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Consolidated Annual Report on Activities Implemented under the Joint Programme “Local Governance Support” (LGSP) in Timor-Leste

**Report of the Administrative Agent
for the period 1 January - 31 December 2012**

Multi-Partner Trust Fund Office
Bureau of Management
United Nations Development Programme
<http://mptf.undp.org>

31 May 2013

PARTICIPATING ORGANIZATIONS



United Nations Capital Development Fund (UNCDF)



United Nations Development Programme (UNDP)

CONTRIBUTORS



Irish Aid



Norway

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EXECUTIVE SUMMARY

This Consolidated Annual Report under the Joint Programme Local Governance Support Programme (LGSP) covers the period from 1 January to 31 December 2012. This report is in fulfillment of the reporting requirements set out in the Standard Administrative Arrangement (SAA) concluded with the Contributors. In line with the Memorandum of Understanding (MOU) signed by Participating Organizations, the report is consolidated based on information, data and financial statements submitted by Participating Organizations. It is neither an evaluation of the Joint Programme nor an assessment of the performance of the Participating Organizations. The report provide the Project Board with a comprehensive overview of achievements and challenges associated with the Joint Programme, enabling it to make strategic decisions and take corrective measures, where applicable.

The Government of Timor-Leste requested UNDP-UNCDF and other development partners to continue their support to the Ministry of State Administration (MSA) and to the overall decentralization and local development agenda in Timor-Leste. An LGSP extension project, “LGSP II 2012-2013”, was approved in December 2011 which reorients the interventions and strategies of the previous LGSP (“LGSP I”) to respond to the new policy environment, the 2012 national elections, the still largely undefined local government framework and the current UNDAF cycle (2008-2013). Two expected outputs were formulated for extension project: *Output 1*: Improved capacity for local service delivery (ISD) by sub-national bodies with increased citizen participation; and *Output 2*: Improved institutional, legal, and regulatory framework established in support of effective local governance.

During 2012 several key results were achieved. In particular, the Joint Programme provided key support to the drafting and approval of the Integrated District Development Planning (or Planeamento Desenvolvimento Integrado Distrital - PDID) decree law and part of its subsidiary legislation.

The decree law harmonized and synchronized different programmes implemented by the MSA into a single framework, that incorporates many of the processes and procedures that the LGSP has been piloting through the Local Development Programme (LDP).

Although some of the PDID subsidiary legislation (particularly on local procurement) is still waiting for government approval, this is expected to happen within the second quarter of 2013. The PDID framework is a critical step to develop a full municipal local Public Expenditure Management (PEM) system in the near future.

Following the approval of the PDID decree law, the LGSP supported the bottom-up planning process for the 2013 project cycle countrywide, which marked a significant step towards the adoption of processes and procedures that are largely based on the LDP experience .A total of 391 small and medium scale (up to US\$ 500,000 each) infrastructure projects that were originated and prioritized locally have been included in the final PDID budget, for a total amount of about US\$ 54 million.

During the reporting period the government has also decided to put local government reforms and particularly decentralization, as one of the key elements of its 5-year programme. The Fifth Constitutional Government, which was formed in August following parliamentary election in July 2012, is currently revising the decentralization policy framework and drafting legal framework for decentralization. The Decentralization Strategic Framework that had been drafted with the LGSP support and approved in 2008 is

an important input to the new debate. However, reforms are still in the design phase and their finalization and implementation is likely to take place beyond the current two-year project extension period of the LGSP until 2013.

The Multi-Partner Trust Fund Office (MPTF Office) of the United Nations Development Programme (UNDP) serves as the Administrative Agent for the pass-through funded portion of the Joint Programme. The MPTF Office receives, administers and manages contributions from Contributors, and disburses these funds to the Participating Organizations in accordance with the decisions of the Project Board as per the requests submitted to the MPTF Office. The Administrative Agent receives and consolidates annual reports and submits to the Project Board through the Resident Coordinator.

This report is presented in two parts. Part I is the Annual Narrative Report and Part II is the Annual Financial Report for the pass-through funded portion of the Joint Programme.



PART I: NARRATIVE ANNUAL REPORT

Programme Title & Project Number	Country, Locality(s), Priority Area(s) / Strategic Results
<ul style="list-style-type: none"> • Programme Title: Local Governance Support Programme (LGSP) • Programme Number: 53898 (UNDP); 54392 & 54393 (UNCDF) • MPTF Office Project Reference Number:: 55656 	Timor-Leste
Participating Organization(s)	Local Governance and Decentralization Poverty Reduction
UNCDF and UNDP	Implementing Partners
Joint Programme Cost (US\$)	Ministry of State Administration RDTL
Contribution committed (Pass-through funding) 2007-2013: US\$3,552,541.00 <ul style="list-style-type: none"> • Irish Aid US\$ 2,422,123.00 • Norway Government US\$ 1,130,418.00 Contribution through Cost-Sharing <ul style="list-style-type: none"> • Irish Aid: US\$ 2,220,119.00 • Government of Norway: US\$ 119,328.00 Agency Contribution 2007 – 2013: <ul style="list-style-type: none"> • UNDP US\$ 942,159.00 • UNCDF US\$ 865,255.00 Government Contribution 2007-2012 (Parallel Funding) US\$19,538,515.00	Programme Duration
TOTAL as of December 2012: US\$27,237,917.00	Overall Duration: 7 years
Programme Assessment/Review/Mid-Term Evaluation	Start Date ¹ : 01/01/2007
Assessment/Review - if applicable <i>please attach</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Date: <i>dd.mm.yyyy</i> Mid-Term Evaluation Report – if applicable <i>please attach</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Date: <i>dd.mm.yyyy</i>	Original End Date: 01/01/2011 Current End date: 31/12/2013
	Report Submitted By
	<input type="checkbox"/> Name: Alessandro Righetti <input type="checkbox"/> Title: Chief Technical Advisor <input type="checkbox"/> Participating Organization (Lead): UNCDF <input type="checkbox"/> Email address: alessandro.righetti@uncdf.org

¹ The start date is the date of the first transfer of the funds from the MPTF Office as Administrative Agent. Transfer date is available on the [MPTF Office GATEWAY](#)

List of Acronyms

DA	District Assembly
DDC	District Development Committee
DNDLOT	National Directorate for Local Development and Territorial Management
DSF	Decentralisation Strategic Framework
GoTL	Government of Timor-Leste
EVAS	Equipa Verifikasaun, Avaliasaun no Supervisaun
ISD	Infrastructure and Service Delivery
KDD	Komisaun Dezenvolvimento Distritu
KDSD	Komisaun Dezenvolvimento Sub-Distritu
LDF	Local Development Fund
LDP	Local Development Program
LG	Local Governance
LGOS	Local Government Options Study
LGSP	Local Governance Support Program
LoA	Letter of Agreement
MC	Minimum Condition
MoF	Ministry of Finance
MSA	Ministry of State Administration
MTWGs	Ministerial Technical Working Groups
NGO	Non-Governmental Organization
NIM	National Implementation Modality
PBGS	Performance Base Grant System
PDD/DDP	Decentralised Development Programme
PDID	District Integrated Development Planning
PEM	Public Expenditure Management
PFM	Public Financial Management
PM	Performance Measures
SDDC	Sub-District Development Committees
SDP	Suco Development Plan (also acronym for Strategic Development Plan 2011-2030)
SKDD	Sorumotu Koordenasau Dezenvolvimento Distritu TWG Technical Working Group
SKDN	Sorumotu Koordenasau Dezenvolvimento Nacional
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program

1. Programme Purpose

The overall programme outcome is to contribute towards poverty reduction in Timor-Leste through improved local capacity to deliver an efficient, accountable and gender-responsive basic services by local administrations to poor communities in rural areas.

The LGSP has the primary objective of supporting the establishment of a full-fledged local government system in Timor-Leste by: i) supporting the implementation of improved local governance and local development procedures and processes in order to ensure increased participation in local decision-making processes, effective and efficient local-level infrastructure and service delivery (ISD) through expanded capacity development support; ii) supporting further policy dialogue and direct technical assistance, with the objective of establishing an appropriate, comprehensive and gender-responsive institutional, legal, and regulatory framework for local government / local service delivery by the Government, with citizen participation in local decision-making processes and implementation of local development initiatives. These should be based on international best practice and on policy relevant lessons generated from the Timor-Leste context and experiences.

Through achieving its primary objective, LGSP will thus contribute towards improving local-level infrastructure and service delivery, and reducing poverty.

2. Key Results for 2012

i) Programme Outcome

Increased capacity for efficient, accountable and gender-responsive delivery of services by local administrations

During the reporting period the LGSP has supported the establishment of a bottom-up and participatory planning process in all 13 districts, that took into account local development needs and that aims to provide improved basic infrastructure and service delivery. This was the first planning exercise to take place under the umbrella of the new PDID legislation.

The proposals come from the suco (village) level as well as from sector departments at the local (sub-district and district) levels, and the main direct beneficiaries are the community close to the project sites. Rural communities therefore get access to an improved quality of basic services and infrastructure facilities.

Another contribution towards this outcome was the introduction and mainstreaming of gender issues in the planning processes. Gender-responsive indicators were incorporated in the planning manuals as well as in the M&E manual to monitor project implementation. In particular, the number of female beneficiaries is a key element in the prioritization of all project proposals during the planning phase.

ii) Output 1: Local Development Programme

The main two achievements during this reporting period were:

- The successful completion of the planning process under the PDID framework, and
- The implementation of the last cycle of the Local Development Programme (LDP).

1. **First planning process under PDID**

The LGSP provided technical support to the whole process that led to the drafting and approval of the 13 District Investment Plans for 2013. Support provided includes: i) assistance to local representatives and local administration staff in planning and budgeting as well as review projects proposals submitted by local councils and sector department, and; ii) assistance to MSA technical staff both at the national and district level in the design, cost analysis, and design bill of quantities for each projects. Following the approval of the PDID decree-law, subsidiary legislation was drafted between January and March 2012. The start of the planning process, that normally takes place each year in January, had therefore to be delayed until April 2012. Moreover, two major political events, the presidential and the parliamentary elections, also caused a forced interruption of the planning processes at different times between March and July. Nonetheless, local assemblies successfully approved 451 projects for a total amount of about US\$ 64 million in small and medium scale basic infrastructure projects for 2013. Of these, 391 projects for a total amount of about US\$ 54 million were included in the final version of the State budget. The projects include construction and rehabilitation of education and healthcare facilities, water supply systems, rural roads and bridges, irrigation and protection walls, community centers, recreational facilities and local office buildings. The process was completed through a bottom-up and participatory planning process designed with LGSP support and facilitated by its LDP team.

The LGSP-supported Integrated District Development Plan (or PDID) is currently the main Public Expenditure Management (PEM) framework for district administration. The PDID framework effectively links the LDP and other more recent programmes to facilitate district level planning, procurement and financial management through a set of harmonized and simplified processes and procedures. This is an initial development of a local PEM system that can be used by future municipalities.

The programme enhanced the capacity of government staff at the local and central levels to identify, prioritize, select, implement and monitor the implementation of small-scale infrastructure projects in their respective districts. This will also ensure an increase of local capacities of the future local government.

Gender mainstreaming was also introduced in the PDID planning framework. The PDID decree law defines a minimum number of women representatives in each local body and a minimum number of women required for the decision-making quorum. Gender-based budgeting indicators were also introduced in the planning manual and templates as one of the main criteria for project prioritization.

2. Completion of the LDP

The LGSP provided technical support to the MSA in the implementation of 214 small scale infrastructure projects in 13 districts with a total budget of US\$ 6.3 million. Of these, 24 projects were implemented by community groups and 190 projects were implemented by locally based private contractors following a transparent tendering process. All these projects had been approved in 2011 through a bottom-up, participatory planning process. The main areas of interventions were: Water & Sanitation (54% of the funds), construction of community centers (15%), rural roads (10%), agriculture (8%) and Education (7%). Please refer to Annex – 1 for LDP budget allocation by district and sector. At the end of 2012, 177 projects (83%) had been completed. Delays in the completion of remaining projects were due to re-tendering of projects that had no interested bidders, to late payments to local companies that had already advanced with the construction works, and late advances to community groups. All projects should be completed within the first quarter of 2013, marking the end of a very successful programme that had started in 2005 and to which PDID owes many of its current processes and procedures.

More than half of the total LDP budget was allocated to water and sanitation projects, which have been identified by the communities as their most daily preoccupation. A very successful example of how a LDP project changes community lives is the water supply project. Most of Timor-Leste's rural areas have problems in access to clean water sources and sanitation facilities. The rural population, particularly women and young children, have to walk half an hour to one hour every day to get clean water. The new water distribution project brings pipelines close to the community and eases their daily burden of carrying water for long hours.

iii) Output 2: Policy and Legislation

Improved institutional, legal and regulatory Framework established in support of effective local governance

The main achievement under this output was the finalization, approval and socialization of the Integrated District Investment Plan (or PDID) Decree Law and the development of its subsidiary legislation. The PDID framework streamlines and harmonizes all existing programmes carried out by the MSA into a single Public Expenditure Management (PEM) framework. It is an initial step towards the development of an integrated system of central-local fiscal transfers for the future municipalities.

The LGSP assisted the MSA in conceiving, developing and elaborating the legal drafting of the PDID decree law and its subsidiary legislation, namely: i) ministerial decree on the structure and functioning of PDID organs; ii) ministerial decree on PDID planning stages and procedures for district investment plan; and iii) amendment of LDP procurement regulation.

LGSP also provided policy support in the following:

- The development of a simplified local medium-term expenditure framework for planning and budgeting, to facilitate district development plan implementation. The framework will facilitate the current PDID planning process and harmonize the bottom-up and top-down planning processes. It will also allow to pass from the submission of simple annual project proposals to the development

of structured District Strategic Development Plans (DSDP) plans for each district, and eventually for municipalities. LGSP is providing support to the piloting of the first DSDP, in Liquica district;

- The development of a performance based grant system, that has already been designed in detail (including the design of a district performance assessment manual) and currently needs to be concretely implemented by the MSA;
- The development of a formula for district budget allocation that has been approved by the Minister as a ministerial decree.

The LGSP also supported the MSA in the implementation of communication and outreach initiatives through publication of a bi-monthly LGSP bulletin and production of local governance folders, notebooks, and calendar.

With support from the LGSP, the MSA has mainstreamed gender in the PDID planning manual by putting gender sensitive project identification and selection criteria in each step of the planning process, from Suco Council to the District Development Committee. Similarly gender concerns are mainstreamed in the monitoring guidelines by making monitoring indicators gender sensitive.

In the planning guideline for the DSDP, gender mainstreaming is taken into consideration in each step of the planning process. For example situation analysis of the sectors include gender disaggregated information; target and indicators of DSDP are gender sensitive; one of the methods for situation analysis includes a SWOT analysis of gender equality and women empowerment. The DSDP has a multi-sector gender strategy that mainstreams gender strategically in all sectors.

iv) Challenges & Lessons Learned

Challenges:

- a) Districts have been requested to have designs and Bill of Quantity (BoQ) of all their project proposals prepared and submitted to Agency for National Development (ADN in Tetum acronym) before submitting their PDID budget proposal to the MoF. The still limited knowledge of the district technical staff in the preparation of project design and BoQ as well as the lack of coordination between ADN and MSA in the definition of different price unit analyses and technical specification applied, has lead MSA, at the central level, to have their proposals revised and redesigned according to the technical specification and BoQ defined by ADN. LGSP is trying to meet this challenge by having an increased focus on engineering support: in particular, four national and one international (UNV) engineers are being recruited and will be assigned to designing and delivering training packages for government technical staff who are working at the district level. LGSP is also supporting the recruitment by the government of 13 additional technical staff as per LoA that was signed in 2011 with the MSA.
- b) The institutional coordination between ADN and MAE is weak.
In theory, ADN only has a role in overseeing projects that are bigger than 150,000 US\$. However, in practice it has requested to analyze project documents and BoQ for all planned PDID projects before authorizing their inclusion in the lists that are submitted to the MoF. This process has had very little predictability, and has caused a continuous uncertainty on whether proposals that were approved by the district assemblies would be allowed to be included in the final submissions. The LGSP is seeking a stronger technical coordination with ADN, so that more

clarity can be achieved about its role and about the criteria that the KDDs should apply in the design of projects.

- c) There was limited fiscal predictability in the PDID budget allocation.
Although a Ministerial Decree was approved, the formula for district budget allocations was inconsistently applied. After MSA presented its budget proposal to the MoF, the Budget Review Committee without having consistent criteria eliminated proposals submitted by the District and approved others presented by central line ministries. This eventually caused the overall PDID budget to differ from the initially assigned amount in the fiscal envelope and undermined the bottom-up planning efforts that have been implemented throughout the year. Moreover, if the district budget allocation formula is not respected it will be difficult to introduce in the PDID a performance based grant system.
- d) The PDID procurement procedures have yet to be approved by MSA and MoF.
Until now the PDID procurement procedures have not been approved. There has been recent progress on the discussion of the subsidiary legislation for the PDID procurement, but a final agreement has yet to be reached with the Prime Minister's Office. It is hoped that this will happen within March and that the tender modality will be institutionalized as the required procurement modality for the overwhelming majority of the cases. Failure in reintroducing tendering would likely lead to a replication of problems that were experienced in the recent past, when the use of single source procurement in the PDD programme (that was not supported by LGSP) led to a concern for improvement.
- e) The delay in the approval of the State Budget for 2013 will necessarily cause delays in the planning and implementation of the PDID. In particular, project proposals by sucos and sectors will likely be sent to the sub-district level only in April, while the national workshop that will analyze and harmonize all projects is still expected to be held within June. This means that districts will have very little time to carry out proper project design and BoQ.
- f) The implementation of District Strategic Development Planning (DSDP) as a pilot-project has been delayed and behind the initial planning schedule (initially planned to take 3 months it will now take 6 months).
In order to up-scale the DSDP exercise to other districts within this year, an assessment and revision of the process must be conducted to identify the obstacles that lead to this delay and review the procedures.
- g) The new government that was sworn in August 2012 has decided to put a specific focus on administrative decentralization. The LGSP continues to focus on improved PEM through PDID (which is also one of the building blocks of the decentralization) as agreed in the PSC meeting held in December 2012 where the Minister requested that the LGSP continue focus on the strengthening of local technical capacities for a more efficient planning and implementation of the PDID. The UNDP-UNCDF may also consider extending its support to other aspects of the administrative decentralization process as the Government is still discussing the policy and legal framework on decentralization. Limited support to decentralization can be provided under the

current project framework but a more comprehensive support would require detailed assessment and programme formulation, which is planned for second quarter of 2013.

Lessons learned:

- The involvement of representatives of line ministries at the sub-districts and districts level was rather weak during the first year due to delays in the approval of the PDID decree law and late starts of the planning processes. Sufficient time must be given to socialize new legislation and guidelines to the local administration and line-ministries;
- In order to maintain MSA commitment and the full participation of all line ministries in the PDID it will be important to promote regular ministerial technical working group meetings as well as inter-ministerial meetings on the PDID;
- ADN needs to be more engaged early on the planning process during the district technical staff team site inspection, project design and preparation of BoQ;
- Considering the short time period given for project design and the still limited knowledge of the district technical staff in the preparation of project design and BoQ, it is essential to increase LGSP technical support and continue with the training of district technical staff.

3. Qualitative assessment:

After six years of its intervention (2007-2012), the LGSP might have contributed to better access of the poor and the vulnerable to public services in Timor-Leste. Through its support to the LDP first and the PDID later, the programme has successfully contributed to the establishment of systems and procedures for better local governance. There are now established organs at the village, sub-district, district, and national levels, and their capacity to plan, implement and monitor infrastructure projects at local level has considerably increased. The achievements of the LDP have been well recognized by the adoption of its best practices into the government umbrella programme, the PDID, which harmonizes all local development programmes in the country and which is seen by the government as a fundamental step towards the future adoption of municipalities.

4. Indicator Based Performance Assessment

	Achieved Indicator Targets	Reasons for Variance with Planned Target (if any)	Source of Verification
Programme Outcome: increased capacity for efficient, accountable and gender-responsive delivery of services by local administrations	PDID framework provides scope for increased local capacity. About 391 community project proposals \$54 million PDID budget were approved through bottom-up planning processes	Inadequate regulatory framework for the implementation of PDID projects. Subsidiaries legislations such as financial and procurement procedures have not been approved and implemented	PDID decree law
Output 1: Improved capacity for local service delivery (ISD) by sub-national bodies with increased citizen participation			
Indicators:			
<ul style="list-style-type: none"> Percentage of districts which meet MC/MP measured through annual evaluations 	n/a	No evaluation of MC/MP	
<ul style="list-style-type: none"> Percentage of districts develop and approves local development plans and budget each years 	All 13 districts (100%) plans and approves their respective district development plan for 2013		District investment plan project proposals
<ul style="list-style-type: none"> MIS system in use and provides direct input to management strategies and decisions 	M&E framework was designed and operated	PDID data being collected from the districts and have not been entered into the system	Consultant mission report
<ul style="list-style-type: none"> Percentage of suco plans updated and included in overall district planning framework 	All 442 villages (100%) plans were updated		Suco development plan and project proposals
<ul style="list-style-type: none"> Percentage of suco councils able to 			

<p>provide effective oversight of local development initiatives</p> <p>Baseline:</p> <ul style="list-style-type: none"> • MC performance system operational in 10 districts but no PM system in place • No integrated planning processing linking various levels • No MIS in place • Suco plans prepared but not integrated in overall district planning 	<p>All 442 villages councils (100%) signed-off completion of projects</p>		<p>Certification of work completion signed by the chief of village</p>
<p>Output 2: Improved institutional, legal and regulatory framework established in support of effective local governance</p>			
<p>Indicators:</p> <ul style="list-style-type: none"> • Revised DSF II approved • Revised PEM/PFM procedural framework approved • Availability of functional PBGS (PBGS is established and operational by end of 2012) • Revised capacity development strategy approved 	<p>n/a</p> <p>PDID and its subsidiary legislations in place</p> <p>The system was designed and formally adopted by the government through PDID decree law</p> <p>n/a</p>	<p>Continue with DSF I. The new policy is being developed by the new government</p> <p>However, it has not been implemented by the government</p> <p>planned for 2013 as per approved annual work plan</p> <p>planned for 2013 as per approved annual work plan</p>	<p>n/a</p> <p>approved decree law</p> <p>project annual work plan 2013 endorsed by the PSC on 17 Dec 2012</p>

<ul style="list-style-type: none"> • Percentage of district capacity assessment completed (3-4 assessment completed by 2013) • Gender issues considered in all new policies and strategies <p>Baseline:</p> <ul style="list-style-type: none"> • Outdated road map for local governance reform • Incomplete and contradictory PEM/PFM framework for local level • No capacity assessment done at the local level and no capacity development strategy in place • No gender mainstreaming strategy in place 	<p>n/a</p> <p>gender issues (indicators) mainstreamed in every government policies</p>		<p>project annual work plan 2013 endorsed by the PSC on 17 Dec 2012</p> <p>PDID planning manual</p>
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5. Other Assessments or Evaluations

Two Missions were conducted by a consultant during 2012. The 1st Assessment Mission was conducted in June 12-20, 2012. The mission is to be seen a first scoping/stocktaking mission to review the allocation formula and to design a Performance-Based Allocation of Funds tool to Districts in East Timor. A second mission, focusing more on the actual design, was conducted in September 2012. The Missions reports were submitted and approved.

A technical mission was held from 26 May to 9 June 2012, with the aim to explore the possibility of developing a District Strategic Development Plan (DSDP), for a period of 3 to 5 years. The mission report was submitted and is under review by MSA and LGSP for comments and inputs for finalization. The DSDP would facilitate the current PDID planning process and harmonize the bottom up and top down planning processes. During early September a second mission of the consultant to develop a DSDP manual and the related templates, and facilitator's manual to be used during the Training of Trainers (ToT) from 3 to 11 September, with the objective of enhancing the knowledge and the skills of the national level facilitation team regarding the purpose, process and methods/techniques for the preparation of the DSDP and to capacitate them to transmit that knowledge and skill to planners, decision makers and facilitators at the district, sub-District and suco levels.

Another mission was also conducted in May to review and assess the existing monitoring and evaluation framework and design monitoring and evaluation system for the PDID under the MSA. The mission resulted in 1) a monitoring and evaluation manual developed to be used for monitoring of PDID; 2) a conducted training on Monitoring and Evaluation to the staff of the MSA and the LGSP; and 3) a designed and established a PDID database in the MSA.

During 30 September to 5 October a mission of UNDP and UNCDF from Bangkok Regional Office was conducted in Timor-Leste to provide an analysis of the relevance of past studies and frameworks of support to decentralization and to propose key considerations in defining a new decentralization framework, taking into account the above analysis. The report of the Mission was submitted and approved.

PART II: ANNUAL FINANCIAL REPORT

2012 ANNUAL FINANCIAL REPORT

This chapter presents financial data² and analysis of the Joint Programme funds using the pass-through funding modality as of 31 December 2012. Financial information is also available on the MPTF Office GATEWAY, at the following address: <http://mptf.undp.org/factsheet/fund/JTP00>.

1. Sources and Uses of Funds

As of 31 December 2012 contributors (Irish Aid and the Government of Norway) have deposited US\$ 2,941,720 and US\$ 37,724 has been earned in interest, bringing the cumulative source of funds to US\$ 2,979,445. Of this amount, US\$ 1,949,184 has been transferred to two Participating Organizations of which US\$ 1,608,084 has been reported as expenditure. The Administrative Agent fee has been charged at the approved rate of 1% on deposits and amounts to US\$ 29,417. Table 1.1 provides an overview of the overall sources, uses, and balance of the Joint Programme funds as of 31 December 2012.

Table 1.1. Financial Overview (in US Dollars)

	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
Sources of Funds			
Gross Contributions	1,968,873	972,847	2,941,720
Fund Earned Interest and Investment Income	11,950	1,689	13,640
Interest Income received from Participating Organizations	18,116	5,969	24,085
Refunds by Administrative Agent to Contributors	-	-	-
Other Revenues	-	-	-
Total: Sources of Funds	1,998,939	980,506	2,979,445
Uses of Funds			
Transfer to Participating Organizations	1,544,225	404,960	1,949,184
Refunds received from Participating Organizations	-	-	-
Net Funded Amount to Participating Organizations	1,544,225	404,960	1,949,184
Administrative Agent Fees	19,689	9,728	29,417
Direct Costs (Steering Committee, Secretariat...)	-	-	-
Bank Charges	20	34	54
Other Expenditures	-	-	-
Total: Uses of Funds	1,563,934	414,722	1,978,655
Balance of Funds Available with Administrative Agent	435,006	565,784	1,000,790
Net Funded Amount to Participating Organizations	1,544,225	404,960	1,949,184
Participating Organizations' Expenditure	996,698	611,386	1,608,084
Balance of Funds with Participating Organizations	547,527	(206,427)	341,100

² Due to rounding, total in the tables may not add up.

Interest income is earned in two ways: 1) on the balance of funds held by the Administrative Agent ('Fund earned interest'), and 2) on the balance of funds held by the Participating Organizations ('Agency earned interest') where their Financial Regulations and Rules do not prohibit the return of interest. As of 31 December 2012, Fund earned interest amounts to US\$ 13,640 and interest received from UNDP amounts to US\$ 24,085, bringing the cumulative interest received to US\$ 37,724. Details are shown in the table below.

Table 1.2. Sources of Interest and Investment Income (in US dollars)

	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
Administrative Agent			
Fund Earned Interest and Investment Income	11,950	1,689	13,640
Total: Fund Earned Interest and Investment Income	11,950	1,689	13,640
Participating Organization (PO) Earned Interest Income			
UNCDF	-	-	-
UNDP	18,116	5,969	24,085
Total: Interest Income received from PO	18,116	5,969	24,085
Total	30,066	7,658	37,724

2. Contributions

Table 2 provides information on cumulative contributions received by contributor as at 31 December 2012.

Table 2. Contributions (in US dollars)

Contributor	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
Government of Norway	-	519,597	519,597
Irish AID	1,968,873	453,250	2,422,123
Total	1,968,873	972,847	2,941,720

3. Transfer of Funds

Allocations to the JP Participating Organizations are approved by the Steering Committee and disbursed by the Administrative Agent (AA). The AA has transferred US\$ 1,949,184 to two Participating Organizations (UNCDF and UNDP) as of 31 December 2012. Table 3 provides information on the cumulative amount transferred to each Participating Organization.

Table 3. Transfers by Participating Organization (in US dollars)

Participating Organization	Prior Years as of 31 Dec 2011	Current Year Jan-Dec 2012	TOTAL
	Transferred Amount	Transferred Amount	Transferred Amount
UNCDF	838,302	202,480	1,040,782
UNDP	705,923	202,480	908,402
Total	1,544,225	404,960	1,949,184

4. Overall Expenditure and Financial Delivery Rates

All expenditures reported for the year 2012 were submitted by the Headquarters' of the Participating Organizations via the MPTF Office Reporting Portal. These were consolidated by the MPTF Office.

4.1 Expenditure Reported by Participating Organization

As shown in table 4.1, cumulative transfers amount to US\$ 1,949,184 and cumulative expenditures reported by the Participating Organizations amount to US\$ 1,608,084. This equates to an expenditure delivery rate of 82.5%. UNDP slight over expenditure is due to a reporting issue that will be fully corrected in 2013.

Table 4.1. Cumulative Expenditure of Participating Organizations and Financial Delivery Rate (in US dollars)

Participating Organization	Transferred Amount	Total Expenditure	Delivery Rate Percentage
UNCDF	1,040,782	624,104	59.96
UNDP	908,402	983,980	108.32
Total	1,949,184	1,608,084	82.50

4.2. Total Expenditure Reported by Category

Project expenditures are incurred and monitored by each Participating Organization and are reported as per the agreed upon categories for harmonized inter-agency reporting. In 2006 the UN Development Group (UNDG) set six categories against which UN entities must report project expenditures. Effective 1 January 2012, the UN Chief Executive Board modified these categories as a result of IPSAS adoption to comprise eight categories. The old and new categories are noted below.

2012 CEB Expense Categories

1. Staff and personnel costs
2. Supplies, commodities and materials
3. Equipment, vehicles, furniture and depreciation
4. Contractual services
5. Travel
6. Transfers and grants
7. General operating expenses
8. Indirect costs

2006 UNDG Expense Categories

1. Supplies
2. Personnel
3. Training
4. Contracts
5. Other direct costs
6. Indirect costs

Table 4.2 reflects expenditure as of 31 December 2012. All expenditures reported up to 31 December 2011 are presented in the previous six categories, and all expenditures reported from 1 January 2012 are presented in the new eight categories. In 2012 the expenditure was reported in negative in order to correct the over expenditure of previous years.

In 2012, the highest expenditure was reported on Staff and personnel costs with an amount of US\$ 430,706. Indirect support costs exceed the 7% range due to the fact that some agencies charge indirect support costs up-front.

Table 4.2. Total Expenditure by Category (in US dollars)

Category	Expenditure			Percentage of Total Programme Cost
	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL	
Supplies, Commodities, Equipment and Transport (Old)	207,576	-	207,576	14.54
Personnel (Old)	1,074,079	-	1,074,079	75.22
Training of Counterparts (Old)	9,830	-	9,830	0.69
Contracts (Old)	-	-	-	-
Other direct costs (Old)	(402,116)	-	(402,116)	(28.16)
Staff & Personnel Cost (New)	-	430,706	430,706	30.16
Suppl, Comm, Materials (New)	-	61,538	61,538	4.31
Equip, Veh, Furn, Depn (New)	-	-	-	-
Contractual Services (New)	-	-	-	-
Travel (New)	-	2,989	2,989	0.21
Transfers and Grants (New)	-	5,548	5,548	0.39
General Operating (New)	-	37,705	37,705	2.64
Programme Costs Total	889,369	538,485	1,427,855	100.00
Indirect Support Costs Total	107,329	72,901	180,230	12.62
Total	996,698	611,386	1,608,084	

5. Transparency and accountability

The MPTF Office continued to provide information on its GATEWAY (<http://mptf.undp.org>) a knowledge platform providing real-time data, with a maximum two-hour refresh, on financial information from the MPTF Office accounting system on contributions, programme budgets and transfers to Participating Organizations. All narrative reports are published on the MPTF Office GATEWAY which provides easy access to nearly 9,600 relevant reports and documents, with tools and tables displaying financial and programme data. By providing easy access to the growing number of progress reports and related documents uploaded by users in the field, it facilitates knowledge sharing and management among UN Organizations. It is designed to provide transparent, accountable fund-management services to the UN system to enhance its coherence, effectiveness and efficiency. The MPTF Office GATEWAY has been recognized as a ‘standard setter’ by peers and partners.

Annex 1-1: LDP Budget Allocation by Districts and Sectors

Table 1: LDP Budget Allocation by District

District	Number of Project	Total Budget
Aileu	11	368,000
Ainaro	15	408,000
Baucau	16	652,000
Bobonaro	18	576,000
Covalima	16	476,000
Dili	15	529,000
Ermera	27	748,000
Lautem	15	429,000
Liquica	12	451,000
Manatuto	14	356,000
Manufahi	21	354,000
Oecussi	21	464,000
Viqueque	13	485,000
Total	214	6,296,000

Table 2: LDP Budget Allocation by Sector

Sector	Number of Project	Total Budget
Water & Sanitation	96	3,399,840
Community Center	65	944,400
Roads	12	629,600
Agriculture	14	503,680
Education	11	440,720
Others ³	11	251,840
Health	5	125,920
Total	214	6,296,000

³ *Others* refer to other basic infrastructure such as construction of protection wall to protect roads or paddy field from landslide or flood, sewer etc.