases to facilitate reallocation of resources to other areas of rural development if GoTL fails to allocate sufficient resources to funding rural roads.

**Quality assurance process.** The design update process proposed in this ICN benefits from ILO’s accrued knowledge and experience. It will be prudent to also ensure independent perspectives are engaged; internal DFAT quality assurance processes are employed; and a range of GoTL counterparts are meaningfully involved. Independent expertise may add value in facilitating the multi-stakeholder workshop referenced above. This support should extend to drafting the design update and M&E plan (in consultation with ILO). These products should then be formally appraised against DFAT’s M&E standards. Sufficient resources should be allocated to these processes to ensure that all approvals and contracting is concluded ahead of the extended Phase 1 deadline (December 2016) to avoid the obvious disruptions that would occur if there is significant slippage.

# Summary of recommendations for DFAT

Recommendation 1. Work with GoTL to secure firm commitment, across relevant ministries, to support a follow-on phase of R4D and to allocate adequate GoTL budget to fund road works.

Recommendation 2. On the basis that GoTL agrees to commit funds, proceed with a second phase of R4D support.

Recommendation 3. Negotiate with ILO to deliver the follow-on phase of R4D activities.

Recommendation 4. Carry out a design update process to set the direction for a second phase, including addressing the issues raised in this ICN.

# Risk assessment tool

#### Investment Concept Risk Assessment Tool

Descriptors of risk likelihood and consequence ratings can be found in the [Risk Management for Aid Investment Better Practice Guide](http://dfatintranet.titan.satin.lo/managing-aid/other-aid-management-risk-policies/Documents/aid-risk-management/Risk%20Management%20for%20Aid%20Investments%20Better%20Practice%20Guide.docx). Note the risk rating for each category should be based on unmitigated risk.

|  |  |  |  |
| --- | --- | --- | --- |
| **Value**  | **Likelihood** | **Consequence** | **Rating** |
| 1. **Operating environment:** What factors in the operational or physical environment (political instability, security, poor governance, lack of essential infrastructure etc.) might impact directly on achieving the objectives?
 | **Unlikely** | **Major** | **Moderate** |
| **Event/s** (what can happen): Given the extensive financial contribution being invested by GoTL, ongoing political support for the program is critical for its success. A lack of political support would preclude adequate GoTL funds being allocated to program activities. **Source** (what can cause the event to occur): The program aligns well with priorities of the current (and past) Timorese government. Elections in 2017, however, may change political leadership and affect that support. It is feasible that GoTL will look to ministries other than MPW to oversee the rural road network. **Impact** (what is the impact on the objective if the event occurs): Program fails to deliver either improved rural roads or significantly improved GoTL capacity to improve rural roads. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? There are limited opportunities for DFAT to mitigate this risk. Understanding shifts in political power and thinking will assist DFAT to direct its advocacy for rural roads to the most influential audiences.  |
| 1. **Results:** How realistic are the objectives and can they be achieved within the timeframe? Are the objectives/results sustainable? Would the failure to achieve the results in the proposed timeframe, or at all, affect the targeted beneficiaries directly?
 | **Moderate** | **Possible** | **High** |
| **Event/s** (what can happen): The first phase of R4D provides the grounded understanding necessary to set realistic targets for a second phase. The greatest risk to targets being achieve are lack of funds or staffing being committed by GoTL; and unwillingness of local contractors to bid for work.**Source** (what can cause the event to occur): GoTL funding may be diverted to ‘emergency’ projects either within MPW, or within other ministries, and hence disrupt funding to rural roads prioritised in the RRMP. A failure to improve the contractor payment system within GoTL procurement processes may discourage local contractors to avoid bidding for rural road contracts and seek opportunities elsewhere.**Impact** (what is the impact on the objective if the event occurs): R4D would be able to achieve targets for physical works in proportion to the funding made available for rehabilitation and maintenance. Low levels of resources—or low levels of engagement by MPW staffing—would result in lower achievement of targets. If local contractors do not bid, procurement systems established with R4D support would fail. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? DFAT could leverage the support of its other programs, particularly G4D, to maximise the likelihood that adequate funds are allocated to rural roads. The program will strengthen planning, which should support the allocation of funding and staff. DFAT, through the R4D program, is well-placed to facilitate improvements to the contractor payment system and minimise the risk of contractors rejecting work under the program.  |
| 1. **Safeguards** (see the checklist below)**:** Do any of the activities involved in this investment have the potential to cause harm relative to safeguard issues (child protection, displacement and resettlement and environmental protection)?
 | **Unlikely** | **Minor** | **Low** |
| **Event/s** (what can happen): Disruption to traditional land use during or following construction; involvement of child labour in contravention to program safeguards; environmental damage during or following construction.**Source** (what can cause the event to occur): Failure to apply existing social and environmental safeguards or to adequately train and supervise contractors and government in their application.**Impact** (what is the impact on the objective if the event occurs): If contravention of the safeguards was prolonged, DFAT would not continue with the program. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? Regular reporting by the Managing Contractor and DFAT’s regular review of the program, through the Independent Monitoring Group, provides appropriate mechanisms to ensure that safeguards are in place and continue to be followed by the Managing Contractor. |
| 1. **Fraud/Fiduciary:** Are there any significant weaknesses which mean funds may not be used for intended purposes, not properly accounted for or do not achieve value for money? (Fraud Control and Anti-Corruption Strategies and Assessments of National Systems will assist in identifying significant risks.)
 | **Unlikely** | **Major** | **Moderate** |
| **Event/s** (what can happen): Program funds are used fraudulently.**Source** (what can cause the event to occur): Failure to follow procurement guidelines by the Managing Contractor results in misuse of GoA funds.**Impact** (what is the impact on the objective if the event occurs): Suspension or delay in activities while fraud is investigated and addressed.  |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? During a second phase of the program, DFAT funds will only be used by the Managing Contractor to provide technical assistance. This minimises the risk of significant misuse of funds.  |
| 1. **Reputation:** Could any of the risks, if they eventuated, cause damage to DFAT’s reputation? Could any aspect of implementation damage bilateral relations?
 | **Unlikely** | **Moderate** | **Moderate** |
| **Event/s** (what can happen): Changes in the operating environment cause DFAT to terminate the program.**Source** (what can cause the event to occur): Disengagement by GoTL or redirecting of road funding away from rural roads or to agencies other than MPW (such as SEPFOPE or PDIM)**Impact** (what is the impact on the objective if the event occurs): Potential damage to bilateral relations and GoTL engagement with other DFAT development assistance initiatives. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? DFAT to secure the strongest possible commitment from GoTL for the allocation of funding to rural roads as part of the agreement to proceed with a second phase; and to include provision in the agreement to adjust or terminate GoA support midway through the program if GoTL funding is not available. Ongoing communication with senior political leaders and advance notice of any required action would minimise reputational risk. |
| 1. **Partner relations:** Could a relationship breakdown occur with key partners/stakeholders and would this prevent the objectives/results from being achieved? Does the intended partner (if known) have the capacity to manage the risks involved with this investment? Could differing risk appetites affect the relationship?
 | **Possible** | **Severe** | **High** |
| **Event/s** (what can happen): GoTL stakeholders generally, and MPW in particular, become disillusioned with R4D as a means of improving the rural road network; or concerned that their role is not adequately recognised.**Source** (what can cause the event to occur): Given the significant amount of funding for civil works that GoTL will allocate to the program (approximately four times the GoA contribution), it will be important that the program demonstrates success. Poor or delayed implementation of the program, or a lack of credit being given to GoTL contributions, may lead to dissatisfaction among GoTL stakeholders.**Impact** (what is the impact on the objective if the event occurs): GoTL withdraws, reduces or fails to prioritise its funding for R4D, preventing the program from being completed. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? Ensure that the program demonstrates strong GoTL leadership and continuing promotes the value of the GoTL contribution, so that GoTL is identified with successes and feels increasing responsibility for the program’s performance. |
| 1. **Other:** Are there any other factors specific to this investment that would present a risk (e.g. this is a new area of activity or it is an innovative approach), including potential opportunities? If yes, please describe and rate the risk.
 | **Unlikely** | **Major** | **Moderate** |
| **Event/s** (what can happen): Decentralisation of GoTL responsibilities results in rural roads being removed from MPW and falling increasingly under the responsibility of the Municipal Administrations or another ministry. **Source** (what can cause the event to occur): Policy decisions regarding decentralisation of public service functions.**Impact** (what is the impact on the objective if the event occurs): Capacity established by the program up to that point may not be transferred to the new agency or agencies given responsibility for rural roads rendering much of the capacity building to that point ineffectual. |
| **Mitigation** – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk? DFAT should work with the R4D team during the first phase extension and once a second phase commences to monitor plans for decentralisation and prepare the program to support decentralisation as it unfolds.  |
| **Overall Risk Rating:** | Low-risk |

# Safeguards screening checklist

Safeguards Screening Checklist

This tool provides a safeguard ‘checklist’ for you to consider at the early stages of investment development. It will help you determine the appropriate level of analysis that needs to be included in your Investment Design. This does not replace the need to further assess and manage safeguard risks throughout Investment Design and implementation in accordance with each of the Safeguard Policies and Guidelines.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Yes** | **No** | **Not Sure** |
| **Child protection**[[7]](#footnote-7)  |  |  |  |
| 1.1 Did the outcome of the child protection risk context assessment indicate a full assessment is required? [[8]](#footnote-8) |  | No |  |
| 1.2 Is the investment likely to involve contact with or access to children (0-18 years old) due to the nature of the activity or the working environment? | Yes |  |  |
| 1.3 Will the investment involve personnel working with children? |  | No |  |
| **Displacement and resettlement**  |  |  |  |
| 2.1 Does the investment involve construction on: exclusion from: or repurposing of land that is occupied, accessed to generate livelihoods or of cultural or traditional importance? |  | No[[9]](#footnote-9) |  |
| 2.2 Does the investment’s success depend on other development activities that may involve construction on; exclusion from; or repurposing of land that is occupied, accessed to generate livelihoods; or of cultural or traditional importance?  |  | No |  |
| 2.3 Does the investment involve planning for, advising on or designing the economic or physical displacement of people to make way for infrastructure development, disaster risk reduction or exclusion of the local population from land accessed to generate livelihoods? |  | No |  |
| **Environment**  |  |  |  |
| 3.1 Will the investment support any of the following: * + - * medium to large-scale infrastructure such as roads, bridges, railways, ports, infrastructure for energy generation; or
			* development of irrigation and drainage, diversion of water; or
			* land clearing, intensification of land use; or
			* hazardous materials and wastes; or
* activity in mining, energy, forestry, fisheries, water supply, urban development, transport, tourism or manufacturing sectors?
 |  | NoNoNoNoNo |  |
| 3.2 Will the investment support any of the following: * + - * small to medium scale infrastructure such as localised water supply and/or sanitation infrastructure; irrigation and drainage; rural electrification, rural roads; or
			* construction/renovation/refurbishment/demolition of any building for example: schools, hospitals or public buildings; or
* localised use of natural resources, including small-scale water diversion, agriculture, or other types of land-use change?
 | Yes | NoNo |  |
| 3.3 Will the investment contribute to, directly or indirectly, or facilitate, activities such as those listed above, including through:* + - * trust funds, procurement facilities; or
			* co-financing contributions; or
			* support for planning, change to regulatory frameworks, technical advice, training or;
* applied research?
 |  | No |  |
| 3.4 Has an environmental review of the proposed investment already been, or will be completed by an implementing partner or donor? | Yes |  |  |
| 3.5 Does this investment need to meet any national environmental standards or requirements? | Yes |  |  |

*Short description for each of the safeguard areas marked ‘yes’:*

1.2 Given the requirement for contractors to engage the local community in construction works, it is feasible that children will accompany their parents to the works site. ILO has strict policies that prohibit the use of child labour and implement appropriate safeguards for children who may accompany their parents or guardians to road works sites. If another implementing partner is selected for a second phase, similar safeguards will be required.

3.2 The investment supports rural road construction. These are rehabilitation or maintenance of existing roads only and hence minimise rather than increase environmental risks.

3.4, 3.5 Environmental licences are obtained for each individual contract package in accordance with GoTL requirements and cover environmental and cultural considerations.

# Program logic and M&E framework critique

The R4D M&E plan appropriately critiques, elaborates and extends the initial basis for M&E provided in the design. The program theory is structured in line with DFAT norms and standards, with an overall goal supported by three outcomes which are to be realised through delivering seven outputs.

## Goal

The goal of R4D is: *Women and men in rural Timor-Leste are deriving social and economic benefits from improved road access.*

This goal appropriately frames the focus of the program on the ultimate beneficiaries, and defines lasting changes to which R4D is expected to contribute, if successful. This goal remains in alignment with DFAT’s strategic focus in Timor-Leste. The M&E plan prescribes the basis for interpreting ‘economic and social’ impacts through implementation of four pairs of surveys: i) Community Snapshots; ii) Transport Surveys; iii) Local Business Surveys; iv) Workers’ Surveys. Each survey will involve a baseline and endline study scheduled throughout the life of the program. **This regime reflects good practice and should enable meaningful assessment of the key changes** to which R4D has plausibly contributed. These key changes are reflected in a selection of seven goal-level quantitative indicators.

## Outcomes

The original design framed a broad outcome that appreciated the ambiguous and evolving context concerning rural road development within GoTL in general; and MPW in particular. The M&E plan appropriately refined this broad outcome in terms of three more focussed outcomes; discussed in turn below.

**Outcome 1:** *MPW is effectively planning, budgeting and delivering rural road works using labour-based methods, as appropriate.*

The first outcome defines the scope and focus of capacity building interventions within MPW. It was originally envisaged that a new unit within MPW would be formed with a mandate for rural road maintenance and development and that this unit would be the focus of capacity building efforts. But this institutional change never eventuated. As a consequence, the outcome remains broadly focused on the entire ministry. **A narrower focus on precisely which functions/roles within the ministry need to be strengthened would improve the utility of this outcome for M&E purposes**.

Outcome 1 is arguably central to the R4D ‘program theory’. The central assumption of the design is that rural roads in Timor-Leste are inadequate because of weak institutional capacity within MPW; and by extension, sustaining a quality rural road network is best achieved by strengthening this capacity. **Such a central tenet of the design should be subject to routine and systematic monitoring** to ensure that adequate information is available to inform program improvement and management decision-making.

The M&E plan defines six ‘indicators’ that elaborate the focus of MPW capacity building: i) functioning knowledge management systems; ii) involvement of relevant MPW staff in capacity building; iii) timely annual planning; iv) appropriate budgeting; v) completion of required technical processes; vi) appropriate and timely procurement. These dimensions of ‘capacity’ are intuitively relevant, but the phrasing of the ‘indicators’ is more akin to outcomes (i.e. preferred end-states) rather than neutral measures whose status can be routinely checked. Further, the methods/sources defined to deliver these indicators are open-ended and opportunistic[[10]](#footnote-10) rather than systematic/structured. It is a fact that measuring ‘capacity’ is universally challenging from a methodological standpoint, but given the centrality of this to the R4D program theory, there would be merit in developing and **applying a more rigorous and systematic approach to ‘scoring’ changes in performance** in the key areas identified.

**Outcome 2:** *Local civil works contractors more effectively implement investments in rural road works, using labour-based methods, as appropriate*

The second outcome was added after R4D was designed to capture the important work of strengthening the local contractor market to implement rural road works. From a M&E standpoint, the outcome is well focussed on local civil works contractors involved in rural road development. There are inevitable challenges associated with defining meaningful and practical criteria for ‘effective implementation’; but the M&E plan attempts this through a range of measures and methods, including a Contractors’ Tracer Study. It is unclear if the range of measures and methods used are sufficient to enable a meaningful judgement of the developing private contractor market.

**Outcome 3:** *Rural road development adequately resourced and planning and implementation of investments effectively coordinated between concerned Government agencies and (donor) projects*

The third outcome aims to differentiate between changes in performance within the MPW, and improvements in coordination and planning of rural road investments between MPW and other relevant government agencies and donors in the sector. Conceptually, **this outcome is difficult to distinguish from Outcome 1** because, in practice, the ‘*planning, resourcing and implementation*’ of rural road developments is at the heart of the ‘capacity’ to be developed under Outcome 1. Further, the ‘evaluand’ implied in Outcome 3 (i.e. “*concerned Government agencies*”) is ambiguous/abstract and so from a M&E standpoint performance against this Outcome will be challenging (if not impossible) to measure.

As with the discussion above concerning Outcome 2, the proposed indicators for Outcome 3 are phrased as outcomes/end-states, and as such are **not amenable to routine measurement of trends**.

The M&E arrangements for a future design may consider conflating Outcome 1 and Outcome 3, and perhaps defining a new outcome concerned with subnational (i.e. municipal) GoTL capacity to manage rural road works.

## Outputs

The M&E plan defines seven outputs variously aligned under the three outcomes[[11]](#footnote-11), and informed by 14 ‘output indicators’. As discussed above, there is some ambiguity in the focus of Outcome 1 vis-à-vis Outcome 3 which is also reflected in the underlying deliverables. There is also an asymmetry across the three outcomes, with only one output defined under Outcome 2.

# Comparison of ILO and typical commercial contractor program delivery costs

No analysis of the comparative costs of program delivery by ILO or commercial contractors for the first phase of R4D was made available to the ICM. The two areas where costs might differ in a second phase depending on the implementing partner are staffing costs and management fee. Other costs, such as locally engaged staff, direct implementation costs and program activities would be expected to be similar irrespective of the implementing partner.

## Staffing costs

The costs for the current R4D team of international consultants was provided by ILO. ILO works within the United Nations remuneration structure which has set fee rates and allowances for differing grades of professional staff. Existing staff range from P2 to P5 and their total annual costs in USD are set out in Table 1. As a UN agency, ILO would be required to use these remuneration rates.

If a commercial contractor was to implement the program, fee rates and allowances for each position would be set using the DFAT Adviser Remuneration Framework (ARF). Table 1 shows ARF equivalent classifications for each of the current ILO positions and notes the market reference point fee rate for each position.

The difference between the total annual cost for ILO and ARF rates is highly dependent on the exchange rate between Australian and US dollars. The exchange rate at the time of the ICM has been shown in Table 1. On that basis, ILO personnel costs would be approximately 18% higher than ARF rates ($450,000 p.a.). For a total contract value of $30m, this would equate to 6% of the overall cost.

Clearly, the actual cost difference varies in proportion to the exchange rate and would be dependent on the average rate over the life of the contract. Figure 1 illustrates that for exchange rate above 0.9 ARF rates become more expensive than ILO.

Figure 1 Personnel costs and exchange rate variation

## Management fee

Both ILO and commercial contractors would charge a management fee against the overall value of the contract to cover their costs for delivering the program. DFAT has a standard list of costs that are covered by the management fee:

* + - profits, including commercial margins and mark-up for personnel and project management;
		- financial management costs; including the cost of financial charges;
		- costs of Contractor administrative and head office staff if any;
		- insurance costs as required by this Contract, but exclusive of medical insurance costs for Advisers;
		- taxation, as applicable;
		- costs of complying with the Contractor’s reporting and liaison obligations under this Contract;
		- costs associated with all personnel briefings in Australia or in-country;
		- costs associated with any subcontracting and procurement of goods and services;
		- costs, including domestic and international travel, accommodation, per diems and local transport costs where required for Contractor Head Office personnel;
		- any other overheads required to perform the Services in accordance with this Contract;
		- all escalators for the management fees for the term of this Contract; and
		- any allowance for risks and contingencies.

Advice from DFAT to the ICM suggests that the management fee for a commercial contractor would be in the range of 10-15% of total contract value, tending towards the upper end of this range for infrastructure activities.[[12]](#footnote-12)

ILO charge a similar fee, at 11.5% of the contract value, to cover their management costs including support from their offices in Dili and Bangkok (ILO Regional Office). ILO noted that this is a fixed rate used for all their contracts. ILO advised the ICM that R4D is ILO’s largest single project. Consequently, it would be appropriate for DFAT to discuss negotiation of the fee rate given the potentially lower transaction costs for ILO associated with delivering a large program.

Subject to a reduction in ILO’s management fee, at current exchange rates ILO is likely to be 3-5% more expensive than a commercial contractor.

Table 1 Comparison of ILO and ARF staffing costs

|  |  |  |
| --- | --- | --- |
| **Position Title**  | **ILO cost structure** | **DFAT Adviser Remuneration Framework** |
|  | **Level**  | **Step**  | **Annual Cost USD** | **Equivalent AUD** | **Level** | **Fees** | **Allow.** | **Special Location** | **Mob/****Demob** | **Annual Cost** |
| Chief Technical Advisor  | P5  | 7 | 237,729  | 311,600  | C4 | 15,650 | 3,000 |   | 5,000 | 225050 |
| Road Engineering Specialist  | P4 | 7 | 206,995  | 271,300  | C4 | 14,200 | 2,850 |   | 5,000 | 205850 |
| Database System Developer  | P3  | 7 | 179,877  | 235,700  | B3 | 12,000 | 2,580 |   | 5,000 | 176210 |
| GIS Officer  | P2 | 7 | 156,919  | 205,700  | B3 | 12,000 | 2,850 |   | 5,000 | 179450 |
| Monitoring and Evaluation  | P2  | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 |   | 5,000 | 183050 |
| Contracts and Procurement  | P3  | 7 | 179,877  | 235,700  | C3 | 13,000 | 2,700 |   | 5,000 | 189650 |
| Social Safeguard Officer  | P2 | 7 | 156,919  | 205,700  | B3 | 12,500 | 2,650 |   | 5,000 | 183050 |
| Regional Engineer 1  | P2 | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 | 1,000 | 5,000 | 195050 |
| Regional Engineer 2 | P2 | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 | 1,000 | 5,000 | 195050 |
| Regional Engineer 3 | P2 | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 | 1,000 | 5,000 | 195050 |
| Regional Engineer 4 | P2 | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 | 1,000 | 5,000 | 195050 |
| Regional Engineer 5 | P2 | 7 | 156,919  | 205,700  | C3 | 12,500 | 2,650 | 1,000 | 5,000 | 195050 |
| Planning and Training Specialist | P4  | 7 | 206,995  | 271,300  | C4 | 14,200 | 2,850 |   | 5,000 | 205850 |
| **TOTAL Estimation for international staff annually**  |  |  **2,971,200**  |   |   |   |   |   | **2,523,410** |

# Issues to address in a second phase

## Principal lessons from the first phase

### Weak engagement by GoTL

GoTL stakeholders are supportive of R4D but there is a very low level of ownership of the program. It has not been possible to establish a Steering Committee to oversee strategic direction and this has left the program being directed by ILO and, to a lesser extent, DFAT. Given that the ILO team is highly skilled and well resourced, it is a challenge to create opportunities for DRBCF and senior MPW staff to exert influence. Heightening this challenge is the priority MPW places on national and district roads.

Addressing this issue in a second phase will be particularly important given that GoTL will be the primary source of funds for rehabilitation and maintenance activities. If political support is to be retained for that funding it will be critical that GoTL feels it has control over the R4D program. R4D must create a relationship with MPW and DRBFC whereby GoTL stakeholders perceive that R4D is supporting the GoTL rural roads program. The ICM observed the outcomes of weak engagement by GoTL, including a low level of input into the ICM activities and allocation of substantial amounts of GoTL funding to poorly planned, non-priority rural roads through ‘emergency’ contracts. The real challenge for a second phase is in understanding the conflicting motivations and incentives of GoTL with respect to rural roads and then developing a strategy that addresses these. This is an area for consideration during a design update.

Discussions around mutual obligation should cover measures to strengthen GoTL inputs into strategic direction. Not only do both parties, GoTL and GoA, need to commit resources but also to provide input from senior level staff to setting direction, managing inputs and monitoring progress. Creation of the Rural Roads Working Group, while an appropriate coordinating body for sector actors, is not a substitute for the Steering Committee. Alternatives to the Steering Committee model should be considered for a second phase. This failed to operate effectively in the first phase and other DFAT programs, such as BESIK, have had similar problems with establishing a steering committee to provide strategic oversight. Alternatives might include greater use of existing GoTL decision making forums; at the ministerial level, combining R4D and BESIK into a regular broader review of DFAT assistance to the ministry; creating a lower level review forum within MPW (such as the ‘Council of Directors’ used in the Ministry of Health) to oversee R4D. Creating and facilitating these mechanisms should not be left to the R4D implementing team but be the responsibility of DFAT and given the highest priority in their oversight of the program.

The ICM noted two specific measures where a second phase might strengthen GoTL ownership. The first involves making sure GoTL is centrally involved in the design update. MPW stakeholders must be engaged in ways that work for them. This is likely to include workshops tailored to the needs of senior MPW staff that are facilitated in Tetun and give participants sufficient opportunity to analyse the experience of the first phase. Consideration should be given to holding these events outside Dili to lock in the engagement of senior MPW staff. The other measure is including within the R4D budget annual funding to improve DRBFC resources, linked to capacity building. This would provide a concrete item for joint planning between DRBFC staff and the R4D team, strengthen the idea of R4D being a partnership and diminish the perception that the R4D team is heavily resourced through the program but that their GoTL counterparts are not.

### A stronger role for DFAT

The ICM noted a range of areas in which the ILO implementing team has struggled to engage GoTL decision makers. The best example is securing MPW funding for rural roads. While the R4D team was able to help DRBFC prepare a competent budget submission, building broad political support for that submission is beyond their reach. To some extent, the ILO team currently acts as an interface between DFAT and GoTL. DFAT needs to strengthen the direct bilateral relationships so that it can directly facilitate GoTL engagement. During a second phase, it would be helpful for the DFAT team to have a strategy for influencing GoTL decision makers. This should reflect a thorough analysis of the political context. Principal aims would be to generate ongoing dialogue and create the relationships that would underpin GoTL ownership of R4D, and to ensure that GoTL contribute to strategic decisions.

### Capacity building

DFAT understands that it will take time to build GoTL capacity to sustain a quality rural road network. A long-term commitment is required, involving a partnership of 10 to 15 years, such as has been the timeframe for other rural development programs such as Seeds of Life and BESIK. R4D’s first phase commenced the capacity building process. Significant gains were made in creating the RRMP, developing the procurement system and capacity of local contractors, trialling an approach to maintenance, and developing the standards, specifications and guidelines for rural road rehabilitation. Without a further phase of support, these capacity gains from the first phase are unlikely to be sustained or built upon.

Building capacity, however, has been very challenging for the R4D team. The original PDD assumed that there would be a Rural Roads Department within DRBFC and that this department would be central to government service delivery. This did not eventuate and R4D has become the de facto Rural Roads Department—an observation made in the MTR and also by DRBFC staff themselves during discussions with the ICM. R4D has responded to the lack of counterparts in two ways. Firstly, the team has adopted a ‘capacity substitution’ approach where R4D staff carry out the major steps in planning, designing, contracting and supervising the rehabilitation and maintenance of rural roads. DRBFC staff are involved wherever possible, including at the municipal level, but progress is entirely dependent on the actions of R4D staff. This has resulted in quality road rehabilitation works but is not a long-term solution. The other approach has been to contract 10 ‘counterpart’ staff. These Timorese contractors are intended to be seen as DRBFC staff and there is a hope that in time they will be hired permanently by MPW. This does not seem to have been effective. The ICM observed that both DRBFC and R4D see these contractors as more closely aligned to R4D than to the government.

The capacity substitution approach was appropriate for the first phase in that it enabled the program to demonstrate what could be achieved and generated momentum and a strong profile for the R4D program. A second phase, however, will need to consciously transition from capacity substitution to capacity development. This will be challenging, particularly if GoTL increases its annual investment in rural road rehabilitation to $20-25m, as called for in the RRMP. The capacity development approach, should be reviewed in detail during the design update. This should include analysis of the strengths and weaknesses of the Capacity Development Framework, the capacity development responsibilities for each R4D team member, and the targets and monitoring needed to demonstrate where progress has been achieved. Each R4D staff member has a role to play in capacity development and needs support and guidance to make those efforts effective. Either short or long-term inputs from a capacity development adviser is recommended for the second phase. The inputs from this specialist should be highly practical and pragmatic rather than academic or aspirational.

As part of the capacity development approach careful consideration should be given to the use of local consultants and the extent to which they are deployed within government or are part of the R4D team. While it is challenging to find qualified staff who are willing to work within the public sector, using R4D as a mechanism to build up the resources of DRBFC, rather than R4D itself, will create better GoTL ownership of the program and reduce the likelihood that R4D operates in parallel to GoTL systems. Even if these contract staff are never offered permanent positions in the public service, this may still be the best approach. In addition, a second phase should give consideration to recruiting highly-skilled Timorese consultants into the R4D team, particularly to work at a senior level supporting R4D engagement with DRBFC and MPW staff at director level.

### Decentralisation

Plans to decentralise national government functions to the municipality (formerly district) level has been slowly taking shape since about 2008. It is likely, although not certain, that steps towards decentralisation will continue during the course of a second phase of R4D. Because the timing and process of decentralisation is uncertain, R4D will require a flexible approach that seeks to build capacity at municipal level to take on service delivery as responsibility is devolved. This should be a significant element of R4D’s second phase.

R4D’s current program works at municipality level but entirely through MPW. A greater emphasis on preparation for decentralisation would involve at least two aspects. Firstly, there remain several different government stakeholders working on rural roads at the municipality level. Most significant of these are PDID (reportedly to become PDIM as of 2016) and SEPFOPE which both receive national level GoTL funding for rural road rehabilitation. PNDS, which is also funding minor rural road activities, also has its own engineering and technical staff in each municipality, as does ADN. As the R4D team pointed out to the ICM, there are already sufficient engineers and technicians working on rural roads in the municipalities—the problem is that their efforts are not coordinated, there are no common standards, and there is no pool or roads specialists being built up.

While it is appropriate that R4D continues to work predominantly through MPW, attention could be given at the municipality level to improving the coordination and capacity of all agencies working on rural roads, particularly PDID, SEPFOPE and ADN. Training the sector on a new set of national standards and guidelines—currently being documented by R4D—would provide the R4D Regional Engineers with a mechanism to collaborate with actors outside MPW. Facilitating the municipality-level actors to work more collaboratively will establish the foundation for future decentralised service delivery.

The other area where a second phase of R4D could prepare for decentralisation is facilitating greater involvement of Municipal Administrators in planning and advocating for improvement of rural roads in their municipality. Where Municipal Managers are most engaged (for example, in Bobonaro), it would be appropriate to ensure that the Manager oversees development and annual updating of a rural roads plan for their municipality, using the RRMP as the basis. This process could start with activities to promote, analyse and fine-tune the RRMP for each municipality. Strong advocacy on the part of Municipal Managers may increase the likelihood that adequate funding is given to rural roads in the national budget and reduce central allocation of funds to poorly planned or low priority projects (as has often been the case to date).

The Oecussi Special Administrative Region (SAR) may provide an opportunity to model good practice under decentralised conditions. R4D currently works in Oecussi in the same manner as other municipalities. With creation of the SAR, all GoTL line ministry staff based in Oecussi have been transferred to SAR, including the MPW team. SAR will have responsibility for its own budget and it is unlikely that MPW will allocate any funds for rural roads in Oecussi. R4D in a second phase could only continue operating in Oecussi if the SAR administrators decide to allocate their own budget and staff to rural roads. If that does happen, then it would be useful for R4D to design their program in Oecussi as a demonstration of what could be achieved in other parts of Timor-Leste when service delivery responsibilities are handed over to municipalities.

### Planning

The RRMP provides an evidence base for rational allocation of resources within the rural road sector. There is now credible information on the extent of the challenge and the level of investment required to produce a quality rural road network. Importantly, the RRMP also shifts the focus from construction to service delivery, emphasising that investing in routine and periodic maintenance results in the lowest overall expenditure. A second phase of R4D will benefit from having the RRMP to underpin planning. It will enable the program to work much more intensively with DRBFC on preparing annual budget submissions and work plans for rural roads. The section on institutional arrangement provides a blueprint for organisational development.

The RRMP, however, has not yet been endorsed by GoTL. The R4D team has found a number of problems with the data used to generate the plan and intends to update the plan, district-by-district before it is publically released. There are also significant assumptions in the plan that are not yet owned by government. Most notably, the plan creates categories of ‘core’ and ‘non-core’ rural roads and allocates responsibility for core roads to national-level MPW. GoTL needs to be given an opportunity to affirm the thinking in the RRMP before it can be used as a planning tool. It is anticipated that this will occur in 2016, so that a second phase could commence with the RRMP fully accepted as the overall guide for investment in the sector. The plan also notes that the sector lacks a policy and legal framework. This is unlikely to be resolved prior to a second phase commencing and should be included as a priority area for capacity development.

### Stronger collaboration with ERA

The EU-funded Enhancing Rural Access (ERA) program builds the capacity of local contractors for rural road construction. It is also being implemented by ILO and, as with R4D, is being redesigned for a second phase. ERA has trained a pool of contractors, each of which is then given a contract to rehabilitate a section of road. These contracts are similar in scale to the work overseen by R4D. ERA has a focus on the private sector only and in general is complementary, rather than overlapping, with R4D.

The level of strategic coordination between R4D and ERA was unclear during the ICM. Certainly, R4D uses ERA training providers to train some of it local contractors. R4D has also taken on maintenance of some of the roads rehabilitated with ERA funding. There are a number of areas where it appears that the two programs could work together more purposefully. Most importantly, ERA and R4D treat their pools of contractors separately. R4D and ERA do not appear to have a shared strategy about how to build up the pool of contractors that GoTL will need to rehabilitate and maintain rural roads. ERA does not specifically train contractors to work on R4D-type contracts (which operate under GoTL procurement system) so R4D needs to provide supplementary training to that provided through the ERA program. ERA does not have any mechanism to ensure the maintenance of the roads it rehabilitates and relies on an informal undertaking by R4D to include ERA-funded roads in its maintenance program.

Given that both programs are to be redesigned at the same time, there is a significant opportunity to ensure that the second phases of each program are better integrated and work more holistically to create an enabling environment for rural road service delivery. This should include consideration of allocating ERA full responsibility for building the capacity of private sector contractors to deliver GoTL-funded rural roads work (i.e. complete responsibility for the current Outcome 2 of the PDD). During the ICM, the EU Delegation was very supportive of collaborating with DFAT during the design processes to achieve this outcome.

Providing coherent, efficient and integrated capacity building for rural roads contractors is the highest priority for collaboration between R4D and ERA. If ERA does not take on full responsibility for the current Outcome 2, then other areas for greater collaboration could include:

* Integrated planning for civil works, including selection of roads for rehabilitation under ERA contracts and for maintenance of ERA-funded road work
* Developing a common set of training materials and trainers guides for contractor training
* Joint planning for contractor development (analysis, selection, mentoring of contractors) in new ERA districts

### Private sector engagement

The issue of most concern to the R4D team raised during the ICM was delayed contractor payments. Processing of contractor payments involves three different ministries—MPW, MoF and ADN (overseen by the Ministry of Strategic Planning and Investment). The duration between the submission of an invoice and receipt of payment can take up to nine months. For local contractors involved in R4D-supported contracts, this causes acute cash flow difficulties. During the first year of contracting, GoA funds were used for construction activities which avoided this problem. As contracting has moved to GoTL systems, R4D has found that fewer contractors are willing to bid for work. They are concerned that if this issue is not addressed, contractor interest will dry up completely and it will not be possible to operate a competitive tendering system, which is the essence of the R4D program.

R4D is working to resolve the delays. The inter-ministerial nature of the approval process makes this a difficult task. A resolution to this issue in 2016 should be a precondition for a second phase commencing.

## Priority issues to address during the design update

Responses to the issues noted above will help shape the design of a follow-on phase of support. A number of decisions will need to be addressed as a precursor to a second phase being approved. These include:

* GoTL and GoA agree on mutual obligations, particularly the levels of funding to be contributed by both parties. This will require securing political commitment from other relevant ministries, in addition to MPW, reflected in a clear bilateral agreement with broad ownership within GoTL. The agreement for the current phase was signed just by MPW. MoF officials reported not having a copy of the agreement and suggested that they should be directly involved as a party to any future agreement.
* Program scale. The level of funding both GoA and GoTL allocate to a second phase will determine whether R4D has a national coverage or works only in selected municipalities. These commitments are required before a design update can be undertaken and is an area that DFAT should address with GoTL.
* GoTL financing mechanism. The current phase seeks allocations of funds for rural roads on an annual basis through MPW budget appropriations. Under this system, each year there is a risk that insufficient funds will be made available. An alternative financing option should be sought that minimises the risk of program funds being delayed or cut back. Options discussed by the ICM with MoF, and which could be explored further, included nominating the GoTL contribution as ‘counterpart’ funding within the MPW budget and using the Infrastructure Fund.
* DRBFC staffing allocations to rural roads functions need to be confirmed. R4D cannot build capacity unless there are DRBFC staff whose responsibilities include rural roads. At present, very few staff, if any, see rural roads as their primary responsibility. Staff who are dedicated to rural roads are required at both the national and municipal level. DRBFC has a number of unfilled positions within its staffing establishment. The potential to use the funding associated with these unfilled positions to hire contractors for critical staffing gaps should be clarified.
* RRMP. While the RRMP provides a sound evidence base for planning, the document has not yet been endorsed by GoTL stakeholders. In particular, the proposal that MPW retain responsibility for ‘core’ rural roads needs to be presented to GoTL for endorsement. The status of the plan and the principles it proposes should be clarified before the design update is completed.
* Oecussi SAR. DFAT should work with MPW and R4D to clarify with SAR whether they will make available their own budget to fund rural road development in Oecussi. R4D could only continue work in Oecussi if SAR make available adequate staff and budget.

# Stakeholders consulted

|  |
| --- |
| Australian Embassy |
| Peter Doyle | Head of Mission, Australian Embassy |
| Neryl Lewis | Counsellor, Rural Development & Aid Management |
| Paul Regnault | Second Secretary, Rural Development |
| Horacio Barreto | Coordinator, Infrastructure and Rural Development, DFAT Dili |
| Gerard Cheong | former First Secretary, Rural Development |
| David Green | First Secretary, Aid Management |
| Faviula Monteiro | Senior Coordinator, Rural Development, RWASH |
| Francisco Soares, Tim Cadogan-Cowper | Governance for Development Program |
| Anita dos Santos | National Suco Development Program (PNDS) Program |
| GoTL, Ministry of Public Works, Transport and Communications |
| Gastao de Sousa | Minister, Public Works, Transport and Communications |
| Jose Gaspar Piedade | Director General, Public Works, MPW |
| Jose Mestre | Director General, Corporate Services, MPW |
| Rui Hernani | Director, Roads, Bridges and Flood Control, MPW |
| Joao Pedro Amaral | Head, Department of Maintenance, DRBFC, MoPW |
| Joao Gama de Sousa | Head, Department of Projects, Budgeting and Planning, DRBFC, MPW |
| Isabel Lay Guterres | Head, Department of Analysis and Evaluation, DRBFC, MPW |
| Ana Vicenta Duka | Head, Department of Procurement, DGCS, MPW |
| Antonio Soares | Engineer, Department of Roads, Bobonaro Municipality, MPW |
| Domingos Barreto | Engineer, Department of Roads, Covalima Municipality, MPW |
| GoTL, Other |
| Alex Sarmento | Vice DG, Agencia de Desenvolvimento Nacional (ADN) |
| Rui da Costa | Vice DG, Agencia de Desenvolvimento Nacional (ADN) |
| Arsenio Bano | ZEESM Technical Team Coordinator |
| Candido ?? | Head of Public Works Regional Office, Oecussi |
| Januario da Gama | Director General, State Finance, Ministry of Finance |
| Yoaquim Salamao | Director, National Directorate for Budget, Ministry of Finance |
| Agostinho Castro | Director General, Treasury, Ministry of Finance |
| Antonio Goncalves | Director, National Directorate for Deconcentration, Ministry of Finance |
| Aguido da Silva | National Adviser, National Directorate for Payments, Ministry of Finance |
| Cancio de Oliveira | Director General, Development Partnership Management Unit, MoF |
| Hernani da C Soares | Executive Director, Institute for Business Support and Development (IADE) |
| various | Engineering advisory staff, PNDS |
| Domingos Martins | Municipal Administrator, Bobonaro Municipality |
| Martinho S. Matos | Municipal Administrator, Aileu Municipality |
| Mario Antonio Soares | Head, Department of Planning and Development, Aileu Municipality |
| Pedro Martires da Costa | President, Parliamentary Commission E (Infrastructure) |
| Jose da Silva | Vice-President, Parliamentary Commission E (Infrastructure) |
| ILO R4D Team |
| Bas Athmer | Chief Technical Adviser, Roads for Development Program (R4D) |
| Simon Done | Road Engineering Specialist, R4D |
| Collins Makoriwa | Planning and Training Engineer, R4D |
| Giulia Secondini | M&E Officer, R4D |
| Sayed Faheem Eqbali | GIS Specialist, R4D |
| Antonio Junior Indart | Database Specialist, R4D |
| Vanda Day | Procurement Officer, R4D |
| Tim Lawther | Social Safeguards Officer, R4D/MoPW |
| Laxman Chand Thakuri | Regional Engineer, Dili, R4D |
| Vanda Sam | Regional Engineer, Maliana, R4D |
| Development partners |
| Roberto Pes | Head of Mission and Chief Technical Adviser, ILO Liaison Office in Timor-Leste |
| Chris Donges | Specialist and Technical Backstopping, ILO Bangkok |
| Eav Kong | Labour-Based Training Specialist, ERA Project |
| Antonio Vitor | Team Leader, Infrastructure Management TA, Asian Development Bank |
| Eileen Sullivan | Acting Country Director, World Bank |
|  Olivio dos Santos | World Bank Infrastructure team |
| Paolo Toselli | Cooperation Attache, Rural Development, European Union Delegation |
| Dulce Gastano | Program Manager, Rural Development, European Union Delegation |
| Hideaki Matsumoto | JICA Representative |
| Rolly Damayanti | Enterprise Development Expert, Business Opportunities and Support Services |
| DFAT program staff |
| John Dalton | Team Leader, Seed of Life Program |
| Shariful Islam | Senior Market Development Adviser, Market Development Facility |
| Roger Guinery | Program Director, BESIK |
| Field visits, Bobonaro and Aileu Municipalities |
| Community members | Saburai, Cova, and Balibo; Bobonaro Municipality |
| Community members | Ornai Suco, Laulara; Aileu Municipality |
|  Egas Reis | Director, Marvermehlo Construction |

# ICM terms of reference

1. AusAID/ILO, 2011, Roads for Development Project Document [↑](#footnote-ref-1)
2. Hettige, H 2006. When Do Rural Roads Benefit the Poor and How? An In-depth Analysis Based on Case Studies. Asian Development Bank. Pankaj, T 2000. Framework for Quantifying Social and Economic Benefits from Rural Road Development: Some Thoughts and Practical Insights. World Bank [↑](#footnote-ref-2)
3. Roads for Development (R4D) Mid-term Evaluation Report, October 2014, p 21. [↑](#footnote-ref-3)
4. AusAID/ILO, Concept Note May 2011 – Roads for Development [↑](#footnote-ref-4)
5. ADB is understood to be considering a rural roads project that may commence in 2017. The European Union’s Enhancing Rural Access program complements R4D by building private sector capacity but does not work through MPW and therefore is not an alternative delivery mechanism for GoA support. [↑](#footnote-ref-5)
6. Personal communication, Peter Kelly, Director Pacific Infrastructure Advice, DFAT. This was not raised during the ICM meeting with ADB and is a topic for follow up by DFAT. [↑](#footnote-ref-6)
7. Answers to these questions will need to be logged in AidWorks under the policy marker questions. [↑](#footnote-ref-7)
8. The Child Protection risk assessment guidance can be found [here](http://dfatintranet.titan.satin.lo/managing-aid/other-aid-management-risk-policies/Pages/child-protection-etc.aspx). [↑](#footnote-ref-8)
9. No new roads are being constructed and hence all civil work is occurring on land already allocated to roads. Some short-term interruption to access on small parcels of land may occur during civil works associated with road rehabilitation. [↑](#footnote-ref-9)
10. E.g. “*through informal and formal information exchange mechanisms, meetings, data available in MPW information (management) systems*”. [↑](#footnote-ref-10)
11. Three indicators aligned with Outcome 1; one with Outcome 2; three with Outcome 3. [↑](#footnote-ref-11)
12. Personal communication, DFAT Contracts Branch, 7 July 2015. [↑](#footnote-ref-12)