



The Government  
of Norway



# ANNUAL REPORT

## Local Governance Support Programme Timor-Leste (LGSP-TL)

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UNDP Code: 00053898  
UNCDF Code: 00054392  
00054393

From: January - December 2007

Report Date: March 2008



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## Timor-Leste Local Governance Support Programme

### ANNUAL PROGRESS REPORT January – December 2007

Programme Name:	Timor-Leste Local Governance Support Programme (LGSP)	
Project Number UNCDF:	00054392 & 00054393	
Project Number UNDP:	00053898	
Start date:	January 2007	
Duration:	5 Years	
Total Budget:	US\$ 7,750,000 million	
Secured Funding:	US\$ 7,216,861 million	
Sources of Funding:	Government of TL	3,470,000 US\$
	Irish Aid	2,220,119 US\$ <sup>1</sup>
	UNCDF	665,255 US\$
	UNDP	742,159 US\$
	Government of Norway	119,328 US\$
Total expenditures to date:	US\$ 576,607 <sup>2</sup>	
Government Counterpart:	Ministry of State Administration and Territorial Management	
Programme modality:	Joint Programme	
Administrative Agent:	United Nations Development Programme	
Participating Agencies:	United Nations Capital Development Fund United Nations Development Programme	
Direct Beneficiaries:	1) Population in Pilot Districts, including	
	• Bobonaro District	Population: 82,385
	• Lautem District	Population: 57,453
	• Aileu District	Population: 36,889
	• Manatuto District	Population: 38,580
	• Ainaro District	Population: 53,269
	• Manufahi District:	Population: 44,235
	• Baucau District:	Population: 104,571
	• Covalima District	Population: 55,941
	<b>Total population: 473,323<sup>3</sup> or 51 percent of the total population</b>	
	2) Suco Council representatives in the Local Assemblies;	
	3) Ministry Staff of MSATM and other line ministries	

<sup>1</sup> Exchange rate US\$ = €1.36

<sup>2</sup> As per expenditure records on 25 February 2008, actual closing of 2007 budget is in mid-March 2008.

<sup>3</sup> The total population of Timor-Leste is 924,642 and that the total coverage of the programme is 51 percent.

## I. SUMMARY

This report provides a summary of the activities and impact of the Timor-Leste Local Governance Support Programme (TL-LGSP) between 1 January and 31 December 2007. In general, there were some unexpected difficulties in project implementation due to delays inherited from 2006, national elections and the change of Government in 2007. This of course has influenced the national team's ability to fully support the Local Assemblies (LAs) and to the policy and legislation process.

The 25 established Local Assemblies (LAs) are functioning well, although there is still room for improvement. The Local Planning Process (LPP) has ensured that the initial planning and need identification at the village level is translated into Sub-District and District annual development plans. A total of 98 capital investments projects were approved for funding in the original 2007-8 budget.<sup>4</sup> Implementation of these projects should have started in July 2007; however, the change of the Government's fiscal year into the calendar year meant that this was postponed to January 2008. Out of the total allocations around 22 percent will be invested in education, 24 percent on water supplies and another 22 percent on roads, while the remaining budget is distributed across agriculture, health, electricity, markets and disaster mitigation. In general the model has proven to be an effective way for identifying, appraising and prioritizing local level infrastructure investments. The result indicates a high level of maturity in terms of identifying and prioritizing pro-poor infrastructure.

Implementation of the new financial management system continues to be the most difficult part of the established LDP pilot system. Although there are improvements in the ways that the finance system is operated, there are substantial delays in terms of submission of reports from Sub-Agencies to the District Treasury and from the District Treasury to MSATM, in addition to some mistakes in their financial reporting. On the positive side, results from the local procurement process and contract management have been positive and all planned 54 projects were successfully implemented and paid for before the end of 2007. This is very encouraging and it is hoped that the new fiscal year will further improve budget execution since it will allow for implementation during a whole dry season period of six months within the fiscal year to avoid "roll-over" of budgets from one fiscal year to another.

The approval of the Government policy on Decentralization and Local Government by the end of 2006 was a major step forward, but the process then took another step backward in 2007 when the new Government announced changes in their policy on decentralization. Although there are indications in terms of which direction the Government might go, a new policy has to yet to be approved at the time of writing this report. Only two activities commenced before the change of Government. Firstly, a national consultation process on Administrative and Territorial Division took place. The Ministry, with the assistance of LGSP, facilitated 78 local level consultation meetings across the country in which more than 6,000 people participated. However, this consultation process was not concluded as a result of the change in Government policy. Nevertheless, the process was important in raising people's awareness about the reform process and decentralization in general. Secondly, Ministerial Technical Working Groups were established, but failed to complete the work and the anticipated sectoral reports before the change in policy. It is assumed that this work will commence as soon as a new policy has been approved.

In conclusion, it is fair to say that many activities had to be rescheduled last year. However, it is also important to bear in mind that the decentralization process is a highly political one and that the LGSP, as a support programme, cannot be held accountable for the many delays encountered in 2007. On the positive side, with the approval of LDP as a national programme with a Government budget of more than two million dollars for 2008, it is safe to say that the LDP has been successful

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<sup>4</sup> This number will be revised since the annual allocation has increased to \$4 per capita from the \$2.44 per capita which was the original budget ceiling provided for the annual plans for FY 2007-8. This changed in the approved budget for 2008 was made by the new Government in December 2007.

in terms of becoming a policy relevant and pilot model for local development appreciated by the Government.

## II. PROJECT OVERVIEW

Although the Public Sector remains highly centralised in Timor-Leste there is a firm commitment to decentralisation and local governance. The commitment is reflected in the relevant sections of the Constitution<sup>5</sup>, in the previous Government's decisions, and in the recent programme of the 4<sup>th</sup> Constitutional Government which took office in September 2007. LGSP's rationale needs to be seen within the overall context of this ongoing policy-making process regarding local governance in Timor-Leste.

LGSP is the successor programme to two separate, but interrelated projects; the Local Development Programme (LDP) 2004-6 and the Local Government Options Study (LGOS) 2003-6. The LGSP is a joint programme funded by GoTL, Irish Aid, Government of Norway, UNDP and UNCDF and will be implemented over a 5-year period, beginning in January 2007.

The over-arching goal of LGSP is to contribute towards poverty reduction in Timor-Leste. The programme's purpose (or objective) is to support the establishment of accountable and effective local government. Decentralisation, by endowing accountable local government bodies with greater responsibilities for planning, budgeting, and implementation of infrastructure and service delivery, would result in an improved focus on the rural poor, greater allocation efficiency, better implementation arrangements, and enhanced responsiveness.

To achieve its purpose, LGSP will deliver three key outputs:

**Output 1: Procedures, processes and systems for effective local-level infrastructure and service delivery (ISD) and public expenditure and public financial management (PEM/PFM) are piloted in selected Districts, Sub-Districts and Municipalities.**

This output is clearly a follow-on from the former LDP in that it will provide opportunities for the continued piloting of procedures and systems linked to local-level infrastructure and service delivery and local PEM/PFM. Under this output, piloting activities will initially take place under the same arrangements as applied to the LDP – with Local Assemblies operating on the basis of Ministerial Decree MAEOT No. 8/2005. Pilot activities will be initially undertaken in selected Districts<sup>6</sup>. As and when the pilot Districts are “municipalised”, piloting will continue – with LGSP operating intensively in those ex-Districts (and new Municipalities) to further pilot and fine-tune local government systems and procedures.

**Output 2: Support is provided to GoTL for the establishment of an appropriate and comprehensive institutional, legal, and regulatory framework for local government**

The delivery of this output<sup>7</sup>, which is very much a continuation of the work already done by LGOS, will be an essential prelude to the establishment of a fully-fledged system of local government in Timor-Leste. Ultimately a series of policies and legal instruments will need to be drafted, discussed and, in the case of laws, submitted to the National Assembly for review and approval.

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

<sup>6</sup> As of January 2008, eight districts have been selected: Bobonaro, Lautem, Manatuto, Aileu, Ainaro, Manatuto, Baucau and Covalima.

<sup>7</sup> Clarification on the description of the Output: while LGSP can provide various kinds of support, clearly the actual decisions in regard to establishing the framework are the sole domain of GoTL and the National Assembly.

**Output 3: Support is provided to GoTL for the implementation of local government reforms.**

The third LGSP output<sup>8</sup> that will be delivered by LGSP concerns the actual putting into place of Municipalities and the institutional/legal framework that will have been established with programme support (as specified under output 2). How LGSP will provide the government with support for implementation of local government reforms will very much depend on final decisions about the phasing of this process.

The programme is developed and implemented as an integrated part of the Ministry of State Administration and Territorial Management (MSATM), and reports directly to Minister Dr. Arcangelo Leite (formerly Minister Dr. Ana Pessoa), and to the Director of the new National Directorate for Local Development and Territorial Management which has been mandated to oversee the LDP pilot and the decentralization reform process. A small Management Team has been established within MSATM to manage the LGSP, including the Director of DLOT,<sup>9</sup> Director of National Directorate for Territorial Administration (DNAT), Mr. Abilio Jose Caetano, Director of National Directorate for Administration and Finance (DNAF), Mr. Miguel Perreira, LGSP Programme Manager Ms. Henriqueta da Silva, LGSP Coordinators Mr. Cristovao Miranda and Mr. Domingos Soares, and is coordinated by the International Technical Advisor, Ms. Jill Engen.

Finally, recognition is due to the all LGSP technical and operational staff, UNCDF programme officer Ms. Kazuyo Kaneko, in addition to the excellent technical backstopping and advice provided by UNCDF Senior Technical Advisor, Mr. Roger Shotton, and Regional Technical Advisor Mr. Mike Winter.

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<sup>8</sup> Clarification on the description of the Output: while LGSP can provide various kinds of support to implementation, the decisions and the responsibility regarding implementation are the sole domain of GoTL authorities.

<sup>9</sup> The Director of DLOT is yet to be appointed but s/he will be part of the management team when appointed.

### III. ACTIVITIES, ACHIEVEMENTS AND CHALLENGES DURING THE REPORTING PERIOD

As stated in the Programme Document, there are three specific outputs for the LGSP and this report is organised accordingly by focussing on activities and general progress of the programme during the period between January and December 2007<sup>10</sup>. This is a narrative report and is intended to summarise the main achievements and challenges encountered during the second year of implementation.

To access additional information regarding the rationale for previous activities and achievements, it is recommended that the Local Development Programme (LDP) annual progress reports for 2005 and 2006 are considered as a reference to this 2007 annual progress report.

#### OUTPUT 1: LOCAL DEVELOPMENT PROGRAMME PILOT

*Establish procedures, processes and systems for effective local-level infrastructure and service delivery (ISD) and public expenditure and public financial management (PEM/PFM) are piloted in selected Districts, Sub-Districts and Municipalities.*

#### ACTIVITY 1: ESTABLISHMENT OF AND SUPPORT TO LOCAL ASSEMBLIES:

The legal basis for establishing the Local Assemblies (LAs) is found in *Ministerial Decree No. 8/2005 – MSA regarding Local Assemblies*, which was approved in July 2005. The objective of the Decree Law is to ensure high community representation and participation in the planning, decision-making and oversight process. Based on previous experiences with similar programmes in Timor-Leste, it was also important to ensure that the institutional framework created was independent of the LDP itself, and thus replicable and self-sustainable both in terms of human resources and financial costs. Two levels of institutions have been established; District and Sub-District Local Assemblies, with their own budgets, autonomous decision-making powers and different levels of responsibilities in terms of service delivery aimed at simulating a real-time decentralised scenario. The Local Assemblies include two types of membership; 1) permanent voting members, who are the community representatives; and 2) executive members, who are government line ministry staff. The Local Assemblies are chaired by an Executive Secretary who is either the District or Sub-District Administrator.

During this reporting period, a decision was made by the new Government to expand the LDP to an additional four districts, bringing the coverage of the programme up to eight out of thirteen districts or a total of 51 percent of the population in Timor-Leste. It was decided that only District Assemblies were to be established in the four new districts while the present pilot districts would continue to operate with both District and Sub-District Assemblies. The objective of this decision is to test out a new structure which is in line with the revised Government policy (i.e. District Municipalities), which is presently being considered. This would allow the LGSP to test out and establish lessons from two possible LG options in Timor-Leste.

To compensate for the “abolition” of the Sub-District Assembly in the new pilot areas, Sub-District Development Committees (SDDCs) will be established to ensure a reliable channel for communication between the District Assembly and the Suco Councils. All Suco Councils will be represented in the SDDC with two representatives, while each SDDC will be represented with three permanent members in the District Assembly. In total 29 Local Assemblies and 21 SDDCs will be operational from the beginning of 2008. This will provide us with a good representative

<sup>10</sup> Local Governance Support Programme project document, p. 17 (this is the page of Result Resource Framework); also see LDP Annual Progress Report 2005 & 2006.

basis for establishing policy lessons since we will now operate in 8 out of the total 13 Districts in Timor-Leste.

The breakdown of the number of LAs and their members is shown in Table 1 below.

<b>Old pilot District (2005- )</b>	<b>Number of DAs</b>	<b>Number of SDAs</b>	<b>Number of SDDCs</b>	<b>Total members of LAs &amp; SDDCs</b>
Bobonaro	1	6	0	161
Lautem	1	5	0	122
Manatuto	1	6	0	128
Aileu	1	4	0	109
<b>New pilot Districts (2007- )</b>				
Ainaro	1	0	4	100
Baucau	1	0	6	148
Covalima	1	0	7	148
Manufahi	1	0	4	114
<b>TOTAL</b>	<b>8</b>	<b>21</b>	<b>21</b>	<b>1,030</b>

The structure of the LAs is working very well. Although there is still room for improvement, the overall evaluation of the functioning and results is very positive. The new fiscal year (FY) of the Government was to commence in July 2007 and the new cycle of LA meetings was scheduled as normal according to the Government FY. However, as a result of the change from FY to calendar year, all LA planned activities were re-scheduled until January 2008.

### **1.1 Capacity Building of new Local Assembly members**

In 2005, an extensive supply-driven capacity-building programme was established and tested out in Bobonaro district. Small changes to the training modules were made in 2006 after initial implementation and applied to all Local Assemblies. Below is a list of the LDP training modules:

- Module 1: Role and responsibilities of Local Assemblies
- Module 2: Planning and budgeting
- Module 3: Finance management
- Module 4: Local Procurement and contract management

During the last two quarters of 2007 LGSP and ministry staff finalized refresher training in the four initial districts with a total of 294 participants.<sup>11</sup> Previously, 464 out of the total of 520 LA members were trained in the original capacity building programme provided to them. In total 100 percent of the LA members in the old pilot districts have now completed the training modules.

As a result of the new “two-way” piloting strategy, regulations were revised and new training modules have been established to facilitate the new District Assembly and Sub-District Development Committees. Although the process is different in the new pilot Districts, the new modules includes the same topics as mentioned above. Implementation of the new training modules will commence in February 2008.

An essential part of the capacity building strategy of the LDP is on-the-job practical training. Although the initial induction training is a typical classroom approach, coaching and constant evaluation and feedback to the members of the LAs on performance during the Planning and

<sup>11</sup> Some of the participants in the refresher training had also participated previously.



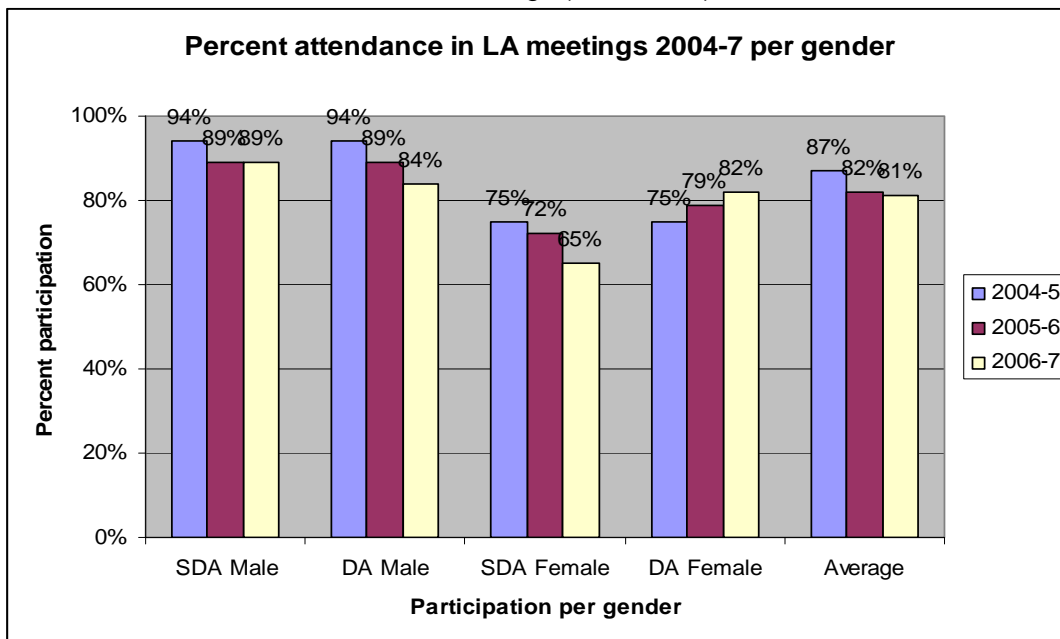
Expenditure Management (PEM) cycle are a key component of the programme. This approach will be continued in 2008.

## 1.2 Participation in Local Assembly meetings

The LDP has now been operational for three years, and as part of our M&E strategy we have among other things monitored the level of participation in the Local Assemblies. The overall level of participation remains high, with an average of 79% participating in SDA meetings and 87 percent in DA meetings based on data from three years.

A comparative overview for the period between 2004 and 2007 is provided in the table below which provides details of LA participation by voting members, including a breakdown of participation in accordance with gender:

Figure 1: Calculation of attendance in LA meetings (2004-2007)



The overall attendance in DA and SDA meetings has been relatively stable over the whole period if one takes into consideration both genders. However, male attendance in SDA meeting is higher than male participation in DA meetings, while attendance of women members is higher in the DA than in the SDA meetings. What is interesting is that the participation of women members in the DA is increasing with a 7 percent higher attendance in 2008 than when the LDP commenced in 2005.

Although women in general participate less than their male counterparts, the figures shows a 10 percent decrease in women's participation in SDA meetings, which is a very worrying development. In reviewing the data in detail this is primarily due to very low attendance in Atabae and Balibo Sub-Districts which brings the average attendance of women SDA members in Bobonaro down to 47 percent in 2007-8.<sup>12</sup> This result points to the need (i) to focus more on women members in the local assemblies in terms of capacity building and (ii) to determine the reasons for less interest by women or fewer opportunities for women to participate. As part of our 2006 review it was established that the main reasons for low attendance are primarily a lack of advance funds for transportation, time spent away from home and the lack of compensation for participation in meetings. However, this does not necessary explain the recent decrease and it will need more attention in 2008.

<sup>12</sup> More detailed data is to be found in annex 1

To address this issue the Ministry approved a small sitting allowance of US\$ 3 per voting member per meeting in 2005. This was an incentive for the LA members and partly compensated for the time they devote to the process. This amount will be increased in 2008 to US\$ 5 per meeting. In particular, this was aimed at female members since it was assumed that they would have fewer financial resources than men. It is difficult to know whether these financial incentives have made a large difference or not; however, the Ministry is convinced that some compensation is necessary and points out that monetary compensation for local councillors is standard practice in local government systems. The LGSP supports this position and the relatively small increase in the 2008 budget.

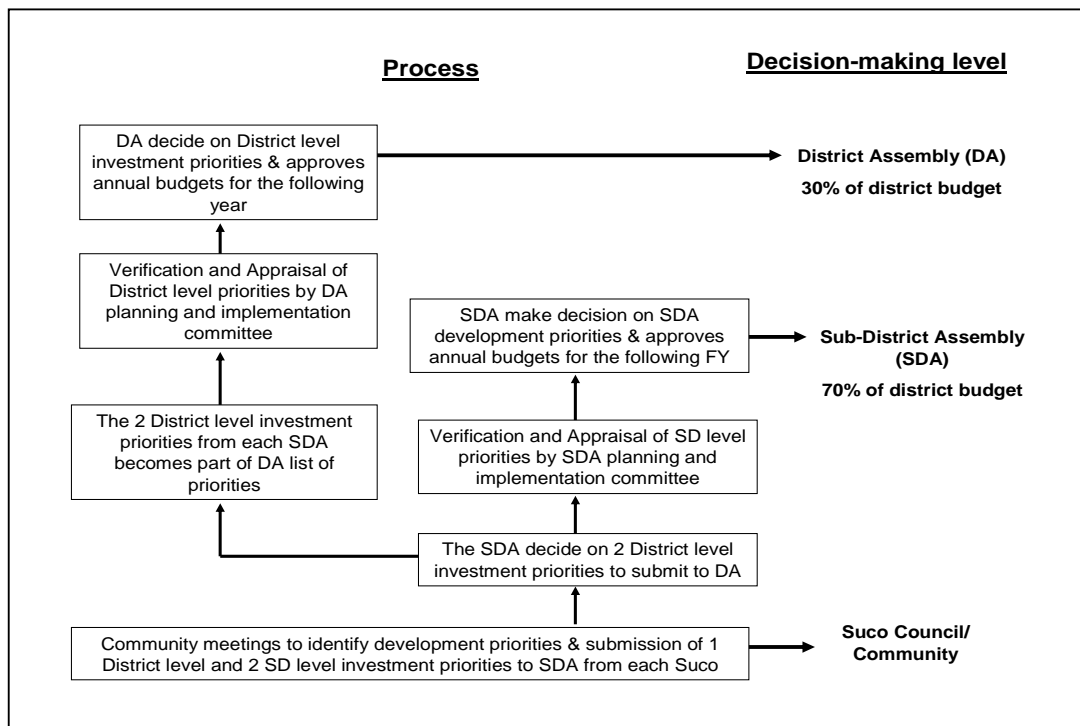
**ACTIVITY 2: ESTABLISHMENT OF AND SUPPORT TO LOCAL PLANNING PROCESS (LPP)**

Two documents were issued by the Ministry of State Administration instructing the District and Sub-District Assemblies on how to consult, identify, appraise, prioritise and prepare costing and design; *Ministerial Directive 3/2005 – DNAT/MSA Sub-District Planning Guidelines*, and *Ministerial Directive 4/2005 – DNAT/MSA District Planning Guidelines*. The aim of the LPP is to establish basic standards in the local level planning process, thereby ensuring high-levels of participation, informed decision-making processes, with local priorities being fully taken into account and with genuine ownership at the local level.

**2.1 Local Planning Process and the Local Development Fund (LDF):**

In general, the LPP established by the LDP at the Sub-District and District level has been effective in identifying, appraising and prioritising local-level infrastructure projects. The process has now been tested out over three years and with 25 LAs in the four pilot districts. The Suco Councils through community meetings continue to provide most of the “raw” input into the planning process and the efforts of Sub-District and District staff should be commended in carrying out the technical work related to the LPP. The District Integration Workshop (DIW) has proven to be an effective tool in ensuring sector buy-in for local investments and in avoiding duplication in investment planning decisions.

**Figure 2: Summary of LDP Local Planning Process**



The total capital budget allocation for the four districts for FY 2007-08 was US\$524,000. The allocations are based on population size and provide approximately US\$2.50 per capita. In addition the LAs received an operational recurrent budget for expenditures related to the LA, planning process, supervision and technical staff. This budget should have been implemented from July 2007, however the new Government decided to change the fiscal year to correspond to the calendar year in August and a transitional budget was approved for the period between July and December. No capital budgets were approved and the implementation of the LDF budgets was deferred to January 2008.

In December 2007, the Government approved its budget for 2008 and an additional four districts were included in the LDP. Previously the agreement with the Government had been that it provided the recurrent budgets for all districts and the capital grants for Manatuto and Aileu for 2008. The decision to fully fund both capital and recurrent budgets for all LAs was very much welcomed by LGSP since it clearly shows the commitment from the Ministry and the Government as a whole. In total, the Government approved US\$2,085,000 for the LDF, of which 1,885,000 was for capital investments. This is a substantial increase from US\$ 2.50 to US\$ 4 per capita annual allocation. Table 2 provides an overview of the original LDF planning figures for the 2007-8 budgets and the actual approved 2008 budget.

**Table 2: New Indicative LDF planning figures for 8 pilot districts for FY 2008**

District	Planned capital budgets FY 2007-8	Actual capital budgets FY 2008
Bobonaro	\$ 200,000	\$ 330,000
Lautem	\$ 140,000	\$ 230,000
Manatuto	\$ 94,000	\$ 154,000
Aileu	\$ 90,000	\$ 148,000
Ainaro		\$ 213,000
Baucau		\$ 418,000
Covalima		\$ 224,000
Manufahi		\$ 177,000

The increase in capital allocations means that the LAs which had already approved their annual plans for 2007-8 will have to revise their annual plans and budgets for 2008. This is expected to take place in January and February 2008 prior to disbursements from the LDF. The following section and the numbers used in the evaluation are only based on the previous budgets provided to the LAs in the beginning of FY 2006-7 for the LDF allocations in 2007-8, and will most likely change after the revised plans and budgets are approved in early 2008.

## **2.2 Local Planning Process:**

Each LA complied with the deadline of submission of their annual plans and budgets by June 2007. No major problems were reported during this planning process although it commenced later than normal as the result of the political turbulence in 2006.

The Sub-District planning process in three out of the four districts commenced at the Suco level, and the Suco Councils were responsible for facilitating this process. The Suco Chiefs were responsible for invitations and chairing Suco consultation meetings, while the SD Administrators or the Community Development Officers (CDOs) participated and supported the Suco Councils. Community participation in these consultations has been generally lower than expected, but there were large variations between the Sucos.

In the case of Bobonaro, most SDAs used the previous list of development priorities and simply re-confirmed that this was a priority or not by the proposer, i.e. Suco or sector. The various LAs in Bobonaro highlighted that only a few priority projects were actually funded in 2006-7 and that there

was no need to undertake a new round of identification. This raises a very valid point in that there is a need to develop a more long-term strategic planning mechanism where the larger priorities are identified while annual budgets simply make priorities based on allocated budgets.

Each assembly has established a Planning and Implementation Committee (PIC) as a part of the institutional framework. The PIC is given the responsibility for verification and appraisal in addition to the preparation of basic design and costing of eligible priority proposals during the planning process. Although funds for technical consultants are included in the LA recurrent budgets, a general problem for all PICs is the availability of technical personnel at the Sub-District level and qualified water technicians at both levels. A common trend is that the funds available for each LA are “pooled” together and technical personnel are hired at the District level and then provide technical support to all PICs, at both the District and the Sub-District level. The work of the PIC is critical for the debate in the LAs since the draft investment plan meetings are based on the PIC report.<sup>13</sup>

To avoid a “wish-list” scenario, each Suco is only allowed to submit two or three ranked development priorities to be considered for funding in the SD investment plan and one priority for the District investment plan<sup>14</sup>. In total 367 SD and District investment priorities were received and registered in the 25 LAs during the 2007-8 budget planning process, of which 98 were actually funded by the LDF. The LPP is designed to also allow submissions by sector-departments of their investment priorities to the LAs. It is important to recognise that only 2 projects out of the 98 funded were proposed by sector department and the remaining 96 came from the Suco level.

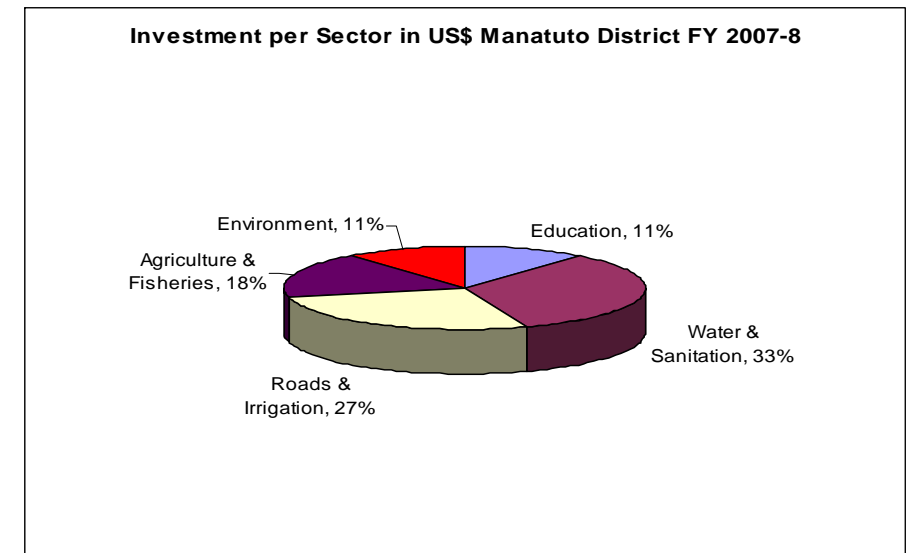
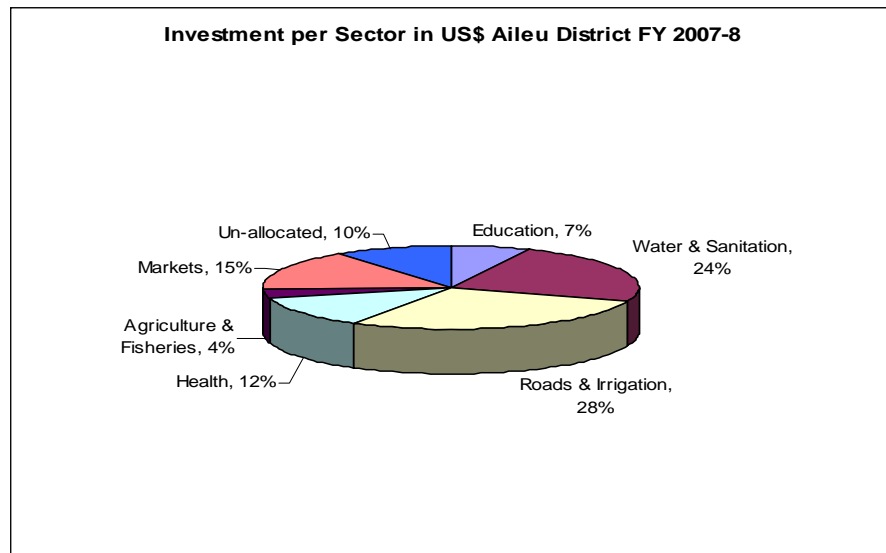
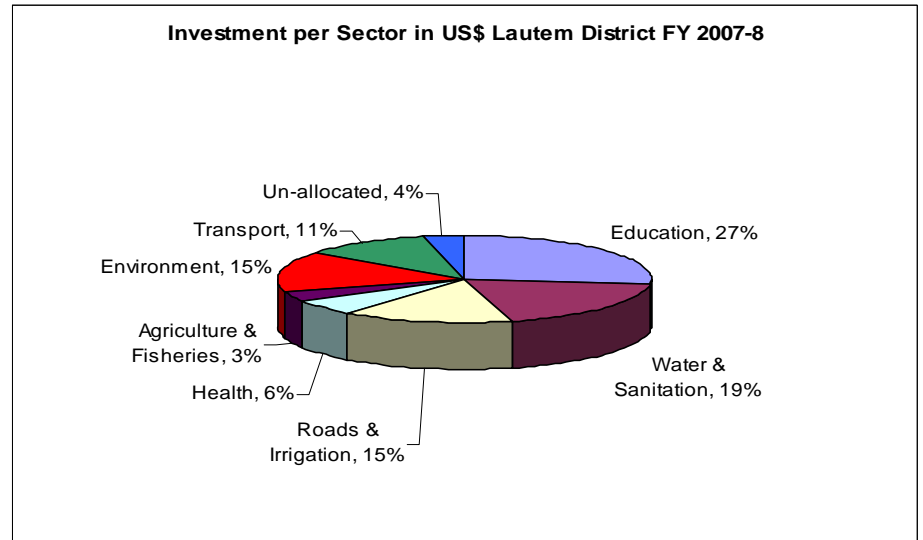
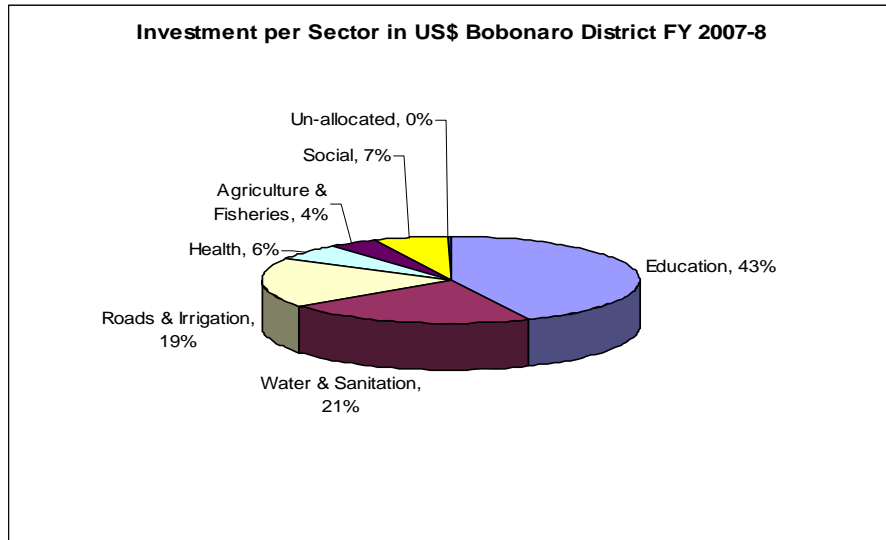
Below is an overview of the results from the 2006-7 planning process and the final approved annual budgets for FY 2007-8;

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<sup>13</sup> The PIC report includes an overview of activities at different stages in the planning process and a technical recommendation and justification from the committee. The PIC recommendation consists of a proposed total budget including all capital investments to be debated and voted on in the assembly.

<sup>14</sup> The decision on 2 or 3 proposals was made by the assemblies in their first meeting.

**Figure 3: Annual investments per sector for FY 2007-8**



In assessing the total investments per sector allocated for FY 2007-8 (FY 2008) for all four Districts, three main sectors will receive approximately 70 percent of the total budget: education (22%), water supply (24%) and roads (22%). This is a change from previous years when the education sector has been on top with around 40 percent of investments per year (based on data from Bobonaro and Lautem). In reviewing the data for the 2008 budget, education is still high in both these districts; however, data from Aileu and Manufahi show different priorities and more focus on water supply and roads.

Data is now available for sector priorities from four districts over a period of three years.<sup>15</sup> The table below provides the summarized figures for this period and shows the average data for investments in the period between 2005 and 2008.

Table 3: Evaluation of three years planning data (2005-2008)

Sector	Total 3 years (2005-2008)							
	Percent investments by Sector			US\$ investment by sector			No of projects by sector	Total cost per project
	Total %	DA	SDA	Total \$	DA	SDA	Total	Total
<b>Education</b>	31%	31%	31%	318,562	95,693	222,869	49	6,501
<b>Water &amp; Sanitation</b>	19%	7%	24%	195,504	21,088	174,416	48	4,073
<b>Roads &amp; Irrigation</b>	22%	18%	23%	222,318	57,121	165,197	39	5,700
<b>Health</b>	7%	6%	7%	72,424	19,120	53,304	13	5,571
<b>Agriculture &amp; Fisheries</b>	10%	13%	9%	105,107	40,510	64,597	26	4,043
<b>Markets</b>	3%	5%	2%	31,504	16,630	14,874	6	5,251
<b>Environment</b>	5%	8%	4%	50,632	24,211	26,421	10	5,063
<b>Electricity</b>	1%	3%	0%	8,798	8,798	-	1	8,798
<b>Social</b>	1%	4%	0%	13,000	13,000	-	1	13,000
<b>Transport</b>	2%	5%	0%	15,680	15,680	-	1	5,680
<b>Total*</b>	100%	100%	100%	1,033,529	311,851	721,678	<b>194</b>	<b>5,486</b>

\* The evaluation is based on approved annual plans and budgets. Un-allocated funds have not been included in the analysis.

Based on these figures one can see that investments in the education sector have been the key priority over the period of three years. However, it is important to point out that the data is very sensitive to small variations since it is only based on a small sample. Therefore the priority focus on education in Bobonaro District strongly influences the total figure since it is the only district with data for three consecutive years. Nonetheless, the data still provides a good indication of priorities in the four districts.

There is a repeated key focus on three to four main sectors; education (31%), roads (22%), water supply (19%) and agriculture (10%). The apparently low level of investment in the health sector does not necessarily mean that it is of lower priority; it can probably be linked to the fact that health is a rather well organized sector and has perhaps already seen investments in the core infrastructure needed as per available personnel. What is interesting are the figures concerning investments in the water supply and sanitation sector. On average, the sector received 19 percent of the total allocations provided to the districts. However, the Sub-District Assemblies have invested 24 percent of their funds in water supplies compared to only 7 percent in the District Assembly. It also seems that the total number of projects is extraordinarily high compared to the actual funds going into the sector. These figures indicate that the water problem is perhaps felt

<sup>15</sup> Data used is from Bobonaro district (3 years), Lautem (2 years), Aileu and Manatuto (1 year)

much more at the very local (or community) level than at the District level. Reviewing the details of these projects, it becomes clear that water projects often can be characterized as smaller maintenance projects than new investments - which can probably explain the relatively high number of water projects compared to actual investment allocations.

The cost of projects can range from \$500 to \$20,000. On average, the cost per project implemented to date is around US\$5,500. If one takes a look at the figures in Table 3, one can see that this varies considerably from district to district.

Table 3: Average cost per project in four districts

District	Average no. of projects per year	Average cost per project
Bobonaro	30	6,440
Lautem	26	5,349
Aileu	16	5,045
Manatuto	36	2,611

While LAs in Bobonaro on average allocate around US\$ 6,400 per investment project, LAs in Manatuto only allocate US\$ 2,600. The total investment budget for Manatuto is half of the one allocated to Bobonaro and yet LAs there are approving double the number of investment projects. This might be the result of lessons learned over three planning and implementation cycles in Bobonaro, where smaller but more numerous investments have generally been seen as having less impact on overall development. It is encouraging to see that in three out of the four Districts there is a tendency to focus on larger priority projects, instead of dividing the funds into smaller projects to “satisfy” more Sucos, as seems to have been the case for Manatuto which is one of the new districts. It will be interesting to see if this will change with time and experience.

## 2.2 Local Planning Process for FY 2008 and 2009

As previously mentioned the annual plans and budgets FY 2007-8 will have to be revised in early 2008 to take into account increased capital budgets for the four initial districts. Therefore, the final planning data for 2008 can only be analysed later this year. The four new districts will have to conduct two planning processes in 2008, since funds have already been allocated to them for 2008, and since the 2009 plans need to be submitted by all eight districts by October 2008.

### ACTIVITY 3: SUPPORT TO LOCAL PROCUREMENT PROCESSES

The amended Government procurement law from 2006 allows for the “decentralisation” of procurement to individual *central* Ministries for packages valued up to US\$ 100,000. This law has been used to facilitate local level procurement where the Ministry has delegated authority to the LAs for procurement of capital infrastructure. Prior to the LDP pilot there was no legal or regulatory framework in place for local level procurement and contract management in Timor-Leste. The pilot procurement regulation for local level is a simplified version of the national procurement law, but is based on all central procurement forms and contract formats in order to ensure a streamlined system. The aim was to design and establish sound procedures for local contracting of services and works along the lines of the central system in order to allow for a smooth transition in the case of future provisions for decentralised procurement.

This annual report only covers procurement in Lautem and Bobonaro Districts, since the planned implementation in Aileu and Manatuto had to be postponed as a result of the change in fiscal year to calendar year in Timor-Leste. It is expected that procurement and implementation will commence early 2008.

### 3.1 Local Tender Boards (LTB), monetary thresholds and methods of procurement

*Ministerial Directive No. 8/2005 – MSA Procurement Regulation* establishes the Planning and Implementation Committees (PICs) as the procuring entities for local assemblies at each level. In addition, District and Sub-District Local Tender Boards (D-TB and SD-TB) were created to ensure a transparent and accountable process for the awarding of contracts. The LTBs are composed of three technical representatives from the government and two voting members from the Assemblies. The Directive also establishes that representatives from the beneficiary community can participate in LTB meetings as observers. The regulation only allows for direct local level procurement and contract management in relation to the procurement of public goods, services and works valued at up to US\$ 10,000 at the District level and up to US\$ 5,000 at the Sub-District level.<sup>16</sup> Any procurement above these ceilings must be referred to the next level and all contracts above US\$ 10,000 have to be confirmed by a centrally-established tender board. Although this limits the independence of the local procurement process, four critical factors were incorporated in the new regulation to ensure local ownership of the process; 1) The procuring entity remains at the local-level even for procurement above US\$ 10,000; 2) local tendering; 3) local representation in the national tender boards; and 4) responsibility for local contract management and supervision remains at the local level. Thus, the local assemblies still control the process.

The main principle in procuring goods, services and works in relation to the LDF is open tendering.<sup>17</sup> This is particularly important to ensure transparent and cost effective processes and results. National tendering documents were adopted to streamline the national and local level processes. As for national procurement, the regulation requires that only pre-qualified contractors can participate in the bidding process.<sup>18</sup> The decision to establish a local process which used documentation based on national norms has meant that the procurement process for “Small Works”<sup>19</sup> is rather complicated and demands substantial bureaucratic input for the procuring entities. However, and from a long-term perspective (where these types of requirements will be necessary for local-level procurement), the more sophisticated approach was selected vis-à-vis a simplified method for the pilot.

### 3.2 Execution of local level procurement process

The 2006 procurement for the 2006-7 budget commenced much later than planned as a result of the political crisis during that period. This again resulted in, and was the main contributing factor to, delays in completion of the projects in 2007. However, all 54 planned projects in Bobonaro and Lautem were contracted out before the end of the fiscal year and 52 were ongoing. Two projects in Lautem did not start until November since the contractors who were awarded the contracts did not start on time. Although about 95 percent of the projects were ongoing by the end of the FY 2006-7, none of the projects in neither Bobonaro nor Lautem were actually completed. There is clearly a need to improve this part of the process and ensure that local level stakeholders understand and comply with set schedules within each fiscal year.

The table below provides information on how the local procurement process “panned out” in Bobonaro and Lautem.

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<sup>16</sup> This monetary threshold was based on the first draft of the national procurement law.

<sup>17</sup> In theory “open tendering” is based on RFQ documents; however to reduce corruption and the possibility of limited selection of contractors by the procuring entity the RFQ is an open process and publicly advertised.

<sup>18</sup> Pre-qualification is each year prepared by the National Public Works Department, and is an official list of pre-qualified contractors.

<sup>19</sup> Small works are defined as any Works below US\$ 50,000.



**Table 4: Aspects of local procurement in Bobonaro and Lautem (FY 2006-2007)**

Various aspects of procurement	Bobonaro	Lautem
Total initially estimated value of projects (excluding local contributions, based on VAT/PIC estimates)	\$ 198,256	\$ 137,719
Revised estimated value of projects (excluding local contributions, based on tender calculations)	\$ 196,370	\$ 138,346
Final contracted value of projects (excluding local contributions, based on contracts)	\$ 178,696	\$ 136,356
Total number of projects included in investment plans	25	29
Revised number of projects tendered (after revised estimates)**	27	27
Number of projects “cancelled” after revised estimation process for tendering	0	2
Actual number of projects implemented	27	27
Total savings after procurement in percent	9 %	1 %
Total savings in US\$*	\$ 17,274	\$ 1,626
Total received bids	106	51
Total accepted bids	49	42

\*Savings are to be re-allocated to new projects in 2008

\*\* Two projects were awarded by using comparative method of procurement since the total budget was less than \$1,000

From Table 4 it can be seen that:

The final estimates prepared before the tender process compared to the contract price were about 9% more than the final total estimates for the tender process in Bobonaro and 1 % in Lautem. This result is within the 10 per cent scale that was given in terms of valid bids and is relatively good given that local technical capacities (for initial design and costing) are supposed to be limited. This is an acceptable variation.

The tender process for the 54 locally-procured projects yielded “savings” of about US\$ 18,900 which corresponds to a 6 percent saving on the total budget, attesting to the efficiencies that can be generated through competitive bidding processes. It is important to note that all locally procured projects were contracted out to a wide range of local contractors – and not to Dili-based contractors, and with few contractors being awarded more than one contract. This was almost certainly due to the relatively small size of the projects – but does indicate (a) that there is not a scarcity of local contractors and (b) that the Assemblies are injecting capital into the local economy which thereby contributes to local job creation in the process.

On the “minus” side, the technical capacity of the contractors to prepare acceptable tender documents remains relatively weak. The main reasons for the rejection of bids is (a) that the bidding price is above/below the 10 percent plus/minus limit stipulated in the procurement manual and/or (b) that bidders did not satisfy administrative pre-conditions (i.e. TIN number, business registration number, pre-qualification, etc). Based on this, it is clear that further training of local contractors is needed to ensure that the private sector can absorb government contracts in the future.

### 3.3 Contract management

The Government changed its fiscal year to correspond to the calendar year in August 2007. Although this meant that the procurement for projects planned for 2007-8 had to be put on hold until January 2008, it also meant that the LAs had another six months to regain the time lost in FY 2006-7, since this now was considered as a transitional period.

According to the payments records 20 out of the 27 projects in Bobonaro were completed in August/September 2007, while the remaining projects were completed the following month. Only one project was not completed until January 2008. The final payments of the remaining 10 percent occurred before the end of the year except for five projects which were fully paid for in January. These final payments are related to the agreed liability period of three to six months and do not reflect the actual completion date of the projects. In Lautem a majority of the projects were completed and paid for during the period of June to August, while five projects were not completed until December 2007. The reason for the delay of the five projects was due to the contractors in question, who did not start work on time. By the end of December 2007 all contracts had been paid and closed. This means that the LAs authorizing payments to the five contractors which only completed their contracts in December did not comply with the regulatory liability period of minimum three months.

Lessons from this round of implementation indicate that perhaps too many contracts are given to a small number of contractors who do not have the capacity to implement more than one or two projects at the same time. The payment data suggests that a contractor will first complete one project, before starting on the next one, if s/he has been contracted for more than one project. This naturally leads to delays in the implementation process. However, it is difficult to change this practice since it will be difficult for the LTBs to justify why they do not award a contract to the lowest technically adequate bid during the procurement process.

It is assumed that it will be easier to complete the majority of projects and payments within the fiscal year within the new FY timeframe of January to December. This will provide the LAs with time to receive the funds and tender out contracts during the end of the wet season, and then actually implement projects during the dry season between May to September. It will therefore be interesting to monitor scheme implementation in 2008 so see if there are any improvements in terms of the completion of this whole process within a fiscal year.

Finally, it is clear that Local Assemblies continue to overlook the recommended establishment of Local Oversight Committees (LOCs), responsible for ensuring community-level oversight of contractors and the quality of their work. In some cases, there were "natural" LOCs (e.g. school committees); in others, it is clear that the respective PICs did not ensure the establishment of a formal oversight process at the local level. This is something that needs more attention during 2008.

#### **ACTIVITY 4: OPERATION OF THE LOCAL DEVELOPMENT FUND (LDF)**

The Local Development Fund (LDF) was established by the *Ministerial Decree No. 8/2005 regarding Local Assemblies*, in July 2005 within the CFET budget of the Ministry of State Administration. Approximately US\$ 1 million was made available through the LDF in the form of annual block grants over a period of three annual planning/budget cycles for each of the two initially identified pilot districts (Bobonaro and Lautem). As mentioned previously, the new Government approved US\$ 2,085,000 for LDF as the annual budget for 2008. The previous LDF allocations were US\$ 2,44 per capita per district and further divided between the District Assembly (30%) and the Sub-District Assemblies (70%). The new allocation for the eight Districts involved in the LDF is US\$ 4 per capita from January 2008. This report, however, is based on the planned budget allocations for FY 2007-8. The annual allocations are shown below in Table 5 for the two pilot districts with capital budgets.

**Table 5: Budget allocations to pilot districts for 2006-7**

District	Total allocations		District level		Sub-District	
	LDF (capital)	Recurrent	LDF	Recurrent	LDF	Recurrent
Bobonaro	200,000	19,123	60,000	4,995	140,000	14,128
Lautem	140,000	13,147	42,000	3,677	98,000	9,470
Aileu	90,000	4,313*	27,000	1,439	63,000	2,874
Manatuto	94,000	5,482*	28,000	2,410	66,000	3,072

\* The recurrent allocation is very small since it was only anticipated a LPP for FY 2006-7 in these two districts

With respect to issues related to the establishment of financial instruments, financial management procedures for ISD and Performance Based Incentives, the reader is referred to “*Local Development Programme Annual Progress Report 2005 and 2006*” Chapter 3, which describes the details concerning and rationale for certain decisions made early on in the programme.

#### 4.1 Functioning of the LPFM

In general, it would be fair to conclude that local public financial management (LPFM) is the one area where the LDP still has a good deal of capacity building to do before it can demonstrate workable and effective procedures. Although the initial lessons are encouraging, much more work needs to be done before one can establish that the present financial management system and operations are successful and appropriate. This component continues to be a major challenge to both training and the level of existing capacity within the District and Sub-Districts Administrations. However, it should be recognised that the financial management regulations and procedures are new and are being introduced to staff with no previous FM experience or for whom FM is not part of their regular job description.

The District Finance Officer (DFO) is the person in charge of managing national finances at the local level. S/he, together with the DA and the DDA, make up the District Administration Treasury (DAT) and is responsible for the overall financial management and treasury functions of the LDF. In addition, Local Assembly finance teams have been established and are authorising expenditures on behalf of the Assemblies. Both institutions continue to need substantial support, but there are visible improvements. The DFOs in most locations have been very helpful, although serious problems occurred in Aileu since the DFO presently working in this District has not taken on his new responsibilities in relation to LDF. In addition, there is tendency to assume that work with the LDF is not a priority – as a result, financial reports are often late and there are mistakes that the DFO should have picked up before processing payments or closing advances. The Ministry has recognized this and in the budget for 2008 a total of 13 temporary finance positions have been approved to facilitate and improve the current financial reporting and management system.

There is still a lack of sufficient bank facilities in some Districts and the DATs have therefore opened bank accounts in other Districts. This is an issue that the Government will need to solve before a national system of bank transfers can be fully utilized as an effective mechanism. However, compared to the present cash based system and where large amounts of funds are stored in safes in the district finance office, the established LDF mechanism is still preferred.

To date, only one case of mismanagement of advances has been discovered, while other problems and mistakes in the management of funds have so far been due to lack of experience with management of funds. It is a mere matter of time before the DAT and Finance Teams are in a position where less backstopping is needed. The largest challenge now is with respect to the timely submission of finance reports. The main reason for this seems to be that one or two LAs are always late with their quarterly submissions to the DATs, which again delays the entire process. However, this does not explain late monthly DAT reporting to the Ministry since these reports are status reports and do not depend on the closing of LA advances. In an attempt to improve this, the

Ministry will establish monthly and quarterly meetings with the finance officers in all districts to ensure that monthly and quarterly reports are submitted in time.

#### **4.2 Compliance with Minimum Conditions**

In principle, LDF allocations are subject to Local Assemblies demonstrating compliance with a simple set of Minimum Conditions (MCs)<sup>20</sup> and can be increased or decreased depending on the assessment of the performance of Local Assemblies across a range of Performance Measures (PMs). Both of these elements of the performance-based funding provided by the LDF are provided for in Ministerial Directives. The assessment process is currently ensured by an *ad hoc* evaluation team, membership of which is designated by the Minister of State Administration and Territorial Management and only MCs are enforced at this point in time. All four districts were evaluated against the MCs in July 2007 and all Districts were found to have complied with the MCs. Cailaco SDA in Bobonaro District was requested to improve its performance, which is the same recommendation received the previous year. It is assumed that without improvements this LA will not manage to comply with the set MC for 2008. The MC evaluation is a good tool for central government to make an annual assessment of the performance of local administrations and also an incentive for the Assemblies to perform since non-compliance will result in having the LDF withdrawn.

#### **ACTIVITY 5: Dialogue between national women leaders and LA representatives**

Women's participation in the LAs is relatively high, with an average of around 75 percent. However, this is not a satisfactory figure and although the latest figures show an increase in women's participation in District Assembly meetings, it is decreasing in the Sub-District Assemblies. Although it has already been established that there are various reasons for this low level of participation, it is difficult to find a satisfactory solution to this problem.<sup>21</sup> In an attempt to encourage women to play a larger role in the political sphere a series of district dialogues were held between women leaders from the National Parliament, Government and women members of the LAs in four districts in November and December. The meetings were facilitated by Caucus which is a local NGO dealing with training related to women leadership issues in particular. Around 30 to 60 women participated in each meeting; in total 188 women LA members and women's groups representatives participated in these dialogues.

The initiative was very much welcomed by women from both the national and local levels, who expressed an interest in participating in similar activities in the future. On the basis of discussions with LA participants, this initiative was clearly seen as an opportunity to meet national women leaders and to discuss women's roles and the challenges that they are facing in the LAs. The representatives from the national level shared this view and expressed particular interest in the work of the LAs and looking at how to improve women's participation in decision-making processes at the local level. Many of the participants articulated the need for more information and specific training to enhance women's capacity to carry out their Assembly functions. Specific recommendations were made in terms of strengthening the linkages between national women leaders and women assembly representatives and in terms of ensuring a regular dialogue once or twice a year. LGSP has followed up on this recommendation and a national seminar is planned for 2008.

#### **ACTIVITY 6: National Exchange Workshop**

A two-day national workshop focusing on exchanging experiences between the assemblies in the four pilot districts was conducted in December. The participants in the workshop consisted of representatives from all LAs - elected and executive members – in addition to representatives from

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<sup>20</sup> The MCs are designed to become incrementally more "demanding" over time, such that each year participating Local Assemblies need to satisfy more stringent MCs.

<sup>21</sup> See LDP annual reports 2005 and 2006

the remaining nine Districts, staff from relevant ministries and other institutions. In total, 128 participated in the national event of which 84 were Districts representatives

District representatives from the pilot assemblies explained their roles and functions, the various processes linked to the work of the assemblies, in addition to describing their achievements and challenges. The participants expressed a high level of interest in the decentralization process and there was a common view that decentralization is important and well received at the local level.

Some specific points were made in relation to challenges faced while implementing the LDP:

- Limited budget allocations for regular expenditures;
- Limited transportation facilities;
- Lack of support from technical ministries at District and national level;
- Lack of human resources especially in technical areas;
- Limited bank facilities at the district level;

Recommendations were made with a view to ensuring integrated coordination between national and local levels so as to further improve the LDP mechanisms.

During the second day of the workshop, the participants visited and observed a plenary session in the National Parliament (NP). The timing of this visit coincided with the annual budget discussions and it was therefore particularly interesting for the participants. The objective of this visit was to expose the members of the assembly to the work and proceedings of the NP. A second trip to the NP is planned for 2008 for the technical staff to visit and exchange experiences with the Secretariat.

## **OUTPUT 2: POLICY & LEGISLATION**

*“Support is provided to GoTL for the establishment of an appropriate and comprehensive institutional, legal, and regulatory framework for local government”*

Although the LDP-pilot component is intended to make a direct contribution to poverty reduction in the areas within which it operates, its primary justification lies in its potential – as a pilot – to inform national decentralization policy processes. And this is doubly important given that GoTL (led by MSATM, with UNCDF/UNDP assistance) is currently in the process of clarifying local government options and reforms. The strategic move to merge LDP and LGOS in January 2007 ensured a direct link between the two objectives of piloting and providing technical advice on the decentralization process.

The former Government took an important step in October 2006 by approving a Policy on Decentralization and Local Government. However, with the change of Government in August 2007 early indications were made that the new Government had a different position on the way forward for decentralizing the public administration in Timor-Leste. On the positive side, the five year programme of the new Government identified decentralization as one of its top priorities and something that would be tackled early on in its mandated period in government. It also became clear that although the new Government wanted to change the policy, it was also willing to base its new decision on the technical work already completed over the past four years and the lessons learned from the LDP pilot-programme.

In late 2007, the Ministry of State Administration and Territorial Management (MSATM) recommended policy Option 5b (District Municipalities) as the preferred option.<sup>22</sup> At the time of writing this report a summary review of the six options has been prepared by the Ministry which includes its recommendation. The new draft policy and recommendations from the Ministry have been submitted to the CoM; however it is unclear when these issues will be discussed by the CoM. The revised policy has been submitted together with the Decentralization Strategic Framework (DSF) which indicates activities, schedules and identified milestones. It is expected that legislation will be drafted during the second part of 2008.

This change of policy position has clearly delayed many LGSP activities during 2007 and very few activities related to the preparations of new policy and legislation were in the end actually implemented. However, this is an eminently political process and the programme itself cannot take responsibility for the delays.

### **ACTIVITY 7: Assist in the drafting of Decentralisation Road Map Part 2**

The approval of the policy on Decentralization and Local Government (LG) by the former Government led to a resolution which established a Decentralization Secretariat (DS) in the Ministry of State Administration, Technical Working Groups in 11 Ministries and endorsed the Decentralization Strategic Framework (DSF) part 1. The DSF defined the agreed activities, timeframe and milestones for the preparation of LG legislation and was used to guide the activities of MSA. The plan was to draft a Decentralization Road Map part 2 in 2007, outlining the details and steps to implement the new Local Government reform process.

However, the change of government in early August 2007 resulted in uncertainty as to whether the new government would maintain the already approved policy on decentralization or not. Thus, the Decentralization Secretariat was unable to draft the DRM part 2.

### **ACTIVITY 8: Support consultation processes at local and national levels**

One of the first activities established in the DSF was to conduct a national consultation based on the approved policy on decentralization and the proposed administrative and territorial division (number and combination of units). The policy stated that Sub-Districts were to be used as the main building blocks for the new tier of local government and 31 new municipal units were proposed combining two or more Sub-Districts.

A methodology was drafted for the national consultation process and it was decided that consultations should be held at three levels; i) Sub-District (including communities), ii) District and iii) national level. There were four main issues on the agenda for the consultations which mainly focused on the Administrative and Territorial Division proposal:

- Views on proposed territorial units
- Views on location of new Administrative centers
- Recommendations in terms of Land and property issues related to present or proposed new territorial units
- Views on how to decide on names of new municipalities

Issues related to functional assignments and technical issues in regard to the reform were not on the agenda since this was primarily linked to the sector working groups in each Ministry. A second phase of consultations was planned to bring these issues out for broader discussions after the sector ministries had identified a basis for consultations.

Three teams from MSA were established and they held 78 meetings; 13 at the district level with local civil servants from all Ministries and 65 sub-district level meetings with Suco Council representatives, women's and youth organisations, elders and other interested community

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<sup>22</sup> See Local Government Option Study 2003

members. More than 6,000 people participated in the consultation meetings held during the period January to September 2007. Originally the consultations were to be completed by the end of June, but the schedule was changed as a result of Parliamentary and Presidential campaigns and elections.

LGSP and the Ministry were never able to conduct the national meetings and conclude the consultation process since the new Government indicated from the start that it would like to change the former policy in August/September. However, some initial conclusions can be drawn:

- People being consulted would like to see decentralization implemented as soon as possible;
- A majority of people being consulted did agree to the option of creating new municipalities using existing Sub-Districts as building blocks, although in some places people did suggest options other than those originally recommended by the IMTWG;
- Tendency to keep to District boundaries when combining Sub-Districts, with very few Sub-Districts wanting to be merged with Sub-Districts from other Districts;
- Potential problems related to combining Sub-Districts as new municipalities in Viqueque, Lautem and a few other Sub-Districts as result of ethnic issues and/or a view that the Sub-District should remain a single unit;
- Very few problems identified linked to land and property issues for the proposed new municipalities boundaries;
- Lack of consensus on the location of new administrative centres, which would have the potential of creating discontent among certain areas when actual implementation would occur;
- Lack of consensus of new names for municipalities.

#### **ACTIVITY 9: Support to MTWG at national level**

As previously mentioned, Government Resolution N° 10/2006 established Ministerial Technical Working Groups (MTWGs) and MTWG focal points to liaise with the Decentralization Secretariat within MSA. In total 11 Ministerial Technical Working Group (MTWG) were to be established at national level as a consultation mechanism on functional assignments, municipal finances and treasury systems, HR, elections, assembly representation and other relevant aspects of the future local government legislation. Each MTWG received a set of TORs and they were all expected to prepare a Ministerial report outlining their views on and analysis of decentralization within their own sectors.

The objective of this work was not to establish a final plan for the assignment of functional assignments at the local and national levels, nor was it to conduct a detailed functional analysis of each sector. The main objective was to commence discussions within each sector ministry since this had been more or less absent over the three previous years. Although high level political discussions on decentralization took place during the period from 2003 to 2006, very little in the way of technical discussions had taken place. This became more and more evident during the last phase of the work in the original Inter-Ministerial Technical Working Group, which had worked on the Local Government Options Study, and it became clear that there was a need to facilitate more sector relevant discussions. Also, experiences from other countries seem to indicate that the earlier one brings the sector ministries into discussions the lower is the possibility of a backlash later in the process, where sector ministries can bring to a halt a planned decentralization reform process if not included from the very beginning. Considering that the decentralization process should be owned by the whole of Government and not only by the lead Ministry, MSA felt this was of utmost importance and that sufficient time needed to be planned for these internal discussions.

Although there was clearly a political will to make this process work, only a few Ministries actually convened meetings and started working on the actual report. Although several reasons can be identified for delays and a lack of follow-up, one of the main reasons appears to have been the lack of will to continue the process by the Ministers in view of the national election and possible changes to the Government. Some Ministers stated that it would be up to the new Government to move this process forward and until such time as this was clear, there were no reasons for

continuing. The Ministry of Health should, however, be commended on its work since the Ministry showed great enthusiasm in the process and met weekly over a period of several months.

It is hoped that with the new policy in place, the work of the MTWGs will start up again, since this process will be of utmost importance for the success of the decentralization process.

#### **ACTIVITY 10: Factor in the lessons learned from the LDP-pilot into the policy process**

The establishment of Local Assemblies in pilot Districts and Sub-Districts with clearly defined mandates, procedures and capital budgets has been successful. The new Government is still considering decentralization as one of its main priorities, and the LDP is seen as important both for local development and for the policy lessons that it provides. The programme has been broadly endorsed by the new Government which is clear its intention to make the LDP into a national programme in 2008. The new Government approved a budget of US\$2,085 million for eight districts for 2008 and about US\$4 million in 2009 including all 13 Districts. The design of the revised regulations for the new districts with only District Assemblies shows the policy relevance of the LDP where it is now intended to facilitate the testing of a District Municipal level in line with the recommendations from the MSATM.

In 2008, the LDP will be able to test out two modules in one pilot. It will be particularly interesting to be able to compare the various outcomes and lessons that such a pilot framework can provide.

#### **OUTPUT 3: SUPPORT TO IMPLEMENTATIO OF LG REFORM**

*“Support is provided to GoTL for the implementation of local government reforms”*

This last expected output of the programme is related to support for implementation of the LG reform itself and naturally there is little that can start before policy and legislation are approved by the Government. Only then it will be possible to clearly define activities and targets under this output. However, over the years it has become evident that there is a need to increase the level of effective communication about the reform process itself and the achievements of the Local Assemblies involved in the LDP pilot. Therefore, the programme, in close coordination with the Ministry, established a Communications Unit in August 2007 to increase and support public information in general, but with a special focus on the decentralization and LG reform processes.

The MSAOT Communications Unit received support from LGSP in terms of one national staff member and a communications budget. In addition, an international communications advisor was funded by the WB Leadership and Communications programme for six months. The Communications Unit received a mandate to improve coordination and the production and dissemination of information from the national level to the local level. The Unit is also expected to play a key role in both the short and long terms to ensure that the local level can make informed decisions based on updated and regular information from national level and vice versa. The Ministry has fully committed itself to supporting the work of the Communications Unit by including this mandate in the Ministry's draft annual action plan and organic law. The Ministry has already allocated office space for the Unit and, as part of the Ministry's internal restructuring, additional staff have been committed to working with the Communications Unit (although the number of staff has yet to be confirmed).

The Communications Unit's main activities have been to coordinate information from all Government offices and establish a pilot distribution system for government public information. As the system is a pilot only, two different levels of distribution are being tested – one to the Suco



level and one to the Sub-District level. The Suco-level distribution trials began in October in the district of Bobonaro, with an initial survey, consultation and sub-district level training sessions with all Chefe Sucos. The initial distribution to Bobonaro took place on November 9, with packages of information being sent to the District Administration, six Sub-District Administrations and 50 Sucos. In December, the distribution system was expanded, through collaboration with DNAT, to all districts to the sub-district level (an additional 12 district offices and 59 sub-district offices). The initial distribution to the sub-districts ran into some unexpected delays due to the holiday season and the unwillingness of bus drivers to receive packages during the busy travelling season, and these logistical difficulties are important long-term considerations which will be included in the final evaluation of the distribution system. Four information distributions have taken place, distributing a total of 52 documents from 10 different Government offices.

The Communications Unit has also established links to all Government Ministries in order to coordinate information for distribution and to strengthen the public information capacity of the national government. Interviews were held with all public information officers from every Ministry by Communications Unit staff working in coordination with DNAT staff. The results from these interviews were compiled into a Government Information Needs Assessment which was completed in conjunction with the Government Information Office in November. Based on the identified need for increased coordination on public information between Government offices, an initial coordination meeting between all government public information officers took place in November, and during the meeting all participants agreed that coordination on government public information should continue through regular meetings organized by the Communications Unit. The Communications Unit also held a stakeholder meeting in November with members of the UN, NGOs, civil society and media present to discuss the mandate of the Communications Unit and brainstorm possible collaborations with non-government actors. The results from both of these meetings will be combined with a field evaluation of the system which is scheduled for January 2008 in order to draft the final evaluation of the distribution system trials which will include recommendations for the expansion of the pilot system to a national permanent distribution structure.

Based on the response of the Government to this final evaluation, the Communications Unit will begin drafting an implementation strategy for the distribution system. Much of the sustainability of the Communications Unit, however, will be based on the Government's willingness to allocate assets for the Communication Unit's work, and general support for public information and communication by the National Government. The Ministry will first need to decide on the location of the Communications Unit within its organizational structure, and agree upon regulations for the distribution system – defining what can and cannot be distributed through the distribution system, the target audience for the information packets, and appropriate guidelines for the handling of feedback received from local authorities and the general community. In addition, issue of allocating a printing budget for Government information will need to be resolved either by the Government as a whole or by each individual Ministry. All of these issues will need to be resolved in early 2009 before the establishment of a national information distribution system.

As part of the effort to increase communication capacity of the government at both a national and local level in preparation for the Government's plans to decentralize in 2008, information boards for each Suco were procured through a tender to a private company. During the initial consultations with Suco leaders in Bobonaro by the Communications Unit, almost all Sucos requested the installation of information boards at their Suco office so they would have a location for posting public information. The initial tender is procuring 160 information boards to be built and installed at the Suco level in four districts: Bobonaro, Aileu, Lautem and Manatuto. The information boards are only the first step in building the capacity local authorities to communicate with their communities. The installation of the Suco boards will be expanded to the remaining 9 districts in 2009 and followed by training given to Suco leaders on communication and consultation with their communities and guidelines for the appropriate use of the information boards.

With the addition of the Communications Officer, LGSP has also begun increasing the production of public information about LGSP and the decentralization process. This activity began with the visit of UNCDF Head of Communications in October to conduct project site visits for promotion of decentralization pilot program through photos and film, as well as assistance in designing communication strategies. The design of the LGSP communications strategy has been drafted and the initial production of materials based on the strategy began in December 2007. The general colour-scheme, layout and logo for the decentralization communications campaign was produced by a graphic design consultant, and this branding of decentralization will be used consistently in all future public information releases in order to increase public awareness and comprehension of the decentralization process. The first public information releases, which were designed in consultation with and with input from the Ministry, were a 2008 promotional calendar, which included important deadlines and reminders for Local Assembly members, and fact sheet on the decentralization process aimed at a general audience. The strategy has been expanded based on feedback from the annual planning workshop to include additional activities in 2008, including a component on public/civic education, and will be presented to the Government for approval in 2009.

Based on the very positive results from the initial five months of operation, the programme has decided to recruit an International Information, Education and Communications (IEC) Advisor for 2008. Although the unit will be driven by the Ministry it is recognized that continued capacity building is needed in addition to assistance in the production of materials. This will also ensure that information about the LDP-pilot, decentralization and the local government process is produced and distributed.

#### **IV. PLANNED ACTIVITIES FOR 2008**

An annual planning seminar was held in December 2007 with key staff from MSATM to establish a LGSP Annual Work Plan with priorities and deadlines for 2008. It is anticipated that the Government will move forward with the decentralization process next year and there are indications that the Government would like to complete LG legislation before the end of 2008 with the view of starting implementation of the local government reform process in 2009. The programme is therefore planning to recruit several international technical experts to assist in this process within various technical areas such as functional assignments, fiscal decentralization, territorial division, institutional restructuring and drafting of legislation. It is also anticipated that the programme will support about 10 Ministerial Technical Working Groups to complete their technical assignments and inputs to the LG draft legislation. Support to national consultations will also be provided if the Government or National Parliament requests such assistance.

As mentioned earlier, the LDP is now seen as a national programme and will from January 2008 be expanded to eight out of the thirteen districts. The programme is preparing for training of about 500 new members of the local assemblies in the four addition districts and in addition to general technical support to the 29 LAs as in past years.

The programme will in 2008 be fully operational in its new strategy for communication, education and information activities. This component will receive additional focus during 2008 to ensure that people are more informed about the decentralization process, LDP activities and through information generally prepare both national and local level for the LG reform itself. It is also expected that the programme will establish closer links with the communities through local and international counterparts in terms of civic education and communication/public information initiatives.

If deadlines are met in regards to the LG legislation there will be a need to establish more details plans and activities for 2009 and beyond during 2008. In particular, the focus of such planning will be on how LGSP can provide key support to the implementation of the LG reform process and how the programme itself needs to transform from piloting and support to a legal process to activity support the new LG system. Therefore, an evaluation mission is scheduled for August followed by a re-design mission for LGSP.

## V. COMMENTS TO AWP 2007: PROGRESS COMPARED TO ANNUAL WORKPLAN

This summary is a narrative description compared to the AWP for 2007.

OUTPUT/ACTIVITIES	STATUS	PROGRESS REMARKS
<b>Output 1: PILOT (ex LDP)</b>		
Procedures, processes and systems for effective local-level infrastructure and service delivery (ISD) and public expenditure and public financial management (PEM/PFM) are piloted in selected Districts, Sub-Districts and Municipalities.		
<b>1.1 Pilot and support for local level ISD by Local Assemblies in selected Districts</b>		
<b>1.1.1</b> Continue support local assemblies in pilot sub-national units (PIC, Finance Teams, DAT, Tender Boards)	Completed	Although technical support was provided during this period, there was low level of activities during the period of July to December since the change of the FY resulted in postponed government activities from 2007 to 2008.
<b>1.1.2</b> Provide IT equipment to LA secretariat	Completed	In total 8 computers and printers were procured and handed over to the LAs on temporary loan to support their activities related to planning and finance management.
<b>1.1.3</b> Provide furniture/equipment to LA secretariat	Completed	In total 4 motorbikes were procured and handed over to the LAs on temporary loan to assist the PIC and technical staff in the 4 pilot districts.
<b>1.1.4</b> Provide meeting allowances for DA and SDA members and operational budgets to LAs	Completed	Recurrent budgets were made available to the LAs, however, only 50 percent of the planned meetings were held as a result of the change in the FY to calendar year and the referral of 2007 budgets to 2008.
<b>1.1.5</b> Study tour to national parliament and/or exchange between LA from different pilot districts	Completed	A national workshop and a visit to the national parliament with participants from all Districts was held in December. A total of 128 LA members and officials from non-LDP districts participated in the national activity.
<b>1.1.6</b> Announce LDF allocations for D and SD for FY 2007-8 (budget ceilings)	Re-scheduled	Because of the change of the FY this will only occur in January 2008. This will be the announcement of 2008 budget and planning figures for 2009 budget.
<b>1.1.7</b> Evaluation of D and SD performance against the defined Minimum Conditions, and announcement of the D and SD MC results.	Completed	Review of MC for all 25 LAs was completed in July 2007.
<b>1.1.8</b> Allocate D and SD funds in accordance with defined LDF financial mechanisms	Partly Completed	The total funds allocated for FY 2006-7 was transferred as planned. However, the LDF allocation for FY 2007-8 will not be transferred until January 2008 as a result in change of FY.
<b>1.2 Establish robust and transparent PFM systems (including auditing procedures) at the local level;</b>		
<b>1.2.1</b> Establish internal LDP audit procedures and modalities	Re-scheduled	With the change in Government it was uncertain if this activity should go ahead of not during 2007. The activity has been postponed to 2008.

1.2.2 Provide training to national and local stakeholders in new audit procedures	Re-scheduled	Same as above
1.2.3 Develop procedures for the management of "grants" by Treasury	Re-scheduled	Because of the stalled policy process this activity had to be re-scheduled.
<b>1.3 Introduce specific capacity building activities targeted at female members of Local/Municipal Assemblies</b>		
1.3.1 Establish a CB programme aimed at improving gender awareness in LA	Partly Completed	The main part of this component has been re-scheduled as a result of delays in implementation during Q3-4. However, a series of dialogue between national women leaders and women representatives in the LA was held in November and December. A total of 188 LA women representatives, 4 national women parliamentarians and eth secretary of state for promotion of gender equality participated in the activity.
1.3.2 Implement CB programme	Partly Completed	Same as above
<b>1.4 Introduce measures to improve the levels/quality of participation in Local/Municipal Assemblies and Suco Councils (Standing Committees, training, etc.);</b>		
1.4.1 Refresher training for local stakeholders in planning, budgeting, finance, procurement and O&M modules	Completed	A total of 294 participated in the refresher trainings provided by LGSP in 2007.
1.4.2 Training seminar for PIC members in Infra. Design and costing	Re-scheduled	Problems with identifying a service provided has resulted in re-scheduling of this activity
1.4.3 Establish and support Gender Standing Committees in selected LAs	Re-scheduled	As a result of change in FY, the LA did not meet as normal during the transitional period (July-Dec 2007) and this activity was re-scheduled to 2008
<b>1.5 Suco Council representation, CB and enhancing citizen engagement in LG</b>		
1.5.1 Prepare Programme Note for new component	Completed	A programme note for this the CB component was completed.
1.5.2 Outsourcing the programme component in competitive tender process & implementation	Cancelled	RFQ was prepared and tender advertised. Deadline for submission is 2 July. Review of technical and financial bids were done in August, however, all bids received were too costly and a decision was made to cancel and review other options for this activity.
<b>1.6 Implement and refine PM and MC assessment processes</b>		
1.6.1 To be determined (2008)		
<b>1.7 Develop appropriate mechanisms for demand-driven capacity building of Local/Municipal Assemblies</b>		
1.7.1 To be determined (2008)		
1.8 Formulate and implement communications strategy	Completed	A communication strategy for the Ministry has been drafted and waiting approval from the Ministry. Several pilot activities were implemented as part of establishing an effective strategy.

<b>Output 2: POLICY AND LEGISLATION</b>		
Support is provided to GoTL for the establishment of an appropriate and comprehensive institutional, legal, and regulatory framework for local government		
2.1 Assist in the drafting of a Decentralisation Road Map Part 2 (DRM)	Re-scheduled	Re-scheduled for 2008 since new policy is not yet agreed.
2.2 Support consultation processes at local and national levels (consultations on territorial units, etc.)	Completed	A total of 6,032 people participated in the 78 meetings held at District and Sub-District level. The report is presently being compiled.
2.3 Support to MTWG at national level (consultation on LG functions, finances etc.)	Re-scheduled	The work of the MTWG is presently uncertain since a new mandate has to be provided from the new Government
2.4 Factor in the lessons learned from the LDP and Output 1 of LGSP into the policy process	Re-scheduled	Re-scheduled to 2008
2.5 Support any reviews of existing legal frameworks and assessments of the need to adapt them in the light of decentralisation	Re-scheduled	Re-scheduled to 2008
2.6 Provide technical support for preparing the content of draft legislation or detailed policy documents	Re-scheduled	Re-scheduled to 2008
2.7 Provide legal assistance for preparation of the Law on Local Government, Adm & Ter Division and other legal instruments on the basis of detailed policy documents	Re-scheduled	Re-scheduled to 2008
2.8 Assist MSA in adapting to its new role and in restructuring/ implementation of reform	Re-scheduled	Re-scheduled to 2008
2.9 Provide technical assistance for defining appropriate fiscal frameworks, financing arrangements, and local public financial management systems (or costing of the reform)	Re-scheduled	Re-scheduled to 2008
<b>Output 3: IMPLEMENTATION OF GOVERNMENT REFORM</b>		
Support is provided to GoTL for the implementation of local government reforms		
3.1 IEC activities (information/ communication)	Completed	One issue of the Decentralization Fact sheet, 2008 calendar and stickers. A special Decentralization symbol was also designed. A total of 160 Suco information board was procured and will be distributed to Sucos involved in LGSP.
3.2 Provide preparatory assistance for decentralisation aimed at developing local capacities	Re-scheduled	Not possible to implement until new policy/legislation is in place – moved to next FY

## VI. FINANCIAL REPORT

The programme delivered 35 percent of the total budget in 2007. This is acceptable considering that many key activities were re-scheduled as a result of change in Government policy and the change of the FY to a calendar year as previously described. Table 6 below provides an overview of the total expenditures for 2007.

Table 6:

<b>UNCDF: 00054392</b>	
<b>OUTPUT</b>	<b>Annual Expenditure 2007</b>
LDP pilot	57,982
Policy and legislation	89,218
Support to LG reform	28,110
Project Support (incl. TAs and core national staff)	194,047
<b>Sub-Total Expenditure:</b>	<b>369,357</b>

<b>UNDP: 00053898</b>	
<b>OUTPUT</b>	<b>Annual Expenditure 2007</b>
LDP pilot	14,715
Policy and legislation	-
Support to LG reform	-
Project Support (incl. TAs and core national staff)	192,535
<b>Sub-Total Expenditure:</b>	<b>207,250</b>

<b>Total Expenditure:</b>	<b>576,607</b>
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The LDP and the LGOS were combined into the new LGSP in 2007. The total expenditure under LDP was US\$1,027,379 during the period of 2004-6. A total of US\$526,742 (US\$119,328 from the Government of Norway, US\$ 165,255 UNCDF TRAC and US\$242,159 UNDP TRAC) was transferred from LDP to the new LGSP. In addition, a total of US\$ 248,119 Irish contribution was also transferred from LGOS to the new LGSP.

## Annex 1

Calculation of attendance in LA meetings (2004-2007)

Attendance by voting members in Local Assembly meetings													
Districts	Unit	2004-5			2005-6			2006-7			Average per district (2004-7)		
		M	F	Total	M	F	Total	M	F	Total	M	F	Total
Bobonaro	Sub-District	94%	75%	85%	90%	75%	83%	87%	47%	67%	90%	66%	78%
Lautem	Sub-District				88%	69%	78%	89%	74%	81%	89%	72%	80%
Aileu	Sub-District							96%	70%	83%	96%	70%	83%
Manatuto	Sub-District							84%	70%	77%	84%	70%	77%
<b>Average</b>		<b>94%</b>	<b>75%</b>	<b>85%</b>	<b>89%</b>	<b>72%</b>	<b>81%</b>	<b>89%</b>	<b>65%</b>	<b>77%</b>	<b>90%</b>	<b>69%</b>	<b>79%</b>
Bobonaro	District	94%	83%	89%	95%	71%	83%	92%	67%	79%	94%	74%	84%
Lautem	District				83%	86%	83%	76%	76%	76%	80%	81%	80%
Aileu	District							74%	100%	96%	74%	100%	96%
Manatuto	District							94%	83%	89%	94%	83%	89%
<b>Average</b>		<b>94%</b>	<b>83%</b>	<b>89%</b>	<b>89%</b>	<b>79%</b>	<b>83%</b>	<b>84%</b>	<b>82%</b>	<b>85%</b>	<b>85%</b>	<b>84%</b>	<b>87%</b>