



ANNUAL REPORT

Local Development Programme Timor-Leste (LDP-TL)

UNCDF Code: 00034936
UNDP Code: 00039080

From: January- December 2006

Report Date: February 2007



TABLE OF CONTENT

I.	SUMMARY	3
II.	PROJECT OVERVIEW	4
III.	ACTIVITIES IN THE REPORTING PERIOD.....	5
OUTPUT 1:	ESTABLISH PRO-POOR AND EFFECTIVE PLANNING AND BUDGETING	5
ACTIVITY 1:	ESTABLISHMENT OF AND SUPPORT TO LOCAL ASSEMBLIES:	5
1.1	Capacity Building of new Local Assembly members	6
1.2	Participation in Local Assembly meetings	7
1.3	Functioning of Local Assembly meetings and decision-making processes:	8
1.4	Downward accountability:	8
ACTIVITY 2:	ESTABLISHMENT OF AND SUPPORT TO LOCAL PLANNING PROCESS (LPP)	9
2.1	Local Planning Process for FY 2006-7:	9
2.2	Local Planning Process for FY 2007-8	11
OUTPUT 2:	PROCEDURES FOR DELIVERY OF PUBLIC INFRASTRUCTURE & SERVICES	12
ACTIVITY 3:	SUPPORT TO LOCAL PROCUREMENT PROCESSES	12
3.1	Composition of Local Tender Boards (LTB) and monetary thresholds ...	12
3.2	Methods of procurement	13
3.3	Capacity building of Local Tender Boards	14
3.4	Execution of local level procurement procedures in Bobonaro District..	14
3.5	Execution of local procurement regulation in Lautem District.....	18
OUTPUT 3:	FINANCIAL INSTRUMENTS AND FINANCIAL MANAGEMENT FOR ISD	19
ACTIVITY 5:	OPERATION OF THE LOCAL DEVELOPMENT FUND (LDF)	19
5.1	Revision of Finance Management Regulation	20
5.2	Central-local transfers of the LDF	20
5.3	Compliance with Minimum Conditions	20
5.4	Local level finance management	21
	COMMENTS TO AWP 2006: PROGRESS COMPARED TO ANNUAL WORKPLAN.....	25
	FINANCIAL REPORT.....	29

Timor-Leste Local Development Programme

ANNUAL PROGRESS REPORT January – December 2006

Programme Name:	Timor-Leste Local Development Programme (TL-LDP)	
Project Number UNCDF:	00034936	
Project Number UNDP:	00039080	
Start date:	August 2004	
Duration:	3 Years	
Total Budget:	US\$ 1,584,120 million	
Secured Funding:	US\$ 1,584,120 million	
Sources of Funding:	UNCDF	537,000 US\$
	UNDP	561,133 US\$
	Government of Norway	485,987 US\$
Total expenditures to date:	US\$ 1,027,379 million	
Timor-Leste Government Counterpart:	Ministry of State Administration	
Executing Agency:	United Nations Capital Development Fund	
Direct Beneficiaries:	1) Population in Pilot Districts, including <ul style="list-style-type: none">• Bobonaro District Population: 82,385• Lautem District Population: 57,453• Aileu District Population: 36,889• Manatuto District Population: 38,580	

Total population: 215,307¹

2) Suco Council representatives in the Local Assemblies;

3) Ministry of State Administration, including

- National Directorate for Territorial Administration HQ, District and Sub-District offices;
- National Directorate for Administration and Finance;

4) Representatives from line-ministries in the Local Assemblies.

¹ The total population of Timor-Leste is 924,642 and that the total coverage of the programme is 23 percent.

I. SUMMARY

This report provides a summary of activities and impact of the Timor-Leste Local Development Programme (TL-LDP) between 1 January and 31 December 2006. In general, there were some un-expected difficulties in project implementation due to the complex political situation in 2006. This of course has influenced the national team's ability to fully support the Local Assemblies (LAs) and has been a great challenge to the programme.

In total 25 Local Assemblies (LAs) are now established and functioning which means that the original target has been met as planned in the four pilot districts. It is noteworthy that regulations have to a large extent been followed by the LA's. The overall assessment is that the quality of work produced by the LA's is higher than what was expected. However, there are still areas that will need further improvements and technical support during the next programme cycle.

The Local Planning Process (LPP) has ensured that the initial planning and need identification at the village level is translated into Sub-Districts and Districts annual development plans. The LPP links budget and planning at the local level, thus minimizing the tendency of "wish-listing" in planning. A total of 12 Annual Investment Plans and budgets were approved in 2006, and have a total capital budget of US\$340,000. In accordance with approved plans 53 capital investment projects will be implemented during FY 2006-7. Out of the total allocations around 30 percent will be invested in Education, 24 percent on Roads, 15 percent on Agriculture, 12 percent on Water systems, while remaining budget is distributed on health, electricity and disaster mitigation. In general the model has proven to be an effective way for identifying, appraising and prioritising local level infrastructure investments. The result indicates a high level of maturity in terms of identifying and prioritising of pro-poor infrastructure.

The new innovations in terms of finance management and procurement have also been successful, although there were problems in implementing the new finance regulation at the local level. Some of the difficulties encountered by the LA's are due to low – or in some cases - totally lack of prior experience with finance management and the rather complex financial system initially established. The Finance Regulation was therefore evaluated and simplified in mid-2006 to make it more user-friendly and the new system have yielded better results. It is noteworthy that so far there has been no allegation of corruption or miss management of funds at the local level. The new banking system introduced has facilitated a controllable system for both national-local transfers of funds and local accountability.

A total of 27 contracts were successfully contracted out through a competitive and transparent bidding process. All contracts were given to local contractors which have provided a positive economic spin-off from the programme. The results both from the local tender process and contract management is encouraging in terms of future prospects of local delivery of public infrastructure and capacity to manage capital budgets at the local level. Given the limited capacity and former experience with procurement at the local level this is a significant unexpected achievement.

Interesting lessons from the LDP has been well captured and taken into account in the process of deciding on a local government model for Timor-Leste – wich is clearly reflected in the new national policy on Decentralisation and Local Government which was approved in late 2006. The connection between the policy process and the pilot is expected to be further strengthened when the LDP is incorporated into the larger Local Governance Support Programme (LGSP) in January 2007.

II. PROJECT OVERVIEW

Although the Public Sector remains highly centralised in Timor-Leste there is a firm commitment to decentralisation and local governance. The commitment is reflected in the relevant sections of the Constitution² and in the recently approved policy for Decentralisation and Local Government in addition to the Decentralization Strategic Framework in 2006.

The rationale of the LDP is within the overall context of this ongoing policy-making process regarding local governance in Timor-Leste.

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

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

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

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

The programme is developed as an integrated part of Ministry of State Administration (MSA), and reports directly to Minister Dr. Ana Pessoa, and to the Inter-Ministerial Technical Working Group (TWG) for Local Government Policy. A Programme Management Unit (PMU) has been established within MSA, including the Director of National Directorate for Territorial Administration (DNAT), Mr. Arcangelo Leite, Director of National Directorate for Administration and Finance (DNAF), Mr. Miguel Perreira, LDP Coordinators Mr. Cristovao Miranda and Mr. Domingos Soares, Planning officer Mr. Jacob Leite, and is coordinated by the International Technical Advisor, Ms. Jill Engen.

The programme is a joint UNCDF/UNDP programme and where UNCDF has been the executing agency. The programme has been fully supported by UNDP in terms of operations and also supervision and monitoring functions. Finally, recognition is due to the excellent technical backstopping and advice provided by UNCDF Senior Technical Advisor, Mr. Roger Shotton, and Regional Technical Advisor Mr. Mike Winter, who have played a central role in establishing both the institutional and procedural framework of the TL-LDP.

² Constitution of Timor-Leste Article 5 and 71

III. ACTIVITIES IN THE REPORTING PERIOD

As stated in the Programme Document, there are four specific outputs for the LDP and this report is organised accordingly by focussing on activities and general progress of the LDP during the period between January and December 2006³. This is a narrative report and is intended to summarise the main achievements and challenges encountered during the second year of implementation.

To access additional information regarding the rationale for various programme activities and decision during the initial phase of the programme regarding the establishment of Local Assemblies (LA), Local planning process (LPP), Finance management and Procurement, reference to the LDP Annual Progress Report for 2005 is advised. The 2005 report provides detailed information about the first year of implementation and should be considered as complementary reading to this 2006 Annual Progress Report.

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

ACTIVITY 1: ESTABLISHMENT OF AND SUPPORT TO LOCAL ASSEMBLIES:

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

During this reporting period, 12 new LAs have been established and the LDP now supports a total of 25 LAs in four pilot districts. Implementation commenced in Bobonaro in January 2005 as the first pilot district after the completion of Suco Elections and the formation of the Suco Councils⁴. The first expansion of the LDP to Lautem District occurred in September 2005 and the two most recent additions to the pilot programme, Manatuto and Aileu, were commenced in October/November 2006. In total, the programme supports four District Assemblies and 21 Sub-District Assemblies, which is a good representative basis for policy lessons. The breakdown of number of LAs and their members are shown in Table 1 below.

Table 1: Overview of LAs and total members of LAs

District	Number of DA	Number of SDA	Total members of LAs
Bobonaro	1	6	161
Lautem	1	5	122
Manatuto	1	6	128
Aileu	1	4	109
TOTAL	4	21	520

³ Local Development Programme project document, p. 4; also see LDP Annual Progress Report 2005.

⁴ Representatives from the Suco Councils are the elected base for legitimate representation, i.e. indirect geographical representation.

The majority of the Local Assemblies have made impressive unexpected progress since their establishment. However, in certain cases, leadership (or the lack of) has proven to be a significant challenge for the LAs. The importance of strong leadership, pro-activity and vision from the Executive Secretaries/Administrators is critical to the success and effectiveness of the LAs and their work. LAs whose administrators are less active and involved in the programme have under-performed. It is also noteworthy that some administrators lack the required basic capacity to meet the demands of the work. The national political crisis can also be said to have root to some of the problems and delays – as it was for the central government - in implementing various phases of the Public Expenditure Management (PEM) cycle in 2006, particularly in the districts of Bobonaro, Manatuto and Aileu,

Lack of performance and lack of leadership may possibly be related to an extremely hierarchical politico-cultural system within district and sub-district administrations. Junior level staff are unable to correct or challenge the administrator or take initiative unless instructed by a superior administration official. The issue of weak leadership and/or lack of understanding and interest in the pilot seem to be a more pronounced in Manatuto and Aileu. The Ministry is seriously addressing the issue and is presently trying to resolve these issues with the respective Administrations by clarifying the importance of the pilot and the need for stronger leadership in these two areas.

1.1 Capacity Building of new Local Assembly members

In 2005, an extensive supply-driven capacity-building programme was established and tested out in Bobonaro district. Small changes to the training modules were made after initial implementation and applied to all new Local Assemblies. The training programme for the new pilot districts was to commence in August 2006, but as a result of the national political crisis the training was not implemented until October and November. All the 12 new LAs were trained during this period in the LA regulation, local planning process and implementation modules.

The National Institute for Public Administration took part in the training exercise during the first training session in 2005; Ministry of State Administration staff together with LDP programme staff have continued to provide training in subsequent years. A positive effect of this arrangement has been better understanding of the LDP by staff within the Ministry, which also improves their abilities to mentor and support the LAs. Table 2 below gives an overview of total LA members trained by the programme to date.

Table 2: LA members trained by LDP by end of 2006		
District	Number of LA members trained	Remarks
Bobonaro	100%	Members that did not participate in the original training were later trained in a refresher training session.
Lautem	100%	
Manatuto	74%	Participants in the original training session provided in late 2006. It is anticipated that the remaining LA members will be trained during 2007.
Aileu	80%	
TOTAL:	89%	Out of 464 out of 520 LA members have been trained, i.e. 56 below targeted participants.

An essential part of the capacity building strategy of the LDP is on-the-job practical training approach. Although the initial induction training is a typical classroom approach, coaching and constant evaluation and feedback to the members of the LAs on performance during the Planning and Expenditure Management (PEM) cycle are a key component of the programme. The District Development Officers (DDOs) have played – and continue to play – an important role both at

District and Sub-District level. During the training in Lautem, Manatuto and Aileu, the DDOs assisted the trainers which has increased their general understanding and has also enabled DDOs to assist and technically support the other LAs during implementation in their respective Districts.

1.2 Participation in Local Assembly meetings

During the first year of implementation (FY 2004-5) in Bobonaro district the general level of attendance was relatively high with an average participation of total of 85 per cent attendance at the Sub-District level, and 89 per cent attendance at the District level. The same level of attendance has more or less been maintained in 2005-6 with an average participation rate of 83 per cent at both District and Sub-District level in Bobonaro. This is a slight decline in the average attendance is possibly due to the political crisis. Bobonaro district was in particular hit by a forced "general strike" which meant that all government activities were paralyzed and suspended for a period of about six months. However, 83 percent is still a very satisfactory result.

In Lautem the average levels of participation at the District level for FY 2005-6 is similar to Bobonaro, i.e. 83 per cent while the participation at the Sub-District Assemblies is five percent lower than at the district level with 78 per cent. The relatively low-rate for the Sub-District level is mainly due to very low participation of women in Assembly meetings, where only 69 percent of the total women members participated on average.

The comparative table provides details of LA participation, including a breakdown of gender participation:

Table 3:

Attendance by voting members in Local Assembly meetings

District	Unit	2004-5			2005-6		
		M	F	Total	M	F	Total
Bobonaro	Sub-District	94%	75%	85%	90%	75%	83%
Lautem	Sub-District				88%	69%	78%

District	Unit	2004-5			2005-6		
		M	F	Total	M	F	Total
Bobonaro	District	94%	83%	89%	95%	71%	83%
Lautem	District				83%	86%	83%

In general, women participate less than men in the Assembly meetings, and levels of female participation continue to decrease. Special attention is required to identify how the programme can increase the level of participation of women, both in terms of attendance in meetings and effective participation. A gender specialist participated in the review of the LDP with the aim of identifying the core reasons for lower participation of women and to provide recommendations to activities which can support and encourage women to participate in the process. The main reasons identified for low attendance is lack of advance funds for transportation, time away from home and the lack of compensation for participation in meetings. To address this issue the Ministry approved a small sitting allowance of US\$ 3 per meeting as an incentive and compensation for the LA members due to the dedication of their time to the process. In particular, this was aimed at female members. However, in reviewing the results for 2005-6 this newly-introduced incentive did not appear to have influenced levels of participation. Specialised gender focused training is planned for the next year as a mean to encourage more active participation of women.

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

It was noted that in Bobonaro the level of experience with set rules and voting procedures in meetings was significantly lower than expected. Although there are variations between the LAs, the general observation is that there remains minimal or no experience with this type of work or activities in all Districts. However, the evidence from Bobonaro and Lautem Districts demonstrates that the assemblies were proficient in debating and reaching difficult decisions based on rational justification. Discussions and final decisions in the LAs have focused on priority needs presented by the Sucos and rather than making decision with the objective that each Suco should receive a project. Through the work with the assemblies, there is progress in facilitating a growing understanding in the use of meeting agendas, preparation of meeting minutes, activity and finance reporting to the Assemblies from the Executives,

Although the overall assessment of the functioning of the Local Assemblies have been widely regarded as positive considering the short time they have existed, there remains a continued need for close attention. Examples of undemocratic political behaviour and cultural norms in meetings in both Bobonaro and Lautem may not only be the result of a lack of experience and knowledge of rules and regulations for such assembly meetings, but is a general problem in the very hierarchical Timorese culture. During Indonesian occupation the District Administrator would always make the final decision and such political culture will take time to change. The influence of traditional local leaders in LA meetings is also a complex dimension and it is acknowledged that they have great influence on the outcomes of the 'democratic' decision-making processes at the local level. The new LGSP-TL plans to include a study on interaction between newly-established democratic institutions and the influence of traditional structures and political culture at the local level. The study is designed to provide input to an overall long-term strategy to enhance citizen engagement in Local Governance.

1.4 Downward accountability:

The level of downward accountability remains relatively low. There are number of probable reasons for low levels of downward accountability. In Lautem, for example the reasons appear similar to previously identified factors in Bobonaro in 2005; Suco Councils are dysfunctional as few or no meetings are held, there is a lack of facilities to prepare information for distribution, and a lack of public information boards and local radio communications. The underlying reasons for the low level of downward accountability are the lack of understanding by the voting members themselves in terms of their roles and responsibilities as representatives from the Sucos. In addition – and as outlined in the 2005 Annual Report – the general public is not demanding information or understanding how to hold their respective representatives accountable due to a lack of available knowledge of what should be expected from their representatives and the Government.

This dual problem will continue to cause low or non-existence of downward accountability and demand for downward accountability unless a strategy can be identified to improve and change the passive political culture which exists at the local level. As mentioned above, a pilot strategy has been identified and will be tested under LGSP-TL in 2007 and 2008. The programme component will start with a survey which aims at a better understanding of the present local leadership and a series of dialogue activities aimed at enhancing citizen engagement in local governance in general by using the LDP process as the entry point for such dialogue and understanding of basic democratic principles and processes. It is assessed that the LDP pilot is a good "training ground" for linking good governance theory and practical experience within a framework of a Citizen Engagement programme. If found valuable, this will be a long-term strategy and while immediate results are not expected, there is the prospect of gradual change with time.

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

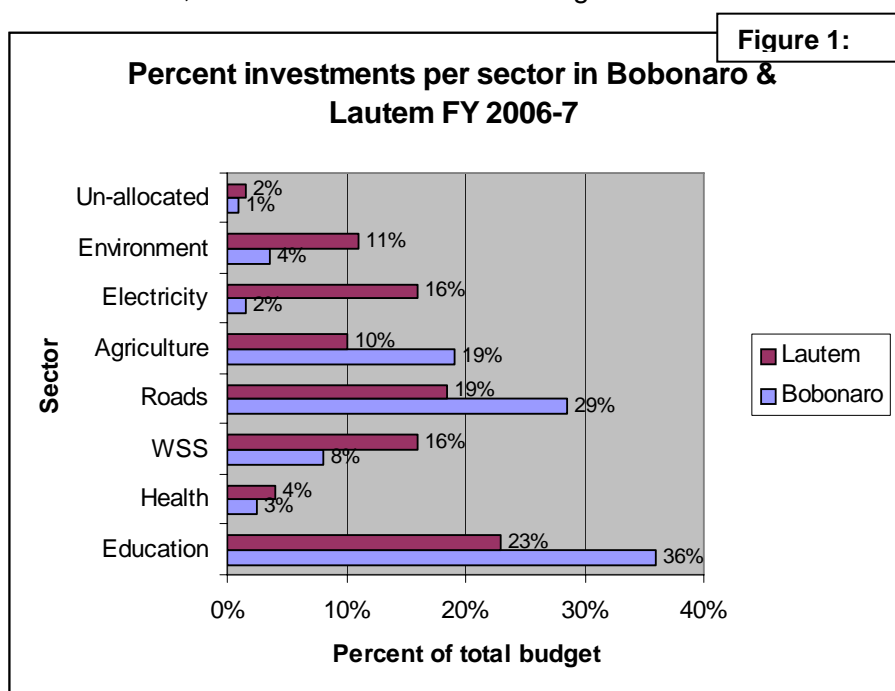
Two documents were issued by the Ministry of State Administration instructing the District and Sub-District Assemblies on how to consult, identify, appraise, prioritise and prepare costing and design; *Ministerial Directive 3/2005 – DNAT/MSA Sub-District Planning Guidelines*, and *Ministerial Directive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

2.1 Local Planning Process for FY 2006-7:

In general, the LPP established by the LDP at the Sub-District and District level has been effective in identifying, appraising and prioritising local-level infrastructure projects. The process has now been tested out over two years and with 13 LAs in Bobonaro and Lautem. The Suco Councils through community meetings continue to provide most of the “raw” input to the planning process and the efforts of Sub-District and District staff should be commended in carrying out the technical work related to the LPP. The District Integration Workshop (DIW) is proven to be an effective tool in ensuring sector buy-in for local investments and in avoiding duplication in investment decisions.

The total LDF allocated for Lautem and Bobonaro for FY 2006-7 were US\$ 140,000 and US\$ 200,000 respectively. Each LA is required to complete their annual planning process prior to the end of FY 2006-7, i.e. June 2006.. Unfortunately, the entire annual cycle had to be re-scheduled, as a result of the delay in approving of local finance management regulations and procurement regulations by Ministry of Planning and Finance. This had particular consequences for LAs in Bobonaro District. The agreement on national-local transfers of funds was only approved in December 2005, the transfer of the annual budgets for 2005-6 did not occur until January 2006 which delayed the first planning process by six months and then further delayed the second planning process as a result of the initial delay. Further, Bobonaro was one of the districts most affected by the national political crisis in mid-2006. Initial meetings at the suco level and Verification and Appraisal Teams (VAT) visits were completed prior to the political crisis in April 2006, however, the final meetings were unable to take place due to the ‘boycott’ by political opposition groups which resulted in the closure of the Bobonaro District Administration office and several of the Sub-District offices. Moreover, threats were made to local government staff which resulted in the total standstill of all activities for a period of about 5-6 months.

All the LAs in Lautem finalised their investment plans for FY 2006-7 before the deadline, while the planning process in Bobonaro was significantly delayed as a result of the political situation at the time. However, the LAs in Bobonaro did complete this planning exercise before the end of the extended deadline and successfully allocated their budgets in



accordance with the set regulations. Figure 1 gives an overview of the **combined** Sub-Districts and District allocations of capital investments per sector in Lautem and Bobonaro District for FY 2006-7. As can be seen from the sector allocations, education continues to be a high priority sector both in Bobonaro and Lautem, while road infrastructure is a second priority based on the investment statistics provided from the LAs. Although these planning figures provide a good indication of areas of priority at the local level, it is also important to point out the limitations of such statistics. For example, the low investment rates in the health sector compared to other sector does not necessary mean that health is less of a priority, but can also indicate that the Ministry of Health provides relatively better services at the local level and therefore is less of a priority for scares resources allocated to the LAs.

On average, the cost per project in Lautem is US\$5,000 compared to allocations per project of US\$8,000 in Bobonaro District. Compared to 2005-6 allocations, LAs in Bobonaro increased their allocations with about US\$1,500 per project compared to the average cost of US\$6,500 for FY 2006-7. This might be the result of lessons learned during the implementation process in Bobonaro where some budget estimates had to change during the final preparations of tender documents. It is encouraging to see that in both Districts, there is a tendency to focus on larger priority projects instead of dividing the funds among the Sucos without prior evaluation of priority development needs.

2.1.1 Sub-District LPP for FY 2006-7:

The Sub-District planning process in both Bobonaro and Lautem commenced at the Suco level, and the Suco Councils were responsible for facilitating this process. The Suco Chiefs were responsible for invitations and chairing Suco consultation meetings, while the SD Administrators or the Community Development Officers (CDOs) participated and supported the Suco Councils. Community participation in these consultations is generally lower than expected, but there were large variations between the Sucos. In some Sucos, the number of participants has been reported to be more than 200 community members compared to others where there was participation by as few as 10 community members. It appears that the Pair-Wise Ranking tool or consensus are the preferred options for decision-making procedures in both Districts, whereas the trend is different in terms of involvement in the decision-making; Suco Councils in Lautem tends to make the final decision while a decision is normally reached during the community meetings in Bobonaro District.

Each assembly has established a Planning and Implementation Committee (PIC) as a part of the institutional framework. The PIC is given the responsibility for verification and appraisal in addition to the preparation of basic design and costing of eligible priority proposals during the planning process. A general problem for all PICs is the lack of technical personnel at the Sub-District level. A common trend is that the funds available for each LA is “pooled” together and technical personnel are hired at the District level and provide technical support to all PICs at both the District and the Sub-District level. The work of the PIC is critical for the debate in the LAs since the draft investment plan meetings are based on the PIC report.⁵

To avoid a “wish-list” scenario, each Suco is only allowed to submit two or three ranked development priorities⁶. In total 106 investment priorities were received and registered in the five Sub-District Assemblies in Lautem, while 70 were registered in Bobonaro. There is a tendency in Bobonaro that projects identified during the previous years’ planning exercise have been maintained in the annual plans for FY 2006-7 and that the overall planning process were less extensive compared to last year’s LPP. The LPP is designed to also allow submissions by sector-departments of their investment priorities to the assembly. It is important to recognise that only six projects out of the 106 proposed in Lautem registered from the sector department staff were

⁵ The PIC report includes an overview of activities at different stages in the planning process and a technical recommendation and justification from the committee. The PIC recommendation consists of a proposed total budget including all capital investments to be debated and voted on in the assembly.

⁶ The decision on 2 or 3 proposals was made by the assemblies in their first meeting.

registered.. A total of 23 will receive funding from the SDA budgets for FY 2006-7 in Lautem, while 21 identified investment projects were approved at the SD level in Bobonaro.

2.1.2 District LPP for FY 2006-7:

The District planning process incorporates both the Suco and the Sub-District in terms of the initial needs assessment. Each Suco is encouraged to identify one priority district-level development proposal and submit this for consideration to the Sub-District Assembly. In the same way as the Sucos Councils are responsible for providing input to the Sub-District LPP, the Sub-District Assembly are responsible for including priority needs to the District LPP. Each assembly is allowed to submit two development priorities for consideration as District Assembly investments. In total 15 proposals were registered with the Lautem District Assembly; 10 from the Sub-District Assemblies and two from the sector departments, while 11 proposals were registered with the Bobonaro District Assembly. As for the Sub-District LPP, the Sector Departments were less pro-active than expected. A total of six investments projects have been approved for funding from the Lautem District Assembly budget and four in Bobonaro.

2.2 Local Planning Process for FY 2007-8

The LPP for FY 2007-8 also started in 2006 with a deadline for submission in June 2007. By the end of 2006, all 25 LAs in Bobonaro, Lautem, Manatuto and Aileu had commenced planning for the next FY and it is expected that all 25 will be able to meet the deadline set by central Government – when ?. This year the risk is that the continued tense political situation and the upcoming presidential and parliament elections which may prevent the finalisation of the process.

OUTPUT 2: PROCEDURES FOR DELIVERY OF PUBLIC INFRASTRUCTURE & SERVICES

Preparations for a new procurement law commenced in 2004 and the law was passed in November 2005 by the Council of Ministers. Prior to this, the United Nations Transitional Administration in East Timor (UNTAET) Regulation 2000/10 governed all government procurement, establishing an extremely centralised system controlled by MoPF. The new procurement law 10-11-12/2005 allowed for “decentralisation” of procurement to individual *central* Ministries for up to US\$ 10,000. All procurement of public goods, services and works above this monetary limit remained the responsibility of the National Procurement Division in MoPF. After the crisis in mid-2006, the monetary limit for delegated authority was raised to US\$ 100,000 to facilitate a more efficient procurement process.

Prior to the LDP pilot there was no legal or regulatory framework in place for local level procurement and contract management in Timor-Leste. Discussions between MSA and MoPF commenced in March 2005 and the local level Procurement Regulations was eventually approved by MoPF in December the same year.⁷ The pilot procurement regulation for local level was a simplified version of the national procurement law and adopted accordingly all central procurement forms and contracts to ensure a streamlined system. The aim was to design and establish sound procedures for local contracting of services and works along the lines of the central system in order to allow for a smooth transition in the case of future provision for decentralised procurement.

ACTIVITY 3: SUPPORT TO LOCAL PROCUREMENT PROCESSES

This annual report covers parts of two PEM cycles; six months of FY 2005-6 and six months of FY 2006-7. Two pilot districts are current implementing their annual investments plans; Bobonaro and Lautem District. The remaining two pilot districts; Manatuto and Aileu, will commence implementation during FY 2007-8.

3.1 Composition of Local Tender Boards (LTB) and monetary thresholds

Ministerial Directive No. 8/2005 – MSA Procurement Regulation establishes the Planning and Implementation Committees (PICs) as the procuring entity on behalf of the assemblies at each level. In addition, District and Sub-District Local Tender Boards (D-TB and SD-TB) were created to ensure a transparent and accountable awarding of contracts. The LTBs are composed of three technical representatives from the government and two voting members from the Assemblies. It is up to each Assembly to nominate their representatives to the LTB and the members serve for one year at the time. This composition was chosen to ensure both technical evaluation of bids and community oversight of the tender process. The Directive also establishes that representatives from the beneficiary community can participate in LTB meetings as observers. The composition of the LTBs is shown in Table 4 below:

⁷ *Ministerial Directive No. 8/2005 – MSA Procurement Regulation*, issued by Ministry of State Administration.

Table 4: Composition of SDTB and DTB

	Sub-District Tender Board (SDTB)	District Tender Board (DTB)
Chair	DNAT representative L3 or above	DNAT representative L4 or above
Member	Two (2) representatives of the “voting membership” of the SDA appointed by the Assembly	Two (2) representatives of the “voting membership” of the DA appointed by the Assembly
Member	One (1) technical staff from Public Works or one technical consultant	One (1) technical staff from Public Works or one technical consultant.
Member	One (1) technical sector representative for which the project is proposed	One (1) technical sector representative for which the project is proposed

However, the regulation only allows for direct local level procurement and contract management in relation to procuring of public goods, services and works up to US\$ 10,000 at the District level and US\$ 5,000 at the Sub-District level.⁸ Any procurement above these limits was to be referred to the next level and all contracts above US\$ 10,000 have to be confirmed by a centrally-established tender board. During the first year of implementation, this authority rested with the National Procurement Division in MoPF, however, with the revision of the central procurement regulation in 2006 this authority is now allocated to MSA as long as the contract is less than US\$ 100,000. Although this limits the independence of the local procurement process, four critical factors were incorporated in the new regulation to ensure local ownership of the process; 1) The procuring entity remains at the local-level even for procurement above US\$ 10,000; 2) Local tendering; 3) local representation in the national tender boards; and 4) responsibility for local contract management and supervision remains at the local level. Thus, the local assemblies will still control the process.

3.2 Methods of procurement

The main principle in procuring goods, service and works in relation to the LDF is open tendering.⁹ This is particularly important to ensure transparent and cost effective processes and results. National tendering documents were adopted to streamline the national and local level process. As for national procurement, the regulation requires that only pre-qualified contractors can participate in the bidding process.¹⁰ The decision on establishing a local process which used national requirements to documentation meant that the procurement process for “Small Works”¹¹ is rather complicated and demands substantial bureaucratic input for the procuring entities. However, for the long-term perspective where these types of requirements will be necessary for local-level procurement, the more sophisticated approach was selected vis-à-vis a simplified method for the pilot.

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

⁸ This monetary threshold was based on the first draft of the national procurement law.

⁹ In theory the “open tendering” is using RFQ documents, however to avoid corruption and the possibility of limited selection of contractors by the procuring entity the RFQ is an open process and publicly advertised.

¹⁰ Pre-qualification is each year prepared by National Public Works Department, and is an official list of pre-qualified contractors.

¹¹ Small works is defined as any Works below US\$ 50,000

purchases of less than US\$ 200 can be approved directly by the Executive Secretary. An overview of types of procurement methods and their key features is shown in Table 5 below:

Table 5: Methods of Procurement	
Type of procurement procedure	Key features
1. Invitation to Bid (This is the preferred method of procurement, which is open to all interested bidders)	<ul style="list-style-type: none"> • SDTB/DTB advertises tender at local level by using public information boards, newspapers, radio etc. • Only pre-qualified supplier/contractors can participate in the process. • Sealed bids • Public bid opening • Technical and financial evaluation of bids, which should lead to the selection of the lowest price bid meeting all the technical requirements.
2. Request for Quotation	<ul style="list-style-type: none"> • SDTB/DTB collects a minimum of three (3) quotations from licensed contractors or suppliers. • Selection of supplier/contractor on basis of lowest price • For the purchase of stationary and copying services, the procuring entity can enter into a six month agreement for the supply of goods stated in the request for quotation.
3. Single Source	<ul style="list-style-type: none"> • There is only one source for procuring preferred goods, services or works. • A justification is provided to explain and justify using Single Source procurement.

3.3 Capacity building of Local Tender Boards

Two capacity building activities have been implemented to ensure that the members of the LTBs could assume their new responsibilities and for the members of the LAs to assume their oversight role of the local procurement process. The first activity was a two-day training workshop focusing on the new regulation and official tender documents. A total of 25 LTB and 40 members have been trained to date in the four pilot districts. In addition on-the-job training and technical support have been provided to all LTB, in particular in Bobonaro and Lautem Districts where procurement of capital works is ongoing.

A very positive outcome of this process is that LTB in each district are cooperating and assisting each other in finding solutions to problems and difficulties that are occurring during the practical implementation of the procurement process. While following the procurement regulation they LTB are finding local solutions to the problems and the LTB with higher technical capacity is assisting the weaker LTBs. In particular, the District LTBs have taken a lead role and are also coordinating with the national LDP PMU on technical issues.

3.4 Execution of local level procurement procedures in Bobonaro District

In accordance with the regulations the Local Assemblies in Bobonaro Districts commenced procurement of goods, services and works in February 2006 for FY 2005-6 budget execution. This was eight months later than expected and the result of the late approval of the Local Procurement Directive and technical issues related to transfer of funds from central to local level. As mentioned above, because of the crisis in mid-2006 Bobonaro District Assemblies also faced additional delays in the planning process for FY 2006-7 which resulted in delays for the second cycle of procurement of works for FY 2006-7. It is therefore important to point out that although there have

been many delays and problems in procuring works in Bobonaro District the main reasons have been external factors that cannot be blamed on the capacity of the Local Assemblies or the LTBs.

According to the approved annual investment plans and budgets in Bobonaro District for FY 2005-6, a total of 35 capital projects were scheduled for procurement. However, during the preparations of tender documents and final costing of projects, four projects were cancelled as funds were needed to cover funding gaps in other projects. This was a result of a change in baseline prices and in some cases poor quality of initial calculations by local consultants.

Based on the Procurement regulation the level of procurement responsibility for the remaining 31 projects is shown in Table 6 below:

Table 6: Level of procurement in Bobonaro District FY 2005-6

Pro code	Budget owner	Total projects	Level of procurement		
			Sub-District	District	National
399	Balibo SDA	6	5	1	0
400	Atabae SDA	3	1	2	0
401	Bobonaro DA	4	0	1	3
402	Bobonaro SDA	4	0	3	1
403	Cailaco SDA	3	1	2	0
404	Lolotoe SDA	5	5	0	0
405	Maliana SDA	6	3	3	0
TOTAL:		31	15	12	4

Training of LTB in Bobonaro was planned for June 2005 but the delayed approval process of the procurement regulation, resulted in rescheduling of the training to November. Unfortunately this meant that the preparations of tender documents only commenced in late 2005. For the same reason the LAs hesitated to advertise the works until the regulations were approved and funds transferred to their local bank accounts which only occurred in February 2006.

Although each LA had funds for hiring of technical consultants, two out of the seven assemblies had problems identifying qualified personnel. The solution to this problem was temporary support from the District and neighbouring Sub-Districts in one case. Water and Sanitation, Agriculture and Roads assisted the PICs in design and costing, but the Public Works department remains passive in the process and no assistance was provided.

All tender documents were finalised in January 2006 but the LAs choose to sequence the advertisements of the tenders to allow contractors to bid for more than one project. This was the result of a local assessment of the contractors in terms of capacity and resources available. As detailed in the regulation, the procuring entity organised site visits to each project location. This was mandatory and was to ensure that all contractors knew the site prior to the submission of bids.

The PMU observed several of the local bid opening meetings and it was noticed that the procuring entities followed procedures. Minutes were taken and attendance list of participating contractors attending the bid opening were duly signed for the record. The closed bids were opened in these meetings and the bid prices were read out and recorded. A majority of the contractors participated in the bid openings, which was a very positive sign.

Although delayed, 25 out of the 27 tenders that were supposed to be managed at the local level in Bobonaro did take place during the period between February to March 2006. In total, local level procurement for 25 projects was successfully concluded, for a total value of over \$ 130,000. 2 remaining projects (school furniture in Cailaco and a water tank in Lolotoe) were only contracted out in January 2007 since the PICs had problems finding contractors willing to take on such small

projects (\$900 and \$400). The LAs were allowed to carry over the contracts since there was a legitimate reason for not completing the contracts within the fiscal year.

As the LAs exceeded the threshold for District level procurement, 4 projects were to be managed by the National Procurement Division in Dili. Due to political instability (and, quite possibly, bureaucratic delays), none of these projects were procured during FY 2005-6. Since the national procurement regulation changed in terms of monetary threshold in August 2006, MSA had been provided with the authority to sign-off on these projects and the final four contracts were signed in late 2006, for a total value of a little over \$ 56,000.

The table below provides some data on how the local procurement process “panned out” in Bobonaro.

Table 7: Aspects of local procurement in Bobonaro (FY 2005-2006)

Total initially estimated value of projects (excluding local contributions, based on VAT/PIC estimates)	\$ 190,000
Revised estimated value of projects (excluding local contributions, based on tender calculations)	\$ 186,000
Final contracted value of projects (excluding local contributions, based on contracts)	\$ 178,000
Total number of projects included in investment plans (value < \$ 10,000)	31
Revised number of projects tendered (after revised estimates)	31
Number of projects “cancelled” after revised estimation process for tendering	4
Total savings in percent	7 %
Total savings in US\$*	\$ 12,000

*Savings were re-allocated to new projects

From Table 7 it can be seen that:

The initial (VAT) total costing was about 9% more than the final (and more assiduously calculated) total estimates for the tender process. This result is within the 10 per cent scale that was given in terms of valid bids and is relatively good given that local technical capacities (for initial design and costing) are supposed to be limited and that this was the first year that local officials had been involved in local planning processes.

However, revisions to estimates did lead to 4 projects having to be “cancelled” – 2 in Bobonaro SDA and 2 at the level of the DA. In Bobonaro SDA, the cost of a primary school rehabilitation project was radically revised upwards¹², forcing the Assembly to withdraw 2 smaller projects; at the DA level, a similar re-estimate (and design) for a pre-secondary school rehabilitation project forced the District Assembly to withdraw 2 smaller projects.

The tender process for the 31 locally-procured projects yielded “savings” of about \$ 12,000 (or 7% of the revised costing for tenders), attesting to the economies that can be generated through competitive bidding processes.

¹² The initial project proposal only provided for the school's roof to be replaced, but the revised design and costing indicated that simply replacing the roof, without carrying out other rehabilitation works, was not enough.

A final point worth noting is that all locally procured projects were contracted out to a wide range of local contractors – and not to Dili-based contractors, and with few contractors being awarded more than one contract. This was almost certainly due to the relatively small size of the projects – but does indicate (a) that there is not a scarcity of local contractors and (b) that the Assemblies are injecting capital into the local economy which would thereby contribute to local job creation in the process.

On the “minus” side, however, a few points about procurement and implementation should be noted¹³: For many projects that were tendered, a large number of bids were submitted, often with small variations in their financial bids. Because all bidders were officially pre-qualified (by PWD), it was thus often difficult for the tender boards to “objectively” define on which contractor was to be awarded the contract. This sometimes led to tender boards actually awarding contracts on the basis of “divide the cake” principles in an effort to “satisfy” as many bidders as possible. This problem – of being able to assess the quality of contractors – may be reduced over time, as variations in the quality of actual works by contractors become more obvious. It is possible, for example, that future tenders will actually “black list” certain contractors on the basis of previous performance.

In addition, about 45 percent of the received bids were eliminated as unable to satisfy the administrative pre-conditions, i.e. TIN number, business registration number, pre-qualification, etc. Based on this result, it is clear that subsequent training to local contractors is needed to ensure that the private sector can absorb government contracts in the future.

To date, all contractors have been paid 90 percent of the contract price and the remaining 10 percent is due in January 2007 when the liability period is due. Many of the contractors however received their payment much later than the 30 days stated in their contracts. This was due to the closure of the District Administration office – which has effectively paralyzed all Treasury functions in Bobonaro. This is a serious concern, as it affects the credibility of the Local Assemblies (and, indeed, the LDP as a whole).

Finally, it is clear that Local Assemblies have not paid systematic attention to the establishment of Local Oversight Committees (LOCs), responsible for ensuring community-level oversight of contractors and the quality of their work. In some cases, there were “natural” LOCs (e.g. school committees); in others, it is clear that the respective PICs did not ensure the establishment of a formal oversight process at the local level. This was partly due to the time constraint that existed (a delayed procurement process due to delayed funding) and to subsequent political instability and the closure of DA and SDA offices.

As a result of the delays the LAs in Bobonaro are yet to commence the procurement process for FY 2006-7 since the main focus the last part of 2006 was used to finalise their investments plans. There is a human resources constrain in the fact that the same people are both responsible for planning, procurement and implementation. Although a problem, this is an important lesson in itself and needs to be considered during the planning of staff for the new municipalities.

The LAs completed their annual investment plans and budgets for 2006-7 in December 2006 and based on the initial costing this years procurement plan at each level is shown in Table 8 below.

¹³ Although it should also be borne in mind that this was the first year that most local officials and Assembly members had ever directly participated in tender boards.

Table 8: Level of procurement in Bobonaro District FY 2006-7

Pro code	Budget owner	Total projects	Level of procurement		
			Sub-District	District	National
399	Balibo SDA	5	5	0	0
400	Atabae SDA	3	2	1	0
401	Bobonaro DA	4	N/A	0	4
402	Bobonaro SDA	3	0	1	2
403	Cailaco SDA	3	1	2	0
404	Lolotoe SDA	2	1	1	0
405	Maliana SDA	5	2	2	1
TOTAL:		25	11	7	7

One of the assumptions in the start of the programme was that each LA would ensure that their projects were below the monetary threshold so that they would be able to fully control and manage the procurement processes. However- as the table shows – this is not the case. This can indicate that the LAs are satisfied with the higher level procurement authority and feels that they still are in control although they need to seek higher level approval of their recommendations.

3.5 Execution of local procurement regulation in Lautem District

Not much can be said so far in regard to the procurement process in Lautem District since the LAs have not commenced the tender process during this reporting period as the transfer of funds from the National Treasury was delayed also for Lautem. Training and technical support were provided to all TLBs and preparations of tender documents were completed in December 2006. The advertisement of the tenders is to be issued in January 2006.

As previously mentioned, the planning process in Lautem progressed well with a total of 29 works projects due to be procured during FY 2006-7. The Public Works office in Lautem has shown a lot of interest in support of the PICs and technical consultants during the whole process. This constitutes a significant difference between Bobonaro and Lautem.

An overview of how many projects are to be procured at each level is shown in Table 9 below.

Table 9: Level of procurement in Lautem District FY 2006-7

Pro code	Budget owner	Total projects	Level of procurement		
			Sub-District	District	National
500	Lautem DA	6	N/A	6	0
501	Lautem SDA	8	6	2	0
502	Los Palos SDA	6	1	4	1
503	Iliomar SDA	3	2	1	0
504	Luro SDA	3	2	1	0
505	Tutuala SDA	3	3	0	0
TOTAL:		29	14	14	1

The total number of projects is higher in Lautem although the total amount of funds available is less than Bobonaro. As shown in Table 9 only one project is to be procured at the national level and the distribution of projects mirror the relatively smaller amount per project.

OUTPUT 3: FINANCIAL INSTRUMENTS AND FINANCIAL MANAGEMENT FOR ISD

The Local Development Fund (LDF) was established by the *Ministerial Decree No. 8/2005 regarding Local Assemblies*, in July 2005 within the CFET budget of Ministry of State Administration. Approximately US\$ 1 million was made available through the LDF in the form of annual block grants over a period of three annual planning/budget cycles for each of the two initial identified pilot districts (Bobonaro and Lautem). The Government has pledged to fund the LDF through their regular budget from FY 2007-8. The LDF allocations are US\$ 2,44 per capita per district and further divided between the District Assembly (30%) and the Sub-District Assemblies (70%). The Government has committed to take over the LDF from FY 2007-8 in addition to the already recurrent expenditures provided in the annual budget. The annual allocations are shown below in Table 10 for the two pilot districts with capital budgets.

Table 10: Budget allocations to pilot districts for 2006

District	Total allocations		District level		Sub-District	
	LDF (capital)	Recurrent	LDF	Recurrent	LDF	Recurrent
Bobonaro	200,000	19,123	60,000	4,995	140,000	14,128
Lautem	140,000	13,147	42,000	3,677	98,000	9,470

A very positive outcome of the pilot is that LDF allocations to District and Sub-District Assemblies are now incorporated into the GoTL annual budget as “grants”, rather than as “capital expenditure”. This classification, in theory, should facilitate arrangements for their management by Local Assemblies. However, it should be noted that whilst the Budget Division of MoPF has fully embraced the logic of “grants”, Treasury procedures for managing them remain undefined – an issue that will require to be addressed from the programme in the near future.

Issues related to the establishment of finance instruments, finance management procedures for ISD and Performance Based Incentives the reader of this report is referred to “*Local Development Programme Annual Progress Report 2005*” Chapter 3, which describes the details and rational for certain decisions made early in the programme.

ACTIVITY 5: OPERATION OF THE LOCAL DEVELOPMENT FUND (LDF)

In general, it would be fair to conclude that LPFM is the one area where the LDP has yet to develop and test demonstrably workable and effective procedures. This component has shown to be a more difficult area in regard to both training and level of existing capacity within the District and Sub-Districts Administrations. However, it should be recognised that the finance regulation and procedures are new and being introduced to staff with no previous finance experience or not as part of an existing part of their normal job description. Considering these constraints – in addition to the many delays from national level and ‘boycott’ of the offices during the political crisis - the result is encouraging although further training and mentoring is needed required.

The District Finance Officer (DFO) is the person in charge of managing national finances at the local level is. S/he together with the DA and the DDA make up the District Administration Treasury (DAT) and is responsible for the overall financial management and treasurer of the LDF. In addition, Local Assembly finance teams have been established and authorising expenditures on behalf of the Assemblies. Both institutions have needed a lot of support during the first year of managing local finances, but there is clearly an improvement and so far no cases of corruption or mismanagement of funds have been discovered. Problems and mistakes in the management of funds have so far been due to lack of experience with management of funds and it is a mere

matter of time before the DAT and Finance Teams are in a position where less backstopping is needed.

5.1 Revision of Finance Management Regulation

In late 2005, an initial set of local public financial management (LPFM) regulations (subsequently incorporated into a Ministerial Directive) was drafted. Due to intransigence on the part of the Treasury in Dili, this original LPFM system had to be modeled on the way that Treasury manages funds for Timor-Leste's diplomatic missions. The LDP then developed a training manual and provided Local Assemblies in Bobonaro with training in LPFM. Even though political instability and the closure of administrative offices in Bobonaro have been a challenge, it has become clear (over the course of 2006) that the LPFM regulations were too complex – in relation both to the needs of Local Assemblies and to their capacities. The original directive was therefore revised in mid-2006 and the important differences between the new regulations and the 2005 regulations will be:

- the new regulations are anchored much more firmly in regular Treasury processes and will explicitly be used by DFOs, which is now possible because of a much more open attitude in Treasury to piloting and innovation;
- the new regulations are tailored to provide 5 pilot Districts (the four LDP pilots plus Oecusse) with appropriate LPFM arrangements in order to manage certain budget line items (for FY 2006-2007) that have been deliberately delegated from the regular budget of the Ministry to District and Sub-District Administration (this is additional budget to the LDF);
- the new regulations are much simpler and require fewer forms and formats – this will hopefully make the new system much more user-friendly and better suited to the needs and capacities of Local Assemblies.

Thus, enhanced capacity in finance management is a key and major challenge for the programme – and one that needs to be met rapidly so that Local Assemblies in Bobonaro and Lautem will be able to execute their budgets without major problems for the remaining parts of this and the next FY, as well as for the future inclusion of new Districts.

5.2 Central-local transfers of the LDF

Although the pilot finance management regulations were approved by the Minister of Planning and Finance in 2005 there remains some confusion within the departments of Treasury and the National Procurement Division in terms of how the transfer of the LDF should work in practice and what supporting documents were needed to provide for the transfer when it first was tested out in early 2006. This resulted in a delay in transferring the funds from national treasury to the local bank accounts established by each DAT. To give an example, the first transfer of recurrent budget was prepared in January while an agreement regarding the capital budget only occurred in April 2006. The problems at the national level with transferring the capital budget to the district resulted in a much delayed procurement process which only commenced in February when the national level had reached an agreement regarding the transfer. However, if one take into consideration that this is the year that the national treasury is transferring funds to local bank accounts the delays can be seen as an initial problem and that regular transfers in the future will be a matter of standardized procedures.

5.3 Compliance with Minimum Conditions

In principle, LDF allocations are subject to Local Assemblies demonstrating compliance with a simple set of Minimum Conditions (MCs)¹⁴ and can be increased or decreased depending on the assessment of the performance of Local Assemblies across a range of Performance Measures

¹⁴ The MCs are designed to become incrementally more “demanding” over time, such that each year participating Local Assemblies need to satisfy more stringent MCs.

(PMs). Both of these elements of the performance-based funding provided by the LDF are provided for in Ministerial Directives. The assessment process is currently ensured by an *ad hoc* evaluation team, membership of which is designated by the Minister of State Administration. The first MC evaluation was conducted in Bobonaro District in 2005 and the second MC evaluation in July 2006 in Lautem District. Evaluation of compliance with in MC Bobonaro District after FY 2005-6 were also scheduled for July 2006, however, this was impossible since all Assemblies in Bobonaro had not completed their PEM cycle as a result of the closure of their offices during the months of April to August. The Minister of MSA issued an instruction allowing the process to continue for another six months to give the Assemblies in Bobonaro time to complete their processes. The second CM in Bobonaro is scheduled for February 2007.

The MC assessments in both Bobonaro and Lautem were carried out by two senior MSA officials. The results of the first assessment were that all LAs had complied with the MC criteria although one LA in Bobonaro District was recommended to improve its performance. The MC evaluation is a good tool for central government to make an annual assessment of performance of their local administrations and also an incentive for the Assemblies to perform since non-compliance will result in having the LDF withdrawn.

5.4 Local level finance management

As previously mentioned in this chapter, the result in terms of level of quality in finance management has been relatively poor during the first year of implementing the new finance regulation. This is partly due to the low capacity or absence of experience at the local level and partly related to external factors which had made it impossible for the local level to manage the funds in accordance with the regulation. To give some examples from Bobonaro:

- Initial transfers were received as cash advances for particular activities and not as annual budgets since national level did not agree on a final transfer mechanism until the third quarter of the fiscal year. Monthly finance reporting has therefore been difficult and resulted in finance reporting being prepared based on individual advances which does not fit into the finance reporting system.
- All the delays have also made it impossible to fully make sense of the Quarterly Reporting Matrix and measure of progress according to annual activity plans. It was made all the more challenging as a result of late approval of the National budget and the continuation of the political crisis which delayed many activities in the FY 2006-2007.
- Contractors in Bobonaro were paid very late after completion of their contracts – again as a result of the closing of local administration offices which hindered certification of completions, authorization and issuing of payments.
- Central level support to the DAT and local finance teams were cancelled since staff were hindered from coming to work and travelling outside the capital was denied because of security concerns.
- Although the finance management system was not tested to its full extent during this initial pilot period, it became clear from the users that finance system established was too complicated and had to be revised and simplified. This was done and it is expected that the finance management procedures and results will improve for 2006-7.

The final closing of budget execution of 2005-6 the budget will only occur in January 2007. However, during the time of writing this report all contracts have been paid and the Local Assemblies did execute 100 percent of their budgets. Remaining allocations (approximately US\$9,000) after completion of payments of all commitments were requested to be transferred to other operational expenditures and the central government allowed the local assemblies to purchase some motorbikes, computers and other equipment to facilitate their work related to the planning and execution of the LDF. A final evaluation of performance will therefore be included in the next annual progress report from the programme.

OUTPUT 4: NATIONAL POLICY LESSONS ON DECENTRALIZATION

Although the LDP is intended to make a direct contribution to poverty reduction in the areas within which it operates, its primary justification (as a relatively small project) lies in its potential – as a pilot – to inform national decentralisation policy processes. And this is doubly important given that GoTL (led by MSA and with UNDP and UNCDF assistance) is currently in the process of clarifying local government options and reforms. The Government took an important step in October 2006 by approving a Policy on Decentralization and Local Government. The policy confirmed the previous indications of a Government in favor of a single tier of local government, a municipal level with a municipal assembly and administration, directly elected mayor (nominated for the first period), a municipal assembly with indirectly elected representatives from Suco Councils, independent municipal finances and service delivery functions. The policy provided the Ministry with a green light to start the second phase of the process which will comprise of national consultations and preparations of new legislation. There are several ways in which the LDP has informed and contributed to the development of the national policy on decentralization and local government, *inter alia*:

- The programme's consistent efforts to institutionalise its various procedures (Local Assemblies, planning, implementation, procurement, LPFM, etc.) by having them enshrined in Ministerial Directives has proved to be an effective way of putting decentralization issues on the national policy agenda. By publishing LDP guidelines and other related information in GoTL's official Gazette, the programme has effectively brought decentralized procedures to the attention of senior government officials (as well as local officials). The LDP's ability to do this has largely been the result of a consistent commitment from MSA and the extent to which senior MSA officials (including the Minister) trust the LDP team and its approach.
- Continuous interaction with MoPF departments (widely seen as being one of the most entrenched "opponents" of decentralization) on a range of issues has clearly led to a more open attitude towards the devolution of functions to the local level. With the budget department, discussion over the status of LDF allocations to Local Assemblies has resulted in them (as well as a range of other expenditure items) now being classified as "grants". With the National Procurement Division, discussions about local procurement issues have probably been instrumental in shaping the new national procurement law and in convincing the Division to allow greater procurement responsibilities to be devolved to the local level. And, finally, continuous dialogue with the Treasury appears to have resulted in a more pragmatic and flexible approach to LPFM.
- Through its close links to LGOS, the LDP has also been able to leverage policy impact. LGOS technical assistance quickly recognized the significance of some of the procedures and practices that the LDP was piloting – and has integrated the substance of many of the lessons learned through the LDP into policy proposals (e.g. indirect elections for Municipal Assemblies, IGFTs as "grants" in the GoTL budget, planning and implementation guidelines, etc.). The link between the LDP and the overall decentralization process will become even more visible in 2007 when the LDP will be combined with the Local Government Option Study programme into one larger Local Government Support Programme (LGSP). The new LGSP will continue to support the Government and in particular the Ministry of State Administration in the process of developing LG legislation and in implementation of the LG reform in the future. The Government has indicated that the Local Government reform will be a phased reform and commence in the four LDP pilot districts. This is a further indication that the LDP has been successful both in terms of providing relevant policy lessons and in supporting capacity development of both government staff and community representatives as members of the pilot local assemblies in the pilot areas.

Many policy lessons were identified in the 2005 Annual Report and the experience from 2006 can only be said to reconfirm the main findings. Below are some further emerging lessons:

4.1 Lessons of caution:

- The Sub-District level is conceptually or perceived as more accessible and significant for sub-district communities compared to the more distant district level.
- The SDAs - in the case of 65 units SDAs are in general costly to operate especially in regard to travel expenses; some of the Sub-Districts are too small to be able to function as local government units and the cost implication of ensuring a wider representative base will be too high; the number of technical staff have to be increased to be independent of a higher level which will be very costly; and technical upgrading of each Sub-District office such as computers, transport requirements will need to be improved to enable this level to fully function.
- The technical capacity at the district level disproportionately exceeds that at the Sub-District level, which was expected. In terms of cost-effectiveness, technical backstopping and support at this level would be more financially sustainable than the sub-district as the primary sub-national level for local government. However, this assumes that services can be provided district-wide.
- In terms of accessibility of the assemblies, the district level is considerably more detached from the general public compared to the Sub-District level as demonstrated by the LDP where information about the Sub-District Assemblies at the Sub-District level was better disseminated than information about the activities of the District Assembly.
- The Suco councils need clear guidance and support if they are to be a forum for eliciting “community voice and priorities”, and if they are to play this role in a consistent and equitable manner.
- Promoting democratic debate in local assemblies – the main challenge has been to introduce basic principles and procedures of democratic debate: agenda setting, orderly debate following the agenda, procedures to ensure all can talk, procedures for group resolutions and decisions.
- While the ratio of female/male attendance in Assembly meetings was good, women were less engaged in active participation than men.
- Feedback of information and on decisions reached to Suco councils and to people at large was poor – both because Suco councils are themselves not very active and because distributing printed information in rural areas presents practical problems.
- Low demand for downward accountability from the overall communities – this could be due to the lack of information about the programme and the process or lack of opportunities to participate in the process.
- The practical problems of ensuring technical support for planning and implementation in more remote Sucos should always be recognised, and resources made available for this.
- The concept of “indicative investment menus” for each level is prone to misinterpretation if not very clear – often this was confused with investment size, with “larger projects” passed upwards.
- Difficult to identify and hire competent technical staff at the Sub-District level in particular in remote areas.

4.2 Lessons of optimism:

- Despite fears that better educated (although non-voting) civil servants would try to dominate Assembly discussions, this did not happen and they generally did not interfere with priority-setting by Suco representatives.
- Despite fears that local sector department staff would not cooperate, they did provide significant support to planning activities, within their constraints, largely vindicating the strategy of not creating parallel support teams (although it is still early to say what support will be provided for implementation).
- Despite fears that sector departments would try to ensure their priorities dominated local plans, in fact they accounted for only a very small percentage of investments approved by the Assemblies; furthermore, Assemblies took care to review in detail the submissions made to them by the PICs and did not automatically “buy the whole package”.
- In making planning decisions, Assemblies avoided the easier route of allotting a scheme to each of the Sucos thereby fragment their budget resources, but instead made serious criteria-based prioritization decisions which actually excluded many Sucos; they also made sectoral priorities which are entirely congruent with a pro-poor focus, despite fears that local decision-making outcomes would be in conflict with national priorities.
- The assemblies provide a positive and needed meeting point for interaction and a decision-making arena which links the community authorities and the government representatives.
- Calculations based on the experience from Bobonaro, annual cost covering sitting allowances, transport and consumption to facilitate participation in five assembly meetings per year is US\$ 7,244. This signifies approximately an annual cost of US\$ 50 per assembly member. Using this number as a baseline figure, the total cost of operating 13 District Assemblies and 65 Sub-District Assemblies would approximately be US\$ 70,000 per year, excluding costs related to capacity building initiatives, planning, salaries for government staff and technical support costs related to capital investments.¹⁵ In general this is a small figure in terms of the gains for full geographical representation and participation in local level decision-making processes.
- There is capacity at the local level to procure and manage infrastructure contracts at the local level, and from the experience from Bobonaro this process is closely monitored – and perhaps possible to monitor - by local stakeholders since information is available at this level.
- Using available banking facilities has been a positive and sustainable solution for transfer of funds from national to local level and facilitates closer monitoring of funds in terms of payments and actual cash balance.
- Although very slow reporting and problems in adapting to the new finance management system, the overall assessment of the result is encouraging.

The LDP has played – and will continue to play within the framework of the new LGSP – an important role in providing central Government with practical lessons about HR capacity, Public Expenditure Management (PEM) and Public Finance Management (PFM) at the local level. However, one of the most important lessons learned to date is that with clear procedures and guidance local level staff is capable of taking on more responsibilities than they have at present. Lessons from Bobonaro and Lautem in particular show that capacity is increasing over time in accordance with the level of responsibilities provided .

¹⁵ This number assumes that there are only two representatives from each Suco, and six government representatives in each assembly.

COMMENTS TO AWP 2006: PROGRESS COMPARED TO ANNUAL WORKPLAN

This summary is a narrative description to the 6 monthly AWP report for January to July 2006.

OUTPUT/ACTIVITIES	STATUS	PROGRESS REMARKS
Output 1: Procedures for inclusive, pro-poor and effective planning and budgeting of local infrastructure and service deliver are established and applied in pilot districts		
1.1 Establish and support inclusive local assemblies in pilot sub-national units.		
1.1.1 District orientation workshop on LDP concept and procedures, and the roles and responsibilities of the D and SD Administrations and Assemblies and how to constitute the Assemblies	Completed	Orientation workshops were held in the two new districts of Manatuto and Aileu in September 2006. The Minister of State Administration chaired the meetings and around 110 participated in the meetings.
1.1.2 Create local assemblies in pilot sub-national units	Completed	The target of establishing 25 Local Assemblies; 4 District and 21 Sub-District Assemblies, has been achieved as planned for the LDP and all LAs have received training and support throughout the year.
1.1.3 Provide meeting allowances for DA and SDA members and operational budgets for all Local Assemblies	Completed	Sufficient budgets have been provided from MSA to the Local Assemblies as planned.
1.2 Apply new planning and budgeting procedures for local ISD		
1.2.1 TOT seminar for planning and budgeting procedures	Completed	The TOT for the 2 new Districts were held between 18-22 September as planned. 25 MSA national and local level staff participated in the training.
1.2.2 Training seminar for PIC members in Infra, design and costing	Cancelled	This training was planned for technical staff in the new districts. However, as a result of the political situation during the months of April to August (Security phase 3) only core training programmes have been implemented. This training has therefore been re-scheduled for next year.
1.2.3 Train local stakeholders in Planning and budget modules	Completed	Training in LA and planning modules for Manatuto and Aileu Districts have been completed. A total of 181 LA members were trained
1.3 Provide citizens with access to information about local planning and budgeting processes and outcomes		
1.3.1 Formulate communications strategy	Re-scheduled	This activity was not implemented and will be re-scheduled to next year.
1.3.2 Implement communication strategy	Re-scheduled	LA posters were designed however printing has been delayed and the activity has been re-scheduled.
1.4 Establish mechanisms for provision of technical support by line agencies and others to local planning and budgeting		

1.4.1 Support districts (administration and line Ministries) in preparation of baseline database and plans.	Re-scheduled	Preparations for a baseline survey were completed however the political situation forced the programme to re-schedule other activities and this activity was less important to the overall programme and was re-scheduled.
Output 2: Transparent and effective procedures for sustainable production/delivery of public infrastructure and services are established and applied in pilot districts		
2.1 Apply new procedures for production/delivery of public infrastructure and services in pilot districts		
2.1.1 TOT seminar in local procurement procedures	Completed	The TOT was held at the national level in September with staff from DNAT and DNAF to prepare them as trainers at the district level.
2.1.2 Train local tender boards and briefing of LAs in new local procurement procedures	Completed	Training for TLBs in Lautem, Aileu and Manatuto districts were successfully implemented between September to November. Refresher training was also provided to Bobonaro TLBs and in total all 25 TLBs were trained and a total of 122 members of PIC and TLBs.
2.1.3 Establish and support local tender boards	Completed	25 Local Tender Boards were established in the four pilot districts. 13 (only 13 out of the 25 LTBs are operational and were scheduled to procure capital works in 2006-7) have been provided with technical support during the reporting period. All planned infrastructure projects were successfully tendered out and about 95% were closed by the end of 2006.
2.2 Establish and apply procurement Guidelines for local level ISD		
2.2.1 Evaluation and revision of procurement manual for local level ISD	Completed	Mr. Mike Winter successfully completed a Technical Support Mission in July/August 2006. The report is available.
2.3 Trial O&M arrangements		
2.3.1 Train local stakeholders in O&M guidelines	Completed	Training of the new LAs in Manatuto and Aileu has been successfully completed. A total of 181 participated in the training.
Output 3: Financing instruments for and financial management of local public infrastructure and service provision are established and/or improved in pilot districts		
3.1 Determine and codify fund flow and financial management arrangements for LDF		
3.1.1 Evaluate and revise LDF modalities and LDF fund flow and financial management regulations	Completed	Mr. Mike Winter successfully completed a Technical Support Mission in July/August 2006. The report is available. Revised Finance Regulation and forms were prepared and approved by the Ministry. The new regulation is now being implemented in all 13 districts in TL which is a very positive outcome beyond the planned used for only LDP pilot districts. The regulation will apply for all MSA funds at the local level.
3.2 Apply LDF guidelines and arrangements		

3.2.1 TOT in LDF modalities, regulations and guidelines	Completed	The TOT was held at the national level in September with staff from DNAT and DNAF to prepare them as trainers at the district level.
3.2.2 Train local finance teams and briefing of LA members in LDF modalities and regulations	Completed	4 District Administration Treasury (DAT) and 21 Finance Teams were established in the four pilot districts and have been provided with technical support during the reporting period.
3.3 Disburse annual LDF allocations to LAs		
3.3.1 Announce LDF allocations to LAs	Completed	The announcement was done in September. The delay was caused by a delay in approving the national budget.
3.3.2 Evaluation of DAs and SDAs performance against defined MC	Completed / re-scheduled	Evaluation of MC for Lautem District was successfully completed in July. The evaluation team consisted of the Vice-Minister and head of Development Section DNAT. All LA complied and will receive the LDF for 2006-7. MC evaluation in Bobonaro was re-scheduled since they were not able to complete their planning cycle since the Administration was closed from April to August. The LAs in Bobonaro is presently completing their annual plan and based on the instruction from the Minister the MCs will be evaluated when the plans are approved. The reason for this exception is that the delay was caused by external factors and not related to the LAs compliance or not with the MC
3.3.3 Allocate DAs and SDAs funds in accordance with defined LDF finance mechanisms	Completed / re-scheduled	Transfers of LDF was scheduled for July but since the approval of the CFET budget only happened in September the initiation only commenced then. There have been some issues in transferring the funds from UNCDF and UNDP bank account since changes was made in the routing to GoTL bank accounts without information being provided to the PMU. The Funds allocated to Bobonaro is yet to be transferred until they close their FY 2005-6 budget and MCs have been evaluated.
Output 4: National policies on decentralisation and poverty reduction are informed by experiences from the LDP		
4.1 Ensure incorporation of LDP modalities into GoTL regulatory framework		
4.1.1 Adapt standard UNCDF M&E procedures (MIS, AWP,SRF)	Completed	The use of AWP as a programme planning and reporting tools was established early in the programme. MIS is now been established as a M&E tool for LDP.
4.1.2 Design M&E methodology	Re-scheduled	M&E for the local assemblies has been established through the use of Annual Actions Plans, Quarterly Reporting Matrix and Quarterly Progress Reports. An overall strategy for M&E evaluation of results for the PMU is in process of being established although systematic registration of outcomes has been closely monitored and evaluated during the implementation. Since the LDP will become a part of LGSP in January the M&E framework will be established for LGSP instead of LDP.

4.1.3 Mid-Term assessment	Completed	Mr. Mike Winter completed a successful TSM in July/August. Progress is to be found in the TSM report. Mr. Winter also prepared a new Programme Document for LGSP which will combine LGOS and LDP into one programme. It is set to commence in January 2007.
4.2 Meet regularly with IMTWG on Decentralisation policy issues	Completed	The overall reporting structure has changed and a new Decentralization Secretariat (ex-PMU) has been established in MSA. The DS will report to the Councils of Directors in MSA. Ministerial TWG will be established within each Ministry and the DC will coordinate the work of the MTWG.
4.3 Meet annually with NSC	N/A	An NSC has not been established since the LDP has been reporting to TWG and CoM

FINANCIAL REPORT

The programme delivered 83 percent of the total budget in 2006. This is acceptable as the main saving of the programme is to be found in Project Support budgets. Table 11 below provides an overview of the total expenditures for 2006 and for the all previous years.

UNCDF: 00034936				
OUTPUT	Annual Expenditure 2004	Annual Expenditure 2005	Annual Expenditure 2006	Total Expenditure 2004-6
Planning and budgeting	22,590	16,362	-	38,952
Infrastructure & Service Delivery	-	-	-	-
Finance	-	81,139	140,035	221,174
National Policy	-	658	14,297	14,955
Project Support (incl. TAs)	27,011	35,680	33,973	96,664
Sub-Total Expenditure:	49,601	133,839	188,305	371,745

UNDP: 00039080				
OUTPUT	Annual Expenditure 2004	Annual Expenditure 2005	Annual Expenditure 2006	Total Expenditure 2004-5
Planning and budgeting	-	6,313	29,189	35,502
Infrastructure & Service Delivery	-	4,104	6,002	10,106
Finance	-	117,598	214,703	332,301
National Policy	-	982	3,018	4,000
Project Support (incl. TAs)	36,651	117,630	119,444	273,725
Sub-Total Expenditure:	36,651	246,627	372,356	655,634

Total Expenditure:	86,252	380,466	560,661	1,027,379
---------------------------	---------------	----------------	----------------	------------------

The LDP were to be implemented over a period of three years with start in 2004 and completed mid-2008. The total budget for the LDP was US\$1.58 million. As can be seen from the overview above the programme has a total expenditure of US\$1,027,379 to date. This is approximately according to planned expenditure since US\$340,000 of the remaining funds is LDF allocations for FY 2007-8 and some funds were allocated for operational expenditures for the remaining six months. The remaining funds will be transferred to the new LGSP and will be implemented under the new programme.