

## **País: República Democrática de Timor-Leste**

<b>Resultado(s)/Indicador(es) UNDAF:</b>	Aumento dos recursos dos pobres
<b>Resultado(s) esperado(s)</b>	Quadro de planeamento da política do país com ODMs para a redução da pobreza humana e de rendimento
<b>Indicador(es):</b>	Mecanismos governamentais para o planeamento e monitorização de estratégias anti-pobreza para reduzir a pobreza
<b>Objectivo(s) MYFF:</b>	1.2 Reforma de política em prol dos pobres para atingir as metas dos ODMs 1.3 Iniciativas para a pobreza local 2.6 Descentralização, governação local e desenvolvimento urbano/rural
<b>Resultado(s) Esperado(s)/Indicador(es):</b>	Reforçar a governação local para aumentar a responsabilidade e a capacidade de resposta do Governo (ver quadro de resultados e de recursos para os indicadores)
<b>Parceiro de implementação:</b>	PNUD e UNCDF
<b>Outros parceiros:</b>	Ministério da Administração Estatal e Ajuda Irlandesa

Período do Programa: 2007 - 2011  
Componente do Programa: Governação Democrática  
Título do Projecto: Programa de Apoio à Governação Local (PAGL)  
Duração do Projecto: 2007-2011

Orçamento total: US\$ 7,749,523  
Recursos dotados:

- Governo US\$ 3,47 milhões
- UNDP: US\$ 1,05 milhões
- UNCDF: US\$ 0,65 milhões

Orçamento não financiado: US\$ 2,562,523

Names and signatures of national counterparts and Participating UN Organizations

**Participating UN Organizations**

*For UNDP*

Signature: (signed)

Name: Finn Reske-Nielsen

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Date: 22 November 2006

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Name: Henriette Keijzers

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Date: 22 November 2006

**National Partners**

**Title: Ministerio da Administracao Estatal-RDTL**

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Name: Ana Pessoa

Date: 22 November 2006

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# SECTION I – NARRATIVE

## PART I: SITUATION ANALYSIS

### Country profile

Following a quarter century of Indonesian occupation and a three-year transitional period under UN administration, Timor-Leste became independent in 2002. The country has a rapidly growing population of approximately 1 million people, of whom some 76% live in rural areas.

Timor-Leste is the poorest country in South-East Asia, with an annual per capita income of only \$370. Other human development indicators are also much lower than those in other countries of the region: life expectancy is short, infant and maternal mortality rates are high, literacy rates are low, and approximately 40% of the population live on less than \$0.55 per day, the officially recognised poverty line. Although endowed with significant offshore oil and gas reserves, Timor-Leste faces an uphill struggle to reduce poverty.

The country has recently gone through a period of protracted political crisis and internal conflict, during which the relative fragility of young state institutions was made all too apparent. Although the renewed intervention of an international peacekeeping and police force has restored a degree of calm, the political situation remains tense. In addition, there are still approximately 135,000 internally displaced people, many of whom fled Dili and other towns in the wake of the recent violence and unrest.

### UNDP strategic orientations in Timor-Leste

LGSP-TL fits into the 2003-2006 UNDAF in a number of areas:

- (i) Good governance, with a particular emphasis upon decentralisation, seen as “.. a particularly effective means of delivering services to the people and improving government responsiveness” (UNDAF: 11).
- (ii) Capacity development, by providing “.. continuing support to the development in government of general management capabilities at different levels.” (UNDAF: 20).
- (iii) Infrastructure development, by contributing to the delivery and/or rehabilitation “.. of infrastructure that [has] the greatest impact on sustainable development and poverty reduction...” (UNDAF: 22).

LGSP-TL is also clearly articulated with UNDP’s existing Country Results Framework (CRF) insofar as it will contribute towards achieving two intended outcomes:

- (i) Policy and planning framework of the country incorporates a comprehensive approach to and targets for reduction of human and income poverty.
- (ii) Increased sustainable livelihood opportunities in communities.

Finally, LGSP-TL combines a blend of upstream and downstream strategies that is clearly in accordance with UNDP’s current CRF.

## **Programme background**

LGSP will be the successor programme to two separate, but inter-related and ongoing projects.

### The Local Development Programme (LDP)

Since 2004, UNDP and UNCDF have jointly funded and implemented a pilot Local Development Programme (LDP), which has proved highly innovative and effective. The LDP is now fully operational in two (Bobonaro and Lautem) of Timor-Leste's thirteen Districts. In FY 2006-2007, two further Districts (Manatuto and Aileu) will be incorporated into the LDP.

In the Districts where it has operated, the LDP has piloted a range of processes and procedures, providing a "real-time" simulation of local government. Piloting has included:

- establishing local "legislative" assemblies (at both District and Sub-District levels) that are made up of Suco Council representatives (themselves directly elected in official elections);
- getting local administrative officials and sector staff to act as the "executive" branch of local assemblies;
- providing such local assemblies with access to regular and predictable annual block grants, the use of which is largely discretionary but nonetheless limited mainly to capital expenditure;
- developing inclusive, participatory and technically sound planning guidelines for the identification and implementation of locally prioritised public investments;
- developing sub-national level procurement procedures;
- establishing financial management procedures for the local level.

All of this institutional development (which has been officially endorsed by MSA through a Ministerial Decree and a range of Directives) has been accompanied by capacity building in the form of training, "learning by doing" and mentoring.

The LDP has informed and continues to inform GoTL policy with regard to decentralisation and local government. Inset 1 (on the following page) provides a brief summary of some of the policy-relevant lessons that have emerged from LDP implementation.

### The Local Government Options Study (LGOS)

Since 2003, UNDP (with funding from Irish Aid and technical assistance from UNCDF) has supported GoTL in thinking through local government issues within the framework of LGOS. Key activities and events associated with LGOS have been:

- the establishment of an Inter-Ministerial Technical Working Group (ITWG), which has met on a regular basis to discuss local governance issues and formulate draft proposals;
- the provision of technical assistance in the drafting and publication of a Local Government Options Study, providing GoTL with a range of policy options;
- fielding periodic technical support missions;
- funding a fiscal decentralisation training course for GoTL officials;
- assisting in drawing appropriate policy-relevant lessons from the LDP;
- providing support to the ITWG for the drafting of a Policy Proposal, to be submitted to the Council of Ministers by MSA for approval.

LGOS has been instrumental in helping the Ministry of State Administration to decide on a general direction for decentralisation in Timor-Leste.

#### **Inset 1: Some lessons learned from LDP implementation**

##### **A few lessons of caution:**

- Suco Councils are not as functional as they might be;
- despite affirmative action in terms of their representation in Local Assemblies, women face considerable obstacles in "voicing" themselves and in articulating their specific needs;
- local citizens do not engage as actively as they might with representative bodies;
- flows of information from Local Assemblies to Suco Councils and then on to citizens need to be strengthened if downward accountability is to be more robust;
- shortages of technical staff in more remote areas can sometimes compromise the quality of local planning processes.

##### **A few lessons of optimism:**

- the executive members (GoTL civil servants) of Local Assemblies did not over-ride the decisions taken by voting members (community representatives);
- local administrative and sector department staff provided significant support to planning and implementation activities;
- the LDP's local planning process was effective in ensuring "bottom-up" inputs from local communities, which eventually constituted the majority of all Local Assembly investments;
- Local Assemblies and citizens, with appropriate support from civil servants, were able to make difficult (but reasoned) decisions about priorities within the hard budget constraint of their annual block grants;
- despite the absence of ex-ante controls, local investment priorities have been entirely consistent with poverty reduction and the MDGs;
- procedures for local-level procurement have proven sound and effective;
- human resource capacities – provided that appropriate support is provided and procedures are clear – can be rapidly developed to handle local planning, budgeting and implementation;
- overall, the role of the LDP in simulating potential policy innovations at local level, and in promoting a decentralisation policy agenda, has been fully endorsed by central government authorities (see Inset 2).

## **Policy context, opportunities and challenges**

### Policy context

Although Timor-Leste does not yet have a fully-fledged local government system in the sense of elected local bodies, there is a constitutional commitment<sup>1</sup> to decentralisation in one form or another, and a genuine political commitment to establish local government as soon as this is feasible. In addition, and as mentioned above, both LGOS and the LDP have helped the Government to decide on a local government system based on Municipalities, the size of which will be mid-way between the current Districts and Sub-Districts. There is now official recognition of the Government's preferred option for local governance (see inset below).

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<sup>1</sup> Enshrined in Articles 5, 71, 72 and 137 of the Constitution of the Democratic Republic of Timor-Leste.

### **Inset 2: GoTL's stated position on decentralisation, local government and the LDP**

"The Government's preferred model for local governance is:

- Regional coordination, through five Regional Secretaries of State.
- A staged move to a devolved system of municipal local government. The 13 Districts would be abolished and replaced as the country's other level of government by Municipalities. The final number of Municipalities is as yet undetermined, but is expected to range between 30 and 40.
- There will be a system of elected local assemblies, but it is not yet clear how they will be constituted.
- The sucos will continue as at present.

With the assistance of UNDP and [UNCDF], 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. Experience and lessons provided by the programme will play an essential role for the functioning and understanding of future reforms of the local government sector. The program will provide important policy lessons to the Government.

The programme is being piloted in two districts (Bobonaro and Lautem) at this time, and has assisted the Government in establishing thirteen Local Assemblies; two District Assemblies and eleven Sub-District Assemblies. 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.

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."

Source: "*Combating Poverty as a National Cause – Promoting Balanced Development and Poverty Reduction*", GoTL, March 2006.

As the inset above shows, GoTL has made clear how it sees local government – and the following inset demonstrates that GoTL has done so within the context of poverty reduction.

### **Inset 3: GoTL's stated position on local government and poverty reduction**

"The establishment of a viable local government system is central to promoting good governance, and to ensuring more effective, efficient, and accountable service delivery to the population. The relationship between strengthening the local levels of government ... and attainment of the two over-arching development goals of the Government ("to reduce poverty" and "to promote economic growth that is equitable and sustainable") is manifest. The Government recognizes that popular participation in local affairs will increase the viability and legitimacy of national and local programs. Decentralization of power away from Dili and increased local capacities for service provision are therefore important components of the Government's overall strategy for good governance."

Source: "*Combating Poverty as a National Cause – Promoting Balanced Development and Poverty Reduction*", GoTL, March 2006.

Furthermore, the Council of Ministers approved the Policy Paper on Decentralisation and Local Government in October 2006 in which includes the following key elements:

- the creation of between 30 and 40 Municipalities;
- establishing Municipal Assemblies, the membership of which will be indirectly elected by Suco Councils<sup>2</sup>;
- creating Municipal Mayors;
- setting up a Municipal Administration, accountable to the Municipal Assembly;
- assigning appropriate service delivery functions to Municipalities;
- providing Municipalities with some authority over sector departments and their staff;
- providing Municipalities with appropriate financing and fiscal arrangements.

It is clear that the approval of this policy paper by the Council of Ministers is a major step forward in the decentralisation process in Timor-Leste.

### Policy opportunities

Clearly, the commitment of GoTL, in general, and MSA, in particular, to establishing a system of local government presents UNDP and UNCDF with the opportunity to provide the technical and other support necessary.

A nascent framework (the Policy Paper on Decentralisation and Local Government) is already in place and has already been endorsed by the Council of Ministers. This is a significant step forward in the policy process and provides LGSP with a suitable environment within which to support GoTL in establishing detailed institutional arrangements for local government.

Another key opportunity to grasp is that UNDP/UNCDF – through both LGOS and the LDP – have come to be seen as trusted and competent partners by GoTL, and especially by MSA. This is an important opportunity to seize.

There are also potential synergies to be gained by working in collaboration with a range of other ongoing public sector support or reform programmes (e.g. the Planning and Financial Management Capacity Building Programme in MoPF, UNIFEM's Programme for Enhancing Rural Women's leadership and Participation in Nation Building in Timor-Leste. (PERWL), UNDP's Support to Civil Public Service Project, Supporting Civil Society Promoting Citizen Participation, the Parliament Programme and initiatives by the Policy Unit in UNDP). LGSP can both "gain" from these and other programmes, as well as contribute to them, particularly through piloting local level reforms.

Finally, it is worth mentioning that the LDP – despite being operational for only two years – has generated plenty of policy-relevant lessons about local governance and local development (as recognised by GoTL – see Inset 2 above).

### Policy challenges

Recent political instability and unrest in Timor-Leste have severely disrupted the functioning of many state institutions – including local administrations. Although a degree of stability has been reinstated, it is clear that there are still unresolved tensions. This may constrain the development of policies aimed at supporting decentralisation, depending on the position taken by policy-makers with regards to the political implications of decentralisation in terms of either

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<sup>2</sup> Sucos would thus function in a similar way to wards in other local government systems.



improving or exacerbating the situation. If political instability continues, it may also constrain the conduct of pilot activities in new districts.

Another major policy challenge is the highly centralised nature of the architecture of the state in Timor-Leste, especially with regards to Public Expenditure Management (PEM) and Public Finance Management (PFM) issues. There are, however, signs that this is beginning to change – the new procurement law, for example, allows for a degree of direct procurement on the part of sub-agencies.

In addition, and in the context of a substantial expansion in state budget resources, there is the challenge of finding ways of ensuring that public expenditure in rural (and poorer) areas of Timor-Leste is increased and that better public services are delivered in those areas.

Capacity issues – at both the national and sub-national levels – are usually seen as posing a major challenge to decentralisation in Timor-Leste. However, whilst this would certainly seem to be the case in terms of institutional capacities (e.g. systems and procedures), weak human resource capacities may not be as much of a challenge as is commonly thought. The LDP, for example, has shown that if local officials and locally elected representatives are provided with resources, sensible procedures and tools, and adequate support, they can rapidly develop the capacity to plan, budget, and implement small-scale infrastructure projects.

## **PART II: STRATEGY**

### Overview

The Local Governance Support Programme will be a combination of LGOS and the LDP. As such, LGSP will:

- continue to pilot local governance and local development procedures and processes in order to generate further policy-relevant lessons that will be of practical value in formulating and implementing decentralisation policy;
- provide the government with technical and other support in the fine-tuning and finalisation of its policy on decentralisation and local government;
- assist the government in actually establishing a functioning local government system.

The programme will be jointly funded by GoTL, Irish Aid, UNDP and UNCDF and will be implemented over a 5-year period, beginning in January 2007. LGSP implementation will be the responsibility of the Decentralisation Secretariat in DNAT, which will be officially established by the Ministry of State Administration prior to programme start-up. The Decentralisation Secretariat will be a transitional institution, with a time-bound and clearly defined mandate linked to the establishment of an enabling environment for local government and support for the creation of municipalities. Thereafter, the Secretariat would be dissolved and its policy functions would be mainstreamed into MSA (or whichever Ministry is to assume responsibility for local government).

## Goal and purpose

The over-arching goal of LGSP will be to contribute towards poverty reduction in Timor-Leste.

The programme's purpose (or objective) will be to support the establishment of accountable and effective local government in Timor-Leste. Decentralisation, by endowing accountable local government bodies with greater responsibilities for planning, budgeting, and implementation of infrastructure and service delivery, would result in an improved focus on the rural poor, greater allocative efficiencies, better implementation arrangements, and enhanced responsiveness.

## Outputs

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

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

This output is clearly a follow-on from the ongoing LDP in that it will provide opportunities for the continued piloting of procedures and systems linked to local-level infrastructure and service delivery and local PEM/PFM. The LDP has already provided the government with valuable lessons about the functioning of local representative bodies, local planning processes, local level procurement, and a range of other issues. However, the LDP has only been operational since 2004 – and although it has made impressive progress, the lessons learned have been inevitably limited given that only one full planning and implementation cycle (in Bobonaro District) has been completed (and even then, this was severely disrupted by the recent unrest). There are, then, good grounds for more piloting (building upon the LDP) so as to further inform policy processes on decentralisation.

Under this output, piloting activities will initially take place under the same arrangements as applied to the LDP – with Local Assemblies operating on the basis of Ministerial Decree No. 8/2005, issued by the Ministry of State Administration. Pilot activities will be initially undertaken in four Districts<sup>3</sup>, but will be expanded to more Districts depending on how rapidly local government is phased in. As and when the pilot Districts are “municipalised”, piloting will continue – with LGSP operating intensively in those ex-Districts (and new Municipalities) to further pilot and fine-tune local government systems and procedures.

It is also through this output that the programme will deliver direct, pro-poor, benefits – in the form of appropriate infrastructure and services. Gender standing committees will be established and tested in pilot areas to ensure gender screening of local level developments plans. Local level ISD will be strongly shaped by the planning and other processes introduced by LGSP and will be funded out of annual block grants. Clearly, this is of vital and practical interest to rural Timorese and, indeed, LGSP's capacity to ensure pro-poor ISD in pilot districts or municipalities will have a significant bearing on its overall ability to deliver policy-relevant lessons:

Operational responsibility for the delivery of output 1 will lie with the Decentralisation Secretariat in DNAT, which will be (partly) staffed by LGSP personnel.

A range of activities will be undertaken by LGSP in order to deliver this output, *inter alia*:

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<sup>3</sup> Bobonaro, Lautem, Manatuto and Aileu.

- continued piloting of and support to local level infrastructure and service delivery by Local/Municipal Assemblies in selected Districts, to allow fine-tuning etc. – with a special focus on implementation and O&M arrangements. This activity will ensure that pilot Local/Municipal Assemblies will be provided with annual block grants from the Local Development Fund (the largest part of which will be made up of GoTL state budget allocations);
- establishing robust and transparent PFM systems (including auditing procedures) at the local level;
- developing procedures for the management of “grants” by Treasury, as a prelude to establishing a full-blown inter-governmental fiscal transfer (IGFT) system for the Municipalities;
- introduction of specific capacity building activities targeted at female members of Local/Municipal Assemblies in order to enhance the quality of their participation in Assembly deliberations and to ensure that gender issues are incorporated into the local decision-making process;
- introduction of measures to improve the levels/quality of participation in Local/Municipal Assemblies and Suco Councils (Standing Committees, training, etc.);
- introduction of a capacity-building component for Suco Councils, intended to make them a more effective institution at the local level and thus more capable of inter-acting with Local (and Municipal) Assemblies;
- introduction of measures aimed at enhancing citizen engagement with Suco Councils and Local/Municipal Assemblies so as to improve participation and accountability;
- strengthening of downward information flows (from Assemblies to Suco Councils and from Suco Councils to citizens);
- implementation of PMs as well as MCs, and progressive refinement of the performance-based funding system;
- development of appropriate mechanisms for demand-driven capacity building of Local/Municipal Assemblies;
- commissioning/conducting research on issues linked to local governance (e.g. Local and Municipal Assembly membership and its implications for local decision-making processes);
- once Municipalities are established, undertaking pilot activities aimed at testing ways of improving local revenue collection;
- introduction/piloting of horizontal accountability mechanisms, with a view to ensuring that Municipal Assemblies and the Municipal Administration and Sector departments interact in appropriate ways;
- piloting/introduction of reporting and monitoring procedures to allow central government to track the use of public funds by Municipalities.

One key, generic, area that piloting will focus on is the issue of gender as it focuses on the ability of both women and men to participate fully in governance. Good governance can be attained only if gender concerns are addressed. The following inset provides a summary of the kinds of approach that LGSP will adopt in trying to develop ways of enhancing the quality of women’s involvement in local governance whereby women are able to articulate their interests, facilitate the exercise of their rights and obligations to make choices and take up opportunities.

#### **Inset 4: Women and local governance – LGSP approaches**

LGSP will undertake the following types of activity in order to improve the extent to which women are involved in local governance issues:

- putting into place affirmative action policies that ensure women's representation in local decision-making bodies, (Local Assemblies, Municipal Assemblies) and that this results in gender responsive projects and activities;
- establishing Standing Committees on Gender in all Local and Municipal Assemblies, with a mandate to ensure that women's needs are being adequately addressed in local infrastructure and service delivery by taking into account the potential and actual contributions of women and their specific concerns and interests as development partners and beneficiaries;
- providing women Assembly members with special training in leadership, training in gender, confidence building, etc., so as to enable them to be more actively involved in Assembly discussions and better informed, thus increasing their capabilities and expanding the range of choices open to them;
- linking up women Assembly members with national gender networks in an effort to enhance their political empowerment;
- supporting greater use of local media (community radios, etc.) as a way of highlighting gender issues and informing local citizens about the role, needs and contribution of women;
- create greater awareness and acceptance by male representatives in the Assemblies of the importance of women's participation in local development and decision-making processes.

This will be done in close collaboration with UNIFEM and other organisations.

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

The delivery of this output<sup>4</sup>, which is very much a continuation of LGOS work, will be an essential prelude to the establishment of a fully-fledged system of local government in Timor-Leste. Although the Policy Proposal on decentralisation and local government presents a broad framework for reform, much remains to be done in terms of clarifying proposals and consultation with relevant stakeholders. MSA will lead the process of putting more flesh on the bones of the basic institutional architecture for decentralisation and in ensuring that consultations are comprehensive (but effective). Ultimately a series of legal instruments will need to be drafted, discussed and, in the case of laws, submitted to the National Assembly for review, possible amendment, and approval. LGSP will provide GoTL and MSA with as much support (technical, organisational and logistical) as possible to do all this. This support will be provided by and through the Decentralisation Secretariat (which is to be established) within DNAT, which will be (partly) staffed by LGSP team members.

Output 2 activities will include:

- assisting in the drafting of a Decentralisation Strategic Framework (DSF), which will effectively constitute MSA's work (or action) plan for defining the institutional framework for

<sup>4</sup> Clarification on the description of the Output: while LGSP can provide various kinds of support, clearly the actual decisions in regard to establishing the framework are the sole domain of GoTL and the National Assembly.

- local government and for putting that framework into place. The Road Map will clearly specify tasks, responsibilities, phasing and timelines, the resources required and outcomes;
- supporting consultation processes at local and national levels (Ministry Technical Working Groups, District-level consultations on territorial units, etc.). The key here is to ensure consultation but to avoid “over”-consultation and excessive transaction costs.
  - factoring in the lessons learned from the LDP and Output 1 of LGSP. The experience gained from pilot activities will be of considerable value in shedding light on “grey” areas and in informing the content of the institutional framework for decentralisation. By combining the LDP and LGOS into a single instrument, LGSP will be in a stronger position to ensure that “real-time” policy lessons emerging from Local Development Fund (Output 1) activities are absorbed. Both components will be managed out of a single Decentralisation Secretariat in MSA;
  - supporting IEC campaigns to ensure that (1) lessons from the LDP and Output 1 of LGSP are broadly disseminated and that (2) the general public and wider political community are kept abreast of policy developments ;
  - supporting any reviews of existing legal frameworks and defining the need to adapt them in the light of decentralisation (electoral laws, law on Suco Councils, sector laws, finance law, civil service law, etc);
  - providing technical support for preparing the content of draft legislation, to be seen as detailed policy documents;
  - providing legal assistance for preparation of a Law on Local Government and other legal instruments on the basis of detailed policy documents;
  - provide gender screening of legislative proposals in order to ensure that new legislation is gender sensitive;
  - assisting MSA in adapting to its new role and in restructuring so as to ensure adequate monitoring, supervision and mentoring of local government;
  - providing technical assistance for defining appropriate fiscal frameworks, financing arrangements, and local public financial management systems.

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

The third LGSP output<sup>5</sup> that will be delivered by LGSP concerns the actual putting into place of Municipalities and the institutional/legal framework that will have been established with programme support (as specified under output 2). How LGSP will provide the government with support for implementation of local government reforms will very much depend on final decisions about the phasing of this process. Experience from elsewhere indicates that implementation is often complex and needs to be supported.

Indicative activities under this output will include:

- providing preparatory assistance, aimed at developing local capacities. This may include, for example, backstopping for the establishment of increasingly deconcentrated Treasury functions in Districts and for providing District Administration’s with more discretionary powers over their own District budget programmes;

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<sup>5</sup> Clarification on the description of the Output: while LGSP can provide various kinds of support to implementation, the decisions and the responsibility regarding implementation are the sole domain of GoTL authorities.

- assisting in the preparation of gender responsive information, education and communication (IEC) campaigns, aimed at providing the general public with basic information about local government reforms and new institutional arrangements;
- assisting in the actual installation/election of Municipal Assemblies;
- ensuring support to women candidates in establishing Municipal Assemblies;
- assisting in the development of core capacity building modules for Municipal Assemblies, Suco Councils, Administrations, Treasuries and other local-level institutions;
- providing support for the establishment of sustainable and permanent local government capacity building arrangements. As far as possible, this will be done through INAP (which itself will require substantial support) – with considerable emphasis being placed on INAP’s coordination, quality control and supervisory functions, rather than as a direct provider of capacity building services;
- training of new Municipal Assemblies, Mayors, Administrations and others;
- backstopping and supporting DNAT/MSA in its supervisory and monitoring functions;
- supporting GoTL in its efforts to align (and if necessary to obtain) assistance from the wider donor community with the local government system.

Delivery of output 3 will be the responsibility of both DNAT and its Decentralisation Secretariat, with the latter eventually being phased out and integrated into core DNAT functions as Municipalities are established nation-wide.

### Risks and risk mitigation

There are a number of risks associated with LGSP implementation. These are summarised in the following table.

Table 1: Risks, assessment of their likelihood/potential impact, and risk mitigation measures

Risks	Likelihood	Potential impact	Risk mitigation measures
Prolonged political instability and unrest	Possible	High	The Security Council of the UN has approved a new UN Mission for Timor-Leste, of which a significant component will be the presence of a large international police force. In addition, a bilaterally negotiated military force will also be stationed in Timor-Leste for purposes of peace-keeping. In the event that political instability persists, LGSP may need to be re-oriented – and the recommendations of the scheduled external evaluation in December 2007 will be of great importance in this regard
Backtracking on existing policy intentions and proposals with regard to decentralisation and local government (perhaps as a result of a change in Government following the elections in 2007)	Possible	High	Lessons learned from the LDP will be used to re-assure policy makers and GoTL officials; study tours and capacity building will enable GoTL officials to better understand decentralisation and local government. In the event of a change in Government, LGSP will intensify its efforts to inform any new policy initiatives through lessons learned from pilot, LDP activities
Reluctance on the part of GoTL officials to devolve powers and responsibilities to Municipalities	Possible	Medium	The decentralisation policy will be endorsed at the highest political levels (National Assembly, Council of Ministers) and should therefore receive solid backing. The programme will also seek to re-assure civil servants through engaging in a dialogue with them and by using the lessons learned from the LDP pilot (which has been well received by GoTL officials at the local level) to address their concerns

Weak local capacities to provide effective service delivery	Unlikely	Medium	LGSP will be investing in substantial local-level capacity building. In addition, phased implementation of reforms will enable capacities to be gradually strengthened
Corruption at the local level	Possible	Medium	LGSP will establish robust public financial management systems at the local level, and build in significant safeguards – through regular audits, high levels of transparency and enhanced downward, horizontal and upward accountability mechanisms.
Weak downward accountability by representative bodies to local citizens	Possible	Medium	LGSP will ensure that robust institutional mechanisms are established for ensuring downward accountability. In addition, implementation of reforms will be accompanied by IEC campaigns aimed at providing the public with information about local government arrangements
Low participation of women in local assemblies	Possible	Medium	LGSP will ensure that special CB activities are established for ensuring increased women participation in local decision-making processes to empower women to participate at the same level as men. The programme will also support the provision for opening up the political arena at the local level for women participation.

### **PART III: MANAGEMENT & FINANCING ARRANGEMENTS**

The Timor-Leste LGSP will be institutionally housed in the National Directorate for Territorial Administration (DNAT) in Dili, an integral division of the Ministry of State Administration.

A Programme Management Unit (PMU), consisting of seven professional staff (one international technical adviser and six national technical staff – see Annex 1 for the Terms of Reference for these positions) and including the Directors of DNAT and DNAF, will be responsible for overall programme implementation. The PMU will benefit from technical backstopping by UNCDF regional advisers and consultants, as well as regular support from MSA staff and advisers, as well as support from UNDP through a designated Programme Officer.

LGSP's PMU will effectively constitute the core technical personnel of the Decentralisation Secretariat in DNAT and, as such, will operate in accordance with the Terms of Reference for the Decentralisation Secretariat (see Annex 1).

The LGSP PMU will report on a regular basis to DNAT and on a six-monthly and annual basis to the Council of Directors of MSA. Annual narrative and financial reports will also be provided to Irish Aid, UNDP and UNCDF.

In addition, a Programme Steering Committee will be established to oversee overall programme activities. The Programme Steering Committee will meet twice a year to discuss LGSP progress and endorse LGSP orientations. This Committee will consist of:

- senior MSA (and, if deemed necessary, other GoTL) officials;
- a UNCDF representative;
- an Irish Aid representative;
- a UNDP representative.

With the exception of GoTL's financial contribution to the programme, all LGSP funding will be managed by UNDP/UNCDF through a Joint Programme agreement (MoU) where the detailed arrangement will be outlined.

With regard to financial management, all UNDP and UNCDF-funded expenditures will be managed and audited in accordance with standard UNDP and UNCDF procedures.

Any grants made to Local Assemblies and Municipalities (within the framework of LGSP) will be an integral part of the budget of GoTL, and will be classified as "grants" in the budget nomenclature. Expenditures from these grants will be undertaken within the framework of government procedures for procurement and financial management.

The programme will be regularly audited in accordance with standard UNDP and UNCDF procedures.



## **PART IV: MONITORING & EVALUATION**

### **Monitoring and evaluation of programme activities**

The LGSP's M&E framework will:

- provide stakeholders (GoTL, Irish Aid, UNDP, UNCDF, etc.) with information on project progress against assigned outputs and activities. This aspect of the M&E framework will be relatively simple, based largely on ensuring that annual work plans are being implemented according to schedule and within budget;
- ensure that there are adequate "process" indicators, which will track the *quality* of the processes and procedures being piloted and supported by the programme. This aspect of the M&E framework will require the identification and use of more qualitative indicators, many of which are likely to require periodic surveys and the use of participatory methodologies;
- ensure that the assumptions made by the programme remain valid. This effectively means that the programme will track the potential risks identified in Table 1 (see Part III) and ensure that they are not compromising the ability of the programme to deliver its outputs;.
- ensure that 6 monthly and annual progress and finance reporting requirements are met;
- ensure that other necessary corporate reporting requirements are adequately met.

### **Evaluations/reviews**

At the end of the first year of the programme (December 2007), an externally-assisted evaluation will be conducted, the principal objectives of which would be to evaluate LGSP progress and design. This somewhat unusual provision takes into account the fact that neither the LDP has been subject to an external evaluation. This will serve as a Mid-Term Evaluation for the programme. In particular, this evaluation will assess the extent to which GoTL remains politically committed to decentralisation and local government reforms and their implementation – and make recommendations for adjusting the programme in the light of this assessment.

In the last year of the programme, an independent final evaluation will be carried out – in accordance with UNCDF/UNDP policy.

## **PART V: LEGAL CONTEXT**

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of the Democratic Republic of Timor Leste and the United Nations Development Programme, signed between the two parties on 20<sup>th</sup> May 2002. The host country's implementing agency shall, for the purposes of the Standard Basic Agreement, refer to the Government co-operating agency described in the Agreement.

The following types of revisions may be made to this project document under the signature of the UNDP Resident Representative only, provided assurance is given that the other signatories of the project document have no objection to the proposed changes:

- revisions in, or addition of, any of the annexes of the project document;
- revisions which do not involve significant changes in the outcomes, outputs or activities of the project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation; and
- mandatory annual revisions that rephrase the delivery of agreed project inputs or increased expert or other costs due to inflation or taken into account agency expenditure flexibility.

## SECTION II – RESULTS & RESOURCES FRAMEWORK

<p><b>Intended Outcome as stated in the Country Results Framework:</b> Policy planning framework of the country aligned with MDGs for reduction of human and income poverty.</p>
<p><b>Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target:</b> Governmental mechanisms/fora for planning and monitoring anti-poverty strategies to reduce poverty</p>
<p><b>Applicable MYFF Service Line(s):</b>            1.2 Pro-poor policy reform to achieve MDG targets            1.3. Local poverty initiatives, including microfinance            2.6. Decentralisation, local governance and urban/rural development</p>
<p><b>Partnership Strategy</b>            The Timor-Leste Local Governance Support Programme (LGSP) will be implemented by a specialist Programme Management Unit (PMU). The PMU will work within DNAT/MSA as part of its Decentralisation Secretariat and ensure adequate coordination with other Ministries, GoTL agencies, local administrations, like-minded projects/programmes/donors and local stakeholders. The programme will be jointly funded by GoTL, Irish Aid, UNDP and UNCDF in accordance with pre-determined modalities.</p>
<p><b>Project title and ID:</b> Local Governance Support Programme</p>

Intended outputs	Output targets (years)	Indicative activities	Inputs
<p>1. Procedures, processes and systems for effective local-level infrastructure and service delivery (ISD) and public expenditure and public financial management (PEM/PFM) are piloted in selected Districts, Sub-Districts and Municipalities.</p> <p><i>Indicators:</i></p> <ul style="list-style-type: none"> <li>- 25 out of 25 LA development plans and budgets approved by LAs each year;</li> <li>- Minimum of 21 out of 25 LAs complies with Minimum Conditions (MC) each year</li> <li>- LGSP pilot policy lessons provides input to overall decision for LG legislation.</li> </ul>	<ul style="list-style-type: none"> <li>• X Local Assemblies plan, budget and implement ISD (2010)</li> <li>• X Municipalities plan, budget and implement ISD (2011)</li> <li>• Local PFM systems developed, tested and used (2008)</li> <li>• Treasury procedures for the management of "grants" are clearly defined (2008)</li> <li>• Women members of Assemblies participate more actively in Assembly discussions and deliberations (2008)</li> <li>• Levels and quality of participation are improved (2011)</li> <li>• Suco Councils are more effective and operational with women and men representatives participating in discussions and decision-making processes (regular monthly meetings) (2009)</li> <li>• Local citizens interact more frequently with Suco Councils and Local/Municipal Assemblies</li> <li>• Downward information flows are improved</li> <li>• MC/PM assessment process is applied to all pilot Local/Municipal Assemblies (2011)</li> <li>• Demand-driven capacity strategy is established for all pilot Municipalities</li> <li>• Research on local governance issues is carried out (2009)</li> </ul>	<ul style="list-style-type: none"> <li>• Pilot and support to local level ISD by Local/Municipal Assemblies in selected Districts</li> <li>• Establish robust and transparent PFM systems (including auditing procedures) at the local level;</li> <li>• Develop procedures for the management of "grants" by Treasury</li> <li>• Introduce specific capacity building activities targeted at female members of Local/Municipal Assemblies</li> <li>• Introduce measures to improve the levels/quality of participation in Local/Municipal Assemblies and Suco Councils (Standing Committees, training, etc.);</li> <li>• Provide capacity-building for selected Suco Councils</li> <li>• Introduce measures aimed at enhancing citizen engagement with Suco Councils and Local/Municipal Assemblies</li> <li>• Strengthen downward information flows (from Assemblies to Suco Councils and from Suco Councils to citizens)</li> <li>• Implement and refine PM and MC assessment processes</li> <li>• Develop appropriate mechanisms for demand-driven capacity building of Local/Municipal Assemblies;</li> </ul>	<ul style="list-style-type: none"> <li>• Technical assistance</li> <li>• LDF grants</li> <li>• Training</li> <li>• Workshops</li> <li>• Allowances</li> <li>• Equipment</li> </ul> <p><i>Estimated budget:</i> US\$ 4,584,348</p>

Intended outputs	Output targets (years)	Indicative activities	Inputs
<p>Support is provided to GoTL for the establishment of an appropriate and comprehensive institutional, legal, and regulatory framework for local government</p> <p><i>Indicators:</i></p> <ul style="list-style-type: none"> <li>- Local level consultations on territorial units completed in all districts.</li> <li>- Ministerial consultations regarding functional assignments completed with all service providing sectoral ministries.</li> <li>- NP approves Law on Administrative and Territorial Division;</li> <li>- NP approves Law on Local Government.</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue collection activities are piloted (2009-2011)</li> <li>• Mechanisms for horizontal accountability are developed (2008-2011)</li> <li>• Comprehensive and time-bound DSF is drawn up (2007)</li> <li>• Consultations with relevant stakeholders are carried out (2008)</li> <li>• Lessons learned from LDP and output 1 shape policy formulation process</li> <li>• Comprehensive review of existing legal frameworks is carried out (2008)</li> <li>• Technical support is provided for preparing detailed policy documents on decentralisation and local government taking into account gender-fair and gender responsive perspectives of the documents</li> <li>• Legal assistance is provided</li> <li>• Support is provided to MSA for restructuring</li> <li>• Technical support is provided for defining fiscal frameworks, LG financing arrangements and LPFM</li> </ul>	<ul style="list-style-type: none"> <li>• Commission/conduct research on issues linked to local governance</li> <li>• Develop local revenue collection processes</li> <li>• Trial horizontal accountability mechanisms</li> <li>• Output support</li> <li>• Assist in the drafting of a Decentralisation Strategic Framework (DSF)</li> <li>• Support consultation processes at local and national levels (Sector Working Groups, District-level consultations on territorial units, etc.)</li> <li>• Factor in the lessons learned from the LDP and Output 1 of LGSP into the policy process</li> <li>• Support any reviews of existing legal frameworks and assessments of the need to adapt them in the light of decentralisation</li> <li>• Provide technical support for preparing the content of draft legislation or detailed policy documents</li> <li>• Provide legal assistance for preparation of an organic Law on Local Government and other legal instruments on the basis of detailed policy documents</li> <li>• Assist MSA in adapting to its new role and in restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• Technical assistance</li> <li>• Training</li> <li>• Workshops</li> <li>• Study tours</li> </ul> <p><i>Estimated budget: US\$ 1,152,420</i></p>

Intended outputs	Output targets (years)	Indicative activities	Inputs
<p>3. Support is provided to GoTL for the implementation of local government reforms</p> <p>- X (number of municipalities to be defined) municipalities created and functioning</p> <p>- capacity building mechanisms for local government are established</p>	<ul style="list-style-type: none"> <li>• Programme provides support to pre-devolution activities (2009)</li> <li>• IEC campaigns are prepared (2008-2009)</li> <li>• Assistance provided for installation of Municipal Assemblies (2008-2011)</li> <li>• Assistance provided for preparation of core capacity building modules for local stakeholders (2008-2009)</li> <li>• Support provided for developing permanent arrangements for LG capacity building (2009)</li> <li>• Support provided for training of Municipal officials (2008-2011)</li> <li>• DNAT/MSA is backstopped (2009-2011)</li> <li>• Donor assistance takes into account and supports local government (2009-2011)</li> </ul>	<ul style="list-style-type: none"> <li>• Provide technical assistance for defining appropriate fiscal frameworks, financing arrangements, and local public financial management systems</li> <li>• Output support</li> <li>• Provide preparatory assistance for decentralisation aimed at developing local capacities</li> <li>• Assist in the preparation of information, education and communication (IEC) campaigns</li> <li>• Assist in the actual installation/election of Municipal Assemblies</li> <li>• Assist in the development of core capacity building modules for Municipal Assemblies, Suco Councils, Administrations, Treasuries and other local-level institutions</li> <li>• Provide support for the establishment of sustainable and permanent local government capacity building arrangements</li> <li>• Support training of new Municipal Assemblies, Mayors, Administrations and others</li> <li>• Backstop and support DNAT/MSA in its supervisory and monitoring functions</li> <li>• Support GoTL in its efforts to align/obtain assistance from the wider donor community with the local government system.</li> <li>• Output support</li> </ul>	<ul style="list-style-type: none"> <li>• Technical assistance</li> <li>• Training</li> <li>• Workshops</li> </ul> <p>Estimated budget: US\$ 421,000</p>

Intended outputs	Output targets (years)	Indicative activities	Inputs
4. Programme support	<ul style="list-style-type: none"> <li>• Project support team recruited</li> <li>• Equipment/vehicle(s) procured</li> <li>• Operations &amp; maintenance costs covered</li> </ul>	<ul style="list-style-type: none"> <li>• Establish project support team</li> <li>• Procure equipment/vehicle(s)</li> <li>• Operations and maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries</li> <li>• Travel</li> <li>• Equipment</li> <li>• Office costs</li> <li>• Recurrent expenditure</li> </ul> <p><i>Estimated budget:</i> <i>US\$ 1,133,535</i></p>