



ANNUAL REPORT

Local Development Programme Timor-Leste (LDP-TL)

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Timor-Leste Local Development Programme

ANNUAL PROGRESS REPORT August 2004 – August 2005

Programme Name:	Timor-Leste Local Development Programme (TL-LDP)	
Project Number UNCDF:	00034936	
Project Number UNDP:	00039080	
Start date:	August 2004	
Duration:	3 Years	
Total Budget:	US\$ 1,602,572 million	
Secured Funding:	US\$ 1,602,572 million	
Sources of Funding:	UNCDF	555,226 US\$
	UNDP	561,359 US\$
	Government of Norway	485,987 US\$
GoTL Counterpart:	Ministry of State Administration	
Executing Agency:	United Nations Capital Development Fund	
Direct Beneficiaries:	1) Population in Pilot Districts, including	
	• Bobonaro District	Population: 82,385
	• Lautem District	Population: 57,453
	• 3 rd District to be identified	
	2) Suco Council representatives in the Local Assemblies;	
	3) Ministry of State Administration, including	
	• National Directorate for Territorial Administration HQ, District and Sub-District offices;	
	• National Directorate for Administration and Finance;	
	4) Representatives from line-ministries in the Local Assemblies.	

I. SUMMARY

This report provides a summary of activities and impact of the Timor-Leste Local Development Programme (TL-LDP) between 16 August 2004 and 31 December 2005.

The main accomplishment of the LDP is the development of a solid institutional and procedural framework for the programme. The endorsement of the Government by officially approving and issuing laws and regulations for the pilot which represents a sound legal base for policy impact and replication of the LDP in Timor-Leste. A Local Development Fund (LDF) has been established within the Government budget, and recurrent costs for operations of the Local Assemblies are fully funded by the Government. The pilot has avoided pre-empting a future policy option for decentralised government, by using present structures and available procedures to test and to learn some very important policy lessons. Although it is envisaged that the technical arrangements will be different in the final legislation, the main principles will be the same and the capacity building aspect provided by the programme will play an essential role for the functioning and understanding of future reforms.

The programme is so far operational in two districts (Bobonaro and Lautem), and has assisted the Government in establishing thirteen Local Assemblies; two District Assemblies and eleven Sub-District Assemblies. In total, the assemblies have 283 members consisting of both indirectly elected Suco (village) representatives and executive members from the public administration. The institutional arrangements entrust full control of the decision-making process to the elected community representatives, thus ensuring a proper division between “legislative and executive powers” within the Local Assemblies.

Throughout the reporting period a main area of focus has been to systematically train and support the 283 members of the Assemblies to enable them to assume new roles and responsibilities. This has been a challenging activity, but the enthusiasm and willingness to learn clearly stated in the level of participation has driven this process forward. Specific training in institutional arrangements, local level planning, finance management and procurement are among the main topics of the LDP capacity building programme. The timing of these training interventions is based on a methodology to provide practical training at critical points in the Local Assembly activity cycle. “On-the-job-training” as a strategy has also shown itself to be crucial for capacity building of members in assembly proceedings, since developing such skills requires practical learning experiences to be successful.

A Local Planning Process (LPP) has been established and tested in Bobonaro District. The LPP links budget and planning at the local level, thus avoiding the tendency of “wish-list” planning. A total of seven Annual Investment Plans and budgets were approved in 2005, and have a total capital budget of US\$ 201,174. In accordance with approved plans 35 capital investment projects will be implemented during FY 2005-6. Out of the total allocation for Bobonaro District 41 percent will be invested in the education sector alone, 15 percent on agriculture, and around 14 percent for each of sectors like health, water and sanitation, and roads.¹ In general the model has proven to be an effective way for identifying, appraising and prioritising local level infrastructure investments. The result indicates a high level of maturity in terms of identifying and prioritisation of pro-poor infrastructure.

In sum, the LDP has managed to meet the objective of establishing a sustainable “model” which is genuinely owned by the national and local government institutions and has the potential for replication in all districts across Timor-Leste. The close working relationship and trust established between the PMU and the Ministry of State Administration will ensure further integration of the LDP into the general Government structure and smooth transition when a local government reform finally will take place.

¹ Education (\$77,000), Agriculture and Fishery (\$29,000), Water and Sanitation (\$27,000), health (\$27,000), roads (\$26,000), and “other category” (\$2,900)

II. PROJECT OVERVIEW

Although the GoTL Public Sector as a whole remains highly centralised, there is a firm commitment to decentralization and local governance as shown in the relevant sections of the Constitution, through policy commitments to open government, in the outcomes of the National Dialogue on “local powers”, as well as integration in official development policies. This commitment to local government reform has been clearly demonstrated by the commissioning of a “Local Government Option Study (LGOS)” which was published in mid 2003 and by the ongoing policy discussions by the Inter-Ministerial Working Group on Local Government. The rationale of the LDP is to be found within the overall context of this ongoing policy debate regarding local governance in Timor-Leste.

The key objective of the LDP is to demonstrate how decentralised, as opposed to centralised, Infrastructure & Service Delivery (ISD) can constitute a more effective way of reducing poverty. The TL-LDP is addressing this issue through:

- 1) programme resources supporting pro-poor infrastructure and service delivery at local level and thus contributing directly to poverty reduction;
- 2) provision of a local planning and implementation process that shifts the preponderant responsibility for identifying local needs, and final decisions on development priorities to local people thereby away from central government.

This approach allows for local problems to be addressed in specific ways and thus take into account differences in the factors underlying poverty from place to place. Devolving planning responsibilities to the local level also increases the opportunities for the poor to express themselves and to ensure that their priorities become a part of the development agenda. In turn, devolving implementation responsibilities to sub-national levels will increase local ownership of development initiatives and improve the efficiency with which they are undertaken.

The LDP also explicitly aims to inform national policy on decentralisation and local governance in general. The programme is therefore a tool for trialing local level delivery of public goods and services as well as a flexible yet policy relevant model for the future functioning of local government in Timor-Leste. Therefore, the LDP will seek to provide the Government with a range of valuable lessons about local governance and the kinds of institutional arrangements that can foster accountable, inclusive and transparent forms of sub-national government. These lessons will be channelled into Government policy processes, thereby enhancing the extent to which informed decisions can be made. It is also envisaged that when a national policy on local government becomes more focussed and more clearly defined, the LDP can provide a framework for implanting any reforms adopted by the Government.

The programme is developed as an integrated part of Ministry of State Administration (MSA), and reports directly to Minister Dra. Ana Pessoa, and to the Inter-Ministerial Technical Working Group (TWG) for Local Government Policy. A programme management unit (PMU) has been established within MSA, including the Director of National Directorate for Territorial Administration (DNAT), Mr. Lino de Jesus Torrezão, Director of National Directorate for Administration and Finance (DNAF), Mr. Miguel Perreira, and is coordinated by the International Technical Advisor, Ms. Jill Engen. The unit also includes one Programme Assistant, Mr. Cristovão Miranda, and two Planning and Rural Development Officers, Mr. Domingos Soares and Mr. Jacob Leite.

The programme has been supported by UNDP, in particular in terms of assistance with procurement, human resource management, finance and general programme support from Jochem Ramakers and Herdade Santos. Finally, it is very important to recognise the technical backstopping and advice provided by UNCDF Senior Technical Advisor, Mr. Roger Shotton, and Regional Technical Advisor Mr. Mike Winter, which have played a central role in establishing both the institutional and procedural framework of the TL-LDP.

III. ACTIVITIES IN THE REPORTING PERIOD

As stated in the Programme Document there are four specific outputs for the LDP and this report is organized accordingly by focussing on activities and general progress of the LDP during the first year of implementation.² This section is a narrative account of the main achievements and challenges encountered during 2004-5. As part of the natural procedural sequence of implementing the LDP, the main focus during the reporting period was on OUTPUT 1 in terms of actual application of new institutions and procedures. Activities within OUTPUT 2 and 3 have focused on establishing procedures and capacity building, thus OUTPUT 4 at this stage mainly relates to lessons from OUTPUT 1.

OUTPUT 1: ESTABLISH PRO-POOR AND EFFECTIVE PLANNING AND BUDGETING

ACTIVITY 1: ESTABLISHMENT OF LOCAL ASSEMBLIES:

It was planned from the very beginning that the programme would establish a regulation to provide an institutional framework for local representation and decision-making in the pilot districts. However, it was the initiative of the Minister of State Administration to prepare a Ministerial Decree to facilitate this process. With technical assistance from UNCDF, a draft law was prepared in November 2004, and finally approved by the Ministry in July 2005 after being tested in Bobonaro. The *Ministerial Decree No. 8/2005 – MSA regarding Local Assemblies* provides the TL-LDP with a legal base to establish Local Assemblies at District and Sub-District levels in pilot districts.

The major objectives during the preparation of the Decree Law were to ensure high community representation and participation in the planning and decision-making process, in addition to mechanisms which would allow for technical support and backstopping from local administrations and other line agencies represented at the two levels. 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, thus replicable and self-sustainable both in terms of human resources and financial costs.

Two levels of institutions were 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 Assemblies are chaired by an Executive Secretary who is either the District or Sub-District Administrator.

1.1. Community representation and exclusive voting rights:

Since the LDP is a pilot programme, there is no provision within the law to hold local elections to determine the representative base in the Assemblies. To meet the objective of ensuring high community representation and participation in planning and decision-making processes, the programme made use of the results from the 2004-5 Suco elections. Thus, the law established the newly elected Suco Council members as its base for an indirect geographical representation system. Full decision-making powers are therefore in the hands of the elected community representatives and they are subsequently given exclusive voting powers in the assemblies.

² Local Development Programme project document, p. 4

The size of each Local Assembly varies in accordance with the present number of Sucos and Sub-Districts. In the Sub-District Assemblies (SDA) with five or more Sucos, each Suco Council is represented by two representatives; one man and one woman. The Suco Chief is automatically a member of the SDA; if the Suco Chief is a male the Suco Council has to nominate a female candidate and vice versa. In some Sub-Districts in Timor-Leste there are very few Sucos, and the size of the SDA would therefore be very small. To compensate for this, the law establishes that in the case of a Sub-District with four or less Sucos, the Suco Council can nominate three representatives. The District Assemblies (DAs) are based on the same principle, however, the voting members are selected from each SDA, i.e. indirect Suco representation.

1.2. Executive membership in the Assemblies

A major issue with the present centralised system is that all sub-national level staff are accountable to their own line ministry since they are foremost central government staff. Previous experiences show that horizontal coordination and cooperation depends on individual initiative and not institutional requirements. Indeed, some local level staff have been seen to hide behind the vertical divisions between the Ministries in order to refuse to participate in local activities without direct instructions from their own Ministers. To meet the objective of establishing mechanisms which would allow for technical support and backstopping from local administrations and technical line agencies, the law incorporated representatives from line agencies staff in the Local Assemblies as executive members.

The aim was to create a situation where the administrative and technical staff were fully involved in the initiative, and by including them also making them responsible for the decisions of the Local Assembly. At the same time, it was crucial to ensure that the division of labour was as close to a real situation as possible in terms of differentiating between who is making the decisions and who is executing the decisions. This was a clear risk in terms of the high possibility of negative sentiments by excluding executive members such as administrators and heads of sections from direct decision-making power along with a potential outcome where technical staff may have avoided their responsibilities in the new system.

1.3. Implementation in the districts of Bobonaro and Lautem

Implementation commenced in Bobonaro in January 2005 as the first pilot district after the completion of Suco Elections and the formation of the Suco Councils. A total of seven Local Assemblies were established including one District Assembly (DA) and six Sub-District Assemblies (SDAs); consisting of a total of 161 members.³ In general, the institutional arrangements established in Bobonaro district have functioned remarkably well given (1) the novelty of the arrangements, (ii) occasional difficult circumstances and (iii) the short time frame since the assemblies have been operational. Sub-District and District Assemblies have, for the most part, proved functional and capable of making difficult decisions on a rational basis.⁴ However, there are still many areas that will need further improvements and continued capacity building as well as support to fully satisfy the overall objectives of a local government system. It is important to recognise that valuable lessons have been learned in terms of the potential for capacities in decision-making processes at the local level.

The Government decision to expand the LDP to one additional district came in September 2005, and the district of Lautem was selected as the second pilot district. It was originally envisaged that the LDP was to include Covalima and Viqueque as the second and third districts for the pilot, however, based on an evaluation from the MSA the two districts did not qualify for pilot status due to insufficient human resources and low levels of administrative capacity. Implementation in

³ See annex 1 for detailed information regarding the numbers and composition of the assemblies.

⁴ See Technical Support Mission Report, Mike Winter 2005

Lautem commenced in November 2005. A total of six Local Assemblies were established in the second pilot district including one District Assembly (DA) and five Sub-District Assemblies (SDAs); consisting of a total of 122 members. The assemblies will constitute themselves in their first official Local Assembly meeting in January 2006.

1.3.1 Capacity Building of Assembly members in their new roles and responsibilities

A key activity during the first year of implementation has been capacity-building of the 283 new members of the Local Assemblies in Bobonaro and Lautem. Special training materials were developed for each level of governance which “interpreted” the Decree Law and provided training on assemblies activities through practical activities and role plays on decision-making processes. The main focus of this module was to empower the members to take on their new roles and responsibilities and to exercise their powers in the work of the Assemblies. The initial training was primarily supply-driven in its approach, since the main objective was to establish a sufficient understanding of the Decree Law regarding the Local Assemblies and its functions. It is therefore planned that a more demand-driven capacity building effort will be established during the second year of implementation when the assembly members are in a better position to identify gaps in their capacity to deliver what is expected of them.

Further, in addition to the supply-driven “classroom” training, a practical learning approach was established. The PMU met regularly with the assembly members and observed assembly meetings to advise and guide their work without taking a leading role. This “mentoring” role showed itself to be the key activity in terms of complying with the on-the-job training needs of the assemblies as well as allowing the PMU to monitor assembly meetings and interactions between the different actors.

In reviewing the capacity building exercise of the Assemblies, it is possible to say that the learning process has gone beyond providing an understanding of the new Decree Law and specific roles and responsibilities stated in the law. Looking closely, the main challenge of working with the members of the assemblies has been to introduce basic democratic principles and behaviours in a democratic institution. It is important to remember that the LDP is bringing the concept of democracy to the members of the assemblies and their communities in a different way than simply participating by voting in national elections. The transition from authoritarian political culture to a democratic culture within the new local institutions cannot be fully achieved within the short timeframe of the pilot; however, it is widely seen as a significant beginning with positive initial results.

1.3.2 Acceptance of the different roles of voting and executive members

General participation from community members and consensus modules for decision-making are overall accepted as the cultural norm in Timor-Leste. However, as a result of the cultural traditions which are very much upheld in meetings and interactions between people, it is also clear that consensus decision-making often in reality may only involve a few powerful members of the community and the government institutions. In a Suco (village) context, the Suco Chief holds much power vis-à-vis the general population, while in a relationship between the Suco Chief and Sub-District or District Administrator the Administrator often will have the last word.

As previously mentioned, the programme took a significant risk in establishing the principle of community members with exclusive voting and, therefore, decision-making powers. In newly-democratic Timor-Leste the delegation of decision-making powers to the local democratic leaders may not have been easily accepted by the executive members. However, the issue has proven to be successful in its implementation as where the non-voting executive members have generally taken their responsibilities seriously and focussed on fulfilling their more technical mandate in the assemblies. This is an important step that should be recognised as, previously-accepted but

unelected decision-makers in local communities through traditional or political appointment have, in effect, been replaced by elected representatives.

1.3.3 Functioning of Local Assembly meetings and decision-making processes:

It became clear very early in the process that the level of experience with set rules and voting procedures in meetings was significantly lower than expected. Even though a large number of the members had previous experience with meeting participation, chairing and participating in a formal context such as the assembly meetings was a new experience for all members. This lack of experience was for example demonstrated in; i) the behaviour of the executive secretaries who initially delivered speeches instead of functioning as chairpersons; ii) favouring of executive members over voting members which resulted in a lack of participation from voting members; and iii) total disregard for the agenda of the meeting.

In response to this problem, a special instruction from the government on meeting and voting proceedings was developed and was subsequently disseminated to the assembly members through training. The performance of most assemblies significantly changed with almost immediate effect, and it became clear that the cause of these initial problems were due to a lack of procedural experience rather than intended behaviour. The PMU also provided suggestions on seating arrangements in the meetings, which subsequently facilitated and improved interaction between the members and the chairpersons of the assemblies. By seating the voting membership directly in front of the chairperson, his/her focus changed in terms of whom the main interlocutors in the meetings were.

With regard to the decision-making process, a concern from the outset beginning of the programme was that funds available for capital investment would be divided among between the various Sucos or Sub-Districts instead of viewing the overall priorities of the unit as a whole. In such a scenario, budgets would have been fragmented into small projects, without meeting the primary development needs in each area. However, this occurred to a much lesser extent than expected. In some Sub-District Assemblies, there were attempts to include as many projects as possible, i.e. as many Sucos as possible, but not to the extent that they divided the capital fund into pieces and planned accordingly. On the contrary, discussion focused on priority needs presented by the Sucos and decisions were made based on this methodology rather than the objective of each Suco receiving a project. In Bobonaro Sub-District for example the ASD approved six projects from six Sucos out of a total of eighteen Sucos represented in the assembly. This demonstrated that the assemblies were capable of debating and reaching difficult decisions based on rational justifications.

In general, the assembly meetings have functioned more than satisfactorily. It is clear that the members take their responsibilities seriously with a positive approach in terms of willingness to learn and improve their performance.

1.3.4 Lower attendance and lack of female participation in meetings:

Affirmative action policies incorporated into the provisions governing the composition of the Assemblies' voting membership have ensured that women enjoy equal representation, i.e. 50 percent of the seats in an assembly are reserved for women. However, such affirmative action does not yet appear to have enabled women to voice themselves or to participate as effectively in Assembly meetings as their male colleagues. The average attendance rate in assembly meetings during this first phase has generally been very high for all Assemblies, with a total of 85 percent attendance at the Sub-District level, and 86 percent attendance at the District level. However, there is a difference in level of attendance between male and female members of the assemblies, especially at the Sub-District level. The average attendance by male members is 94 percent at this

level, while the female participation is down to 75 percent. At the District level there is almost no variation between males and females with 87 percent and 83 percent attendance respectively).

There may be various reasons for lower rates of participation for women in the assembly meetings; however, some main factors became apparent during the LDP evaluation and closed discussion with the female members in Bobonaro. Some female representatives had to leave their villages for up to two days before the meeting to be able to attend. This caused a range of problems in particular for women: 1) in general it is more difficult for women to leave their houses and families since it is perceived that the female responsibility is to prepare food and take care of the children; 2) lack of available transport and advance funds for transport; 3) no financial compensation or other incentives to come to meetings, which presents difficulties particularly during the harvest time. This does not fully explain the difference in female attendance in District (83 percent) and Sub-District (75 percent) Assembly meetings. One explanation can be that women nominated and elected for the District Assembly might be more educated, interested and/or accepted in the households for participation in organized activities than the average female representative from the village level.

From a gender perspective, the primary weakness of the Local Assemblies is not only the level of attendance in the meetings, but also the lack of participation of female voting members in assembly meetings. This is not to say that all women stay silent during the meetings, but there is a clear discrepancy in gender terms in raising their opinions and time spent speaking in the assemblies. Custom and tradition is an important factor to consider in evaluating the reasons why women tend to remain relatively quiet in proceedings. LDP cannot immediately change this situation, but it will be important for the programme to identify counter measures to improve this situation as there is potential for the problem to translate into the approval of investment plans and budgets that do not fully reflect women's specific needs. The same problem exists at the level of Suco Council where women are not as well represented in numerical terms as in the Sub-District and District Assemblies, and where the cultural boundaries are even more difficult to transgress.

Nevertheless, by ensuring equal representation and voting as the main decision-making tool, the women members do have a voice in the Assemblies. Since 50 percent of the votes do belong to the women who with further encouragement and capacity building will hopefully be able to fully participate to their potential. LDP has already held discussions with UNIFEM, and will be working closely with their planned programme for enhancing women's participation and leadership in 2006. The PMU has also initiated contact with UNDP Parliament programme in an effort to establish a programme for exchanging experiences between female members of the national parliament and the local assemblies.

1.3.5 Downward accountability:

To effectively deliver public goods and services, mechanisms for enhancing downward accountability need to be in place. In practice this means that information on local government activities and resources such as inputs, planning, budgeting and expenditure in addition to decisions made in local decision-making bodies is made available to local communities.

In the LDP, the responsibility for distributing information to the communities lies with the assemblies and their representatives. The secretariat, managed by the Executive Secretary, is responsible for preparing and informing the members of the Local Assemblies, while it is the Suco representatives to provide this information back to the Suco Council and their communities. In addition, the Executive Secretary is also responsible for posting minutes of meetings, annual investment plans and budgets, and other relevant information in their offices, on public information boards where they exist and community radio.

During the evaluation of the first phase of the LDP it became clear that downward accountability in terms of the dissemination of information ostensibly the weakest point in the process established. It was evident that; 1) the other members of the Suco Councils are often unaware of the results or

discussions from assembly meetings, which is also likely for the general community; 2) Suco Council members often knew which projects were submitted from the Suco to the SDA, and which were approved in their Suco, but had not received information about the overall investment plan unless it had something to do with their Suco; 3) Suco Council members did not receive sufficient feedback on rejected proposals submitted to the ASD from their Suco, and justifications for the rejection; and 4) in a majority of the Sucos, Council members were not informed or did not participate in appraisal of projects during the Verification and Appraisal Teams (VAT) visits to the Suco. This is a clear indication that insufficient information was provided back to the Sucos by the Suco representatives, and in some cases insufficient dissemination of information on the part of the Sub-District or District offices.

Several mechanisms were put in place to establish that at least a minimum of downward accountability was ensured, however some of these measures have proven to be problematic to implement as a result of technical problems; 1) Suco Councils are dysfunctional in that meetings are not held; 2) lack of facilities to prepare and photocopy information for distribution; 3) lack of public information boards facilities. However, the main reason for the lack of downward accountability at this stage is probably the lack of full understanding by the voting members in terms of their roles as representatives from the Sucos. There remains also the lack of realisation by the local population that they are the ultimate recipients and the owners of the funds, understanding of the role of the Local Administrations at both levels in terms of “caretakers” of public funds and their service provision mandate, in addition to a civil society which is not monitoring or demanding information from government institutions.

1.3.6 Costs of representative bodies:

Participation is an important part of the LDP strategy to include local people in planning, budgeting and management of local public expenditures. In Timor-Leste this is achieved by; 1) promoting public participation in planning process at the Suco level, which offers the wider communities with an opportunity to voice their opinions in the identification of problems, needs and solutions; and 2) promoting the role of representative bodies and their role as decision-makers, thereby ensuring public participation.

Although there can never be too much participation, it can be very expensive in terms of time and resources therefore efficient budgets need to be allocated to meet this objective. In terms of sustainability of the Local Assemblies, it was therefore very important that recurrent cost to facilitate all activities of the assemblies, were covered by the Government to avoid dependency on the LDP. To establish the total costs based on predefined rates, *Ministerial Directive No. 1/2005 DNAT/MSA Recurrent Costs and Technical Support Budget* were issued from the Ministry. A survey was prepared by the local administrations regarding travel costs from Sucos to Sub-Districts, and from Sub-Districts to District centres, in addition to rates for subsistence allowances. Initially no funds were allocated for sitting allowances for the members of the assemblies and there was a possibility to evaluate members’ interests in participating in meetings without receiving any monetary incentives. By the end of the first planning phase, these rates were re-evaluated, and a common agreement was reached. There was also identified a need to provide a small sitting allowance to voting members in return for their valuable time and lost “income” by participating in assembly meetings. In addition to budgets to cover meetings costs, funds to support PIC planning activities, i.e. visits to Sucos, have been included and is seen as a necessary expenditure to fully facilitate the technical side of the planning process.

To ensure qualified and effective oversight and supervision of implementation of capital investments, the LDP allows for up to 5 percent of the LDF to be spent on Technical Support as a part of the total cost of the capital investment. Overall, the total cost of assemblies’ operational costs, planning and execution of capital investment related expenditure are defined in terms of number of Sucos, distance between the main village centres, number of sectoral representatives at each level and total investment made per year. Lessons from the first phase show that allocations

for technical support is a necessity to ensure technical preparations, i.e. design and costing of potential infrastructure investments, to enable the assemblies to make informed decisions on budget allocations, unless the Government increases their number of PW personnel at the District level or employs PW staff at the Sub-District level.

A breakdown of annual recurrent expenditure items is shown in Table 1 for Bobonaro District:⁵

Table 1:

Recurrent Expenditures	
Expenditure	Total allocation
Meeting Costs	\$7,244.0
Planning Costs	\$1,680.0
Technical Support	\$10,059.0
Total	\$18,983.0

These numbers take into consideration the above mentioned specifications for this area and will be different for other districts. However, the numbers provided can be used as “baseline–data” for costing of assembly running costs. As shown in the table, a total of US\$ 7,244 is needed per year to efficiently support regular activities of the seven assemblies. The total cost for the sub-national level to self-sufficiently operate and pay for regular operations of the assemblies is US\$ 0.39 per household or US\$ 0.09 per person per year. This figure can give an indication of minimum tax collection needed to run the assemblies for Bobonaro District.⁶ Expenditures shown for Bobonaro also indicate costs related to planning and implementation of capital investments. In terms of cost effectiveness, i.e. capital investments vis-à-vis technical support budgets related to planning and implementation, for each US\$ dollar spent on capital investment 6 cents are spent on overhead costs or 6 percent of the total budget. However, it is important to bear in mind that operational costs will stay more or less the same even if the capital budget increases. Thus, the overall ratio in calculating cost effectiveness will decrease.

ACTIVITY 2: ESTABLISHMENT OF A LOCAL PLANNING PROCESS (LPP):

At present, there are no standardised regulations for local-level planning. Therefore it is up to the discretion of each Ministry to make their own decisions in terms of whether to –involve the local level in their national planning framework. The Ministry of Health and the Rural Water and Sanitation Service have so far established the most advanced planning processes at the local level, while other ministries might consult their local level staff in more or less systematic manners. However, there is no evident coordination between the different efforts of the various ministries either at the local or the national level, and there are so far no linkages between budgets and planning efforts. From interviews with several sub-national heads of departments, the planning processes tend to be a series of “wish-lists” where decisions on priorities are made in the capital.

The LPP prepared for the LDP was drafted in December 2004, piloted in Bobonaro from March to June 2005, and finally adopted by the Ministry of State Administration in July 2005 after a minor revision. Two documents were issued instructing the District and Sub-District Assemblies in how to consult, identify, appraise, prioritize 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 with the LPP was to establish conformity in the local level planning which ensured high-levels of participation, informed decision-making process and that local priorities are fully taken into account and with genuine ownership at the local level.

The process involves several series of steps involving a range of stakeholders and actors at various levels, and cross-sectoral within one level. A major innovation was for the first time to link budgets and planning, and where decisions on priorities were to be taken within the hard budget ceiling by the assemblies themselves. The objective was to move away from “wish-list” planning and focus the assembly members and relevant stakeholders on the highest development priorities in their constituencies. The planning and decision-making process was also prepared in such a

⁵ This amount does not include additional funds provided for capacity building, and support to PMU.

⁶ The total population in Bobonaro District is 82,385, and 18,575 households, National Census 2004.

way that all powers were delegated to the local level, and no ex-ante interventions in this process would occur from PMU or central government. However, mechanisms for performance based incentives were put in place to ensure that decisions and decision-making processes were reflecting good governance requirements issue such as accountability, transparency, functioning of the assemblies etc. In other words, it was important to establish a system in which the assemblies not only received the power to make decisions, but where the assemblies also had to take responsibility and consequences for decisions made.⁷ This also provided a system for central government to evaluate local level performance.

2.1 Capacity building in Local Planning Processes (LPP)

The main stakeholders in the planning process are the voting members of the assemblies. They hold the key in terms of identification, initial prioritisation and final decisions on fund allocations for priority development needs in their area of constituencies. On the other hand, for the voting members to make informed decisions, the role of the executive members are crucial in the process in terms of technical planning and surveying, in addition to coordination with central level development planning. Having learned from experiences with previous projects, the LDP was purposely designed without a parallel programme structure to the government, and technical support and backstopping are therefore purely provided by local administrations and line agencies.

Therefore, the role of the PMU in the LPP has been to firstly build the capacity of the voting members in how to identify and prioritize development needs and secondly to train and support government staff at each level to assume their mandate and responsibilities in the process as technical staff. These are important characteristics of the programme since there was an intention to avoid creating dependency on the existence of a PMU so that sustainable results would enable future replication by the government itself.

A targeted training programme was designed to guide the assembly members through the steps in the planning process. The National Institute for Public Administration (INAP) played a key role in the training of the assembly members, and the PMU held a training of trainers seminar in January 2005 before implementing the training programme in Bobonaro District in February. A total of 168 people were trained in one-week sessions in each Sub-District and District Assembly.⁸ In addition, technical training in design and costing was provided to the Planning and Implementation Committee members in April 2005, where 22 assembly members participated.

2.2 Implementation of LPP in Bobonaro District for FY 2005-6:

In general, the LPP at the Sub-District and District level has proven to be remarkably effective as a way of identifying, appraising and prioritising local-level infrastructure projects. The Suco Councils were able to provide most of the “raw” input to the planning process and Sub-District and District staff have devoted significant efforts to provide technical backstopping. The District Integration Workshop (DIW) was also relatively successful in ensuring sector buy-in for local investments and in avoiding duplication in investment decisions. All the SDAs and DA finalized their investment plans for FY 2005-6 before the deadline of 15 June 2005. The total LDF allocated for Bobonaro for FY 2005-6 was US\$ 201,174.

2.2.1 Sub-District LPP for FY 2005-6:

The planning process in the Sub-Districts commenced at the Suco level, and the Suco Councils were responsible for facilitating this process. The Suco representatives from the Sub-District Assemblies (SDA) were encouraged to arrange consultations with their constituents rather than closed sessions within their respective Suco Councils. The Sub-District Administrations were also

⁷ Minimum Conditions and Performance Measures are described in Output 3

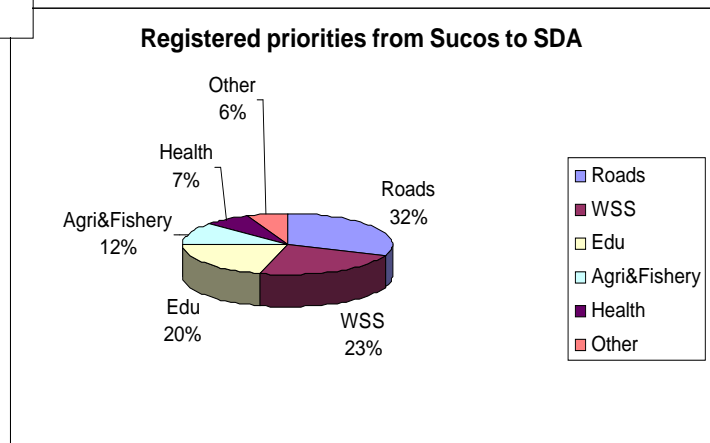
⁸ Additional government staff and proxy members were included in the training, and the number of trainees is the therefore higher than the total number of permanent members of the assemblies.

requested to support the Suco representatives during this process. Community participation in these consultations was generally high, but there were large variations between the Sucos. In some Sucos, there was participation by more than 100 community members, while in others there were as few as 20-25 community members participating. Although a majority of the Suco Councils initiated the need assessment process, there appears to have been a widespread deficiency of consultations between Suco Councils and their constituents.

To avoid a “wish-list” scenario, each Suco was only allowed to submit three ranked development priorities. In total 156 investment priorities were received and registered in the six Sub-District Assemblies. Figure 1 provides an overview of the received projects per sector. The LPP was designed to also allow submissions by sector-departments of their investment

priorities to the assembly. It is important to recognise that only eight projects out of the 156 proposed were registered from the sector department staff. In the initial programme design phase there was an assumption that the sector technical staff would dominate the process, however practical experience proved otherwise. Interviews with sector staff indicated that a majority wished to give the opportunity to the Sucos to identify projects and then subsequently indicate whether or not they supported those identified projects.

Figure 1



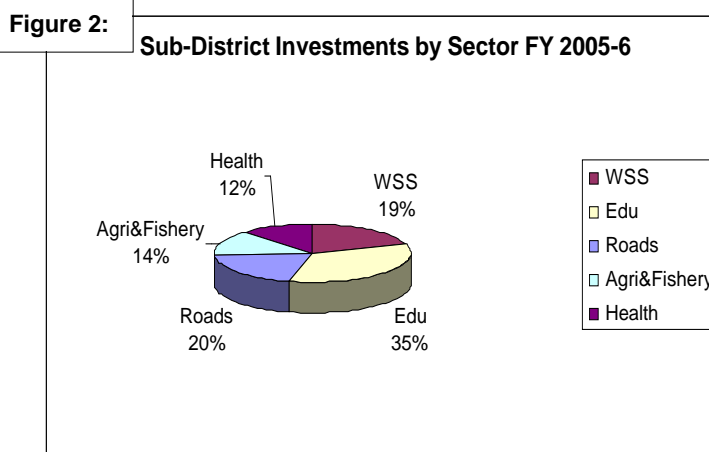
Each assembly established a Planning and Implementation Committee (PIC) as a part of the institutional framework, which consisted mainly of executive members and one voting member. The PIC is given the responsibility for verification and appraisal in addition to the preparation of basic design and costing of eligible priority proposals. During the initial screening seven projects were eliminated, while a total of 149 projects were verified and appraised by the PIC members. By the end of this process 91 out of the 156 projects were found eligible for funding for LDF.⁹ Despite the time and effort invested in the process by the PIC members, in some cases there appears to be a lack of sufficient consultation between the PIC and the local communities during the appraisal and preliminary design process. In some Sub-Districts, the PIC facilitated meetings with each beneficiary group and visited each location together with Suco Council members, in other areas only minimal consultation was initiated. The need to closely monitor and identify this lack of consultation has been prioritised by the PMU in order to determine whether there will be any potential difficulties arising during the implementation in those specific areas..

During the month of May 2005, all Sub-District Assemblies convened their assembly meetings to debate the draft annual investment plans. The debate was based on the PIC report which 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. In the case of disagreement within the assembly the opponents to the recommendation will have to prepare a motion consisting of second recommendation to the assembly including a total budget to be voted on against the original proposal. The idea is to avoid the assemblies to vote on individual projects which can lead to a mismatch between approved projects and the available total budget. By voting on total “budget envelopes” the members of the assembly is forced to focus on total budget allocations instead if fragmented budget line items. Also, by presenting opposing budget recommendations in this way the assemblies are able to organise their voting in accordance with

⁹ See annex 2 for indicative and non-eligible investment menu for Districts and Sub-Districts.

appropriate rules for voting procedures in assemblies.¹⁰ This is the most technical and complex deliberation of all assembly meetings since the assembly is formulating their priorities and the primary voting takes place. In three out of six assemblies motions from the voting members were presented against the recommendation from the PIC.

In one case, the motion was approved which can indicate that the voting members have, if they think an opposing motion is reasonable, the power on final decisions in the assemblies vis-à-vis the technical line department staff. In all assemblies the decisions on a draft and final annual investment plan were made by open voting and received the necessary majority for approval. A total of 29 investment projects will receive funding from the Sub-District Assemblies budgets for FY 2005-6. The total investment per sector out of the allocated US\$ 140,822 for SDAs is shown in Figure 2; 35 percent of LDF will be invested in the Education sector, while Water (19%) and Roads (20%) projects are also high on the priority list at the Sub-District level.



2.2.2 District LPP for FY 2005-6:

To facilitate a scenario which is as close as possible to a real decentralization of public services, the District and the Sub-Districts are delegated different responsibilities in accordance with their level of government in the pilot. The mechanism that was used to facilitate this was “indicative investment menus”, outlining both sectors and level of “responsibility” for possible allocations of resources, e.g. Sub-District Assemblies were to focus investments related to primary education, the District Assembly was to focus on pre-secondary and secondary education.

The planning process at the District level incorporates both the Suco and the Sub-District in terms of the initial needs assessment. Each Suco was encouraged to identify one priority district-level development proposal and submit this for consideration to the Sub-District Assembly. In the same way as the Sucos Councils were responsible for providing input to the Sub-District LPP, the Sub-District Assembly was the key responsible for including priority needs to the District LPP. Each assembly could submit two development priorities for consideration as District Assembly investments. In total 20 proposals were registered at the District level, 12 from the Sub-District Assemblies and eight from the sector departments. As for the Sub-District LPP, the Sector Departments were less pro-active than expected. This may again be an indication that the sectors acknowledge and perceive that the process should be owned by the communities.

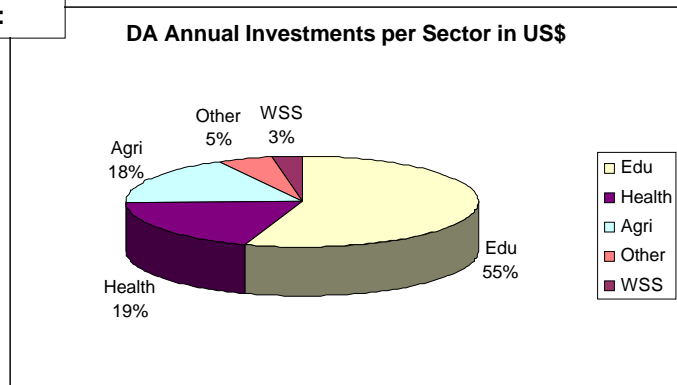
The District Assembly and the Sub-District Assemblies established PICs to facilitate the technical work during the planning process. The PIC at the District level included one representative from each sector department and during the verification and appraisal the relevant sector representative participated in this process. As shown from the documentation presented by PIC to the Assembly, there had been some confusion about the difference between District and Sub-District level projects and as a result many projects proposed by the Sub-District Assemblies were eliminated with the sole reason that they were Sub-District responsibility and could therefore not be considered for funding by the District. An evaluation of this result indicates that there was a tendency for Sub-District assemblies to simply pass on larger projects beyond their budgetary

¹⁰ Standing orders for Local Assemblies are found in annex 3

resources to the District Assembly without taking into consideration the appropriate level of responsibility. However, it should be recognised that there are areas of ambiguity in the two LDF investment menus (District and Sub-District) which might have led to misinterpretations by the assemblies.

In March 2005, the district assembly held its principal meeting regarding the draft annual investment plan and budget, which later was finally approved in June. In total, 6 district investment projects will be funded during FY 2005-6 by the District Assembly. An overview of total investment per sector is provided in Figure 3; as for the Sub-District investments, a majority of the LDF budget allocated to the District (55%) will be invested in the Education sector, while health and agriculture is second and third on the priority list.

Figure 3:



2.2.3 Technical support from local administrations and sector departments to the LPP

Participation and delegation of decision-making power to a lower level of government is of course a key element in the LDP strategy. However, it is important to consider the role of the executive members in this process as providing critical input and support such as technical backstopping as well as ensuring that the voting members in the assemblies are provided with sufficient data to make informed decisions.

The executive members, and in particular the Executive Secretary and his/her staff are the principal actors in terms of moving the process forward through the preparation and provision of necessary information to the assembly on request; and the implementation of assembly decisions. The initial phase of the LDP has only focused on the first part of their mandate and the general view is that the executive members have both embraced and contributed with significant time and effort to the process. The efforts of the District Administration and four of the six Sub-District administrations should be commended for their dedication and willingness take responsibility for the process. The District Integration Workshop (DIW) as a means for coordination and to avoid duplication in deciding on investment priorities was also relatively successful in ensuring sector buy-in for local investments in terms of ongoing maintenance and operational expenditures.

It is important to point out that there appears to have been a pattern emerging where remote and more isolated Sub-Districts have experienced difficulties in obtaining general support and appropriate technical backstopping for carrying out the LPP. This has resulted in comparatively poor planning as seen in the cases of Cailaco and Lolotoe Sub-Districts in which these problems were further problematical as a result of less effective Sub-District Administrations. Moreover, technical backstopping and support were also more easily available for the District Assembly than for the Sub-Districts. This was seen to be acute problem for Sub-Districts without any public works staff which had to rely on support from the district Public Works Department that was, in turn, weak in performance. In this respect, available technical personnel should be secured in the future as a prerequisite for local level planning to succeed.

It should also be recognized that the mandate of providing sufficient support to the LPP by executive members did not meet its potential as a result of practical difficulties faced by the District and Sub-District officials. Budgets and resources for verification, appraisal and technical visits are inevitably limited. However, the main problem in providing sufficient technical support was the lack of sufficient technical staff for design and costing along with the lack of access to transportation at

the Sub-District level. As a matter of future policy input, it is critical that a small allocation for technical support is facilitated in new pilot districts for the initial planning process which is not covered by the LDF technical support allocations.

2.3 Sub-District and District LPP for FY 2006-7

The Ministry of State Administration announced the LDF allocations for Bobonaro District for FY 2006-7 in September 2005 which should have initiated the LPP. However, the initial planning phase in Bobonaro was postponed as a result of the overall delay of approving the LDP Finance procedures and Procurement regulations by Ministry of Planning and Finance (MOPF).¹¹

The main preoccupation of the Local Assembly members was the perceptions of communities should the second planning process be initiated prior to any tangible results from the first planning process. Within the Timorese cultural context, such delivery on promised outcomes is critical to ensure adequate participation from the communities in the LPP. It was agreed that a small delay would not influence the deadline for investments plans set for February 2006. However, when it became clear that the time delay at national level would be lengthy, the MSA requested the Assemblies to hold their first meetings for FY 2005-6 in October 2005 to initiate the planning process without commencing the implementation of their investments plans. Whether these unfortunate time delays will have any negative impact on the quality of the LPP remains to be seen.

PMU discussions with members indicate that most members understand the repeat need assessment process in terms of revision of the original submissions from the Sucos, rather than initiation of an entirely new LPP. This approach is valid considering that most Sucos proposed three priorities during the first LPP in Bobonaro district with only one out of the three, or none, investments being included in the Annual Investment Plan for 2005-6 as a result of limited budgets. The primary results from the planning process for FY 2006-7 will be ready in January/February 2006. The deadline for submission will most likely be delayed to facilitate a proper LPP for the second year in Bobonaro district.

FINAL REMARKS:

In general, the main problems and shortcomings highlighted in this section of the report can be attributed to the intensity and ambitious timeframe of the LDP calendar in the first pilot district (March to June 2005). This was primarily the result of the need to approve annual investment plans for FY 2005-6 which thereby necessitated the need to accelerate the establishment of the assemblies and the LPP. While this has inevitably resulted in “shortcuts” being taken particularly with community consultations being less extensive than preferable and appraisals being expedited in order to reach deadlines.

Notwithstanding the consequences of such “short-cuts”, the Local Assemblies in Bobonaro District have exceeded all expectations of UNCDF and MSA in their performance during the first year of operations. A significant positive outcome for the LDP design in TL has been the approach of facilitating ownership of the “model” as well as the process by the government and the members of the assemblies thereby avoiding the risk of an external “project-based” approach. As a result of the commitment of the MSA Minister Pessoa and MSA staff along with their trust in the PMU, the LDP is clearly owned and supported by the Government with a definite sense that the responsibility for success and failure of the LDP lies with the national and local institutions.

The overall success of establishing the Local Assemblies and the level of enthusiasm to participate in the new institutions demonstrates the genuine interest at the local level to receive more responsibilities and to take a more pro-active part in the local development process. It is also

¹¹ More detailed information about this delay is provided in the next section

indicative of the great potential of the Local Assemblies to provide a much needed channel for interaction between the central government and the district communities. The future challenge in building a strong and trustful central-local level relationship will depend as much on the top-down central delivery of the promises made to devolve all responsibilities as stated in the regulatory framework of the LDP as local-level performance in the pilot.

The decision by the Minister of State Administration to extend the LDP to one additional district during the first year of implementation and to a third district in the second year is an encouraging indication that the Government is satisfied with the initial progress of the LDP. The Ministry is also already discussing measures to extend the whole programme beyond the initial three years envisaged in the programme document.

OUTPUT 2: PROCEDURES FOR DELIVERY OF PUBLIC INFRASTRUCTURE & SERVICES

ACTIVITY 3: ESTABLISHMENT OF DECENTRALISED PROCUREMENT REGULATIONS

Prior to the LDP there was no legal or regulatory framework in place for local level procurement and contract management in Timor-Leste. The Government of Timor-Leste commenced their preparations for a new procurement law in 2004, which was passed in November 2005 and will be enacted from February 2006. Prior to passing this law, the United Nations Transitional Administration in East Timor (UNTAET) Regulation 2000/10 governed all government procurement, establishing an extremely centralized system controlled by MoPF. The new procurement law 10-11-12/2005 allows for a “decentralisation” of procurement to individual *central* Ministries for up to US\$ 10,000. All procurement of public goods, services and works above this monetary limit remains the responsibility of the National Procurement Division in MoPF.

Discussion between MSA and MoPF started in March 2005 when draft LDP regulations for local government procurement were submitted for review to MoPF. The original draft of the regulation, and subsequent revisions, were prepared in close cooperation with the National Procurement Division in MoPF. Accordingly, the LDP procurement regulation adopted all central procurement forms and contracts 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 provision for decentralised procurement within the national Procurement Law. An agreement was finally reached between the two Ministries in October 2005 resulting in the approval of the LDP procurement regulation with the preconditions that the new national procurement law was passed by the Council of Ministers. With the passing of the National Procurement Law in November 2005 and *Ministerial Directive No. 8/2005 – MSA Procurement Regulation*, was issued by the Minister of State Administration.

3.1 Procuring Entity and Composition of Local Tender Boards (LTB)

Ministerial Directive No. 8/2005 – MSA Procurement Regulation establishes the Planning and Implementation Committees (PICs) as the procuring entity on behalf of the 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 awarding of contracts. The LTBs are composed of three technical representatives from the government and two community representatives from the Assemblies. It is up to each Assembly to nominate their representatives to the LTB and the members serve for one year at the time. This composition was chosen to ensure both technical evaluation of bids and community oversight of the tender process. The Directive also establishes that representatives from the beneficiary community can participate in LTB meetings as observers.

However, the regulation only allows for direct local level procurement and contract management in relation to procuring of public goods, services and works up to US\$ 10,000. This monetary threshold is based on the national procurement law and on the instruction of the Prime Minister. Any procurement above this limit will be considered in 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 will still control the process.

3.2 Methods of procurement and monetary thresholds

The main principle in procuring goods, service and work in relation to the LDF is open tendering. 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 process. As for national procurement, the regulation requires that only pre-qualified contractors can participate in the bidding process.¹² The alternative of establishing a local process using national requirements to documentation meant that the procurement process for “Small Works”¹³ would be rather complicated and demand much bureaucratic input for the procuring entities. However, for the 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.

In addition to open tendering, limited tendering (request for quotation) and single source procurement were adopted for any goods and works below US\$ 1,000. It is envisaged that the threshold for limited tendering will be revised to allow for more direct requests for quotations if the process shows that the LAs have problems identifying contractors for minor works. This monetary threshold is not applicable for procurement of services, i.e. any hiring of technical consultants will demand a public advertisement of each position.

To facilitate regular activities by the LAs, purchases of less than US\$ 200 can be approved directly by the Executive Secretary.

3.3 Capacity building of Local Tender Boards

Two capacity building activities were prepared to ensure that the members of the LTBs could assume their new responsibilities and for the members of the LAs to assume their oversight role of the local procurement process. The first activity was a two-day training workshop focusing on the new regulation and official tender documents. Although some of the government staff were familiar with tender procedures, it is questionable whether two days is sufficient for the LTBs to fully comprehend the new regulation. However, this was a matter of time constraint in terms of the general delay and the need to commence the implementation. A total of 25 LTB members participated in the training provided in November 2005 and will receive follow up from the PMU in addition to more detailed training next year.

In addition to the training, a one day briefing with each LA was held in December 2005 where a total of 98 LA members participated. The briefing provided basic information about the new Procurement Regulation and made the participants familiar with the overall procurement process. Since the procurement training was a highly technical exercise, it was assessed to be unnecessary for the general membership of the LAs to receive the same detailed training as the TLB members.

ACTIVITY 4: ESTABLISHMENT OF IMPLEMENTATION GUIDELINES

In addition to the procurement regulation, separate implementation guidelines were prepared for each level of government; *Ministerial Directive No. 5/2005 DNAT/MSA Sub-District Implementation Guidelines*, and *Ministerial Directive No. 6/2005 DNAT/MSA District Implementation Guidelines*. These guidelines provide the Local Assemblies with instructions regarding appropriate arrangements for technical supervision, operations and maintenance as well as transparent and efficient infrastructure implementation modalities. These directives were less controversial and were endorsed by the Central Government without any problems.

¹² Pre-qualification is each year prepared by National Public Works Department, and is an official list of pre-qualified contractors.

¹³ Small works is defined as any Works below US\$ 50,000

To ensure qualified and efficient arrangements for technical supervision, up to 5 percent of the LDF can be allocated by the assemblies to allow for procurement of technical support services, i.e. technical staff employed directly by the assemblies, and development related administrative costs such as monitoring and supervision of projects sites by the technical supervisor and other technical government staff. In addition to the official arrangements for technical supervision, each Suco Council is encouraged to establish a local oversight committee for each project. This would ensure direct involvement by the beneficiary group and provide direct oversight of the execution of the project. The documentation needed for completion of a project is also designed in such a way that the local oversight committee needs to sign to testify satisfactory completion of a project. To further ensure transparency in the process each project should publicly display a project sign board with detailed information about the project on the site.

In evaluating whether a project has been successfully implemented or not, there is a need to look beyond the completion of the project which often is set as the main benchmark. Basic training in operations and maintenance (O&M) was provided during the LPP seminars; however O&M will be an important issue to follow up with the assemblies both during and after completion of each project. One innovative feature with the LPP was to incorporate evaluation of O&M already in the planning process. In most cases O&M will be taken care of by the sector department which will manage the infrastructure asset after implementation, but for example in the case of water projects, user committees will have to be established. The implementation guidelines also provide examples of contractual agreements that the assemblies should sign when handing over the assets.

FINAL REMARKS:

The procurement regulation was critical and required central government endorsement to allow for effective piloting of a decentralised framework for delivery of public infrastructure and services. The endorsement of the Procurement directive should therefore be seen as a major achievement and the programme reached an important benchmark. However, the delay in approving the regulation caused a setback in terms of commencing implementation of investment plans in Bobonaro district by September 2005. While this was unfortunate for the Local Assemblies, the approval of the procurement regulation by MoPF was essential for the credibility of the programme and the wider objective of piloting decentralised government procedures. The national discussion did allow for government ownership of the process and may facilitate easier adoption and duplication of similar efforts in the future.

OUTPUT 3: FINANCIAL INSTRUMENTS & FINANCIAL MANAGEMENT FOR ISD

ACTIVITY 5: ESTABLISHMENT OF A LOCAL DEVELOPMENT FUND (LDF)

Commonly used arguments from central governments against decentralization reform are the lack of local level capacity to cope with the responsibilities given and the possibility of corruption as a result of the lack of central control. Such assumptions may often become self-fulfilling prophecy as the local-level institutions will never be able to prove their capabilities or demonstrate ability to improve their capacity unless such responsibilities are devolved. The consequential stalemate prevents both the centre and the local institutions from breaking out of the vicious circle. The Local Development Fund (LDF) as a finance instrument is therefore the key element of the LDP since it allows a shift of responsibility and authority from central to local-level in terms of planning, decision-making, service delivery and financial management of public expenditures, in addition to evaluation mechanisms and performance incentives.

For the initial pilot phase of the programme, approximately US\$ 1 million is made available through the LDF in the form of annual block grants over a period of two annual planning/budget cycles for each pilot district. The Local Development Fund (LDF) was established by the *Ministerial Decree No. 8/2005 regarding Local Assemblies*, in July 2005. There were no objections to the principle of the LDF or to the distribution key for district allocations to the pilot districts. It was also a common view that the LDF should be an integrated part of the Consolidated Fund for East-Timor (CFET).

5.1 LDF allocations

The total block grant allocation to each district (including sub-districts) is calculated on the basis on their total number of population; districts with larger populations will receive larger block grants each year than smaller districts. The District allocation formula relies exclusively on population data (National Census 2004), thus reflecting the assumption that development needs generally grow with the size of the constituency. Ideally, the LDF would be allocated to districts using both population-based weighting as well as a weighting for relative poverty to take into account "horizontal gaps". However, poverty data in Timor-Leste is not sufficiently reliable and detailed enough to be used at this stage. However, the LDF distribution key should be revised when such data becomes available.

The total allocation for each district is further divided into a district-level block grant consisting of 30 percent of the total block grant, and which is intended to finance district level expenditure assignments and managed by the District Assembly. The remaining 70 percent of the allocation, which is intended to finance sub-district level expenditure assignments, is divided among the sub-districts. Each Sub-District Assembly will receive an annual allocation based on an "equal shares component",¹⁴ enabling all sub-districts to meet a minimum of investment requirements, in addition to a population-based component.

The total LDF baseline allocation for Bobonaro District is US\$ 201,174, and the allocation signifies about US\$2.50 per capita. The *Government Directive No. 2/2005 – DNAT/MSA LDF allocations for 2005-6* was issued in January 2005 to initiate the first annual planning process. The second LDF announcement for FY 2006-7 was issued in September 2005, and included Lautem District as the second pilot District. The total LDF baseline allocation for Lautem District is US\$ 140,294 per year. In addition to their capital LDF allocation, each Local Assembly will receive an annual recurrent budget provided by the Government of Timor-Leste. The Government has committed to fully fund

¹⁴ The equal share allocation for TL-LDPTL-LDP is US\$ 2,000 per Sub-District

the recurrent operations of the Local Assemblies in addition to a small capacity building budget each year. This contribution is essential for the sustainability of the assemblies since the costs of operating the assemblies are already incorporated in the annual expenditures, and signals a firm commitment to the process. The LDF allocation from the Government was \$ 8,000 for FY 2004-5, and US\$ 19,500 for FY 2005-6. It is assumed that this annual allocation will increase in accordance with additional pilot districts.

5.2 Incorporation of LDF in CFET budget

The decision to incorporate the LDF into the Consolidated Fund for Timor-Leste (CFET); the official Government budget, was made during the inception phase of the LDP. This would ensure that both management and responsibility of the LDF lie with the Government and would avoid any parallel funding mechanisms as well as fully enable the programme to pilot central-local government block grant transfers within the national PEMS. The incorporation of the LDF in the CFET budget also meant that each year the LDF will be discussed and approved by the National Parliament and promulgated by the President. This will ensure that the LDF is included in the external audit of the CFET budget.

Unfortunately, during the codification of the LDF the allocated block grant was registered as a capital expenditure in the CFET budget instead of a "Grant" allocation to a separate legal entity. In accordance with finance regulations all expenditure from the LDF should have followed the national procurement process, i.e. central procurement for capital expenditures. However, by approving the LDP Procurement Regulation, the LDF has been exempt from these general procedures and it is not expected that this will cause any further problems. It has the status of a "programme" like all other departmental budgets, which allows each Local Assembly to be accounted for in the Government Free Balance System.

MoPF and MSA have assured the programme that the LDF will be codified as a "Grant" for FY 2006-7. The response from MoPF is that until the request from the LDP, there had been no previous precedence for "block grant" allocations to separate legal entities or requests for earmarked receipts in the Government budget.

ACTIVITY 6: ESTABLISHMENT OF MECHANISMS FOR LDF DISBURSEMENT AND FUND FLOW

The public expenditure management system (PEMS) in place in Timor-Leste was established during the UN Transitional Administration, and UNTAET Regulation 2001/13 still remains applicable. There are two additional manuals guiding the finance procedures of the Government; the Treasury Manual, and the Finance and Administration Instruction, which all describe a centralised PEMS. A petty cash system is the only direct fund flow from central to local level, thus no budgets are managed by sub-national units. This is a cash based system, where money is literally moved from central to local safes managed by the District Finance Officers (DFO) and where finance reports and unspent funds have to be returned to the Treasury office before new advances can be issued. This is a highly inefficient system which requires development and/or modification to ensure a greater level of independence and preparedness for a future decentralised system.

This section is reporting on the process of establishing a new system for central-local level transfer of public funds and a financial management at local levels. As for *Ministerial Directive 8/2005 regarding Local Procurement Regulations*, it was assumed that an agreement would be reached in regard to *Ministerial Directive No. 7/2005 MSA Finance Procedures*, by the end of FY 2004-5 and applied in Bobonaro from the beginning of FY 2005-6. A first draft was submitted and discussed with MoPF in March 2005 and a roundtable discussion was held in April. However, MoPF delayed

its responds to the first set of recommendations from MSA until early August, subsequently more detailed negotiations commenced between the two ministries.

The final endorsement by MoPF of the Finance procedures came in November 2005. There was a genuine misunderstanding between the two Ministries on the importance of such a directive; MoPF signalled that they did not need to approve Ministerial Directive 8/2005 since this was a Ministerial Directive from MSA, while MSA saw the necessity of an official endorsement from MoPF based on previous experiences with issuing funds and to establish a common understanding of LDF transfers in the future. The approval of the directive was therefore a major achievement and will ensure that a satisfactory financial management system is in place for the pilot.

6.1 LDF Finance Procedures

Three possible options were prepared and discussed in relation to disbursement and fund flow mechanisms of the LDF during the inception period of the LDP:

- 1) Treasury Option, which would fully involve MoPF and Treasury at all levels;
- 2) District Administration Treasury, which would rely on MSA to take full responsibility, and;
- 3) Project based finance management system, which would rely on the LDP PMU and external structures.

In discussions with the Minister of State Administration it was clear that the “Treasury option” was preferred as to ensure checks and balances of the fund. This option was proposed to the Ministry of Planning and Finance in March 2005. However, the response from MoPF was negative with the pre-conditions set by MoPF rendering difficulties to the implementation of the preferred option as recommended.

The final agreement between MSA and MoPF was to establish a District Administration Treasury (DAT) which will manage and account for local disbursements from the LDF. Since MSA is made responsible for operating the new institution the DAT is accountable to MSA at the national level as well as to the Local Assemblies at the local level. Accordingly, the District Administrator and the Deputy Administrator are designated as authorising officers for all LDF disbursements.

Within the District Administration Treasury system each Local Assembly has established a Finance Team to manage the LDF allocation on behalf of the assemblies. It is the responsibility of the Finance Teams to authorise expenditure from the LDF allocations in accordance with approved plans and budgets. The Finance Teams are accountable to their respective assembly.

The regulation allows for two types of fund disbursement; direct payments to contractors and consultants, and advances for recurrent expenditure for assembly activities. Funds will be acquitted on a monthly basis along with monthly reports being required as a pre-condition for disbursement of new advances. Administrative accounts will be kept by the Finance Teams and a financial account will be kept by the DAT. Reconciliation of these accounts will occur on a quarterly basis. Monthly and Quarterly reports will be submitted to DNAF to ensure national control of expenditure and to assure a regular acquittal process with MoPF. DNAT and DNAF will be focal points for DAT at the national level and the main counterpart to Treasury and National Procurement office in MoPF.

The pilot regulations for Financial Procedures outlines a transparent and accountable system which should in theory allow for a sound financial management of the LDF at the local level. Although it was not the preferred option by the pilot, the system will allow for piloting of central-local transfers of government funds, local level procurement and public expenditure through a district treasury managed by the District Administration. As a result of the general delay, the pilot testing of this new system will only commence in January/February 2006.

6.2 Establishment of local bank accounts

The LDP pilot finance management system is new and there are therefore many innovations. However, one particular innovation may have immediate impact on the way central government is dealing with expenditure outside the capital Dili. At this stage all expenditures to lower level administration and payment of salary to district staff is a cash-based system. Although there are several banking institutions established in a majority of the districts, MoPF has yet to utilise these facilities as a part of their finance system.

Within the pilot, the District Administration Treasury has therefore been authorised to open a LDF bank account and the LDF will be transferred on a quarterly basis in accordance with the financial expenditure plan for each assembly. This system will allow the local level to issue checks directly to contractors and other service providers which will avoid large amounts of cash in local safes at all times. Monthly bank reconciliations will be prepared and submitted to DNAF to verify and monitor local expenditures from the bank account.

ACTIVITY 7: ESTABLISHMENT OF PERFORMANCE BASED INCENTIVES

As previously stated there is no ex-ante control on the decisions at local-level which is an important principle in terms of shifting or delegating authority from national to local level. However, it is critical to ensure that mechanisms are in place to verify whether the local level is spending their budgets in accordance with “the rules of the game” such as planning regulations, investment menus, majority decision-making processes and finance/procurement procedures. A key element of the LDP generic programming is a set of performance based incentives which ensure ex-post evaluation of local level performance and where the assemblies are made responsible for their own decisions. This is a system in which consequences of good and bad performance are known by the key stakeholders where good performance will be awarded while bad performance may result in monetary reduction or denied access to the LDF.

There are two sets of performance based incentives incorporated in the TL-LDP; Minimum Conditions (MC) which the assemblies have to meet to access the LDF and Performance Measures (PM) which can increase or decrease the total allocation for an assembly.¹⁵ Within the system established by the LDP it is the responsibility of the Government to evaluate compliance with the agreed MC and PM and to make the final decision on performance. The objective is to ensure full government involvement of evaluating performance at local level and to hold the local level accountable for central funds.

7.1 Minimum Conditions (MC)

Each year District and Sub-District Assemblies will be assessed on basis of compliance with Minimum Conditions (MC), which reflects good governance issues such as accountability, transparency and representation. The MCs are disseminated at the beginning of the planning cycle together with the announcement of the LDF allocation for the following year, thus functioning as incentives for districts and sub-districts to function according to the regulations.

A list of conditions was prepared and issued as a part of the Ministerial Decree Law and was used during the first year of implementation. The system is prepared in such a way that it will become increasingly difficult to access the fund during the course of the pilot since it is assumed that the level of capacity will increase. The seven assemblies in Bobonaro District were assessed against the following MCs in July 2005:

¹⁵ Performance Measures were not applied during the first year of implementation, and will kick in during the third year.

Minimum Conditions Year 1:

1. Assembly constituted as defined by DNAT/MSA regulations;
2. Assembly approved annual investment plan and budget.

The Minister of State Administration established an Evaluation Team consisting of two national directors and two members of the Inter-Ministerial Technical Working Group from the Local Government Option Study. The team visited all local assemblies between 17 and 18 July 2005. The MCs for the first year were very simple. The Government MC Evaluation team decided that all seven assemblies complied with the MCs and could access the LDF for FY 2005-6. However, there was recognition of the limited progress in Cailaco Sub-District. As stated in their report, there was a demand that considerable improvements be made in Cailaco to access their LDF the following year. This was one of the first times that central government evaluated local level performance with preliminary feedback indicating that this is a good tool for monitoring and evaluation.

While the MCs applicable for Lautem for FY 2005-6 are the same as for Bobonaro during the first year of implementation, the MCs applicable in Bobonaro for the second year are more comprehensive than the first generation of MCs. The Local Assemblies in Bobonaro will have to comply with the following MCs for FY 2005-6:

Minimum Conditions Year 2:

Accountability:

1. Assembly constituted as defined by DNAT/MSA regulations
2. Assembly met at least four times last year
3. Assembly approved annual investment plan and budget last year
4. Compliance with LDF Finance Regulations in Year 1

Transparency:

5. Last year's investment plan and budget posted on public notice boards
6. Minutes of last year's Assembly meetings posted on public notice boards

Compliance with the MCs will be evaluated in July 2006 and the evaluation will focus on the compliance with the MCs during FY 2005-6.

7.2 Performance based allocations

Performance based allocations have yet to be included as part of the overall based incentive system of the programme. It is envisaged that as of year 3, LDF allocations to DAs and SDAs will be subject to increases or decreases in accordance with prior performance. Performance will be measured against the following criteria:

1. the extent to which Assembly investments have been demonstrably pro-poor in nature;
2. the extent to which Assembly investments have been demonstrably gender-sensitive;
3. the extent to which Assembly financial management has been in accordance with prescribed regulations;
4. the extent to which Assembly investment plans have been implemented in a timely, efficient and transparent ways.

FINAL REMARKS:

The objectives of establishing the LDF, incorporating the fund into the CFET budget, establishing mechanisms for central-local level transfers and approving a new local level finance management system were successfully met during 2005. This benchmark is a remarkable achievement

considering as this was the most challenging component in establishing an institutional and procedural framework of the LDP pilot. The problems encountered during this process are good indications of what a future Local Government reform mechanism or programme will have to deal with to reach a common agreement of local level finances. However, the LDP pilot finance arrangements will be a solid point of reference and a possible model for a future local level finance management system.

OUTPUT 4: NATIONAL POLICIES ON DECENTRALIZATION

The Local Development Programme is inherently designed to be “policy relevant” to inform the development of a sound local government policy framework in Timor-Leste, without pre-empting any particular policy option. The aim is to provide policy input and lessons to the ongoing discussion within the Government particularly to the Inter-Ministerial Technical Working Group (TWG) commissioned to provide recommendations on decentralisation policy to the Council of Ministers (CoM). The TWG commenced its work in 2003, and produced the Local Government Options Study later the same year. The report was presented and discussed in the Council of Ministers (CoM) in 2004. It was made clear by the CoM that the present Government seeks to establish a future local government system consisting of municipalities (20-35 units) at a level in between the current districts and sub-districts, in addition to an intermediate regional level (5-7 units). Based on the outcome in the CoM, the TWG resumed its work in September 2005 focusing on three main areas; 1) administrative re-division of the country; 2) representation and 3) local level functions and responsibilities. However, before the TWG had started their technical work, the Government issued a decree law in June 2005 establishing five regions. It is commonly accepted that this level is primarily a level for coordination rather than a level of local governance. The five Secretaries of State for the regions are political appointees and report directly to the Prime Minister.¹⁶

By the end of 2005 the LDP pilot has achieved remarkable results in terms of Central Government pilot policy for institutional and procedural framework. The regulatory framework adopted has the following components:

- Ministerial Decree MSA 8/2005 – Regarding Local Assemblies
- Ministerial Regulation MSA 1/2005 – Regulation for Recurrent Expenditure and Technical Support Budget
- Ministerial Regulation MSA 2/2005 – Local Development Allocations
- Ministerial Regulation MSA 3/2005 – Sub-District Assemblies Planning Guidelines
- Ministerial Regulation MSA 4/2005 – District Assemblies Planning Guidelines
- Ministerial Regulation MSA 5/2005 – Sub-District Assemblies Implementation Guidelines
- Ministerial Regulation MSA 6/2005 – District Assemblies Implementation Guidelines
- Ministerial Regulation MSA 7/2005 – Finance Procedures for Local Assemblies
- Ministerial Regulation MSA 8/2005 – Procurement regulations for Local Assemblies

This institutional and procedural framework provides a solid base for the pilot and provides the necessary room for policy lessons to be learned. Annex 6 in the LDP programme documents lay out some policy questions to guide the LDP in providing policy relevant lessons to the TWG.¹⁷ The policy questions are covering three main topics: Sub-national levels and inter-relations, representation and functions, procedures and resources.

This section of the report provides some preliminary lessons related to the overall policy questions outlined in the LDP programme document which may provide some initial guidance to the policy work of the TWG.

¹⁶ Region 1 (Lautem, Viqueque and Baucau), Region 2 (Manatuto, Manufahi and Ainaro), Region 3 (Dili, Aileu and Ermera), Region 4 (Liquica, Bobonaro and Covalima) and Region 5 (Oecusse).

¹⁷ Local Development Programme document annex 6, p.25

POLICY QUESTION 1: SUB-NATIONAL LEVELS AND INTER-RELATIONS:

Without pre-empting any particular option, the LDP based its institutional arrangements within the present administrative structure in Timor-Leste thereby utilising sub-national institutions at two levels; district and sub-district.

- **Sub-Districts as the primary sub-national level for local governance:** The Sub-District Assemblies are generally functioning effectively considering their relative short period of operations. The LDP pilot has confirmed that the Sub-District administration is conceptually or perceived as more accessible and significant for sub-district communities compared to the more distant district level. However, there are a number of points which are important to recognise in evaluating the sustainability of operating 65 Sub-District administrations and assemblies:
 - SDAs are in general costly to operate especially in regard to travel expenses;
 - some of the Sub-Districts are too small to be able to function as local government units, and the cost implication of ensuring a wider representative base too high;
 - the number of technical staff have to be increased to be independent of a higher level which will be very costly; and
 - technical upgrading of each Sub-District office such as computers, transport requirements will need to be improved to enable this level to fully function.

During the upcoming cycle of implementation, the extent to how the sub-district level is capable of carrying the responsibility of delivering the planned infrastructure projects will become apparent.

- **District as the primary sub-national level for local governance:** The District Assembly has been seen to function effectively during this first phase. It has become clear that the technical capacity at the district level disproportionately exceeds that at the Sub-District level, which was expected. In terms of cost-effectiveness, technical backstopping and support at this level would be more financially sustainable than the sub-district as the primary sub-national level for local government. However, this assumes that services can be provided district-wide. In this respect, it remains to be seen whether the districts can perform more effectively than the sub-districts in terms of actual delivery of infrastructure projects. In terms of accessibility of the assemblies, the district level is considerably more detached from the general public compared to the Sub-District level as demonstrated by the LDP where information about the Sub-District Assemblies at the Sub-District level was better disseminated than information about the activities of the District Assembly.
- **Municipalities as a primary level between the present Sub-District and District:** Considering these very limited findings, they seem to be supportive of the CoM preference to redefine the administrative structures of the country with a new administrative level between the present District and Sub-District levels of government. Although such an option would result in a larger distance between communities and the primary level of governance, given the small size of the country such an administrative level would remain accessible. In terms of cost-efficiency, the district is clearly a preferred option particularly with regard to operational costs related to number of units and to staffing costs. However, the incorporation of operations and staffing costs into one local government unit will foreseeable decrease the present cost of running several individual ministry departments with their own buildings, generators, vehicles and administrative staff.
- **The role of the secondary sub-national level in relation to the primary level:** In assessing inter-relations between different sub-national levels, it is important to recognise that in the future the present District and Sub-District structure is unlikely to exist. The future policy decisions on levels and responsibilities must be based on inter-relations between the municipalities and the regional level. At present, a number Ministries have

regionalized their operations; the Ministry of Transport, Communications and Public Works, the Ministry Health and the Ministry of Agriculture, Forestry and Fishery. Accordingly, technical support to municipalities may be provided from a higher level of government and not actually controlled by the municipalities. While this may be a preferred option in regard to human resources available and cost-efficiency, lessons from the pilot reconfirms the general risks involved with such an arrangements whereby a lower level has been provided with responsibilities for decision-making and implementation but without control of the means necessary to actually deliver the service. If technical personnel were to remain central government staff at a regional level, it is highly likely that the present tendency of upwards accountability would continue rather than supporting the decentralised objective of local government reform.

- **The role of Suco Councils in relation to the primary level:** Although elected Suco Council members, in particular the Suco Chiefs, may be included as village representatives in future municipal councils, the Suco Councils will remain as village structures. At this stage the Suco Councils are very weak and are not yet functional as foreseen by the law on Community Structures. There are still uncertainty in regard to the Suco Councils roles and responsibilities and very little has been done to ensure a greater understanding by the members of the Councils. The Suco Councils have the potential to play an important role as a channel between local institutions and the wider communities in ensuring a higher level of transparency and inclusiveness. However, this can only be achieved by enhanced capacity building of Suco Council members on one side in addition to build a greater demand for accountability from the civil society on the other.

POLICY QUESTION 2: REPRESENTATION

- **Representation in local government bodies:** With the traditional power invested in the Suco representatives particularly the Suco Chief and with the Government funding of Suco elections, the success of integrating the Suco representatives in the pilot local assemblies should be considered in future arrangements for local representation of the municipalities. This type of representation establishes a much needed link between community structures and the local government, and provides geographical representation that is of great importance in Timor-Leste. However, future representation in local bodies does not necessarily need to only consist of indirectly elected village representatives, but can be a mixture of Suco representatives and directly elected candidates from political parties at the municipal level. The downside of such arrangements would be the cost of holding elections at yet an additional level in a small country like Timor-Leste. It is worth mentioning that the LDP cannot provide any lessons in regard to leadership arrangements for future municipalities, i.e. directly or indirectly elected mayors for example, since the LDP is using the Administrators as Executive Secretaries to chair the Assemblies. This may be seen as a weakness in the design of the LDP since it is such an important issue to be considered in terms of future policy direction on desired power constellation within elected government bodies. However, as a pilot this was not possible to take into consideration.
- **Female representation in local government bodies:** The affirmative actions incorporated in the LDP by providing 50 percent of the seats in each assembly to female candidates has shown positive in terms of integrating female participation in decision-making processes. Although the general participation of women in assembly meetings is high, it is questionable how effective the female candidates are using their mandate at this stage in the pilot. On the other hand, affirmative action is a policy decision with a greater objective of social change the results should therefore be evaluated within a long term perspective. Accordingly, if this is a policy the Government would like to pursue, substantive and focused capacity building and support will be needed to empower women to reach their full potential as lessons from the LDP has shown that affirmative action is not enough.

- **Downward accountability:** There are several issues to be raised in regard to assembly representatives and downward accountability. The general accessibility of representatives by their constituencies is much higher at the sub-district level compared to the district level. This is clearly a result of the geographical aspect of using Suco Council members in the SDAs, i.e. all Sucos are represented and can easily feed back information to their communities. Compared to the district assemblies, the community representatives shall in theory represent the Sub-District, however, this form of representative arrangement makes the representatives very distant and inaccessible to the citizens, and it also complicates the possibility of the representatives to communicate with their constituency. In general, there appears to be a lack of understanding among the elected representatives of their role as representatives and the responsibilities of their mandate in terms of downward accountability. Moreover, there remains limited demand for downward accountability by the communities and civil society representatives to encourage effective representative institutions. This can be attributed to the fact that the population has little practical experience with having elected representatives. Future emphasis on basic democratic principles in capacity building programmes should therefore be a precondition to fully meet the objective of effective representation by the representatives in locally elected bodies.
- **Financial implications of effective representative bodies:** There is a common view by the Government that representatives in local government bodies should not have to bear the financial burden of participating in local assembly meetings. Considering the level of poverty in Timor-Leste a different approach would exclude the poor from participating, which would be against the main objective of giving the poor a voice. However, there is a trade-off between participation and financial costs related to facilitating such participation. Calculations based on the experience from Bobonaro, annual cost covering sitting allowances, transport and consumption to facilitate participation in five assembly meetings per year is US\$ 7,244. This signifies approximately an annual cost of US\$ 50 for each of the 161 members in the seven assemblies. Using this number as a baseline figure, the total cost of operating 13 District Assemblies and 65 Sub-District Assemblies would approximately be US\$ 70,000 per year, excluding costs related to capacity building initiatives, planning, salaries for government staff and technical support costs related to capital investments.¹⁸ Overall, the initial figures are relatively low and should be possible to be covered by the central government during a transitional period and in the future by local governments themselves.

POLICY QUESTION 3: FUNCTIONS, PROCEDURES AND RESOURCES

- **Infrastructure and service delivery functions:** To seek clarification of the set of infrastructure and service delivery functions which can feasibly be planned and managed at the local level indicative investment menus were presented to the local assemblies at each level. Taking into consideration the possible division of roles and responsibilities between different levels of government, the investment menu for Sub-District Assemblies included primary level investments such as health posts, primary schools, walking paths and small water-systems, while the equivalent list for District Assemblies included health centers, secondary schools, small roads and bridges. During the planning process the members of the assemblies seemed to have a reasonable understanding of their responsibilities within the health and education sectors, while it seemed to be more complicated to categorize other types of infrastructure. Health and Education is reasonable easy to categorize since there is a clear distinction between primary and secondary education for example, while it is harder to identify what is small and medium size irrigation systems. This can indicate that there is a need for additional explanations in the investment menus which demonstrates the importance of clarification of the division of responsibilities between different levels of government. Also, aside from the issue of clarity in division of responsibilities, there is a

¹⁸ This number assumes that there are only two representatives from each Suco, and six government representatives in each assembly.

need to assess the appropriate level of planning assignments. However, this question can only be answered after the process of implementation is completed since it requires data on quality of delivery of infrastructure in addition to actual O&M arrangements.

- **Local Planning Processes (LPP):** The LPP established under the programme has shown to be effective as a way of identifying, appraising and prioritizing local-level infrastructure projects. It is an inclusive process with relatively high levels of participation by local communities. The results of the planning process indicate that the local level has indeed the capacity to identify priority needs and to make sound decisions in terms of capital investments. All planned investments for FY 2005-6 are within the priority sectors of the National Development Plan and in line with the eligible investment menus provided. In fact 55 percent of the Local Development Fund allocation provided to Bobonaro District will be spent on the education sector, while the remaining funds are almost equally divided between health, water supply and roads. It is also important to emphasize that 100 percent of the planned investments originated from the initial identification process of priority needs with 32 of 35 approved infrastructure investments having been identified by the Suco Councils and their communities. This clearly demonstrates that community needs were accommodated by the LPP and that pro-poor planning can be institutionalised when clear procedures are available. An important feature of the design of the LDP is that there were no ex-ante controls on identification and final approval of local level investment priorities. The final decisions made by the assemblies clearly shows that lack of such control has **not** led to “bad” investment decisions which indicates that it is possible to decentralize local level planning and decision-making to local people. It is also important to underline that the assemblies have avoided an “equal-share” approach, i.e. fragmentation of available funds to ensure that each village receives the same amount, but have rather focused on a few priority development needs. These are important lessons to take into considerations when designing future municipality roles and responsibilities.
- **Local financing:** A system for local government tax and revenue collection can only be established after legislation has been approved and local governments are formally established and so issues related to tax and revenues are therefore not a part of this pilot programme. As a result of high-levels of social services available during the Indonesian occupation of Timor-Leste, a common view remains that the State should provide public services for free or at low cost. It was therefore envisaged that it would be problematic to demand local contributions to infrastructure investments. Accordingly, local contributions were only included as optional and given weight in determining priority projects. However, the results were overall very poor with local contributions varying between 1 to 13 percent with an average of five percent per Sub-District. The potential for local contributions might be higher than this, however there seems to be a common understanding that local contributions are only possible for community implemented projects. In this respect it was especially difficult for the members of the assemblies to understand how local contributions could be married with contracting infrastructure projects to private contractors. It remains to be seen whether such a mixed approach will result in actual local contributions.
- **Fiscal transfers:** The establishment of the LDF and a small recurrent budget within the CFET budget provides a good testing opportunity for fiscal transfers to local government units. When establishing a distribution module for fund allocation, it is very important to establish a simple allocation module based on accurate data. At this stage, there is no accurate poverty data available in Timor-Leste and the LDF allocation per district was therefore based on the total number of population which does not consider the relative poverty in each area. The LDF distribution is about US\$ 2.50 per person, which is relatively high compared to similar type of funds in other countries, but justifiable in Timor-Leste considering the high cost of construction. Based on the baseline figures provided, the total cost of facilitating a LDF to all 13 districts in Timor-Leste is approximately US\$ 2,300,000 per year. An overhead management cost of 5 percent to facilitate technical support and supervision of the capital budget is already included in this calculation. However, long-term

recurrent budget needs for operation and maintenance of the capital investments are not included in this calculation. From a local-level point of view the capital budget could be considerably higher in particularly for smaller Sub-Districts which received relatively small annual allocations. However, there is often a discrepancy between the high need for capital investments and the capacity to execute larger budgets. Results from the pilot to analyse local level capacity in this regard will be available mid-2006.

- **Financial management and accountability:** The pilot finance management system establishes local bank accounts as the norm for central-local transfers and moves away from the present cash-based system. Using available banking facilities will hopefully ensure a more transparent way of fund management, less opportunities for “borrowing” available cash from local safes, thus minimizing the possibility of misuse of funds. Periodic bank reconciliation and audit of financial and administrative accounts will hopefully ensure a reasonable control and accountability for local finance management. Under the pilot a District Administration Treasury is established to function as the treasury of the LDF at the local level, in addition to Finance Teams accountable to each assembly. During the first testing phase, monthly and quarterly reporting to central level will be critical to monitor local level performance in finance management. The central level will be a key player in ensuring guidance and control in this initial phase. It is envisaged that solid internal audit procedures will be established in 2006.

IV. PROGRESS COMPARED TO ANNUAL WORKPLAN

The project team has carried out the following activities during the report period.

OUTPUT/ACTIVITIES	STATUS	PROGRESS REMARKS
Output 1: Procedures for inclusive, pro-poor and effective planning and budgeting of local infrastructure and service deliver are established and applied in pilot districts		
1.1 Establish and support inclusive local assemblies in pilot sub-national units.		
1.1.1 Determine local assemblies mandate, functions and operating procedures	Completed	Approval of Ministerial Decree Law No. 8/2005 MSA regarding Local Assemblies for pilot district
1.1.2 District orientation workshop on LDP concept and procedures, and the roles and responsibilities of the D and SD Administrations and Assemblies and how to constitute the Assemblies	Completed	Held on the 19 th January 2005 for Bobonaro District and on the 4 th November 2005 for Lautem, chaired by the Minister and all Sub-District and District staff participated.
1.1.3 Create local assemblies in pilot sub-national units	Completed	One District Assembly and six Sub-District Assemblies established in Bobonaro District. Ongoing support was provided during the reporting period. The LAs in Lautem will be officially established in January 2006.
1.1.4 Distribute information packages for all levels about LDP	Completed	Distributed in the information meeting to about 50 participants for further distribution in each Sub-District.
1.2 Establish and disseminate guidelines for planning and budgeting for local ISD		
1.2.1 Prepare LDP planning and budgeting guidelines	Completed	Approval of Ministerial Directive No. 3/2005 – MSA Planning Guidelines for Sub-District Assemblies & Ministerial Directive No. 4/2005 – MSA Planning Guidelines for District Assemblies
1.3 Provide citizens with access to information about local planning and budgeting processes and outcomes		
1.3.1 Formulate communications strategy	Re-scheduled	To be drafted
1.3.2 Support districts (administration and line Ministries) in preparation of baseline database and plans.	Re-scheduled	Formats distributed to sub-national levels, however this exercise has not been completed.
1.4 Establish mechanisms for provision of technical support by line agencies and others to local planning and budgeting		
1.4.1 Establish procedures for technical support from line agencies to District and Sub-District Assemblies	Completed	The Ministerial decree law establishing government staff as members of the assemblies, and institutionalizing a Planning and Implementation Committee under each Assembly to ensure technical support and participation from line agencies.
1.5 Provide training in local planning and budgeting processes		
1.5.1 Prepare a comprehensive Capacity Development Programme	Completed	A Capacity Development Strategy has been developed, including LDP training areas and for additional programmes for external support.

OUTPUT/ACTIVITIES	STATUS	PROGRESS REMARKS
1.5.2 Design of training modules in Assembly operations, planning and budgeting, and implementation procedures	Completed	Special training material for District and Sub-District level were developed including students and trainers books. Five modules were developed; Local Assemblies, LPP, implementation, finance and procurement.
1.5.3 TOT seminar for planning and budgeting procedures	Completed	TOT seminar was held in February and in November 2005, 27 LA members participated in the TOTs.
1.5.4 Train local stakeholders in Planning and budgeting modules	Completed	One week training with each assembly was held in Bobonaro during the period of February/March and in Lautem in November/December 2005. A total of 283 participated in the training sessions provided by PMU.
1.5.5 Prepare training module for Infrastructure design and costing	Completed	A three day's training module was developed for Infrastructure design and costing.
1.5.6 Training seminar for PIC members in Infra. Design and costing	Completed	Training was held with 22 participants in Bobonaro in April 2005.
1.5.7 Evaluation and revision of planning and budgeting guidelines	Completed	Evaluation of planning and budgeting regulations was done in July 2005, and all regulations have been revised accordingly. Mission report is available.
Output 2: Transparent and effective procedures for sustainable production/delivery of public infrastructure and services are established and applied in pilot districts		
2.1 Establish guidelines for infrastructure implementation (production)		
2.1.1 Prepare LDP implementation guidelines	Completed	Approval of Ministerial Directive 5/2005 Implementation Guidelines for Sub-District Assemblies & Ministerial Directive 6/2005 Implementation Guidelines for District Assemblies in July 2005.
2.2 Establish procurement Guidelines for local level ISD		
2.2.1 Draft procurement manual for local level ISD	Completed	Draft procurement manual prepared together with GoTL National Procurement Division in June 2005
2.2.2 Finalize procurement manual for local level ISD	Completed	Ministerial Directive 8/2005 LA Procurement regulations was approved in December 2005..
2.3 Trial O&M arrangements		
2.3.1 Prepare O&M guidelines for different types of infrastructure	Completed	A special section in the Implementation Guidelines included O&M for different types of infrastructure.
Output 3: Financing instruments for and financial management of local public infrastructure and service provision are established and/or improved in pilot districts		
3.1 Determine and codify fund flow and financial management arrangements for LDF		
3.1.1 Determine LDF modalities and establish LDF fund flow and financial management regulations	Completed	Ministerial Directive 7/2005 LA Finance Regulation & procedures was approved in December 2005

OUTPUT/ACTIVITIES	STATUS	PROGRESS REMARKS
3.2 Establish LDF guidelines and arrangements		
3.2.1 Prepare LDF Finance Regulation which includes MC, PM and indicative investment menus	Completed	A special LDF Finance Regulation was prepared in December 2004, however, this was later included into the Ministerial Decree law as an annex. This law is including MC, PM and indicative investment menus.
3.2.2 Finalize LDF modalities and establish LDF fund flow and financial management regulations	Completed	Ministerial Directive 7/2005 LA Finance Regulation & procedures was approved in December 2005
Output 4: National policies on decentralisation and poverty reduction are informed by experiences from the LDP		
4.1 Ensure incorporation of LDP modalities into GoTL regulatory framework	Completed	One Decree Law and eight regulations have been adopted and approved by the government.
4.2 Coordination meeting with MSA and MoPF to ensure fully integration of LDP modalities into Government Structures and procedures	Completed	MSA has fully adopted the regulations prepared in coordination with LDP PMU, and MoPF has been included in all discussion from the very beginning, the final discussion that are presently ongoing in between MSA and MoPF.
4.3 Meet regularly with IMTWG on Decentralisation policy issues	Completed	During the first half of the reporting period the TWG did not meet as a result of the Suco Election, and it was therefore impossible to facility regular meetings with TWG. However, the work of the TWG commenced again in September 2005, and LDP has met regularly with the TWG on an weekly basis. Two of the TWG members did participate in the MC evaluation in July together with MSA representatives.

V. FINANCIAL REPORT

This report included one FY of the Government 2004-5, while two half of UNCDF/UNDP Finance year. The LDP budget is operating in two Budget Units; UNCDF and UNDP, and has therefore two separate budgets. This report is divided accordingly:

UNCDF: 00034936			
OUTPUT	Expenditure 2004	Expenditure 2005	Total Expenditure 2004-5
Planning and budgeting	22,590	16,362	38,952
Infrastructure & Service Delivery	-	-	-
Finance	-	81,139	81,139
National Policy	-	658	658
Project Support	27,011	35,680	62,691
Total Expenditure:	49,601	133,839	183,440
UNDP: 00039080			
OUTPUT	Expenditure 2004	Expenditure 2005	Total Expenditure 2004-5
Planning and budgeting	-	6,313	6,313
Infrastructure & Service Delivery	-	4,104	4,104
Finance	-	117,598	117,598
National Policy	-	982	982
Project Support	34,836	122,669	157,505
Total Expenditure:	34,836	251,666	286,502
Total Expenditure:	84,437	385,505	469,942

Annex 1: Composition of the Local Assemblies:

There are 1 District, 6 Sub-Districts and 50 Sucos in Bobonaro District and table 1 shows you the total number of directly involved members of the seven assemblies:

Table 1: Local Assembly members in Bobonaro District

Local Assemblies	Permanent Voting members			Executive members	Total members
	Males	Females	Total		
Bobonaro DA (6 Sub-Districts)	6	6	12	22	34
Atabae SDA (4 Sucos)	8	4	12	5	17
Balibo SDA (6 Sucos)	6	6	12	6	18
Bobonaro SDA (18 Sucos)	18	18	36	6	42
Cailaco SDA (8 Sucos)	8	8	16	5	20
Lolotoe SDA (7 Sucos)	7	7	14	6	19
Maliana SDA (7 Sucos)	7	7	14	7	21
TOTAL:	54	50	104	57	161

There are 1 District, 5 Sub-Districts and 34 Sucos in Lautem District and table 2 shows you the total number of directly involved members of the 6 assemblies:

Table 2: Local Assembly members in Lautem District

Local Assemblies	Permanent Voting members			Executive members	Total members
	Males	Females	Total		
Lautem DA (5 Sub-Districts)	5	5	10	21	31
Iliomar SDA (6 Sucos)	6	6	12	5	17
Los Palos SDA (10 Sucos)	10	10	20	5	25
Luro SDA (6 Sucos)	6	6	12	5	17
Muro SDA (10 Sucos)	10	10	20	5	25
Tutuala SDA (2 Sucos)	4	2	6	5	11
TOTAL:	41	39	80	76	122

While the number of community representatives depending on the total number of Sucos in one area, the number of executive members varies accordingly in terms of line ministry representation at the two levels. As you can see from the table the number of executive members in the SDAs are much lower than in the DA, and where the number represent three MSA staff, one Education staff, one Health staff and possible one Public Works staff. At the District level all major service delivery agencies are represented; health, education, water and sanitation, roads, public works, agriculture, in addition to State Administration, Land and Property etc.

Annex 2: CONDITIONS OF ACCESS TO LDF ALLOCATIONS

Access to their LDF allocations by Districts and Sub-Districts will be contingent upon compliance with a set of Minimum Conditions (MCs), as defined in the following table.

Table 2: LDF Minimum Conditions to be complied with by Assemblies

Year 1 (FY 2005-06) – assessment in July 2005, applies to LDF allocations for FY 2005-06
<ol style="list-style-type: none"> 1) Assembly constituted as defined by DNAT/MSA regulations 2) Assembly approved annual investment plan and budget
Year 2 (FY 2006-07) – assessment in July 2006, MCs 1-3 apply to LDF allocations for FY 2006-2007, MCs 4-6 apply to LDF allocations for FY 2007-08
<p>Accountability:</p> <ol style="list-style-type: none"> 7. Assembly constituted as defined by DNAT/MSA regulations 8. Assembly met at least four times last year 9. Assembly approved annual investment plan and budget last year 10. Compliance with LDF Finance Regulations in Year 1 <p>Transparency:</p> <ol style="list-style-type: none"> 11. Last year's investment plan and budget posted on public notice boards 12. Minutes of last year's Assembly meetings posted on public notice boards
Year 3 (FY 2007-08) – assessment in July 2007, MCs 1-3 apply to LDF allocations for FY 2007-2008, MCs 4-10 apply to FY 2008-09
<p>Accountability:</p> <ol style="list-style-type: none"> 1. Assembly constituted as defined by DNAT/MSA regulations 2. Assembly met four times last year 3. Assembly approved annual investment plan and budget last year 4. Compliance with LDF Finance Regulations in Year 2 5. Last year's budget implementation report submitted to Assembly 6. Last year's audit report submitted to Assembly <p>Transparency:</p> <ol style="list-style-type: none"> 7. Year 2 investment plan and budget posted on public notice boards 8. Minutes of last year's Assembly meetings posted on public notice boards 9. Year 2 tenders posted according to procurement regulations <p>Contributions:</p> <ol style="list-style-type: none"> 10. Local contributions for Year 2's LDF-funded activities respected



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