

**Local Governance Support Programme
NARRATIVE ANNUAL REPORT
REPORTING PERIOD: 1 JANUARY – 31 DECEMBER 2014**

Programme Title & Project Number	Country, Locality(s), Priority Area(s) / Strategic Results¹
<ul style="list-style-type: none"> Programme Title: Local Governance Support Programme (LGSP/SNGDP) Programme Number: 53898 (UNDP); 54392 & 84045 (UNCDF) MPTF Office Project Reference Number:² 55656 	<p>Timor-Leste</p> <p>Local Governance and Decentralization Poverty Reduction</p>
Participating Organization(s)	Implementing Partners
UNCDF and UNDP	Ministry of State Administration
Programme/Project Cost (US\$)	Programme Duration
<p>Donor Contribution (MPTF /JP) committed: Pass-through funding 2007-2014: US\$3,552,541.00</p> <ul style="list-style-type: none"> Irish Aid US\$ 2,422,123 Norway Government US\$ 1,486,789 <p>Donor Contribution through Cost-Sharing</p> <ul style="list-style-type: none"> Irish Aid: US\$ 2,220,119 Government of Norway: US\$ 119,328 Government of Timor-Leste: US\$ 750,000 <p>Agency Contribution 2007 – 2014:</p> <ul style="list-style-type: none"> UNDP US\$ 942,159 UNCDF US\$ 865,255 <p>Government Contribution 2007-2012 (Parallel Funding) US\$19,538,515</p>	<p>Overall Duration: 7,5 years</p> <p>Start Date³: 01/01/2007</p> <p>Original End Date⁴: 01/01/2013</p> <p>Current End date⁵: 31/12/2015</p>
TOTAL as of December 2014: US\$28,405,217	
Programme Assessment/Review/Mid-Term Eval.	Report Submitted By
<p>Assessment/Review - if applicable <i>please attach</i></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i></p> <p>Mid-Term Evaluation Report – if applicable <i>please attach</i></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i></p>	<ul style="list-style-type: none"> Name: Domingos Soares Title: Chief Technical Advisor o.i.c Participating Organization (Lead): UNCDF Email address: domingos.soares@undp.org

¹ Strategic Results, as formulated in the Strategic UN Planning Framework (e.g. UNDAF) or project document;

² The MPTF Office Project Reference Number is the same number as the one on the Notification message. It is also referred to as “Project ID” on the project’s factsheet page the [MPTF Office GATEWAY](#)

³ 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](#)

⁴ As per approval of the original project document by the relevant decision-making body/Steering Committee.

⁵ If there has been an extension, then the revised, approved end date should be reflected here. If there has been no extension approved, then the current end date is the same as the original end date. The end date is the same as the operational closure date which is when all activities for which a Participating Organization is responsible under an approved MPTF / JP have been completed. As per the MOU, agencies are to notify the MPTF Office when a programme completes its operational activities.

List of Acronyms

APD	Administrative Pre-Deconcentration
BoQ	Bill of Quantity
CD	Capacity Development
CSA	Cost Sharing Agreement
DSDP	District Strategic Development Plan
DSF	Decentralization Strategic Framework
DTC	District Tender Committee
DSF	District Strategic Framework
GoTL	Government of Timor-Leste
ISD	Infrastructure and Service Delivery
LDP	Local Development Program
LG	Local Governance
LGSP	Local Governance Support Program
LoA	Letter of Agreement
MC	Minimum Conditions
M&E	Monitoring & Evaluation
MIS	Management Information Systems
MoF	Ministry of Finance
MSA	Ministry of State Administration
NGO	Non-Governmental Organization
NSDP	National Strategic Development Plan
PDID	District Integrated Development Planning
PEM	Public Expenditure Management
PFM	Public Financial Management
PM	Performance Measures
SAA	Standard Administrative Arrangement
SNGDP	Sub-national Governance and Development Programme
SSAD	Secretary of State for Administrative Decentralization
SSIS	Secretary of State for Institutional Strengthening
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program

PART I: NARRATIVE REPORT

Executive Summary

This Consolidated Annual Report under the Joint Programme Local Governance Support Programme (LGSP/SNGDP) covers the period from 1 January to 31 December 2014. This report is in fulfilment 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.

During 2014, the LGSP/SNGDP provides advisory and technical support to the Ministry of State Administration (MSA) in planning of district capital investment plan for 2015 following the LGSP/SNGDP designed PDID planning procedures. The continued support was aimed at strengthening local capacities to plan, budget and implement medium scale infrastructure projects, particularly in the improvement of bottom-up planning procedures as well as establishment of a competitive tendering system. A series of training programmes and workshop were organized for District Tender Committee (DTC) on the new procurement procedures, and engineering training for MSA and district technical staff. Introduction of competitive tendering system and pre-qualification procedures for PDID 2015 projects marked an important step towards the consolidation of a coherent public expenditure management system. MSA and district-based engineers on project design and costing.

The new decentralisation policy, Administrative Pre-deconcentration (or PDA) structures introduced by the government in early 2014 has not been fully implemented by MSA as planned. Although, LGSP/SNGDP was not involved in the design of the policy but the Decentralization Strategic Framework (DSF) developed by LGSP/SNGDP in the previous years was used as reference in the development of PDA policies. Thus, to support the future PDA structures, LGSP/SNGDP designed a Capacity Development (CD) Strategy, methodologies and content and delivered training for the current district administration and line-ministries staff in one of the three first phase PDA districts. The current sub-national administrative functions are expected to be transformed under the new structures as defined in the PDA Decree Law.

A new Public Administration Reform initiative, the National Diagnostic Assessment (NDA), was designed and piloted in two key ministries, Ministry of Health and Ministry of Public Works within the Government of Timor-Leste during August to December 2014 under the SNGDP framework.

The LGSP is scheduled to end in March 2015. Its successor programme, the Sub-National Governance and Development Programme (SNGDP) has been operating (in parallel) since June 2014 under UNDP and GoTL Cost Sharing Agreement (CSA) to support CD for future PDA structures. The Norway Government also contributes US\$417,300 in 2014 under LGSP/SNGDP framework as a “bridging fund” to support LGSP local development initiatives. Additional resources being mobilized to support SNGDP planned activities for 2015 to 2018. At the time of

writing this report, a request for extension of LGSP project has been proposed for another 9 months (April to December 2015).

The Multi-Partner Trust Fund Office (MPTF Office) of the United Nations Development Programme (UNDP) serves as the Administrative Agent (AA) 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 UN Resident Coordinator. This report is the Annual Narrative Report. The Annual Financial Report for the pass-through funded portion of the Joint Programme can be found at: <http://mptf.undp.org/factsheet/fund/JTP00>.

I. 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 service by local administrations to poor communities in rural areas.

The LGSP/SNGDP has the primary objective of supporting the establishment of a fully-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 practices and on policy relevant lessons generated from the Timor-Leste context and experience.

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

II. Key Results for 2014

i) Programme Outcome

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

During this reporting period, LGSP/SNGDP continued supporting bottom-up and participatory planning processes in all 13 Districts/Municipalities for PDID 2015 projects. Sucos' (village) existing capital development plans and sector departments plans were reviewed, consulted and approved by the District Development Committee (DDC) before its inclusion in the final draft of the District Investment Plan (DIP). Gender-based indicators were mainstreamed throughout the planning process and included as one of the selection criteria in the project prioritization processes.

Following the approval of PDID Procurement Decree Law in mid-2013, LGSP/SNGDP supported MSA in the design of pre-qualification procedures and a competitive tendering system for public

infrastructure projects at the local level. Pre-qualification was introduced for the first time to determine the eligibility of the district-based companies' capacities (technical and financial) to implement PDID 2015 projects, which marked an important step to develop a transparent and accountable Public Expenditure Management framework for sub-national governments.

ii) Programme Output

Local Development

LGSP Output 1: Improved capacity for local Infrastructure and Service Delivery (ISD) by sub-national bodies with increased citizen participation

SNGDP Outcome 2 Output 4: MSA national and sub-national capacities to implement PDID are strengthened

2014 Annual Target Indicator:

- Planning process for PDID 2015 project completed and District Investment Plans 2015 are approved following LGSP designed bottom-up planning procedures
- Training on project design and costing conducted in 13 Districts/Municipalities and the district technical staff capacity improved through better project design and costing.

2014 Key Achievement:

- Physical completion of PDID 2013 projects (\$40 million projects cost)
- About 151 projects with a total budget of \$29.3 million was approved by the District Development Committee following PDID planning procedures
- Implementation of pre-qualification process of local companies for PDID 2015 projects

During 2014, LGSP/SNGDP continued provide advisory and technical support to MSA in the implementation of PDID projects carried-over from 2013 and the new planning process for 2015 projects. There was no PDID project in 2014 due to low implementation rate of 2013 projects. Only \$29.7 million out of \$69.7 million of PDID 2013 total budget (for 518 projects) that was delivered in 2013. The remaining of \$40 million was carried-over (re-appropriation) to 2014. Thus, support was provided aimed to ensure smooth technical and administrative implementation and completion of the remaining 2013 projects as well as completion of planning, design and costing for the new PDID 2015.

The total budget of PDID 2015 projects that were approved by District Development Committee through LGSP designed bottom-up planning procedures is \$29.3 million for 151 projects, whereby more than 50% of the budget goes to high priority sectors such as water and sanitation, education and health.

To improve project design and costing (i.e. Bill of Quantities or BoQ), LGSP/SNGDP continued deliver engineering training to MSA and district-based technical staff. The training programme was delivered to coincide with the PDID planning cycle following "on-the-job" training approach. Two training modules on project site inspection and site survey were delivered to the technical staff in all districts. The survey results were applied by the technical staff during project design and costing with the support of LGSP/SNGDP engineers. Compared to last year, Districts/Municipalities have submitted much better project design and costing. Fewer projects for design flaws have been returned by the National Development Agency (or ADN) to the MSA for revision.

Different from previous years, LGSP/SNGDP supported District Procurement Committee to implement, for the first time, the pre-qualification process for PDID 2015 projects, which aimed to assess local contractor's financial and technical capacity to implement a project. About 958 of companies went through the pre-qualification processes, in which 613 companies are qualified while 345 were disqualified to participate in the tendering process. Out of 613, 412 companies' qualified under "A" Category (qualified to implement project that cost up to \$150,000) and 201 companies qualified under Category "B" (qualified to implement projects that cost from \$150,000 to \$500,000).

Policy and Legislation

LGSP Output 2: Improved institutional, legal and regulatory Framework established in support of effective local governance

SNGDP Outcome 2 Output 3: Institutional framework, policies and procedures for sub-national investments are updated and improved

2014 Annual Target Indicator:

- Bottom-up PDID planning for 2015 conducted following the PDID procedures

2014 Key Achievement:

- Establishment of pre-qualification process and competitive tender system and procedures.

Following the approval of PDID Procurement Decree Law, LGSP/SNGDP has continued to provide advisory support to the government in the conceptualization and implementation of the law, with a focus to establish a transparent, accountable and competitive tender system. Training was provided to the District Procurement Committee members including technical advice provided during public meetings with the local contractors to inform them about the new procurement processes and procedures.

To enhance bottom-up planning process, LGSP/SNGDP supported MSA in drafting of a Terms of Reference for the organization and implementation of the National Development Coordination Meeting (or SKDN). The meeting is aimed at synchronizing District Investment Plan (i.e. PDID project proposals) with the central line-ministries plan as to ensure that projects were planned through a bottom-up approach would be eventually financed through the general state budget, i.e. line-ministries' annual (regular) budget.

LGSP/SNGDP also supported MSA in the revision of the ministerial circular on the operational budget for PDID planning, monitoring and implementation processes. The circular defines relevant budget-line, responsibility and reporting procedures, which aimed at improving transparency and accountability in public financial management.

In addition, LGSP/SNGDP has successfully concluded the District Strategic Development Plan (DSDP) pilot in two Districts/Municipalities. MSA has now taken over the responsibility and rolled-out to other Districts/Municipalities (two) which also concluded successfully. The capital investment plan identified during DSDP processes were used as reference to develop District Investment Plan (or PID) during PDID 2015 planning process.

SNGDP Outcome 1: Decentralisation policies are formulated and implemented

Output 1: Effective decentralization policy and planning, implementation, coordination, monitoring and evaluation at central and sub-national levels

A National Diagnostic Assessment was designed and piloted in two key ministries of Timor-Leste Government during August to December 2014 under the framework of Cost-Sharing Agreement between Secretary for State for Institutional Strengthening (SEFI) and UNDP. The main objective of the national diagnostic is to assess the institutional and organizational productivity capacity of the national institutions to deliver service and “fit for purpose”.

The overall initiative also reflects support to building the institutional capacity of SEFI, including the human resource capacity, to be able to plan and implement institutional capacity diagnostic assessment. In line with this, a mission from Bureau for Development Policy UNDP HQ was deployed to design a road map and strategies for the design and implementation of the NDA followed by a mission of two international experts, one Institutional Specialist and one Public Finance Management Specialist, to design methodologies and tools for the NDA. The NDA was launched and piloted in the two key ministries, Ministry of Health and Ministry of Public Works of Timor-Leste Government, during August to December 2014 and is planned to be expanded to all national institutions.

Output 2: Capacities of key actors responsible for operationalizing deconcentration plan identified and systematically developed to enable effective implementation of deconcentration

On the overall support to the decentralisation policy development, LGSP/SNGDP supported government in the design of Administrative Pre-deconcentration (or PDA) capacity building strategy and content for future pre-deconcentration structure to be established in 13 Districts/Municipalities. However, the PDA policy has not been fully implemented. The PDA structure and its institutional arrangement has not been established. Officials such as district managers, executive secretaries have not been appointed. Thus, as preparatory work for the future PDA structure, LGSP/SNGDP supported the Secretary of State for Institutional Strengthening (or SEFI) developing a capacity building strategy and content of the “Foundation Course” for the existing district administration and line-ministries staff at the district level which are expected to be transformed into the new administrative setting as per defined in the PDA Decree Law. The first training of this administrative capacity building strategy was delivered in one districts and expected to be rolled-out to the other districts in 2015.

iii) Challenges & Lessons Learned

Challenges:

- Final budget allocated for PDID projects in the last two years have been varied (\$69.7 million in 2013 and \$29.3 million for 2015) which is very much depends on the government’s social and political priorities. Formulae for budget allocation to each districts has not been followed consistently. Thus, budget predictability and the final inclusion of project proposals in the State Budget remains as an issue that needs to be considered by the government.
- Government systems and procedures aimed at reducing fiduciary risks – such as central revision of all PDID project designs and BoQs, and annual finance cycles – take much time away from implementation explaining the low completion rate in 2013.

- The Administrative Pre-deconcentration (or PDA) structures are still to be put in place. The announced change in government in early 2015 (in the time of writing this report) could add further uncertainty about PDA implementation. The government is yet to decide whether to continue with the current PDA policy or to propose a new revised one.

Lessons learned:

- On the job training approach that was practiced and implemented following PDID project cycle shows that the District Development Committee are starting to submit better designed projects and costing (BoQ) and project prioritization process follows clearer criteria, based on an analysis of the real benefits of each proposal and on the quality of its technical design.
- The recently introduced pre-qualification of local companies and competitive tendering system should further improve transparency and accountability in the procurement of public infrastructure projects as well as increase local company's capacity to compete. In time of writing this report, MSA was instructed to postpone all the pre-qualification processes until the new programme budget of the new government is approved by the National Parliament.
- While there is still uncertainty about PDA implementation, LGSP/SNGDP has continued to do preparatory work that will be focusing on CB for the current district administration and line-ministries staff so they will be ready to perform once the PDA institutional framework and setting are in place.
- Direct involvement of government staff, in organizing and deliver training, in the design and conduction of the National Diagnostic, is one of the good capacity building strategy for knowledge and skill transfer, which will further strengthen national ownership of the process.

III. Qualitative assessment:

Implementation of PDID Procurement Decree Law marked an important step towards developing of a transparent and accountable public expenditure management framework for sub-national level. This is for the first time, a pre-qualification process was introduced and implemented at the sub-national level to assess local contractors' eligibility to compete in the tendering process. Thus, the process not only improve transparency and accountability in the tendering process but also improve project quality as well as contributes towards government ongoing efforts to improve local company financial and technical capacity.

Indicator Based Performance Assessment

	Achievements	Reasons for Variance with Planned Target (if any)	Source of Verification
<p>Programme Outcome: increased capacity for efficient, accountable and gender-responsive delivery of services by local administrations</p>	<ul style="list-style-type: none"> • PDID framework provides scope for increased local capacity. About 467 community project proposals of \$68 million PDID 2013 budget were approved through bottom-up planning processes were completed • Gender issues mainstreamed in the DSDP pilot and PDID planning manual • PDID procurement decree law provides space for improved transparency and accountability in the public expenditure management 	<p>Inadequate regulatory framework for the implementation of PDID projects. Subsidiaries legislations such as financial procedures have not been approved and implemented</p>	<p>PDID decree law DSDP document</p>
<p>Output 1: Improved capacity for local service delivery (ISD) by sub-national bodies with increased citizen participation</p>			
<p>Indicators:</p> <ul style="list-style-type: none"> • Percentage of Districts/Municipalities which meet MC/MP measured through annual evaluations • Percentage of Districts/Municipalities develop and approves local development plans and budget each years 	<p>n/a</p> <p>All 13 Districts/Municipalities (100%) plans and their respective district investment plan for 2014</p>	<p>No evaluation of MC/MP</p>	<p>District investment plan proposals</p>

<ul style="list-style-type: none"> • MIS system in use and provides direct input to management strategies and decisions • Percentage of suco plans updated and included in overall district planning framework • Percentage of suco councils able to provide effective oversight of local development initiatives <p>Baseline:</p> <ul style="list-style-type: none"> • MC performance system operational in 10 Districts/Municipalities 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>approved</p> <p>M&E framework was designed but not yet operated</p> <p>All 442 Suco (100%) plans were updated</p> <p>All 442 Suco councils (100%) signed-off completion of projects</p>	<p>PDID data being collected from the Districts/Municipalities but have not been entered into the system</p>	<p>Consultant mission report Project's quarterly and annual report</p> <p>Suco development plan and project proposals</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 	<p>n/a</p>	<p>Continue with DSF I. Development of legal framework for LG (i.e. DSF II)</p>	<p>n/a</p>

<ul style="list-style-type: none"> • Revised PEM/PFM procedural framework approved • Availability of functional PBGS (PBGS is established and operational by end of 2012) • Revised capacity development strategy approved • Percentage of district capacity assessment completed (3-4 assessment completed by 2013) • Gender issues considered in all new policies and strategies 	<p>PDID and its subsidiary legislations for planning and implementation in place</p> <p>PDID Procurement Decree Law is in place but yet to be fully implemented</p> <p>The system was designed and foreseen in the PDID decree law but not yet formally adopted by the government:</p> <p>The CD strategy was drafted but not implemented as the government still continues with the DSF I.</p> <p>Gender issues (indicators) mainstreamed in the government local development programmes</p>	<p>is based on the assumption on the completion of DSF I: basic law on LG passed by the National Parliament. However, the approved law has not been fully implemented by the government</p> <p>Formula allocation in place (ministerial decree respected internally by the district but not by the central line-ministries</p> <p>Due to change in government that taken place in mid-February 2015 (in the time of writing this report), the pre-qualification process has to be postponed until the new government programme budget is approved</p> <p>Planned for 2013 as per approved annual work plan</p>	<p>Approved decree law and its subsidiary legislations ministerial decree on formula allocation</p> <p>Project annual work plan 2013 endorsed by the PSC on 17 Dec 2012</p> <p>Project annual work plan 2013 endorsed by the PSC on 17 Dec 2012</p> <p>PDID planning manual and DSDP documents</p>
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<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			
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III. Other Assessments or Evaluations (if applicable)

The Institutional Strengthening National Diagnostic Assessment will be used to measure institutional capacity and plan for Public Administration Reform including at the Local Government.

IV. Programmatic Revisions (if applicable)

The Programme Steering Committee (PSC) of the LGSP/SNGDP approved a six month (1st January to 30 June 2014) and later a nine month (1 July 2014 to 31 March 2015) of no-cost-extension of the LGSP/SNGDP II 2012-2013. Due to the uncertainty and delays in the implementation of the Government's plans for activities related to deconcentration/decentralization as result of the government's reshuffle, the Government of Timor-Leste, UNDP and UNCDF further request a nine (9) months no cost extension until 31st December 2015.

The no-cost extension has been beefed up by an additional "bridging fund" contributed by the Norwegian Government (US\$ 417,300) allowing the joint programme to carry out a serious set of activities aimed at the completion of the outputs until 31 March 2015. In parallel, SNGDP (Sub-National Governance and Development Programme) has started in June 2014 funded by a GoTL-UNDP Cost Sharing Agreement enhancing the capacity development of PDA structures. It is foreseen the last stage of LGSP prepares the ground for a fully operative and funded SNGDP. UNCDF and UNDP have been in the process of additional SNGDP resource mobilization – without final results.

The LGSP/SNGDP PSC meeting on 18 December 2014 endorsed the 2015 work plan.