

Australia – Timor-Leste  
Rural Water Supply & Sanitation Program  
*Be, Saneamento no Igiene iha  
Komunidade*

Report of the  
Mid-Term  
Independent Progress Review

Final Report

Review: April/May 2010

Final Report: June 2010

**Disclaimer: The views in this report are those of the Independent Review Team and not necessarily those of the Governments of Timor-Leste or Australia.**



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## Currency Equivalents

USD 1.00 = AUD 1.10

AUD 1.00 = USD 0.92

(Reserve Bank of Australia, 23 April 2010)

AusAID Rural Water Supply & Sanitation Program (RWSSP)  
*Be, Saneamento no Igiene iha Komunidade (BESIK)*

# Mid-Term Independent Progress Review

April/May 2010

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# Abbreviations, Acronyms & Tetum Terms

<i>Aldeia</i>	'Sub-village' or hamlet. There are 2,228 <i>aldeias</i> in Timor-Leste, of which about 2,000 are rural. (Implying an average of ±80 households and ±460 people per rural aldeia.)  A typical standalone water system usually supplies an <i>aldeia</i> .
AUD	Australian Dollar
AusAID	Australian Agency for International Development
BESIK	<i>Bee, Saneamento no Igiene iha Komunidade</i> = Community Water, Sanitation and Hygiene
CAP	Community Action Plan
CLTS	Community-Led Total Sanitation
DAC	Development Assistance Committee of the OECD
DNSAS	<i>Direcção Nacional Serviço de Agua e Saneamento</i> = National Directorate for Water and Sanitation
DNSC	<i>Direcção Nacional de Saúde Comunitaria</i> = National Directorate for Public Health
DWASH	District Water, Sanitation & Health Project (USAID)
F/Y	Financial Year. Australia's is July to June; Timor-Leste's is January to December.
GMF	<i>Grupo Maneija Facilidade Be Mos Saneamento</i> = Water Management Group
GoTL	Government of Timor-Leste
IDSS	IDSS Pty Ltd – the Melbourne-based international development consultancy company managing RWSSP (a subsidiary of Aurecon)
INGOs	International Non-Government Organisations
IPR	Independent Progress Review
LGSP	Local Government Support Programme
MC	Managing Contractor (IDSS)
MDGs	Millennium Development Goals <a href="http://www.undp.org/mdg/basics.shtml">www.undp.org/mdg/basics.shtml</a>
MoH	Ministry of Health
MoI	Ministry of Infrastructure
MoU	Memorandum of Understanding
MRG	Monitoring and Review Group
MSATM	Ministry of State Administration and Territorial Management
MTEF	Medium Term Expenditure Framework

NGO	Non-Government Organisation
ODE	Office of Development Effectiveness (within AusAID)
OECD	Organisation for Economic Co-operation & Development
O&M	Operation and Maintenance
PBA	Programme-Based Approach
PEFA	Public Expenditure & Financial Accountability <a href="http://www.pefa.org">www.pefa.org</a>
<i>Pers comm</i>	Personal communication
PFM	Public Financial Management
RWASH	Rural Water, Sanitation and Hygiene
RWSSP	The AusAID-funded Rural Water Supply and Sanitation Program
SAS	<i>Serviço de Agua e Saneamento</i> – Water & Sanitation Service
SDF	Sub-District Facilitator
SDP	Timor-Leste's Strategic Development Plan, 2011-2015: <i>'From Conflict to Prosperity'</i>
SISCa	<i>Servisu Intergradu Saude Comunidade</i> = Integrated Community Health Service
SIP	Sector Investment Plan
<i>Suco</i>	Town or village. There are 442 in Timor-Leste
SWAp	Sector-Wide Approach (a PBA operating at the level of a specific sector)
TA	Technical Assistance
TLSLs	Timor-Leste Survey of Living Standards, 2007
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNMIT	United Nations Integrated Mission in Timor-Leste
USAID	United States Agency for International Development
USD	United States Dollar – the currency adopted in Timor-Leste
WASH	Water, Sanitation and Hygiene
Watsan	Water and sanitation
WHO	World Health Organisation
WSI	Water and Sanitation Initiative – a global AusAID program funded through a special budget measure

### AusAID Rural Water Supply & Sanitation Program (RWSSP) *Be, Saneamento no Igiene iha Komunidade (BESIK)*

## Mid-Term Independent Progress Review

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## Executive Summary

The pace and scale of RWSSP has accelerated considerably since previous reviews, with a full team now in place under new, well-informed leadership. The project has responded and adapted to the heightened priority being afforded to water and sanitation by GoTL, and increased government capital expenditure on water supplies, such that it has been possible to greatly expand coverage while, hopefully, maintaining the quality and sustainability of systems.

If this new momentum is maintained, and sustainability through support to operation and maintenance assured, then **Timor-Leste should now meet the MDGs for rural water**, which was not the case one year ago. RWSSP's contribution to this has been pivotal and significant.

The model is essentially one of capacity-building and institutional strengthening for [increasingly decentralised] public-sector services (planned and managed by government and contracted-out for delivery) – which services have been expanded under RWSSP. But at present there are insufficient recurrent public sector resources assigned to operation and maintenance (as opposed to capital investment) and long-term sustainability remains a question. RWSSP needs to help GoTL explore innovative instruments and approaches for financing the scaling-up and sustainability for RWASH development, as well as continue to advocate for appropriate levels of recurrent budgetary resources.

It is a GoTL macro-level policy to invest heavily in infrastructure while restraining growth in the public service. In this context RWSSP has been criticised by GoTL for being disproportionately focused on 'non-physical' elements of sector development (capacity-building and policy support, for example), with too few resources being assigned to 'physical' infrastructure. However, the IPR suggests that it is important to view this balance across the *sector as a whole*, because other donors (and government itself) are focusing almost exclusively on the physical components. It does however illustrate the need for more coherent sector coordination and medium-term expenditure planning capturing both capital and recurrent financial requirements.

The additional resources to be made available through RWSSP from AusAID's WSI initiative had not yet materialised at the time of the review. They play an important role in shifting the balance more towards the government's priority of delivering physical infrastructure and

this additionality needs to be maintained, notwithstanding pressures on the country-program budget.

A transition from standalone project to a program that is genuinely owned and led by government, with greater use of government systems, is not yet manifesting. However, while the project can and does apply itself to this to a degree, the fundamental issue is one that depends on AusAID's (not the project's) strategy for delivering its county program. This strategy needs to be based on a fresh and objective analysis of both benefits and risks of greater integration with government systems in Timor-Leste's rapidly-evolving institutional and fiscal environment, and with a sharpened focus on aid-effectiveness.

The IPR's evaluation of the project is generally favourable, rating relevance, effectiveness and gender dimensions highly or very highly. Sustainability remains something of a question mark (as above). The IPR followed previous reviews in being disappointed with the program's M&E, and the style and utility of its communications.

Recommendations are made relating to deepening support to decentralisation, improving the impact of RWASH service delivery and community management, a focus on gender outcomes, sustainability, more robust transition to the use of government systems, M&E, and communications.

## Summary of Recommendations

*We recommend that ...*

Page	Para	Recommendation
<b>Sector Policy &amp; Planning</b>		
13	61	... the apparently reduced centrality of establishing a SWAp and the low levels of interest in high-level sector coordination mechanisms are symptoms of wider shortfalls in dialogue about long-term sector strategy and how sector development is to be financed. This is not really within the domain of the project to correct. We <b>recommend</b> that <i>AusAID Post</i> proactively engage with central ministries on these issues.
<b>Support Mechanisms &amp; Resourcing</b>		
14	69	... RWSSP and DNSAS trial direct funding to selected districts to test the capacity for planning and management of water schemes. This might include channelling some portion of the WSI funding through the LDP as a means of better aligning assistance to government priorities and financial systems and also to building governance capacity at the local level. (See also para 16 below.)

Page	Para	Recommendation
<b>RWASH Service Delivery</b>		
15	79	... for maximum uptake and sustainability, RWSSP and GoTL prioritise efforts in sanitation (CLTS) to communities that are targeted for water supply or have an existing supply.
16	81	... RWSSP considers strategic targeting of support to SISCa to improve its sustainability in much the same way as support has been provided to improve district engineering capacity and community planning.
16	84	... RWSSP engages an internationally recognised hygiene promotion and behaviour change communication expert to complement other advisory inputs to advance national campaigns and strategies for the sector as a whole.
<b>Community Management of RWASH</b>		
17	88	... RWSSP fully documents costs and monitors social outcomes of RWSSP and GoTL water schemes to enable comparison with the Plan report and to demonstrate cost-benefit.
<b>Gender</b>		
19	95	... RWSSP together with DNSAS and DNSC revise and simplify the Gender Strategy and performance monitoring by key result area to more closely reflect the current gender efforts and logically link activities with gender outcomes.
<b>Sustainability</b>		
20	102	... RWSSP and DNSAS investigate longer term geographic or performance-based contracting of national NGOs to contribute to their longer term viability and capacity development.
20	104	... RWSSP undertake a review of how the private sector service has (or has not) developed as a [potential] supplier of goods and services in the sector (and why/why not, including crowding-out), analyse issues and options for supporting a more private-sector led approach, and put forward a strategy for the future based on this.
21	107	... this broader conceptualisation of financing the recurrent costs of development – not least in the RWASH sector – becomes a central component of Post's dialogue with GoTL central ministries.
21	112	... while continuing on its current course, RWSSP research and assess the feasibility of some alternative approaches to achieving scale and sustainability that reflect GoTL's broader economic policy (of public sector restraint and private sector-led development), and AusAID's interest in performance-based financing, and put those to GoTL and AusAID for further discussion and possible funding.

Page	Para	Recommendation
<b>Transition to Use of Government Systems</b>		
26	138	... AusAID Post undertake a structured and objective assessment of the risks and benefits of greater use of government systems (and the development risks of not using them) in Timor-Leste and use this to define (among other things) the parameters for a more aggressive transition to government leadership of RWSSP's development objectives (including greater use of government systems). Such an assessment might include support to generic PFM and governance assessments across government as a whole. (For example an updated PEFA assessment, etc.)
<b>Monitoring &amp; Evaluation</b>		
27	145	<ul style="list-style-type: none"> <li>- Post and RWSSP/IDSS meet to establish and agree appropriate M&amp;E / reporting information levels – confirming in particular, what information AusAID does NOT normally need to see. This may require attention to contractual conditions.</li> <li>- That RWSSP redoubles efforts to simplify and reduce its M&amp;E framework and reviews what work needs to be done to capture M&amp;E data.</li> <li>- That RWSSP explores simple, robust models for GoTL institutions to track <i>sector-performance</i>, which later become the basis for tracking the contributions and program-level performance by development partners such as AusAID</li> </ul>
<b>Communication &amp; Presentation</b>		
28	150	... RWSSP and AusAID discuss and agree more strategic reporting requirements that better serve stakeholder requirements and reduce the transactions costs of reporting for all.
28	151	... RWSSP sources professional advice as to how best to reduce and simplify its written communication so that the right information is accessible and understood by the right audiences.

### AusAID Rural Water Supply & Sanitation Program (RWSSP) *Be, Saneamento no Igiene iha Komunidade (BESIK)*

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## Introduction

1. An Independent Progress Review (IPR) of the Timor-Leste Rural Water Supply & Sanitation Program (RWSSP), referred to in Timor-Leste by its Tetum acronym *BESIK*, was undertaken from 15 to 23 April 2010, mid-way through the program's current five-year life. (Terms of Reference at Annex 6.)
2. The review team<sup>1</sup> visited community-level WASH initiatives in rural areas and met district and sub-district officials and facilitators. The team met departmental directors, staff and advisers from the Ministries of Infrastructure, Health, State Administration, and Finance. It held discussions with the RWSSP / IDSS team and AusAID Post and met other agencies with programs in the sector – principally USAID's DWASH program and local and international NGOs. (List of people met at Annex 4.) Reference documents consulted appear at Annex 5. The review did not undertake any primary analysis, other than through its meetings and interviews with stakeholders.
3. As the Terms of Reference emphasise, this mid-term IPR follows a number of other peer-reviewed RWSSP studies and design processes and does not attempt to repeat their analyses or second-guess their conclusions. Rather, it reflects on how the program has responded to those reviews and to the priorities being expressed by both the government of Timor-Leste and AusAID.
4. The external team was contracted by AusAID but was otherwise independent of and unconnected to the donor, the government or the managing contractor. However, all three external members of the review team have been involved in one or more previous independent reviews of RWSSP. (Either the ODE review or periodic MRG reviews.)

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<sup>1</sup> Comprising Peter Bazeley (Team Leader / Aid Effectiveness), Penny Dutton (WASH and Community Development) and Sandra Giltner (Public Financial Management). Sr Elias Moniz (Department of Water & Sanitation, Timor-Leste Ministry of Infrastructure), Tomasia de Souza (Head of Environmental Health, Timor-Leste Ministry of Health), Marcus Edwardes (AusAID Canberra), Jeff Prime (AusAID Post) and Jose Perreira (AusAID Post) joined the IPR in many of its discussions, as did members of the RWSSP team.

# Section 1: Context

## Overview

5. The eighth year of independence in Timor-Leste was marked by political and social stability and economic progress. Most if not all people displaced by violence following the 1999 referendum, and riots in 2006, have returned to their districts and villages<sup>2</sup>. Unemployment, particularly among youth, remains high at 18-21% of the 1.1 million population.<sup>3</sup> The mandate of the United Nations Integrated Mission (UNMIT) has been extended until February 2011 with a withdrawal of international police forces anticipated as Timorese policing improves.

## National Priorities

6. In 2008, the government (elected in 2007) established a 'National Priorities' process as the main planning mechanism for government and development partners. For 2010, the National Priorities are infrastructure, food security, human resources development, access to justice, social services and localized service delivery, good governance, and public security and safety. A summary of a Strategic Development Plan for 2011-2030<sup>4</sup> was published in April 2010 by the Office of the Prime Minister. The plan offers a Vision to 2030, a Framework of Action to 2020, and a Public Investment Plan to 2015.<sup>5</sup>

7. Infrastructure (roads and water/sanitation) has been established as Priority # 1 in 2010 and this was subsequently reflected in the national capital expenditure budget. Budget submissions for 2011 include USD9 million for rural water (double the 2010 budget) and USD 760,000 for rural sanitation (triple the 2010 budget).

8. While infrastructure is likely to again be the top national priority in 2011, it is not certain that water supply will still continue to be favoured within this as a specific theme.<sup>6</sup> The Public Investment Plan to 2015 outlined in the April 2010 'Summary of Timor-Leste's Strategic Development Plan' (the full SDP and its components were not available at this writing) does not explicitly identify water supply or sanitation. However water and sanitation is referred to (along with roads, power, telecommunications and ports) as an important element of the 'infrastructure' component of the DP's public investment program. (The public investment program's other two focal areas are investment in human capital, including health and nutrition, education, training and research, and in sectoral investments in agriculture, petroleum, and tourism.)

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<sup>2</sup> The World Bank estimates the 75% of the population of about 800,000 was displaced after the 1999 referendum (most temporarily) and that in 2006 some 150,000 were displaced in and around Dili.

<sup>3</sup> There are few up-to-date unemployment data for Timor-Leste. Most estimates appear to be based on the Timor-Leste Survey of Living Standards 2007, Directorate of National Statistics, Ministry of Finance.

<sup>4</sup> *From Conflict to Prosperity* Timor-Leste's Strategic Development Plan Summary, 2011-2030. 7 April 2010. The full plan had not been published at this writing.

<sup>5</sup> In addition a National Priorities Secretariat under the National Directorate of Aid Effectiveness (Ministry of Finance) is charged with guiding the monitoring of development partner assistance, addressing performance issues and obstacles and assisting with policy recommendations. The Secretariat is supported by AusAID, the World Bank and the United Nations.

<sup>6</sup> Interview with the Aid Effectiveness Directorate, April 2010. The second priority for 2011 will be rural development and the third will be human resources development.

9. There has been little consistency to date in strategic planning and budgeting for sectors. Efforts to establish a Medium-Term Expenditure Framework (MTEF) in the health sector seem to have been sidetracked or abandoned, as were earlier Sector Investment Plans (SIPs) in several areas, although SIPs may be returning under the Public Investment Plan. The next parliamentary and presidential elections in 2012 – together with municipal elections in that year – introduce further uncertainties.

10. Mitigating these risks are several factors including success at increasing the priority and budget for water supply at national levels and the stated commitment of senior health officials to improving sanitation and hygiene. There is little doubt that RWSSP program has assisted in raising awareness, commitment, and resource allocation within government. This is a major accomplishment.

## Decentralisation

11. The Constitution requires the State to respect the principle of decentralisation of public administration.

12. Administratively, Timor-Leste counts 13 districts, 65 sub-districts, 443 *sucos* (towns or villages), and 2,336 *aldeias* (sub-villages or hamlets). Much of the decentralisation agenda has been led by the Ministry of State Administration and Territorial Management (MSATM) with the support of a continuing Local Government Support Programme (LGSP) funded by Irish Aid, Norway, UNCDF and UNDP.

13. In March 2008, MSATM produced policy guidelines that settled on a “single-tier” of municipal government intending to merge sub-district and district administrations into municipalities that will deliver services, specifically “civil registration, primary health, primary education, water and sanitation, and local roads.” It is intended that most sub-district offices will be kept as “service-providing extension units.”<sup>7</sup> Municipal elections have been postponed until 2012.

14. Local Development Funds are allocated according to population, with priorities chosen by the local assemblies who are also responsible for procurement and monitoring. Special procurement regulations were approved to facilitate the process. Local tender boards have been established to procure items or projects up to a value of USD 10,000. The capacities to deliver capital programs in a transparent, efficient manner are monitored by the GoTL/multi-donor Local Government Support Programme.

15. In 2008 and 2009, the Local Development Funds were entirely funded by the government of Timor-Leste via block grants. The government approved around USD 2.1 million in 2008, of which USD 1.9 million was for capital expenditures and the small remainder was for operational recurrent budget – mostly related to planning processes, supervision, and technical staff. In 2009, this allocation dropped slightly to around USD 1.8 million of which USD 1.7 million was capital allocation and the even smaller remainder for recurrent operational expenditures. Of the 119 projects approved for 2009, 29% were for water and sanitation, 28% for roads and transport, and 20% for education. This is consistent with earlier community priorities and illustrates the high local demand for water and sanitation (mostly water supply). The capital funds for 2009 were all disbursed to Local Assembly bank accounts by the first quarter of the year.<sup>8</sup> The LDP budget for 2010 is approximately USD 2.4 million and now includes all 13 districts.

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<sup>7</sup> Government of Timor-Leste. Ministry of State Administration and Territorial Management. *Policy and Orientation Guidelines for Decentralization and Local Government in Timor-Leste*. March 2008.

<sup>8</sup> *First Quarterly Report* Local Government Support Programme Timor-Leste (LGSP-TL) January-March 2009 published April 2009, UNDP Code 00053898 UNCDF Code 00054392/93 pp 5-6. See also the *Annual Report* from

16. As per MRG recommendations, the IPR sees merit in channelling some RWSSP support to RWASH through the LDP as a means of supporting-through-use these new and potentially very important structures and systems of governance. (See paras 67 to 70 below.) Fiduciary risks appear to be low within the LDP. There may be differences however between the prioritisation model used in the LDP and the community-based approach used in RWSSP.

### National and DNSAS Budgets

17. Timor-Leste's total budgeted state expenditures fell slightly in 2010, principally as a result of exceptional one-off expenditures in 2009. Donor expenditures are about 24% of the combined budget (state expenditure plus donor financing). The Petroleum Fund is expected to have a balance of some USD 6.1 billion by the end of 2010.<sup>9</sup> It stood at USD 5.3 billion at the end of 2009.

18. In line with government's commitment to water, the total budget of DNSAS has expanded nearly 4-fold this year, from USD 3.5 million in 2009 to USD 12.8 million in 2010, with the great majority of the increase dedicated to capital development. Of the capital budget increase, USD 5.5 million was for rural water supply. In addition financing for sanitation has increased some USD 1 million, of which USD 200,000 was for rural sanitation (the remainder was for urban sanitation). For 2011, DNSAS has submitted a budget request totalling USD 30.8 million with a capital budget of some USD 8.8 million for rural water supply systems, USD 0.76 million for rural latrines (for the most vulnerable persons), and about USD 0.7 million for the operations and maintenance of rural water systems.

#### Timor-Leste: Estimated Total Government Budget, Budget for the National Directorate for Water and Sanitation (SAS/DNSAS), and Total Donor Water and Sanitation Sector Financing, 2004/5

	2005	2006	2007	2008	2009	2010
	USD million					
<b>Total Government Budget (State Expenditure)</b>	246	142	329	788	681	637
<b>Proportion of above that is Capital Development Budget</b>					30%	34%
<b>SAS/DNSAS Budget</b>	2.4	3.7	3.9	3.2	3.5	12.8
<b>SAS/DNSAS Proportion of Total Government Budget</b>	1.0%	2.6%	1.2%	0.4%	0.5%	2.0%
<b>SAS/DNSAS Capital Development Budget</b>	1.0	1.8	1.9	1.5	1.5*	11.2**
<b>Estimated Total Water &amp; Sanitation Donor Financing</b>		15.0	10.0	11.5	10.4	N/A

\*USD 0.7 million for rural water

\*\*USD 5.5 million for rural water

January – December 2008, published June 2009, same document codes as above, pp 10 and 11. The Annual Report also has some interesting data on advances in women's participation in local government.

<sup>9</sup> Government of Timor-Leste, Ministry of Finance. *2010 Budget*.

Sources: RWSSP/BESIK data and SAS/DNSAS, Ministry of Finance (various budget papers), Minister of Finance quoted on Law Journal website. Donor amounts are from the Registry of External Aid Assistance 26 Mar 2008, maintained by the Ministry of Finance. 2006/07 for donor financing combine existing fiscal year with the transitional period budget. (Timor-Leste changed to a calendar fiscal year in 2007.)

## Public Financial Management (PFM)

19. While budget execution has improved markedly in the last three years, and financial management information systems are being strengthened (having introduced FreeBalance software), some aspects of public financial management are deterring development partners from greater use of government systems.

20. The most recent comprehensive analysis of public financial management in Timor-Leste appears to be a 2007 study undertaken for the European Commission (using Public Expenditure and Financial Accountability [PEFA] indicators). It rated the country well in some aspects of performance – such as economic reporting and aggregate fiscal discipline – but concluded that “It is on the strategic allocation of resources and efficient service delivery that the public finance system fails to deliver.”<sup>10</sup> There were six major national budgets produced in the period between May 2006 and October 2008, preoccupying ministries in cycles of uncertainty<sup>11</sup>. However there were no major budget revisions in 2009 and so far none in 2010.

21. One area of concern is procurement. On one hand, considerable procurement authority has been decentralized to line Ministries – many of which may procure for themselves items or packages under USD 1 million. Procurement of some items under USD 250,000 (including some of the 2010 capital expenditures for DNSAS) will be assumed by the Office of the Prime Minister. In October 2009, the Office of the Prime Minister presented a plan for a “Referendum Package” (*Pakote Referendum*): a national strategy to fast-track decentralized rural development and empower the private sector with around 700 small to medium-size infrastructure projects (total value approximately USD 70 million) that will be procured without competitive bidding. This has been criticized by the Opposition and in the media as contravening the existing procurement law and being highly susceptible to impropriety<sup>12, 13</sup>.

22. A 2008 procurement assessment for GoTL by Deloitte concluded that systemic fraud risks were high in some areas, due to inadequate training of procurement staff, lack of procurement procedure manuals, poor reporting and performance measurement, inadequate filing, and no clear ethical or fraud control guidance. Most areas were rated of medium or low complexity to address, however.<sup>14</sup>

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<sup>10</sup> “Timor-Leste Public Financial Management Performance Report” prepared by Richard Walsh, Linpico, France. info@linpico.com.

<sup>11</sup> These were : May 2006/late – Budget for July 2006/June 2007 FY; May 2007 – Budget for July-2007/Jun 2008; August 2007 – 6 mo transitional budget (July 2007-Dec 2007) for re-vamp to calendar fiscal year; October 2007 – FY 2008 Fiscal Year Budget; July 2008 – Major budget “rectification”; October 2008 – FY 2009 budget produced

<sup>12</sup> The Prime Minister has already expressed dissatisfaction with some contractor quality. See <http://www.etan.org/et2010/04april/29/tlnews22.htm>

<sup>13</sup> Nonetheless, the successor “Development Package” (*Pakote Desenvolvimento*) represents an opportunity which RWSSP/BESIK is grasping, providing advisory input to the procurement process to maximise delivery quality under the 2010 infrastructure budgets.

<sup>14</sup> Government of the Democratic Republic of Timor-Leste, *Review of the Government of Timor-Leste Procurement Processes*. January 2008. Deloitte.

## The Scale of the Challenge for Rural Water Supply, Sanitation and Hygiene

23. The total population of Timor-Leste in 2010 is estimated<sup>15</sup> to be 1,149,028, or about 201,583 households (5.7 persons/household). Of this, 80% is thought to be rural (about 919,222 persons). Taking into account population growth and migration to urban areas, the estimated rural population in 2015 might be about 1,126,575 persons.

### Water

24. The table below presents current access to water supply taking into account the likely functionality of systems, as estimated from surveys of the status of gravity systems in four districts.<sup>16</sup>

	Population	Households	Aldeias			
			Total number of aldeias	Aldeias without potable water	With only partial or unreliable water	With fully-functional water supply
Whole Country	1,149,028	201,583	2,228			
Est. rural <sup>1</sup> in 2010	919,222	161,267	2,000	740 (37%) <sup>2</sup>	679 (34%) <sup>2</sup>	581 (29%) <sup>2</sup>
Est. rural <sup>1</sup> in 2015	1,126,575	197,645	2,000	(71%)		

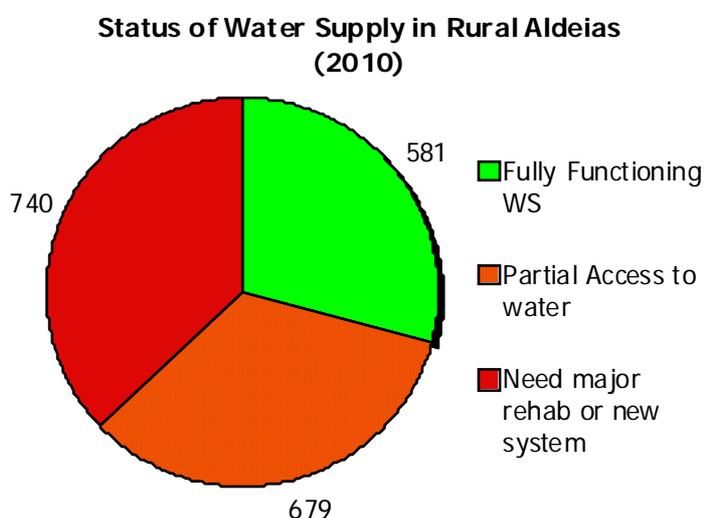
<sup>1</sup> Assumes rural population = 80% of total population.

<sup>2</sup> UN Joint Monitoring Programme 2009 based on 2007 Timor-Leste Survey of Living Standards (TLSLS 2007).

Data compiled by RWSSP management.

25. Based on the estimated 2010 population, and if 100% access to reliable were to be achieved in rural areas of Timor-Leste, some 740 aldeias will require either a new water system or major rehabilitation. A further 679 aldeias have partially functioning systems (seasonal, unreliable or insufficient water flows) that require further investment.

26. In 2010, approximately 237 aldeia systems will be built or rehabilitated, by or with the support of, nine different organisations. (Table below.)



<sup>15</sup>Timor-Leste Survey of Living Standards conducted in 2007 (TLSLS 07)

<sup>16</sup> Surveys were conducted the districts of Covalima (2008 – 54 systems) by Oxfam, Manatutu (2008 – 65 systems) by Triangle, Lautem (2009) and Aileu (2009) (total 41 systems) by Plan. The percentage of aldeias with partial access in the table is a weighted average based on the number of systems surveyed in all 4 districts. The percentage with fully functioning water systems is a residual estimate.

Agency	Estimated number of <i>aldeia</i> water supply systems being built or rehabilitated in 2010
DNSAS	110
MSATM*	8
RWSSP (AusAID) (incl. WSI)	40
DWASH (USAID)	32
UNICEF	10
Oxfam	8
Plan	15
CARE	8
WaterAid	6
<b>Total</b>	<b>237</b>

*Source:* RWSSP Program Management Estimate

\*The number of systems built under the MSATM Local Development Programme may be higher.

27. These estimates include a substantially increased number of systems being funded by government, following the increase in GoTL's capital budgetary allocation to the sector. (See table, page 4, and paras 17 and 18 above.)

28. Cost estimates by RWSSP management indicate that the cost for 100% access, including a reserve for 5 years of maintenance, would be in the order of USD 61 million, or about USD 50 million to reach the 75% coverage implied by the MDG target.

29. These estimates come with a major caveat. Operations and maintenance of systems is inadequate and the majority of rural water supply systems in Timor-Leste become dysfunctional within a few years. Although the rural water supply model calls for community management of systems, medium-term support to community management groups is crucial. This is largely a matter of adequate resources for district personnel to continue to support communities and, very importantly, adequate resourcing of operational expenses at the district level. RWSSP has trained and is paying the salaries of 88 Sub-District Facilitators (SDFs) to work with communities. The Ministry of Infrastructure intends to add them to the government payroll in 2011, but this would be a significant increase to the staff establishment. Moreover, without operational expenses the SDFs will not be able to work.

### *Sanitation & hygiene*

30. It is more difficult to assess the picture for sanitation and hygiene than it is for water supply. Water supply is a tangible fixed asset that is easier to assess and provide, whereas sanitation and hygiene relate to individuals and their behaviour. Assessing hygiene behaviour requires specific survey data.

31. However recent estimates of the WHO/UNICEF Joint Monitoring Program<sup>17</sup> – which may be optimistic – indicate that 40% of rural households have access to improved sanitation and 60% (551,533 persons or 96,760 households) do not have access.

32. A total sanitation program, using a non-subsidy approach, costs approximately USD 110 per household.<sup>18</sup> Therefore it would cost approximately USD 10.7 million to reach the households without access in 2010. Factoring-in a rural population increase by 2015, this cost rises to about USD 12.2 million for full coverage by 2015.

<sup>17</sup> Joint Monitoring Program for Water Supply and Sanitation Coverage Estimates. World Health Organization & UNICEF, 2006.

<sup>18</sup> RWSSP program management estimate.

## Section 2: The project

### Objectives, approach, timeline

33. RWSSP's goal is to improve the health and living standards of women, men, girls and boys in Timor-Leste's rural communities. Underpinning this goal is the project's purpose to increase rural communities' access to sustainable clean water supplies and adequate sanitation, and to improve people's hygiene and sanitation practices.

34. The Project's approach to increasing access to water, sanitation and hygiene services is to improve systems and capacities (within government in particular but also within communities, NGOs and the private sector) rather than directly to deliver water and sanitation infrastructure. RWSSP is in essence a capacity-building project delivered through international advisers, with a small physical infrastructure and hygiene-promotion component. The rationale is that better systems and capacities will result in sustained access to water, sanitation and hygiene promotion.

35. RWSSP commenced in September 2007 as a five-year AUD 28.7 million project<sup>19</sup>. Let as a design-and-implement contract, it underwent a slow inception phase while the RWASH Sector Strategy and Whole of Program Life Workplan were prepared and approved. Real momentum has only begun in the second half of 2009 with full mobilisation of the team, including a new team leader. In mid-2009 the Managing Contractor's (IDSS's) fourth Contract Amendment re-oriented project- and contractor-reporting to match the five functional areas of the RWASH Sector Strategy (2008), namely:

- Sector Policy and Planning;
- Support Mechanisms and Resourcing;
- RWASH Service Delivery;
- Community Management of RWASH Activities;
- Environmental Protection and Natural Resource Management.

#### RWSSP Timeline

Aug 2007	MOU signed
Sep 2007	Contract signed, program commences
Feb 2008	MRG1
May 2008	Contract Amendment 1
Aug 2008	Sector Strategy approved by GoTL
Oct 2008	MRG2
Dec 2008	Contract Amendment 2
Dec 2008	ODE Review Mission
Jan 2009	Whole of Program-Life Workplan approved
Mar 2009	New Team Leader handover
Apr 2009	Contract Amendment 3
Apr 2009	WSI mission
Jun 2009	Contract Amendment 4; MRG3
July 2009	RWSSP team fully mobilized
Dec 2009	Peer review of WSI concept paper
Feb 2010	Peer review of WSI Workplan
Apr 2010	Independent Progress Review Contract Amendment 5 (WSI) (pending)
Aug 2009	New M&E Framework introduced
Sep 2010	End of current MC contract
Jun 2011	End of WSI funding
Sep 2012	End of current 5-year program

36. Current RWSSP workplans and budgets, and AusAID commitment, run to September 2012. (Supplementary WSI funds are restricted to Australian f/y 2009/10 and 2010/11.)

37. RWSSP's current management contract with IDSS runs to mid-September 2010, only, although there are options exercisable for an extension to September 2012 (subject to

<sup>19</sup> The Managing Contractor emphasises that it was conceptualised as a 10-year intervention.

negotiation). The negotiation of management arrangements beyond September 2010 provides an important opportunity to incorporate any shifts in direction, emphasis or approach that may now be appropriate.

38. There is, without prejudice, an assumption that AusAID support to WASH will be available beyond 2012, but that has not yet been discussed or decided.

### **Significant developments since project design**

39. The operating context for the project has shifted considerably during the life of the project.

40. Firstly, water and sanitation has become a more explicit policy priority of the government, backed by considerably increased GoTL budgetary resources for capital expenditure. (Para 18 above.) This relates to an overall government push to invest heavily in infrastructure (as one might expect given the post-conflict state of the economy and the country's capital reserves), while maintaining tight controls on recurrent expenditure and the size of the public service. The desire for such proportionality and balance between 'hardware'<sup>20</sup>, policy and institutional support and capacity-building ('software'), while maintaining restraint on recurrent expenditure, has important implications for RWSSP and its approach. The much higher allocation of GoTL budgetary resources to the sector this year (and hopefully in future years too) has implied a radical re-estimation of the pace at which new and upgraded water systems can be installed. (In so doing catapulting Timor-Leste into now being on track to meet rural water MDG targets, whereas it certainly was not before.) It has also had major implications for RWSSP in terms of demands on their technical resources to support such scaling-up of government efforts.

41. Secondly, several other actors have entered the sector and/or scaled-up their efforts. (See Table above.)

42. Thirdly, from mid-2010 Timor-Leste will receive, through the RWSSP, an additional AUD12 million from AusAID's new multi-country Water and Sanitation Initiative (WSI). (See 46 to 48 below.)

43. Finally, an Office of Development Effectiveness (ODE) review of AusAID's contribution to water and sanitation sector development in Timor-Leste in December 2008 included an analysis of RWSSP. The Review made several recommendations on improving sector coordination, government ownership, and sustainability (summarised in Annex 2). But the ODE review also anticipated a sharpening of AusAID's focus on aid effectiveness more generally and more concerted effort to align with the principles of Paris and Accra, including promoting greater leadership of policy by partner governments, alignment with national priorities and greater use of government systems, harmonisation of efforts between and among donors, and an emphasis on mutual accountability for results.

### **Project Financial Resources**

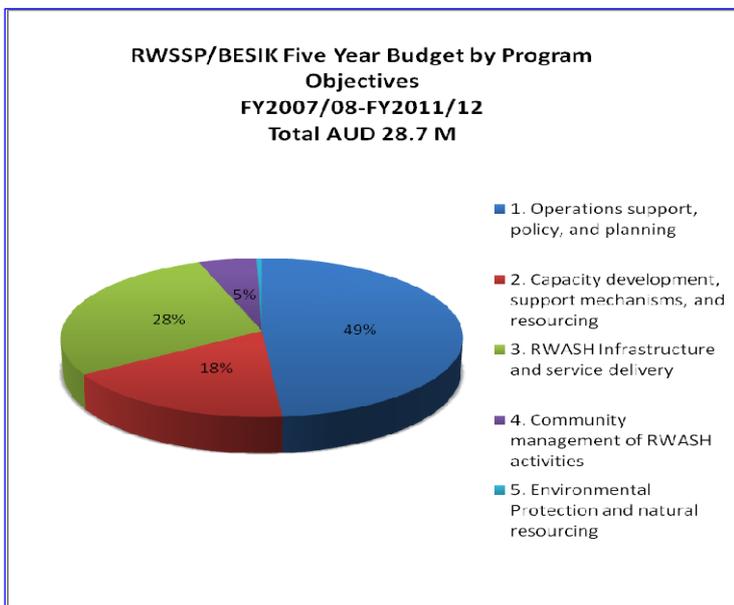
44. The budget for the current five-year RWSSP core program is AUD 28.7 million, with an additional AUD 12 million to be granted under the Water and Sanitation Initiative. Some other, smaller, supplementary funding has also been provided through the Building Demand for Better Governance and Climate Change Adaptation Initiatives.

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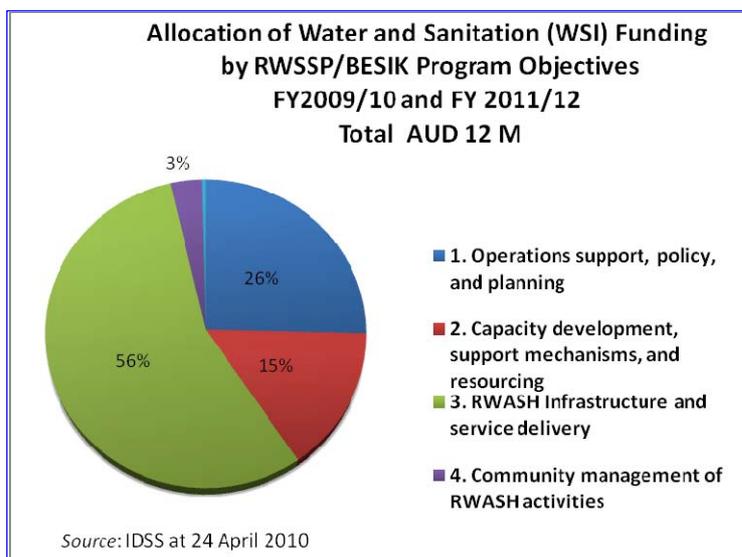
<sup>20</sup> "Hardware" is the physical infrastructure (plus the processes to put it in place, including design and construction labour). "Software" is in its most general form everything that is not hardware, including improving the laws, regulations, and human capacities to dedicate resources to, and administer, infrastructure and service delivery.

*By objectives*

45. The chart to the right presents the RWSSP budget by program objectives, *prior to* the addition of WSI funding (which was not finalised until January 2009 and has not at the time of writing yet been released). A small amount of funding (less than 1%) is also dedicated to the environment and natural resource management. The chart highlights how RWSSP was originally resourced as a capacity-building program and not primarily as a vehicle for the delivery of water supply or sanitation hardware.



46. The majority of the additional AUD 12 million WSI funding (some AUD 6.8 million) will be used to extend water service coverage to *aldeias*, schools, and health clinics, reaching an additional 78,000 people. It will also bring sanitation to an additional 55,000 people. WSI thus brings an important 'additionality' to RWSSP's otherwise relatively modest direct support to infrastructure and service delivery, significantly shifting its overall balance and better reflecting government priorities.



47. Most of the WSI AUD 12 million will be awarded by the managing contractor directly to NGO implementing partners. Some AUD 600,000, to support the design of, and community engagement in, 60 water systems, will be channelled through DNSAS financial and procurement systems with the RWSSP managing contractor overseeing procurement. (Monitoring quality and approving each contract before signature). The remainder of the WSI funding will support local government capacity-building

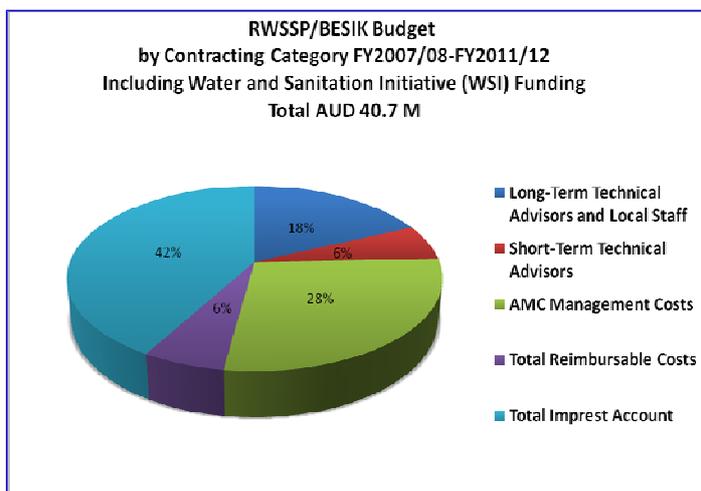
(including the salaries of the 88 Sub-District Facilitators), and policy support.

48. However, due to an inherited over-commitment across the Timor-Leste country-program, AusAID Post has at present had to cap the total budget expenditure on RWSSP (*including* its WSI funds) to AUD 12 million per year for 2009-10 and 2010-11, requiring a rescheduling of some activity to later years. This will effectively compromise the important 'additionality' of the WSI funds, and the shift in program balance that it was to achieve.

*By input categories*

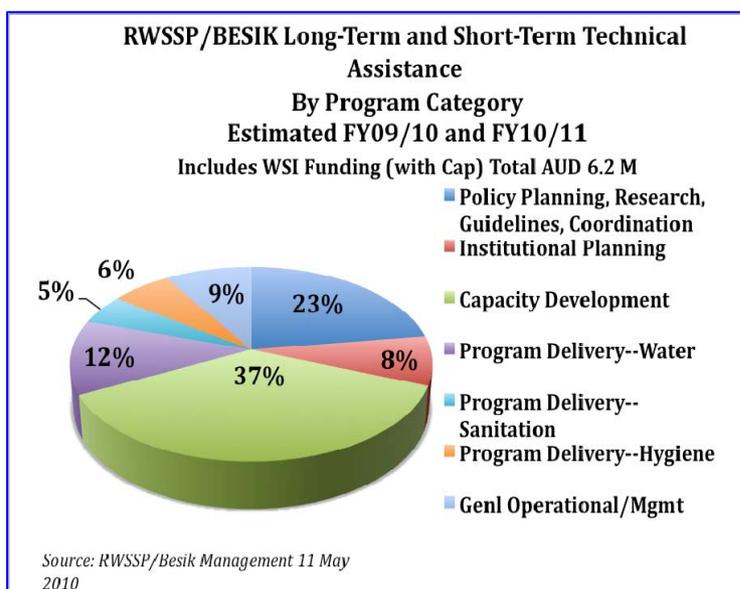
49. RWSSP *inputs* as categorised for contractual purposes are shown in the chart below:

50. The ‘Imprest Account’ is where any “hardware” costs (and some “software” costs) lie – for example, the costs of building water supply systems that will be contracted to NGOs. (Although these contracts may also have a high element of “software”.) The addition of WSI funding swells the imprest account considerably; it was about 31% of total project costs before the addition of WSI funding.



51. The amount of technical assistance being provided under RWSSP has been raised by GoTL on a number of occasions: on one hand there is much call for, and appreciation of, advisory support at sector level, but on the other hand there is a sense that a greater proportion of the project budget should be allocated to the installation of physical infrastructure.

52. As the chart above shows, about one-quarter of the total RWSSP budget (including WSI funding) is allocated to long- and short-term TA inputs – which is relatively modest compared to many contemporary AusAID programs<sup>21</sup>. The estimated breakdown of TA by program category (including the anticipated WSI funding but also the ‘cap’ placed on the whole budget), for 2009/10 and 2010/11, is shown in the chart below:



53. However, it is important to consider the wider implications of adopting a ‘TA approach’, as opposed to – for example – more bud government-led delivery mechanisms. The project as configured (as a managed TA project) also carries with it management costs and contractor’s reimbursable expenses associated with that TA which effectively reduce the proportion available for water and sanitation *operations* (for example for infrastructure delivery and capacity-building) to around 42% of the overall

budget. (And without the additionality of WSI funding, with its emphasis on infrastructure and service delivery, the proportion would be lower again.)

<sup>21</sup> The ODE review came to a figure of two-thirds being allocated to TA. The information available is not clear, leading to different interpretations. ODE likely also included management costs and reimbursables, per para 53, and the MTR figure reflects the re-balancing to be achieved through the focus of the new WSI funding.

## Section 3: Progress

54. Progress in the project and in the wider RWASH sector has accelerated dramatically since previous ODE and MRG reviews. The project's progress is even more impressive given the short period since mobilisation of the full RWSSP team. Progress is analysed across the five functional areas of the RWASH Sector Strategy and IDSS's contract.

### Sector policy and planning

55. RWSSP is playing a strong sector facilitation role in the areas of policy development and advocacy by coordinating stakeholders and supporting government to lead the sector. The sector itself is described as in a phase of "vibrancy and dynamism" which was previously absent.<sup>22</sup>

56. Advances have been made in formulating both a National Sanitation Policy and National Water Policy, with GoTL aiming to finalise these by the end of 2010. While still under discussion, the policy is being used as a directive and has clarified the use of subsidies (a non-subsidised approach being advocated), addressed vulnerable groups and clarified responsibilities for sanitation. According to one international NGO, without such a policy there would be no uniformity of approach with some actors in the sector using different approaches and creating conflict.<sup>23</sup>

57. Before 2010 water and sanitation did not feature as a National Priority. GoTL's declaration of roads, water and sanitation being National Priority 1 for 2010 shows the new importance placed on improving basic infrastructure and the advocacy contribution from RWSSP. This priority is expected to continue in 2011.<sup>24</sup> Most significantly GoTL has increased capital funding for rural water supply and sanitation. RWSSP has been able to influence the redirection of sanitation money, previously intended for subsidies, into more effective targeted support for vulnerable households (disabled, very poor, female headed households). RWSSP has supported GoTL to include funds for district operations and maintenance in its annual budget. Although this request was not successful in 2009, 2010 district plans include operation and maintenance (O&M) costs of USD 2,000 per scheme and budget for gender training. It remains to be seen whether these budget items will remain intact in the latest budget submissions, however for DNSAS to include these items for funding represents significant progress.

58. Project staff have developed effective relationships with the Ministers of Infrastructure and Health and provide briefings when requested. A presentation (supported by RWSSP) on the Sanitation Policy development process by the Vice Minister of Health to the East Asia Ministerial Conference on Sanitation and Hygiene Conference in January 2010 demonstrates both the high level of government ownership in the policy and a public declaration of their commitment to the process.

59. Progress on a Sector Wide Approach (SWAp) appears to have halted due to caution, and possibly lack of understanding, by all parties. However, DNSAS has expressed some interest in developing a sector-level program. Care needs to be taken in being clear what is

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<sup>22</sup> *pers. comm.* WaterAid

<sup>23</sup> *pers comm.* WaterAid

<sup>24</sup> 2011 National Priorities expected to be 1. Infrastructure, 2. Rural Development and 3. Human Resource Development. *pers comm.* Aid Effectiveness Office, MoF

really meant by these terms, why such approaches were originally considered as appropriate for the Timor-Leste RWASH sector, and what more recent events and priorities might imply for them now.

60. Sector coordination through the Government-led Program Management Group has not eventuated as expected, with few meetings held. High-level ministerial and donor coordination through the Policy Steering and Reference Group also appears a low priority for government. Better results have been achieved for sector coordination at the operational level with RWSSP facilitating informal coordination through the WASH Forum and Sanitation Working Group. These are important fora for sharing experiences of RWASH implementers (government, NGOs, and donors).

61. We suggest that the apparently reduced centrality of establishing a SWAp and the low levels of interest in high-level sector coordination mechanisms are symptoms of wider shortfalls in dialogue about long-term sector strategy and how sector development is to be financed. This is not really within the domain of the project to correct. We **recommend** that *AusAID Post* proactively engage with central ministries on these issues.

62. At sub-ministerial level and at critical points of intersection, RWSSP has been successful at bringing together the two independent ministries of Infrastructure and Health: at division level of operation where DNSC and DNSAS (including the new Department of Sanitation) are regularly participating, and; more recently, through the direct service delivery work of Sub District Facilitators and Family Health Volunteers.

63. RWSSP has provided an important role in supporting government and ministries to advocate for sustainable water systems and sanitation. Advocacy has highlighted the need for community engagement and operations and maintenance to maintain water supply systems investment. Through research into how people with disabilities are affected by water and sanitation, RWSSP has broadened the focus of watsan, and changed policy to recognise the needs of vulnerable households.

64. Progress is being made on improving databases and information systems used by DNSAS and Ministry of Health, which will contribute to sector monitoring.

### Support mechanisms and resourcing

65. Work in the area of capacity building and support mechanisms is contributing towards readiness for decentralisation. Some 88 SDFs (including 23 females) have now been trained and placed in districts where they provide an essential link between beneficiary communities and District SAS. RWSSP support to SDF salaries and their training has been essential for their early field placement and to quickly demonstrate their utility to government – which has agreed to fund SDF costs from 2011. SDFs will continue to require mentoring to consolidate their skills as they apply them in their routine work, and to increase their role in community management of water and sanitation.

66. Training of more than 2,600 volunteer family health promoters in environmental health is also contributing to the Government's model of decentralised delivery of health services.

67. Capacity building efforts to address the deficit of management and technical skills in Timor-Leste are progressing well. While 16 DNSAS and 4 NGO staff receiving water and sanitation technical and management scholarships to Indonesia will remain offline until mid 2011<sup>25</sup>, on the job support and mentoring to District SAS managers and their staff are now

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<sup>25</sup> Students have not been completely offline, as during their Christmas holiday break they were deployed to work on the designs of 60 DNSAS water supply schemes.

being provided by District Engineering Advisers, Technical Officers, and Community Development Officers.

68. Improvements to management systems within DNSAS are progressing capacity for autonomous district-level management. Given the current technical support available from RWSSP, and the improvements being made to DNSAS management systems, it would appear that readiness to test decentralised systems is approaching.

69. We **recommend** that, subject to appropriate capacity- and risk-assessments (see paras 130 to 138 below, but note that this particular recommendation relates to a small-scale and probably low-risk experiment within the bounds of established structures and processes), RWSSP and DNSAS trial direct funding to selected districts to test the capacity for planning and management of water schemes. This might include channelling some portion of the WSI funding through the LDP as a means of better aligning assistance to government priorities and financial systems and also to building governance capacity at the local level. (See also para 16 above.)

70. An RWSSP adviser is now working with DNSAS to strengthen public financial management tools and develop a medium term budget plan for DNSAS which includes capital and recurrent costs. Notwithstanding the historic lack of GoTL commitment to adopting Medium Term Expenditure Frameworks (MTEFs) as a planning and budgeting tool, and the short term inputs of the RWSSP adviser, this activity has made useful progress. Senior management of DNSAS and the Manager of Corporate Services have indicated strong support for multi year budget planning.

71. RWSSP has been active in building capacity of local NGOs and training providers to conduct practical training courses in WASH, gender and CLTS. An example is the National Centre for Employment and Skills Development, which RWSSP has been supporting to become a lead trainer in WASH. Many requests have been made from the sector to participate in training courses run by the Centre, and in the future other donors and INGOs intend to contract the Centre to provide training.

### **RWASH service delivery**

72. With its increased capital funding GoTL is now the largest financier for new water schemes. This situation was inconceivable when the Whole of Program Life Work Plan was formulated 18 months ago.<sup>26</sup>

73. The current level of investment in community-managed rural water systems (237 *aldeias* in 2010 across the sector as a whole), if continued and if design quality and system-maintenance is assured, suggests that **Timor-Leste will now meet the MDGs for access to safe water, and could theoretically achieve 100% coverage of the rural population within six years.**<sup>27</sup> This would be a major achievement. There are indications that this level of investment could continue with the government giving priority to water and sanitation and rural development, WSI funding, and new donors such as EC entering the sector as others potentially depart.

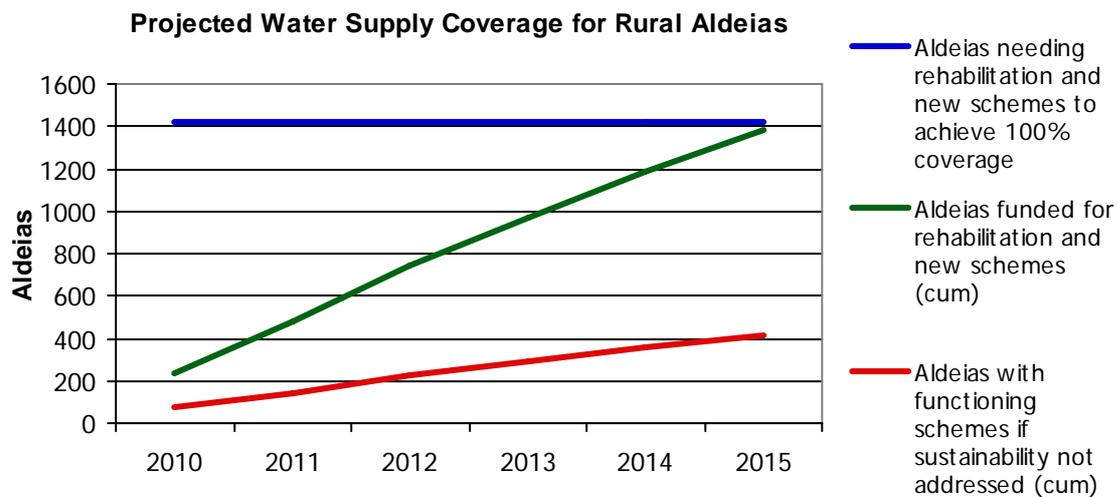
74. However, without addressing sustainability issues in rural water supply, such as community management, technical design and operations and maintenance, then

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<sup>26</sup> Only 25-30 schemes per year were envisaged to be funded by government, with only a total of 65-85 schemes predicted annually for the entire sector.

<sup>27</sup> The 237 *aldeias* in 2010 comprise new schemes and rehabilitation funded by: DNSAS (110); Ministry of State Administration (8); RWSSP (40); USAID DWASH (32); UNICEF (10); Oxfam (8); Plan (15); CARE (8) and WaterAid (6).

functionality could remain at 30% or below, with full coverage, or MDG targets, never achieved.



75. RWSSP is directing critical efforts to support GoTL to deliver the increased capital investment in the water sector, and to promote sustainability of the increased investment by addressing these issues. RWSSP's support to DNSAS for preparatory survey and design work (directly and through NGO contracting) has enabled scaling up to 60 schemes ready for construction contracting. Without this support, progress on delivering water to 90,000 beneficiaries would be much slower.

76. Greater attention to whole-of-village water supplies to enable schools, health centres, and administrative buildings to connect to schemes is advancement on previous approaches.

77. The draft National Sanitation Policy's direction on non-subsidised sanitation has provided an opportunity to promote Community Led Total Sanitation (CLTS) as a cost effective non-subsidised approach to ending open defecation. The Project has contributed significantly to the wide adoption of CLTS through workshops, study tours, facilitator training and field pilots using local NGOs. In Aileu district all INGOs aligned their approaches to CLTS to eliminate the conflict caused by subsidised and non-subsidised approaches operating in the same location. Several development partners (UNICEF and World Vision) are now phasing out subsidies in their sanitation programs. In previous years about 25 *aldeias* were converted to open-defecation-free status through CLTS, yet in 2010 the number is expected to be 100, increasing to 150-200 *aldeias* in 2011. RWSSP is well advanced with preparation for trialling demand-driven CLTS and sanitation marketing approaches which could jump-start the private-sector materials market and allow significant scaling-up of sanitation.

78. In the view of the IPR, due to the support from RWSSP, Timor-Leste is ahead of several other countries in the region in terms of implementation of CLTS and consistency of the approach. According to INGOs, CLTS has been most successful where water supply is provided at the same time or is already available to a community, as water is in high demand.

79. We **recommend** that for maximum uptake and sustainability, RWSSP and GoTL prioritise efforts in sanitation (CLTS) to communities that are targeted for water supply or have an existing supply.

80. Most of the effort to date to promote hygiene behaviour change has concentrated on supporting MoH's Health Promotion Department to deliver environmental health awareness

through the monthly integrated community health service (SISCa) meetings. RWSSP's support to MoH has improved skills and knowledge of health staff, particularly the training of Family Health Promoters who run 'Table Four' (Environmental Health) at the SISCa, and established good working relationships with relevant MoH Departments. However, RWSSP needs to be open to debating and trialling other models – perhaps for example sub-contracting to INGOs.

81. We **recommend** that RWSSP considers strategic targeting of support to SISCa to improve its sustainability in much the same way as support has been provided to improve district engineering capacity and community planning.

82. But an over-reliance on SISCa to deliver hygiene behaviour change will result in slow progress in this area. A WASH behaviour-change strategy is under development and MoH has put a hold on all strategies for 2010, until the Health Sector Support Plan and the Demographic and Health Survey results are finalized. RWSSP will need to introduce creative new ideas to the sector which complement SISCa and accelerate hygiene behaviour change. Consideration also needs to be given to the scale and effectiveness of activities, for example the national impact on hygiene behaviour of promoting local soap makers versus, perhaps, entering into some form of public-private partnership with major international soap manufacturers such as Unilever or Colgate Palmolive.

83. In much the same way as sanitation has benefitted from the additional influence of a short term international expert, we believe that the strategic deployment of a short-term hygiene promotion/behaviour change expert could have a catalytic effect on hygiene promotion in Timor-Leste. A professional with internationally-recognised field and research experience would be able to facilitate broader thinking by the government by introducing case studies and models which have been effective in other countries.

84. We **recommend** that RWSSP engages an internationally recognised hygiene promotion and behaviour change communication expert to complement other advisory inputs to advance national campaigns and strategies for the sector as a whole.

### Community management of RWASH activities

85. The community engagement processes developed by RWSSP are sound and now well integrated into delivery of rural water supply, including the 60 schemes funded by GoTL. A review of the Community Action Planning (CAP) process has addressed previous shortfalls in the approach by integrating water, sanitation and hygiene in the community process; including gender equality and increased participation of women; and introducing alternative technology options to gravity-fed systems. Testing of the revitalised CAP approach by the USAID DWASH project has provided practical feedback. Critical support to Water Users' Groups (GMFs) to improve their skills in financial management and O&M is under preparation.

86. Development of district capacity is the key to supporting community management for the long term and this approach is well underway by RWSSP through training of SDFs,

#### Scaling up of community management of rural water supply means:

- Maximum coverage within a geographic area to serve the entire population.
- Improved, sustainable services are provided to the vast majority of the target population within a reasonable timeframe.
- Ensuring adequate, sustained capacity is built up at the community level to effectively manage water supply systems.
- Scaling up of institutions and frameworks which support community-management as well as simply expanding physical coverage.
- Changing the focus from implementing discrete water supply projects to the provision of indefinite water supply services.

*Source: IRC*

District Facilitators, and NGOs. Indicators of improved coordination include the integration of water, sanitation and social factors such as vulnerable households in village plans in Liquica district. RWSSP support to district planning processes has resulted in four District SAS Managers engaging in inter-sectoral dialogue with Health, Admin and other district level actors.

87. The IPR considers the community management approach to be a well developed model, approaching international best practice, with potential for scaling up. However GoTL is yet to fully own this approach (as indicated by RWSSP continuing to fund NGOs for community engagement and SDF support costs), although acceptance has improved significantly. Rigorous evidence must be collected of the costs and benefits of the community management approach on both RWSSP and GoTL schemes to advocate with government to mainstream the approach, and particularly to counter conflicting financing such as the Referendum Package.<sup>28</sup> This evidence can be compared with the results of the Plan study on sustainability<sup>29</sup> (particularly one year after construction), and well as being of potential interest for international case studies on the comparison of costs and levels of community engagement on rural water supply.

88. We **recommend** that RWSSP fully documents costs and monitors social outcomes of RWSSP and GoTL water schemes to enable comparison with the Plan report and to demonstrate cost-benefit.

89. Dialogue has begun on addressing situations where full community management is not suited – for example more complex multi-village or small town schemes. This is an area which had previously been neglected as being neither rural nor urban in nature.

### Environmental protection & natural resource management

90. Some progress has occurred around resource management including discussions between RWSSP and the National Directorate for Water Resource Management on strengthening GoTL's role in water resource management. Revised CAP guidelines now include source protection. USAID's DWASH project has resource management and spring protection as a particular feature and there are potential lessons to be learned from that. Greater attention to environmental matters has also led to SDFs initiating tree planting and water source protection with some communities.

91. Sustained and equitable community water supply is a balance of supplying all residents and ensuring non-domestic needs such as irrigation and livestock are met, with community self regulation of water use. Continued work by RWSSP and DNSAS on issues of resource management and source protection is necessary to ensure sustained supply of water to communities. A groundwater specialist will be funded through the Climate Adaptation Initiative, linked to WSI funding.

### Gender

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<sup>28</sup> The Referendum Package released Government funds for district infrastructure projects. These were implemented without social preparation and paid the community for its labour.

<sup>29</sup> In 2009 RWSSP commissioned Plan Timor-Leste to conduct a baseline survey of rural water supply and sanitation coverage in Aileu and Lautem Districts

92. There has been significant progress in delivering the RWSSP's gender strategy. In particular there is a deliberate focus on increasing the participation of women in water supply and sanitation planning and decision-making. Gender is integrated well in to all aspects of the project, which can be attributed to the presence of a full time gender adviser, plus the supportive environment provided by senior management and other key advisers. The project has made the following notable achievements:



Image from an RWSSP poster promoting participation of both men and women in WASH at Liquica District SAS office

- Increased reporting and record keeping using gender disaggregation of data, which will allow for monitoring and future evaluation
- Requirements for gender sensitive consultation and engagement institutionalised into NGO contracts, and CAP guidelines
- Increased recruitment of female SDFs (from 8% female in the first intake to 37% female in the second)
- Gender awareness included in the training of SDFs, District SAS Managers, District Facilitators, and NGO partners, and SISCa health volunteers. Training has been well received and led to requests for further training at district level
- Mentoring and support to the male gender focal point in DNSAS. He has had a positive impact on male attitudes to gender.
- Mentoring and support to female health staff who are much more confident and visible on the project than previously
- Strengthening the network of gender focal points within DNSAS to improve coordination and build sustainability as part of the delivery of the GoTL gender strategy
- Gender messages in behaviour change communications which target men and women, including changing stereotypes and attitudes about women's roles in RWASH
- Strengthening the role and confidence of women in GMFs, such as training in financial management and maintenance
- Budget requests for gender training and support at district level included for the first time ever in the SAS 2011 Action Plans.

93. The project's approach is to support the GoTL objectives of gender equity, but also increase female participation in water and sanitation in a practical and strategic way. For example RWSSP will soon be working with DNSAS to survey the support needs of female SDFs to improve their retention in workforce. Issues which make it difficult for women to work away from home, such as attitudes of family, need for a chaperone when travelling, and domestic obligations are on the agenda. This is an example of the project's attention to sustainability but also its advocacy for institutional change and broader societal understanding of the different needs of men and women. Considering the very traditional male-dominated culture and the ongoing challenges to improve gender equity, the project has made good inroads in this area. Clearly progress would suffer from early abandonment of this work.

94. As monitoring systems become improved it will be important to ensure they satisfactorily capture the outcomes for men and women, not just record their participation, or "satisfaction" as per the gender strategy. For example, sector outcomes on sustainability

of water systems, improvement to women's health through access to sanitation and better hygiene, reduced labour and water collection times for women, retention rates for girls at school should be contributing to the wider debate on gender equity.

95. We **recommend** that RWSSP together with DNSAS and DNSC revise and simplify the Gender Strategy and performance monitoring by key result area to more closely reflect the current gender efforts and logically link activities with gender outcomes.

## Section 4: Issues and Discussion

### Sustainability

96. Prior investment in rural water supplies (of which there has been much) has proved disappointing in terms of sustainability. Results of a study commissioned by RWSSP to assess the sustainability of previous water schemes found that of the 70% of previous systems failed within one year of construction. Conversely, projects implemented through participatory methods with robust community preparation and engagement accounted for 88% of schemes still working after 6 years.

#### *Sustainability through methodology and approach*

97. Broadly, RWSSP aims to strengthen public-sector capacity<sup>30</sup> to plan, manage and support rural WASH, while services themselves are delivered by NGOs and contractors. (On contract to government or, for the time being, to RWSSP.) Within that framework, promoting community engagement with, and management of, rural water supplies is at the centre of the approach. There is ample evidence from international and local research to suggest that this is a critical prerequisite to sustainability.

98. RWSSP approaches to increasing sustainable access to water, sanitation and hygiene include:

- Improving community management of rural water schemes by increasing community engagement, participation by women, and strengthening GMFs;
- Extending the design life of water schemes to 20 years and improving technical design, and construction quality;
- Improving government management systems and building DNSAS and MoH staff capacity, particularly at the district and sub-district level;
- Developing skills and capacity of local Timor-Leste training providers, NGOs and contractors;
- Supporting demand-led non-subsidised approaches to sanitation which exhibit better household ownership and a higher rate of use than subsidised approaches.

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<sup>30</sup> A significant feature of the approach has been institutional strengthening within government sector agencies, and the recruitment of 80 new public servants to support RWASH (the Sub-District Facilitators – currently paid by the project but to be absorbed onto the government payroll later).

### *The NGO focus*

99. NGO-led service delivery forms a central plank to RWSSP's strategy, for a number of reasons. In a conflict and immediately post-conflict environment local NGOs have been the only service providers operating in rural areas. NGOs are also perceived to have a comparative advantage in working with and organising communities and championing community engagement. NGOs probably still continue to house the majority of technical skills in the sector in Timor-Leste.

100. However, as Timor-Leste moves from 'conflict to prosperity'<sup>31</sup> informed and influential players such as RWSSP need to continually re-visit and re-assess such assumptions. Will maximum impact and sustainability continue to derive from such a strategy, or should more private-sector-led approaches be explored? To what extent is a public-service/NGO approach undermining the development of private-sector capabilities? What distinguishes a local NGO from a subsidised private-sector contractor?

101. It in fact appears that RWSSP is also unintentionally negatively impacting on the sustainability of some national NGOs. Where RWSSP funds national NGO contracts for DNSAS water schemes, the contract period is 3 months, giving rise to NGOs having multiple contracts simultaneously (with high administration costs) or having periods of no contracts (resulting in staff attrition).<sup>32</sup> INGOs such as WaterAid, who support local NGOs to improve governance (through establishing Boards, improving financial management and accountability, policy development etc.), find that lack of continuity in funding for local NGOs results in significant staff loss then continual training of new staff, and lack of desire to progress on governance. Longer term continuous contracting of NGOs or contracting for designated districts or sub-districts would improve stability and sustainability of local NGOs, and contribute to Timor-Leste's civil society.

102. We **recommend** that RWSSP and DNSAS investigate longer term geographic or performance-based contracting of national NGOs to contribute to their longer term viability and capacity development.

103. By the same token, is RWSSP continually re-appraising the extent to which the private sector might be more ready, now, to enter the RWASH service-provider market (perhaps with some degree of support or incentive), and the extent to which subsidising continued NGO-based delivery could (potentially) be crowding-out such development?

104. We **recommend** that RWSSP undertake a review of how the private sector service has (or has not) developed as a [potential] supplier of goods and services in the sector (and why/why not, including crowding-out), analyse issues and options for supporting a more private-sector led approach, and put forward a strategy for the future based on this.

### *Operation and maintenance*

105. The weakest point for sustainability at this time is the operations and maintenance of community water supply schemes, for which there are precious few recurrent budgetary resources allocated by government, and also virtually no private sector availability of spare parts or repair services in rural areas. While other factors are being addressed to improve management and technical quality of schemes, schemes incurring major breakdowns, including through environmental causes, currently have no mechanism or funding to carry out major repairs beyond the community's capability. This one issue alone could undermine all other efforts to improve sustainability.

<sup>31</sup> The strap-line of Timor-Leste's Strategic Development Plan, 2011-2030.

<sup>32</sup> Delayed WSI funding and uncertainty over longer-term plans are compounding this problem.

106. GoTL's push for rapid infrastructure development is laudable, but does need to be costed on a whole-of-life basis, including operation and maintenance. RWSSP is playing its part to secure such improved planning and budgeting, but the issue is actually a broader one. The broader issue involves agency-level dialogue over the resourcing (by both government and donors) of national development plans in the medium term including, crucially, a consideration of what constitute the reasonable recurrent costs of development and how donors such as AusAID approach and potentially finance the recurrent (and not just the capital) costs of development. (See also 121 below.)

107. We **recommend** that this broader conceptualisation of financing the recurrent costs of development – not least in the RWASH sector – becomes a central component of Post's dialogue with GoTL central ministries.

*Experimenting with other / additional approaches*

108. While the IPR was convinced that RWSSP is pursuing best practice, and is broadly aligned behind the government's own priorities and ambitions, we also pondered the extent to which perhaps more effective and ultimately more sustainable approaches might be employed. As suggested above, in a beyond-conflict environment where government is seeking to restrain the size of the public service and promote private sector development, one is inevitably drawn towards questioning the assumption that RWASH will remain entirely based on public institutions and NGO service provision. Could one start to look at more innovative approaches to achieving both scale and sustainability? Such experimentation and innovation is certainly valid within a grant-funded donor program such as RWSSP.

109. In terms of the installation, operation and maintenance of water systems, could we look at smart financial incentives to bring the private sector in to longer-term, performance-based contracts with communities, possibly using Output-Based Aid approaches? (Including, for example, write-off of private-sector capitalisation costs / borrowings on continuing satisfactory system performance after N years of operation.)

110. In terms of rural hygiene, could we look at partnering with major private sector players such as the international soap manufacturers, as has been so successful elsewhere? (Text box, right.)

In India, donors supported a private-sector soap manufacturer to expand (through an output-based aid model) product marketing and health promotion in rural areas – where demand was not sufficiently developed to otherwise interest such private sector investment.

111. This is not to suggest that RWSSP completely changes tack but, rather, with its considerable technical and financial resources it can and should be revisiting old assumptions, capturing innovation and success from elsewhere, and financing some degree of risk that government itself cannot afford.

In one year 84% of people touched by the campaign subsequently washed their hands with soap after defecating, compared to 58% in a control group, and soap sales increased by 22%.

It was win-win-win: hygiene was tangibly improved, the private sector increased its market, and sustainability was ensured.

112. We **recommend** that, while continuing on its current course, RWSSP research and assess the feasibility of some alternative approaches to achieving scale and sustainability that reflect GoTL's broader economic policy (of public sector restraint and private sector-led development), and AusAID's interest in performance-based financing / output-based aid models, and put those to GoTL and AusAID for further discussion and possible funding.

## Ownership

113. Without government ownership of development intervention, there is no long-term sustainability. The degree of government ownership in the project and its strategy is difficult to judge at this stage. (Notwithstanding government's clear priorities for the sector.)

114. At a day-to-day and local level the project is highly appreciated. But during the IPR central government highlighted issues symptomatic of sometimes low levels of ownership. Some of this relates to the range of institutions in which the program operates: such a program can never be all things to all people. Strategic intent is sometimes not always clear: in particular the balance between physical and non-physical inputs, as discussed above, is an issue.

115. Some of this relates to the distinctly 'standalone' nature of the RWSSP's aid modality and the growing awareness among stakeholders of the compromises associated with project approaches. (Including, for example, governance arrangements that have not proved their utility.) Some of this relates to communication and presentation issues – discussed below.

## Relevance and balance

116. The objective of RWSSP – to increase rural communities' sustained access to clean water and sanitation – remains highly relevant. Access to water and sanitation is at an unacceptably low level, with tangible impacts on human health, education and productivity. Rights aside, improving access is a fundamental contributor to broader human and economic development for the majority population, and it is a top priority for government, just as it for AusAID.

117. The decision to support to RWASH does not, therefore, need to be questioned. However an analysis of relevance also needs to consider design and approach. Is it the *right thing being done in the right place at the right time* to achieve the stated objective?

118. As in previous reviews, GoTL raised its desire to see a roughly 60/40 split of project resources as regards 'physical' (hardware) and 'non-physical' (software) investments. This echoes the allocation of government budgetary resources nationally, which are currently allocated in an approximate ratio of 60% to capital expenditure to 40% recurrent, in turn reflecting the government's macro-policy of bringing about rapid infrastructural development. (Which again in turn reflects the country's economic and fiscal contexts.)

119. The allocation of the additional WSI funding, if released expeditiously and if it is not used to substitute for the rescheduling of other parts of RWSSP's budget, does rebalance the allocation of project resources significantly, but still not to 60% on infrastructure.

120. While the IPR is certainly sympathetic to the notion that a AUD 40 million watsan project should contribute pretty directly to substantial and rapid infrastructural development, there are also other considerations:

- Policy, planning and sector management capacity is really important: that is why previous watsan infrastructural investments failed;
- It is important to consider the balance of investment *across the sector as a whole*. Other players (including, now, GoTL of course) invest disproportionately more in physical infrastructure than in capacity-building and 'software'. Indeed some – for example USAID's DWASH – explicitly focus on infrastructure *because* RWSSP is attending to policy support and institutional development.

121. This highlights, however, the deficiency in broader cross-sector dialogue and planning, and the integration of donor (plural) resources into a comprehensive sectoral performance framework and budget that is managed by government. And, as highlighted

elsewhere in this report, the need to take a modern, strategic and medium- to long-term view on the [government + donor] financing of the sector, including its recurrent as well as capital costs. While RWSSP is again playing its part in this, it is principally something that the lead donor – AusAID – needs to be across and to be championing.

## Transition

### *Thinking aid effectiveness*

122. RWSSP was conceptualised several years ago when Timor-Leste's political and economic stability was less assured and its systems of government were less well articulated. Capacity constraints were reflected in every aspect of the public service.

123. In that context RWSSP was reasonably designed as a standalone contractor-managed project, itself undertaking (initially at least) many of the functions of planning and managing expanded RWASH activities – albeit in close cooperation with GoTL. The original design nonetheless incorporated a [somewhat mechanical] transition to greater government leadership.

124. However, Timor-Leste has moved on since then, as has the wider development and aid-effectiveness agenda. Early MRG reports and the ODE review have subsequently all championed a more nuanced but farther-reaching transition to greater use of government systems, not least to reflect wider efforts in AusAID and the international community to improve the impact and effectiveness of aid.

125. Contemporary thinking on aid effectiveness, to which AusAID and most donors are signed up, emphasises (among other thing) the need to promote ownership and direction of development processes by government (which is deemed essential for long-term sustainability of development efforts), to strengthen and use government systems (rather than duplicate or undermine them), to reduce the transactions costs<sup>33</sup> of aid, and to improve the predictability of aid flows.

126. While RWSSP certainly recognises and respects these ideals, it will require an assertive reconfiguration of the mode and approach to programming to fully capture this agenda.

127. RWSSP has made a start on a new 'transition strategy' (towards government leadership of RWASH), but it probably does not go far enough quickly enough. RWSSP has identified bottlenecks in financial processes, and will support identification and removal of barriers to the efficient flow of public spending<sup>34</sup>. The current draft strategy is essentially confined to defining what management systems and structures *within the Ministry of Infrastructure and DNSAS* will look like when they are ready for government's leadership, rather than taking a broader view on what 'use of government systems' really needs to comprise and why.

128. A few relatively modest elements of the RWSSP budget are also being transferred to [qualified] GoTL control, or have been suggested for such transfer. (For example funding for the 60 small water systems to be managed by DNSAS and, perhaps, the salaries for the 88 SDFs may in future be channelled through the government budget.) But use of government systems is bigger than that, and is for a purpose (to improve aid effectiveness) – it is not just a bureaucratic manoeuvre to reclassify aid flows for administrative purposes. Annex 3

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<sup>33</sup> The human and financial costs associated with delivering and absorbing aid flows which do not in themselves add to the value of development results. (For example, separate management structures and planning, budgeting, accounting and reporting requirements.)

<sup>34</sup> See RWSSP 2010 (Apr) "Strengthening Public Financial Management Systems" National Directorate of Water and Sanitation (DNSAS), Ministry of Infrastructure."

discusses the meaning and purpose of 'alignment' and the wider dimensions of 'use of government systems' (as defined by Mokoro and others<sup>35</sup>).

129. The table below summarises where RWSSP is now on some of these dimensions:

Using Government Systems means being:	Definition	Situation in Timor-Leste and Implications for RWSSP
<b>On plan</b>	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.	In general RWSSP actions could be considered "on plan" to meet MDG and other established goals. However there is virtually no specific strategic planning in T-L government processes and no MTEF framework. Policy intentions are indicated in annual priorities set by Prime-Minister's office.
<b>On budget</b>	External financing, including programme and project financing, and its intended uses are reported in the budget documentation.	Overall donor financing is noted alongside the budget, but specific programme and project financing does not appear in line ministry budgets.
<b>On parliament</b>	External financing is included in the revenue and appropriations approved by parliament.	None of Australia's bilateral aid flows are appropriated into the regular budget of GoTL. (Except some finance provided under the Timor Sea Treaty.)
<b>On treasury</b>	External financing is disbursed into the main revenue funds of government and managed through government's systems.	As above.
<b>On accounting</b>	External financing is recorded and accounted for in government's accounting system, in line with government's classification system.	As above.
<b>On audit</b>	External financing is audited by government's auditing system.	As above.
<b>On report</b>	External financing is included in ex-post reports.	As above.

130. From this it can be seen that a transition to greater use of government systems is by no means a matter solely within RWSSP's management mandate. For the most part it relates to the state of AusAID's wider dialogue with government and its *delivery strategy* for the aid program. In particular it relates to the extent to which a sufficiently robust mutual understanding has been established as to how government wishes to use aid flows in the pursuit of agreed development outcomes, and the level of trust (the 'fiduciary' consideration) that AusAID has in GoTL that resources will be used for their intended purpose and such that its *exclusive* control of resources can be relinquished.

<sup>35</sup> *Putting Aid On Budget Synthesis Report*, Collaborative Africa Reform Initiative and the Strategic Partnership for Africa, Mokoro Ltd., Oxford, 2008.

131. Risk and its management are at the centre of this discussion. In many situations there will be a trade-off between financial risk (inefficient use of funds, including leakage, corruption, or loss) and development risk (failure, ultimately, to build human capabilities and sufficient ownership of processes to deliver sustained infrastructure and services).

#### *Financial Risk*

132. Developing countries have agreed, at Accra and in the Paris Declaration, to take steps to mitigate the financial risks that inhibit many development partners from offering budget support.

133. However, no systematic assessment of financial and other risks appears to have been undertaken in Timor-Leste, certainly as regards AusAID's own programs<sup>36</sup>. The quasi PEFA assessment undertaken by the EC in 2007 probably influences most discussion on financial risk, still. In that assessment, and perhaps in AusAID's own analysis, the issue appears to centre of procurement systems and risks. However, procurement risks should not in themselves necessarily preclude the consideration of greater use of government systems in other areas. Firstly procurement may not be a major feature of a development intervention (and it probably is not in the case of RWSSP), and secondly procurement processes are usually relatively easily ring-fenced from other government systems and are amenable to special management measures or safeguards.

#### *Development Risk*

134. While RWSSP is making a concerted effort to address sustainability of DNSAS and DNSC systems, and to align with sectoral priorities, RWSSP still remains outside of the government system as a standalone contractor-led project. Operating in parallel to government carries the development risk of a lack of ownership of processes and infrastructure, and – ultimately – therefore of the flow of benefits from the project not being sustained in the long term. Parallel systems tend not to strengthen the Ministries from within, can undermine government's own resource-allocation processes (including those *across* sectors) and may restrain the potential for a broader development impact which might occur, say from more political, strategic or longer-term policy processes. The plethora of donor-managed projects also makes it very difficult for government to construct any sort of medium-term financing strategy for the sector.

#### *The way forward*

135. It was not the role of the IPR, with its 7 working days in-country, to undertake any kind of comprehensive analysis of risks.

136. RWSSP needs to revisit its draft transition strategy in the light of this review and in the context of the bigger game that we suggest needs to be played. However, the lead on the work of improving aid effectiveness and the greater use of government systems in Timor-Leste is principally a matter for AusAID Post and its analysis of risks and benefits, and its dialogue with government. It may be that RWSSP provides an appropriate and relatively safe test-bed (given the level of TA) for the greater use of government systems, but the underlying analysis of risk and delivery strategy needs to be AusAID's.

137. Once the direction has been set by AusAID, there are almost certainly opportunities that could be explored within RWSSP – perhaps especially in the context of negotiating post-September 2010 management arrangements. For example, could the bulk of the imprest account be channelled through the regular government budget, following structured

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<sup>36</sup> AusAID apparently made some assessment of GoTL procurement systems, but this was not shared with the IPR.

dialogue and agreement over the additional development outcomes that can be expected from so doing?

138. We **recommend** that AusAID Post undertake a structured and objective assessment of the risks and benefits of greater use of government systems (and the development risks of not using them) in Timor-Leste and use this to define the parameters for a more aggressive transition to government leadership of RWSSP's development objectives (including greater use of government systems). Such an assessment might include support to generic PFM and governance assessments across government as a whole. (For example an updated PEFA assessment, etc.)

## Monitoring & Evaluation

139. RWSSP's monitoring and evaluation (M&E) frameworks have been the subject of much debate. They have been criticised for being exhaustively focused on low-level activity reporting and failing to track and highlight [progress towards] outcomes and impacts. They have also been criticised for being complex, lengthy and over-engineered, and therefore ultimately of limited practical use. (In response, RWSSP has pointed out that many of its contractual conditions require such detailed and low-level reporting, and that they have previously been advised by AusAID that their models represented best practice.)

140. Consequently in mid-2009 RWSSP undertook an overhaul of its M&E framework and proposed a progressive and simplified model, to track the most essential components of the program and its progress. An MRG review at the time (while the new framework was under construction) suggested that it represented a significant step forwards.

141. However, the subsequent population of the framework's indicators and progress markers has been disappointing. What could have been a strategic and focused M&E tool has become (as so many RWSSP documents are) too dense, lengthy and activity-focused to be comprehended – or useful for an exercise such as this IPR.

142. RWSSP's objectives are not complex, and the headline outcomes are relatively tangible: essentially how many more people have sustainable access to WASH. (With a number of process-related outcomes below that.) But such information is not appearing in an obvious and easily understood form. Indeed, it took the IPR a considerable amount of time and questioning to establish the scale of the remarkable progress that has been made towards MDG objectives, highlighted at 26 above.

143. IDSS needs to differentiate (in separate documents) monitoring information required for its own activity-management from higher-level output, outcome and impact assessment<sup>37</sup> information required for external performance and aid-effectiveness purposes. (Including clear intermediate and end-of-project anticipated outcomes and impacts<sup>38</sup>.) AusAID needs to reinforce this message by ensuring that its contractual and operational requirements also focus on strategic reporting that allows external stakeholders to understand and follow progress towards higher-level objectives.

144. Perhaps more significantly there needs to be a shift in mindset to view RWSSP as a *contributor to sector performance*, and not an end in itself. RWSSP has a pivotal role to play in helping GoTL sector institutions to develop simple, robust tools to monitor sector performance as a whole, including the contribution of donor-financed activity to that.

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<sup>37</sup> Positive and negative, intentional and unintentional.

<sup>38</sup> These will not necessarily be the same as GoTL sector-level outcomes and impacts.

145. We **recommend** that:

- RWSSP M&E Adviser and East Timor Performance Manager meet to establish and agree appropriate M&E / reporting information levels – confirming in particular, what information AusAID does NOT normally need to see. This may require attention to contractual conditions.
- That RWSSP redoubles efforts to simplify and reduce its M&E framework and reviews what work needs to be done to capture M&E data. The draft AusAID WASH Performance Assessment Framework should be used by the contractor as a reference.
- That RWSSP explores simple, robust models for GoTL institutions to track *sector-performance*, which later become the basis for tracking the contributions and program-level performance by development partners such as AusAID.

### Communication & presentation

146. RWSSP documents – its principal means of communication – are wordy and overly detailed. For example the Six Monthly Report does not present a clear and succinct summary of progress and achievements, yet it includes a [contractually-required] register of assets. As above, the M&E framework is confusing and presents the same information in different ways. The result is that the strategic intents and outputs of the project are lost and not universally well understood. Important stakeholders, for one reason or another, either do not get or do not easily find the information they need. The length and complexity of some documents also means that they are not translated in full, thereby diminishing their value to counterparts.

147. Most likely because of the RWSSP's difficult-to-digest written communication, some parts of government (at Director level) felt that they had been insufficiently informed or consulted on a number of key project interventions. Examples quoted included scholarships policy and the deployment of TA, as well as important accountability information such as project budgets and their execution.

One senior government stakeholder commented: "Yes – it [the information] is probably there, but the documents are too long, in English, and we don't understand them".

148. Conversely, the oral language skills of RWSSP team members are impressive, with a number fluent in Tetum or Bahasa. These skills have done much to advance routine communication in Timor-Leste's complex linguistic environment.

149. On a day to day level, communication with direct counterparts is good, and a close working relationship between DNSAS, DNSC and RWSSP, together with a deep understanding of the project was clearly observable. But greater efforts – and probably more innovative forms of communication – are needed to effect a clear and robust understanding among higher-level stakeholders and other ministries of how the project relates to identified challenges and contexts, what its delivery strategy is, and how it is progressing over time in the achievement of higher-level objectives. Producing succinct (yet still strategic) and timely information in Tetum is very important, and the project may need to consider more user-friendly ways to get its message across. Current efforts to document capacity-building of SDFs and District SAS Managers (a component of *Most Significant Change* monitoring) is on the right track but their presentation and language style lacks credibility. RWSSP would also do well to focus on the outcomes for the end beneficiaries such as women in GMFs, *suco* leaders, private contractors, and school children.

150. As at 145 above, we **recommend** that RWSSP and AusAID discuss and agree more strategic reporting requirements that better serve stakeholder requirements and reduce the transactions costs of reporting for all.

151. We also **recommend** that RWSSP sources professional advice as to how best to reduce and simplify its written communication so that the right information is accessible and understood by the right audiences.

## Section 5: Evaluation

### Rating scale:

Satisfactory (4, 5 and 6)	Less than Satisfactory (1, 2 and 3)
6 = Very high quality	3 = Less than adequate quality; needs significant work
5 = Good quality	2 = Poor quality; needs major work
4 = Adequate quality; needs some work	1 = Very poor quality; needs major overhaul

**Relevance** - 5/6 RWSSP is highly relevant to addressing Timor-Leste's health problems (diarrhoea, malaria and pneumonia) and increasing rural access to water and sanitation. The approach is relevant to meeting the need for sustainable, self reliant water and sanitation for remote and difficult to access communities, but RWSSP does need to track changes in context and, therefore, whether other/additional approaches may also be relevant. District government capacity building is relevant to future plans for decentralisation.

**Effectiveness** - 4/5 We are yet to see evidence of the causal logic between the capacity-building approach and significantly increased access to WASH, but it is probably too early to tell. RWSSP has been effective at influencing policy and sector direction as evidenced by increased funding and the number of water schemes being planned, as well as sanitation policy development. RWSSP has been less effective at locking in O&M, and delivering hygiene promotion. There are expectations of more water and sanitation but these are not yet delivered on the ground in 2010. It is unclear the degree to which government will fully own and manage systems.

**Efficiency** - 4 It is difficult to evaluate RWSSP in terms of the OECD/DAC definition of efficiency as "achieving maximum output from a given level of resources used to carry out an activity" – largely because the program is not an infrastructure factory. The central question over efficiency relates to the adoption of a contractor-managed TA model, as opposed to more budget-based modality. However, there is no counter-factual with which to compare this.

**Sustainability** - 4 RWSSP is constructed around maximising sustainability – through a heavy emphasis on capacity-building, through community-based approaches to infrastructure development and maintenance, and by moving towards greater use of government systems. However, it remains to be seen whether the essential public investment in O&M will be maintained. In terms of longer-term sustainability of development effort, there has to be some question over whether such a standalone project approach will deliver.

**Gender equality** – 5 The program is actively advancing gender equality in society and promoting women's access to watsan and participation in decision making around water and sanitation. Gender is well integrated into many aspects of the program (breadth). However the scale at which gender activities are occurring is probably small at this stage, but we should see some greater impacts in the near future. Benefits to women in having access to water and sanitation are not well documented yet. RWSSP is well ahead of the game on the issue of gender and RWASH, and should devote some energy to documenting this for audiences beyond the project and Timor-Leste.

**Monitoring & Evaluation** 3 While it initially appeared that much progress had been made on M&E, in fact there remain real difficulties, with too much low-level clutter obscuring more strategic analysis of progress towards higher-level objectives. For whatever reason, very few useful program M&E data were available to the IPR.

**Analysis & learning** 4 The RWSSP team exhibit a sound understanding of political, economic and social issues surrounding the sector and is using this to good advantage. The project has responded well to shifting institutional contexts and government priorities. It is not, however, communicating its lessons and messages well. RWSSP also needs to maintain a watching brief on wider shifts in the social and economic context and be open to experimenting with other – perhaps quite different – approaches where appropriate.

## Section 6: The future

152. RWSSP has really only gained its full momentum in the last 12 months or so. Over the same recent timeframe the GoTL has initiated radical shifts in scale and emphasis in the sector – in terms of budgetary resources, staffing and plans for decentralisation. There is also much work yet to do to understand how, and at what risk, aid might best make greater use of government systems.

153. It is therefore too early to conjecture how AusAID support to the sector should be configured in the future. However, the process of analysing and assessing options does need to start very soon: the IDSS management contract currently expires in September 2010, and the program itself, as currently designed and budgeted, will be completed in 28 months' time.

154. That analysis must importantly capture a new clarity over AusAID's broader delivery strategy within the country program and its approach to supporting government's leadership

of development. That might need to include a consideration of comparative advantage, financing modalities, and perspectives on the validity or otherwise of supporting the recurrent as well as capital costs of development.

155. Perhaps there are three hypothetical scenarios that could be tested to fuel the necessary debate (with any number of variations in between):

*I. 'It's not broken, so don't try and fix it'*

Timor-Leste's institutions and systems remain under-capacitated and fragile, and will do for the foreseeable future. In that context RWSSP's standalone project approach has proved robust and is demonstrating satisfactory progress and impact in terms of supporting government's efforts to achieve WASH objectives. The modality remains appropriate, and the sector MDGs may well be attained. Incremental gains in effectiveness and sustainability can be expected over time as RWSSP moves to consolidate the progress it is making.

*II. 'Assertive progression'*

It was the right way to start, but the context and our expectations have moved on. We need to move forwards more ambitiously and aggressively in the transition to government leadership, otherwise we risk losing ownership and long-term sustainability. We will move decisively but prudently towards significant and meaningful use of government systems, on the basis of sound analysis of both financial and development risks. Management arrangements from September 2010 will need actively to support such a process, but we still anticipate a substantial TA component for the full five-year life of RWSSP, together with some experimentation with other approaches to achieving scale and sustainability.

*III. 'Radical reorientation needed'*

RWSSP is looking old-fashioned, with disproportionate TA costs. Government's priority is on the rapid scaling-up and installation of infrastructure, and it is proving that it can deliver on that. While we should continue to provide support and technical assistance to that process, the emphasis needs to shift to financing that development and doing so through the budget, based on dialogue around outcomes (as opposed to inputs). Preparatory work for that (including MTEFs and diagnostic work on risk and its management) can start soon with, potentially, a transition to new financing modalities before 2012.

156. These hypothetical scenarios are, clearly, presented somewhat provocatively for the purposes of stimulating a debate. The IPR alone cannot recommend the tack to take, for it is not a technical fix that is needed: it is one of policy and delivery strategy, which in turn is dependent on a corporate view on the steps and calculated risks that are necessary to achieve durable development in today's – and tomorrow's – Timor-Leste.

157. However, AusAID has sought the IPR's further opinion on this and we therefore offer the following:

158. We do not believe that [Scenario I](#) (don't try and fix it) is an appropriate option to align to. Under such a scenario the ownership, financial provisions and management arrangements remain skewed too far into the donor domain. History has repeatedly shown that such an approach rarely results in the flow of benefits deriving from the intervention being sustained into the long-term future. In the medium-term the approach contributes to continued fragmentation of both funding and operations across the sector, with consequent allocative inefficiencies and the potential risk of a mismatch between government and donor priorities.

159. **Scenario III** (radical reorientation) is attractive. In a suitable environment that would be the way to go. And there are signs that such an environment is not far away. However, there are some prerequisites to entertaining a rapid transition to such an approach:

- There needs to be absolute clarity from government as to what it wishes to achieve in the sector, how, and through what levels and sourcing of finance, over what period of time.
- That clarity needs to be understood and subscribed to by the collective donor community.
- The donor community (and AusAID is the prime donor in the sector), above the level of its projects, needs to be able to engage in meaningful policy dialogue around these issues. That probably represents a new level of dialogue for most donors in the sector.
- A fundamental requirement is for the donor community to understand and be comfortable with (or have strategies for mitigating) the various risks (developmental, fiduciary, reputational, etc.) that may be implied in any shift to greater use of government systems. There has been relatively little systematic analysis made available of that to date.
- The corporate AusAID needs to provide a clearer steer as to its appetite for more far-reaching moves towards aid effectiveness, and in particular its appetite for shifts to higher-risk but higher-gain forms of intervention.

160. In that, it seems to us, not all those prerequisites are in place, we cannot yet suggest that 'Scenario III' is wholly appropriate ... yet. However, were there to be a clearer corporate steer and guidance from AusAID headquarters (particularly over risk), we believe this scenario would not be beyond the bounds of possibility in the 'almost foreseeable' future.

161. **Scenario II** (assertive progression) would therefore be our preferred option at present. That would be a scenario in which there is:

- A 'cultural' as much as a management shift away from the standalone project towards a negotiated mix of modalities and approaches that best suit and support delivery of the government's strategy, under government management, based on legitimate political and policy choices. (Even if that implies some deviation from RWSSP plans.)
- Deeper, farther-reaching, engagement in and support to the processes of governance and public financial management as it relates to the sector. (At all levels, but particularly at central-ministry level.) A key early product of that has to be a multi-year financing plan for the sector, to which both government and its development partners commit.
- A re-evaluation of the required levels of technical and financial support, in the light of the above. (That does not presume that the requirement for TA will necessarily be less or more, but that it will be based on that multi-year government plan.)
- A robust analysis of the risks and benefits (developmental, fiduciary, reputational, etc.) implicit in any shift towards meaningful use of government systems, recognising the purpose of such a shift. (See discussion on 'Transition', paras 122 to 138 above, and Annex 2 on 'Alignment'.)
- While continuing to vigorously support current policy and delivery strategies in the sector, increased resources are in parallel assigned to examining the feasibility of, experimenting with, and demonstrating the benefits of, alternative approaches to achieving scale and sustainability. (Including smart financing mechanisms to incentivise greater private sector engagement in the sector.)

162. This will not happen overnight and there will still need to be in place a similar-to-now contract with a managing contractor (MC) for some time yet to ensure continuity of current support and service delivery. However, in configuring such a contract beyond mid-September 2010 (when the current MC's contract expires), there will need to be some very specific actions and responsibilities built into it to support and effect the transition from standalone project to a new and more eclectic form of support to a [by then agreed] medium-term government strategy.

163. 'Scenario II' therefore implies the continuation of a MC arrangement for *at least* one year, but not *necessarily* two years, during which time the design and preparatory work for this new 'phase' of RWSSP is undertaken. A shorter timeframe might provide for a more decisive shift to different ways of worker, sooner. A longer timeframe would provide for more continuity and forward planning (which is very important), but would need to be accompanied by a clear contractual commitment to effect a sequence of transitions to new ways of working as soon as government and AusAID are ready for it – whenever that is, including during the intervening period.

164. The MC's exclusive control over some elements of the AusAID-funded resource can probably happen relatively soon. (See para 137 above, for example.)

## Acknowledgements

165. Our sincere thanks go to all the government, donor, NGO, AusAID and RWSSP staff who freely gave us their time and intelligent insights on the program and WASH activities in the country. We would also like to thank the RWSSP staff, DNSAS, DNSC and AusAID Post for arranging, as well as participating in, many of our meetings and for facilitating the site visit to Liquica district. We much appreciate it.

## Annex 1: Table of Progress against Previous Review Recommendations

### 1. Progress against the recommendations of the 2009 ODE Review

(Australian Aid to Water Supply and Sanitation Services in East Timor and Indonesia, Office of Development Effectiveness, AusAID.)

No	Recommendation	Remarks
1 1.1	Enhance sector coordination: <ul style="list-style-type: none"> <li>• between different donors supporting the sector including NGOs;</li> <li>• horizontally between the Ministry of Infrastructure, Ministry of Health, Ministry of Economy and Development and Ministry of Education; and</li> <li>• vertically between the national level, districts and sub-districts (municipalities).</li> </ul>	RWSSP has increased coordination among donors and between MoI and MoH, and also vertically especially via presence of 88 sub-district facilitators Substantial progress in enhancing high-level awareness and commitment to WASH
1.2	Introduce a simple robust sector M&E as part of a sector performance measurement framework.	Some aspects advanced and framework should be developed within project life. Needs to be given more emphasis.
1.3	Develop a transition step-by-step strategy for moving from present realities to policy ideas	Some transition steps embodied in draft national sanitation and water supply and sanitation policies
1.4	Clarify operations and maintenance policy	Draft O&M policy produced and support provided for increasing O&M budgets. O&M for small systems rests with community but medium-term support for water management committees needed – should be partly through SDFs
2	Assist the Government to develop: <ul style="list-style-type: none"> <li>• a transition strategy;</li> <li>• a simple monitoring and evaluation system; and</li> <li>• greater clarity in O&amp;M policy and practice</li> </ul>	See remarks on 1.2 and 1.4 above Transition strategy and longer-term planning problematic given human resource/capacity constraints. Remarkable progress with budget requests
3	Screen projects to be supported in order to improve poverty targeting, sustainability (four-factor filter), cost effectiveness & socio-political gains (e.g. potential for reducing conflict and reinforcing the role of Government).	Alignment with government priorities with some modifications chosen as the primary means of allocation of system construction. Other criteria viable/operational.
4	Increase the post-construction mentoring period, link up more closely with district and sub-district levels as capacity develops	Post-construction mentoring possible via sub-district facilitators if this role made clear

No	Recommendation	Remarks
5	Give the Government a higher profile and greater leadership, especially at district and sub-district level.	Good progress, accomplished largely through sub-district facilitators. DNSAS "ownership" at local level evident.
6	Develop an alignment plan based on the four phases defined in the project agreement. Consider aligning some projects or systems on a 'shadow basis'.	Some alignment begun with government allocation and procurement but ultimate financial approval with RWSSP. (60 small water supply systems)
7	Make available and communicate all relevant information on project progress and plans.	Information made available but more progress on simple, clear communication/information might be useful

## 2. Progress against the recommendations of MRG Reviews

*(Principal and/or still-valid recommendations only)*

	Recommendation	Remarks
	Review the sufficiency of planned input to developing sector MTEFs, possibly considering both more intensive and longer-term assistance to that pivotal process	A relatively low-key approach has been adopted, which is gaining the trust and confidence of GoTL institutions. The scope of the work is not as ambitious as the MRG suggested, but may represent as much as can be done in the absence of higher-level agreement between donors and GoTL on the importance of MTEFs and longer-term perspectives on aid financing.
	Continue to engage vigorously in the decentralisation process and support the expansion of robust models for the management and financing of service delivery at that level	RWSSP is probably doing as much as can be done within the boundaries of its exiting mandate and resources. If AusAID is to pursue both decentralisation and the channelling of aid flows to decentralised levels of government more aggressively, then more can and should be done.
	Re-assess the 'Four Phase' model in the context of the program's now greater understanding of capacity, of where any fiduciary or other risks exist, and – in particular perhaps – of the structures and systems to be supported under decentralisation, and consider a more finessed, performance-based, and potentially more rapid, approach to towards the use of government systems (In consultation with Post)	See main text. The IPR believes more can and should be done, but it again depends on Post adopting a position on greater use of government systems, based on an objective analysis of the benefits and risks and in the context of AusAID's delivery strategy.

	Recommendation	Remarks
	<p>Part of the WSI allocation should be used to support the expansion and improvement of decentralised service delivery in water and sanitation and that RWSSP investigates and designs (at least for the second year of WSI funding) a model of performance-based financing through local government systems</p> <p>This should be used as an opportunity to establish, at high level, policy dialogue with GoTL on the definition of 'what success looks like' in the sector, joint expectations, and mutual accountability for results</p>	<p>Not pursued in WSI design</p>
	<p>Adopt proposed revised (M&amp;E) framework, recognising that it will continue to be refined</p>	<p>The 'further refinement' took the framework one step forwards and two steps backwards, such that it once again became too focused on low-level, less-than-strategic, monitoring. (See main text.)</p>
	<p>The draft 2009/10 Annual Rolling Work Plan be revised now to include a section on RWSSP's [already prepared] management response to the ODE Working Paper 1, and then be accepted by AusAID. A more substantive review of the Annual Plan is recommended within 3 months. A revision of the Whole of Program Life Work Plan should be prepared following the Mid Term Review proposed for early 2010</p>	<p>All as recommended and/or in train as appropriate.</p>

## Annex 2: What does 'alignment' and 'use of government systems' mean?

Synthesised from an earlier paper drafted by one of the IPR authors, and other published work, notably Mokoro (2008).

Donors' interests in using partner countries' budget systems are in promoting greater aid effectiveness and also, often, achieving greater efficiency – particularly in the context of scaling-up of aid flows.

Progressive use of partner government (or 'country') systems in the delivery of aid tends to:

- ✘ **Deconstruct the viscous circle** of weak policies, institutions and service delivery systems encouraging donors to configure and manage aid programs in *parallel* to country systems, thus further undermining and failing to strengthen country systems, thus further perpetuating the use of parallel systems; and
- ✔ **Construct a virtuous circle** of encouraging and supporting country systems better to manage aid flows, thus providing the conditions for more efficient and effective aid modalities and approaches, which then further strengthen partner government's management of development, and the overall efficiency of aid flows.

The benefits of more systematic use of country systems include (table below):

### Policy

- Improved alignment with partner country policies and priorities

### Systems

- Improved alignment with partner government budgeting and reporting

### Ownership & accountability

- Increased country ownership
- Improved accountability to parliament and citizens

### Financial & economic

- A more stable macroeconomic framework
- Strengthened partner country public financial management (PFM) systems
- Improved allocative efficiency in partner countries' public expenditure

### Better aid

- Greater overall impact
- Improved coordination and harmonisation among donors
- Enhanced predictability of aid flows
- Enhanced sustainability of the flow of benefits from aid

### Reduced transactions costs

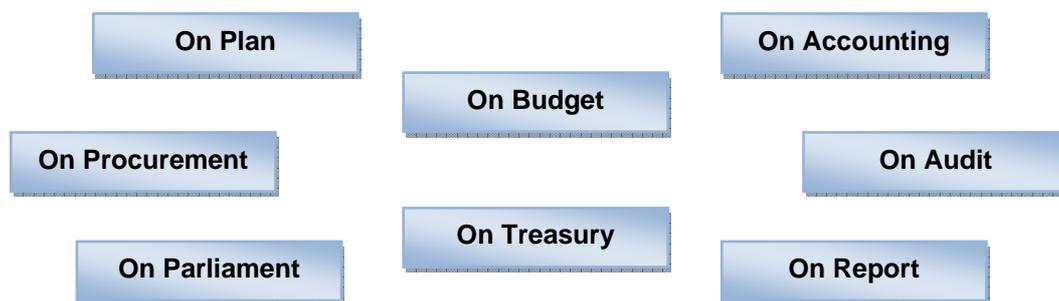
- Lower transactions costs for both donors and partner governments
- Enhanced capacity at country level to absorb increased aid flows (scaling up)

The three widely-recognised aid modalities – *budget support*, *pooled funds* and *projects* – can all use country systems to a greater or lesser extent and in themselves do not necessarily define the degree of alignment. The use of budget support can be so partial, prescribed in its use or surrounded by safeguards that it does not, in fact, contribute much to the achievement of aid-effectiveness objectives. Standalone projects can (albeit rarely) be so well integrated with partner government planning and financial management systems that they are entirely acceptable from an alignment perspective.

### Using partner countries' budget systems - at the heart of improved aid effectiveness

Paris Declaration and Accra targets for improving aid effectiveness require, among other things, substantive increases in the use of partner countries' PFM systems, in the extent to which aid is reported on national budgets, and the greater use of PBAs / programmatic support. However the debate on aid effectiveness, and in particular what effective 'use of country systems' really means, and why, has moved on somewhat and is largely centred on the extent to which financial aid uses countries' budget systems *in their entirety*, rather than simply being *reported on* national budgets (as per the Paris Declaration target).

*Using partner countries' budget systems* is often referred to as 'putting aid on budget', although this can be confusing as 'on budget' is also the term applied to one particular component of a wider budget system (see below). Mokoro's *Putting Aid on Budget*<sup>39</sup> identifies eight 'dimensions' of using country budget systems:



These dimensions are also reflected (or sometimes implied), to a greater or lesser extent, in monitoring the implementation of the Paris Declaration and in PEFA assessments.

The remainder of this annex discusses each of these elements of 'using partner countries' budget systems'.

#### On Plan

Development depends on good policy and public expenditure choices, set in the context of the overall resources available and a credible medium-term strategy for implementation. Where financial aid - through whatever modality – represents a significant component of a government's resources, then that aid needs to be incorporated into the planning process.

Meaningful planning involves deciding on priorities, often from within broad pre-existing statements of national or sector objectives. It is the partner government that must lead that

<sup>39</sup> *Putting Aid On Budget Synthesis Report*, Collaborative Africa Reform Initiative and the Strategic Partnership for Africa, Mokoro Ltd., Oxford, 2008.

process, but donors need to understand it and relate their own processes to it if they are to contribute maximally.

From the partner government side there needs to be transparency of process, and in particular a process that genuinely reflects policy-based budgeting (i.e. the adaptation of public expenditure better to deliver on policy objectives), as opposed to 'budget-based policy' (i.e. the determination of national or sectoral policy based on previous-year treasury allocations). This requires time and early indicative commitments of any financial aid that might be being provided. A well-publicised *budget calendar* is central to both partner government and donor planning processes.

*Medium Term Expenditure Frameworks* (MTEFs) are central in improving planning based on the assessment and costing of options (and, subsequently, accountability). But MTEF preparation can be complex and time-consuming, and will often constitute an area where a donor might provide capacity-building support over period of time. While a good MTEF that captures predicted aid flows is the ideal, the absence of an MTEF should not preclude efforts to put aid on plan in some other form.

Donors should:

- Aim to provide longer-term, less volatile and more predictable aid flows, with discussions on those timed to inform the planning process at the appropriate point in the *budget calendar*. (And broken-down in a way that is compatible with the government's own budget classification system.)
- Work with partner governments to remove the planning distortions created by separating aid flows off from the recurrent budget and allocating them exclusively to 'development' budgets (which often then become 'aid budgets').
- In considering sectoral support, donors should be sure that they are not unjustifiably distorting the partner government's legitimate priorities and balanced allocation of resources across sectors to achieve wider national development objectives.

### On Budget

'On budget' refers to the specific issue of whether or not financial aid is appropriately *reported* on the national Budget. Putting aid on budget (in this narrow 'reporting' context) is important when considering greater use of partner countries' financial systems as the Budget is the formal, public, mechanism for authorising and managing public expenditure and, subsequently, accounting to parliament and citizens for the use of public funds in achieving the government's policy objectives.

Qualitatively, we will be interested in the *credibility* of the Budget in terms of its accuracy and timeliness, its comprehensiveness (particularly the extent to which there is much off-budget expenditure which is thus less visible and accountable to parliament and citizens – and donors), and the extent to which there are subsequently significant discrepancies in revenue and expenditure out-turns.

The extent to which the Budget's *chart of accounts* enables *tracking* of donor expenditure is often a point of issue here. We should *not* aim to impose tracking conditions that require additional accounting or classification beyond that already provided in a credible Budget document. (And that would in any case become irrelevant as we move towards greater use of budget support.)

### On Parliament

(Or *through* the budget)

This refers to a slightly subtle extension of 'on budget' (above) and the difference that may exist between financial aid being 'noted' on or alongside the Budget (essentially for information purposes) and being included in the official revenues and appropriations that Parliament formally approves under parliamentary processes and finance legislation. The latter requires the executive to account to parliament for aid-funded expenditures and may serve to strengthen the financial management of aid flows.

### On Treasury

This refers to the extent to which external financing is channelled into the *main revenue funds* (or accounts) of government and then managed through the government's *regular systems of disbursement and financial control*. Putting financial aid flows 'on treasury' is at the heart of efforts to reduce transaction costs and, at the same time, strengthen public financial management by using those very systems and engaging with their development. Putting aid 'on treasury' also, by definition, serves to strengthen other dimensions of the use of partner countries' budget systems, including 'on budget' and 'on accounting'.

It is possible for aid to be 'on budget', and therefore notionally satisfy international reporting obligations, while not being 'on treasury' and thus not contribute to wider PFM and aid effectiveness objectives.

Both sector ministries and donor agents are often reluctant to put financial aid on treasury, as – it is frequently said – it slows up disbursement and, implicitly, compromises control of those resources by the sector ministry or donor agent. However, it is important to balance the long-term benefits of encouraging stronger public financial management against the short-term risks of delays and inconvenience.

### On Accounting

This is about financial aid being properly recorded and accounted for in the partner government's accounting system, using the government's own classification system. Again this is largely about reducing the transaction costs in accounting for aid funds, while also strengthening those systems.

Our interests will be in accurate and timely accounts, creating confidence in partner government systems and sufficient information – in particular – for effective audit (see below) and to monitor any fiduciary risk. Where we earmark financial aid to a particular sector or government organisation, robust accounts will also reveal the extent to which government flows to that sector or organisation are maintained or, perhaps, the extent to which donor funds merely substitute for government funds that are reallocated to other priorities.

### On Audit

Using the government's auditing system to audit external financing again reduces transaction costs by using existing and legitimate national systems. We will wish to see the

proper inclusion of aid in the audit and assess its quality and comprehensiveness. Having access to, and confidence in, audits is central to any consideration of budgetary support where the efficient and effective allocation of government resources is as important to us as that of any financial aid provided.

Where we do decide that we should undertake our own audits, we should do so in a way that helps to strengthen, and not undermine, the country's own audit system – perhaps by undertaking the audit in conjunction with them.

Note also that ex-post audit is not the only way of promoting accountability. The other dimensions of using partner countries' budget systems will also serve to strengthen the ex-ante relevance, transparency, coherence, accuracy and timeliness of accountability, and public financial management generally.

### **On Report**

This refers to the need, again for the purposes of reducing transaction costs, to capture aid-funded activities within a partner government's own regular reporting of development financing, progress, outcomes and impacts, as opposed to being required to produce separate and donor-specific reports for each aid-funded activity. An 'Annual Development Report' might be an example produced at either sectoral or national levels, or for particular units or levels of government. Our efforts should be centred on supporting the scope and quality (including analytical strength) of such reports, and ensuring that they are pitched at the level of outcomes and impacts, rather than simply listing development activities. (Perhaps through capacity-building.)

### **On Procurement**

For all the same reasons of strengthening partner governments' capacity to develop, implement and account for its policies and public expenditure choices to parliament and citizens, the ideal is that externally-financed procurement also follows the partner government's standard procurement procedures, as established through legislation. Donors should not seek to make additional or special requirements on governments.

In practice this is an area where donors often have serious concerns. If that is the case, we should establish what safeguards might appropriately be put in place to address concerns and support continued use of partner government procurement systems before deciding to relieve the partner government of procurement responsibility altogether.

There may also be issues of comparative advantage to consider, particularly for major one-off infrastructural works, for example, and sometimes in the procurement of specialist international technical assistance.

## Annex 3: People Met

Organisation	Name	Position
RWSSP	Keryn Clark	Team Leader
RWSSP	Manoj Nath	Community Development Adviser
RWSSP	Jessie Shapiro	Sanitation Adviser
RWSSP	Luke McNamara	Capacity Building Adviser
RWSSP	Joanna Mott	Gender Adviser
RWSSP	Heather Moran	Behaviour Change and Communication Adviser
RWSSP	Kofi Ampsonsaah	MTEF Specialist
RWSSP	Keith Simpson	Engineering Adviser
IDSS	Carol Bellew	Operations Manager
National Directorate for Water and Sanitation Service	Joao Pereira Jeronimo	Director
DNSAS	Elias Moniz	Head of Rural Water, and Gender Focal Point
DNSAS	Martinus Nahak	Program Coordinator, District Water and Sanitation Department
DNSAS	Rui De-Sousa	Division Head, Planning and Development
DNSAS	Gustavo da Oruz	Finance Manager
DNSAS	Joao Piadade	Sanitation Officer
SAS, Liquisa	Miguel Da Cruz Almeida	District Manager
SAS, Liquisa	Manuela Da Cruz	Technical Officer (Female)
SAS, Liquisa	Antonitu Da Silva	CWSDO/District Facilitator
SAS, Liquisa	Herminio C. Soares	Sub District Facilitator, Liquisa
SAS, Liquisa	Zelia M.C. dos Santo	Sub District Facilitator, Bazartete (Female)
SAS, Liquisa	Onofre M. dos Santos	Sub District Facilitator, Bazartete
SAS, Liquisa	Luciano Lopes	Sub District Facilitator, Maubara
Ministry of Health	Jose Magno	Director
Ministry of Health	Tomasia da Sousa	Head of Environmental Health Department
Ministry of Health	Rita Maria Suarez	Sanitation Officer, Environmental Health Department
Ministry of Health	Apolinario dos Reis	Health Promotion Officer, Health Promotion Department
Ministry of Health	Bendonina	Environmental Health Officer, Health Promotion Department
AusAID Dili	Ali Gillies	Minister Counsellor
AusAID Dili	Jemal Sharah	Counsellor, Development Cooperation
AusAID Dili	Jeff Prime	First Secretary, Development Cooperation
AusAID Dili	Jose Perreira	Program Officer, Water and Sanitation
AusAID Dili	Paul Keogh	PFM/Governance Analyst
AusAID, Canberra	Marcus Edwardes	Policy Manager, East Timor Section

<b>Organisation</b>	<b>Name</b>	<b>Position</b>
Ministry of State Administration	Miguel Pereira de Carvalho	Director, Local Government
Ministry of Health	Nazareno Todini	Financial Management Adviser
Ministry of Infrastructure	Jose Mestre	Director, Corporate Service and Finance
Ministry of Finance	Agostinho	Director for Budget
Ministry of Finance	Helder da Costa	Aid Effectiveness Adviser
UNICEF	Caesar Hall	WES Officer
WaterAid East Timor	Dinesh Bajracharya	Country Representative
Plan Timor-Leste	Alex Grumbley	WES Adviser
USAID, Timor-Leste	Peter Cloutier	Executive Officer
USAID, Timor-Leste	Carlos P. dos Reis	Environmental Health Officer
NATI IES	Elisabeth Emilia Coelho	National NGO Program Officer
Amizade	Domingos Lopes	National NGO Program Officer
NTF	Marcol Ohero	National NGO Program Officer
CPT	Ernesto da Silva	National NGO Program Officer
HTO	Antonio Amaral da Silva	National NGO Program Officer
International Health Development	Sue Dawson	M&E Consultant
SKM/ADB	Jan Stofkoper	Water Expert, Department of Water and Sanitation

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*[nd=no date]*

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## Annex 5: Terms of Reference for the IPR

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### **Terms of Reference Independent Progress Report (IPR) Rural Water Supply and Sanitation Program: 15 – 23 April 2010**

#### **1. Background**

East Timor has one of the region's worst rates of access to clean water and sanitation and is unlikely to achieve MDG 7.3 on access to water and sanitation. In rural areas, only 55 per cent of people have access to an improved water supply and 25-35 per cent have access to sanitation. The reasons for poor progress include weak public sector performance and administrative systems and inadequate government budget allocation, particularly to recurrent costs and sanitation.

Australia is the lead donor in the rural water supply and sanitation in East Timor. The Government of Australia (GoA) and the Government of East Timor (GoET) agreed to a Memorandum of Understanding (MoU) whereby Australia would provide around \$28 million over five years. A further \$12 million is now available under the AusAID Water and Sanitation Initiative (WSI). A decision has been made to channel this additional funding through Australia's current program, the Rural Water Supply and Sanitation Program (RWSSP).

RWSSP will improve access to water supply and sanitation in rural areas. RWSSP is the largest donor investment in the sector and has been the subject of a number of reviews and an Office of Development Effectiveness (ODE) evaluation<sup>40</sup>. The reviews have confirmed that RWSSP has successfully delivered water supply and sanitation services to people in rural communities. However, recommendations to improve RWSSP include more attention to (i) the sustainability of water and sanitation systems, (ii) strengthening GoET leadership, (iii) enhancing coordination, (iv) improving policy dialogue and (v) working through government systems. RWSSP is working to implement these recommendations through annual work plans and is transitioning to a government-owned sectoral program.

The Timor-Leste Rural Water, Sanitation and Hygiene (RWASH) sector strategy from 2008-2014 was developed with support from RWSSP and endorsed by the Minister for Infrastructure and the Minister for Health in August 2008. The strategy prioritises five functional areas considered sector goals and 15 general results within these functional areas (see attachment A). RWSSP has aligned its activities to the five functional areas:

- 1) Sector Policy and Planning
- 2) Support Mechanism and Resourcing
- 3) RWASH Service delivery
- 4) Community Management of RWASH activities
- 5) Environmental protection and Natural Resources Management

However, over time, Australia will increasingly focus our support on improved planning and resource allocation, sustainable services built and maintained and better hygiene practices.<sup>41</sup>

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<sup>40</sup> Refer to Working Paper 1: East Timor, Independent Evaluation of Australian Aid to Water Supply and Sanitation Service Delivery in East Timor and Indonesia, December 2009

<sup>41</sup> Refer to the draft Water and Sanitation Delivery Strategy

## 2. Objective of the IPR

2.1 RWSSP requires an independent evaluation as part of AusAID's quality process.

The objective of the IPR is to assess how RWSSP is addressing all of the ODE and MRG recommendations with an emphasis on key sustainability issues in the context of RWSSP as a whole transitioning to a government-owned program.

## 3. Scope of IPR

3.1 The focus is to assess how RWSSP is addressing all of the ODE and MRG recommendations (see Attachment B for a summary of the recommendations) with an emphasis on how RWSSP is addressing key sustainability issues.

- i. *Transition to a government owned program:* Assess RWSSP's transition strategy<sup>42</sup> and whether the strategy clearly outlines realistic steps or phases needed to transfer program functions and ownership to the government. And recommend what else is needed to transition to a government-owned program.

As part of assessing sustainability issues investigate how RWSSP is using government systems (including PFM systems<sup>43</sup>). Assess and identify the risks, challenges and opportunities of using government systems and what safeguards are in place. Clearly identify what fiduciary risk assessment has been undertaken and identify analytical gaps and further analysis needed.

- ii. *Community management:* Assess how RWSSP is addressing key factors influencing sustainability of water systems including: low level of community engagement and management, community conflicts, illegal connections, poor design and construction and limited support from government at the local level.

## 4. Duration and phasing

4.1 The evaluation will take around five weeks and is planned for April to May 2010. The exact date and timeline of the IPR is to be confirmed based on the evaluation plan (including methodology) to be developed by the Team Leader.

4.2 The evaluation will involve team discussions focussed on the key issues and objectives for the IPR identified in these Terms of Reference. These discussions will be informed by a desk review of documentation and consultations with officials from both Australia and East Timor.

4.3 Specifically, the team will undertake the following steps:

- i. Conduct a desk study involving:
  - a. an assessment of relevant program documentation provided by AusAID, and any additional documents or information required prior to the in-country mission (2 days for each of the international specialists);

<sup>42</sup> Refer to the Proposed Transition Plan and Milestone Markers at Annex 8 of the Work Plan incorporating Water and Sanitation Initiative Funding for period: July 2009 to June 2011, dated 31 January 2010 or most up to date version.

<sup>43</sup> PFM is defined here as including all components of a country's budget process – both upstream (including strategic planning, medium-term expenditure frameworks, annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight).

- b. the development of an evaluation plan (including the methodology), field research guide and instruments and identification of key respondents and further documentation required. The plan will indicate the roles and responsibilities of each team member for data collection, analysis and reporting (0.5 day for the Team Leader).
- ii. Participating in an AusAID Canberra briefing via teleconference or video conference (0.125 day).
- iii. Travel to East Timor (1 day for each of the international experts).
- iv. Participate in an AusAID briefing session in Dili at the start of the in-country visit (0.125 day all team).
- v. Participating in a discussion on appraisal of the M&E Framework with Sue Dawson (1 day all team). The discussion will focus on refining the logical framework of the program and approaches to monitoring and evaluation.
- vi. Conduct consultations with East Timor core partners (Ministry of Infrastructure, Ministry of Health, and Ministry of Finance), Dili-based implementation teams, other stakeholders and field visit (4 days).
- vii. In-country team discussions and documenting (1 day).
- viii. Prepare an Aide Memoire for submission on the final day of the field review which outlines the major findings and preliminary recommendations of the IPR (1 day).
- ix. Participate in an AusAID debriefing session in Dili at the completion of the field visit and present initial findings of the IPR to AusAID Dili, GoTL counterpart and RWSSP team (0.5 day).
- x. Return travel from East Timor (1 day)
- xi. Process information from document reviews, interviews and any other proposed methods, including case studies (2 days).
- xii. Prepare a draft IPR (6 days for team leader, and 3 days for other specialists).
- xiii. Participate in Peer Review of the draft report via teleconference (0.5 day for team leader
- xiv. Finalise the IPR (2 days for the Team Leader).

## 5. Reporting requirements

5.1 The IPR team shall provide AusAID with the following reports:

- i. Evaluation plan (including methodology) – to be submitted at least one week prior to the in-country visit. The plan should include i) a statement of general approach being proposed; ii) evaluation questions to be answered; iii) proposed method for sampling, collecting and analysing data for evaluation questions; iv) identifying respondents or documents that will provide the information; v) separate section to assess quality criteria (see 6.1 part (iii) c); and vi) allocate responsibility to the review team both during data collection and reporting
- ii. Aide Memoire on the initial findings of the IPR – to be presented to AusAID and GoTL prior to a debrief and discussion at the completion of the in-country mission;
- iii. Draft IPR – to be submitted to AusAID within three weeks of completing the field visit, incorporating feedback from AusAID on the Aide Memoire and noting that:

- a. AusAID may share the draft IPR with, and seek feedback from, partner government agencies and other key stakeholders, as appropriate; and
- b. The evaluation will also be subject to technical quality review by the Performance/Sector Adviser (reporting directly to AusAID) and peer review.
- c. The draft IPR will include a one page assessment rating RWSSP's performance against quality criteria (relevance, effectiveness, efficiency, sustainability, gender equality, monitoring and evaluation, analysis and learning). The final rating will be determined by the team leader. The rating will be based on the team's professional judgement. Brief comments explaining the rationale for the rating can be provided however extensive assessment is not required due to previous assessment by independent reviews (including on program efficiency and lessons learnt) and the short time in-country.
- iv. Final IPR – to be submitted within two weeks of receipt of AusAID's comments on the draft IPR; the report should be a brief and clear summary of the IPR outcomes and focus on a balanced analysis of issues faced by the activity.

5.2 Both the draft and final reports should be no more than 25 pages of text excluding appendices. The Executive Summary, with a summary list of recommendations, should be no more than 2-3 pages.

## 6. Team composition

- 6.1 The team will include three international experts – the Team Leader (System/Aid Effectiveness), WASH & Community Development specialist, and the Public Financial Management Specialist.
- 6.2 An interpreter will be made available for the team when needed.
- 6.3 The AusAID RWSSP Activity Manager and A-Based in charge for the program will be available to assist the review team throughout the evaluation process by providing background information on the program (including implementation processes, content and oversight) and will accompany the review team during the in-country mission.
- 6.4 The team collectively will have the following skills and qualifications:
  - i. assessment and design expertise in relation to multi-year development cooperation programs, particularly on RWASH sector, including flexible funding mechanisms;
  - ii. knowledge of AusAID design processes and requirements;
  - iii. demonstrated understanding of, and experience in, developing and implementing RWASH program;
  - iv. demonstrated capacity to assess monitoring and evaluation tools and requirements;
  - v. experience assessing the implementation and sustainability of community managed activities
  - vi. experience assessing institutional capacity in a developing country context, in particular support for building capacity and improving activities;
  - vii. experience assessing Government financial system;
  - viii. writing skills of a high standard and computer literacy skills.
- 6.5 Responsibilities within the team are to be negotiated between the Team Leader and the other team members, within the context of the following guidelines. The Team Leader should confirm

the specific individual responsibilities with the team members and AusAID prior to the field mission.

#### **Team Leader/aid effectiveness**

- 6.6 The Team Leader will have primary responsibility for directing team inputs and responsibilities, leading consultations with Australian core partners, coordinating the in-country mission logistics, and preparing the reports. The Team Leader will take primary responsibility for assessing the program logic of RWSSP design, including the extent to which hierarchy of objectives are appropriate, assessing management aspects of the program, M&E, gender and other areas as considered appropriate in negotiation between the Team Leader and other members.

#### **Public Financial Management**

- 6.7 The International Public Financial Management Specialist will, at the direction of the Team Leader, have primary responsibility for considering particular issues including: channelling funding through government systems; focusing on financial management at the local level and how this links to decentralisation; and assessing any fiduciary risk assessment undertaken by RWSSP and examine what safeguards are in place. The specialist will provide input into the Aide memoire and the draft and final report of the IPR as agreed by the Team Leader.

#### **WASH & Community Development**

- 6.8 The WASH and Community Development Specialist will, at the direction of the Team Leader, have primary responsibility for evaluating the value of RWSSP to East Timorese partners, particularly in terms of its contribution to East Timor national priorities, MGD targets, and assessing the RWSSP approach to community-managed WASH facilities. The specialist will also provide input into the aide memoire, draft and final report of the IPR as agreed by Team Leader.

## **7 List of Key Documents**

The following documents should be provided to the evaluation team in advance on the in-country mission by AusAID Post and Desk:

- RWSSP Whole of Program Life Work Plan (WoPLWP)
- WSI Workplan and Design Document
- RWASH Sector Strategy (2008 – 2014)
- Project Scope of Services (Contract Amendment 4 & 5)
- Six-Monthly Progress Reports (from 2008 – current)
- Program Management Committee Minutes
- MRG Mission Reports
- MRG Aide-Memoire (June/July 2009 visit)
- Australia – Timor-Leste Country Strategy (2009-2014)
- AusAID (draft) Water & Sanitation Delivery Strategy
- RWSSP Quality-at-Implementation Reports
- AusAID policies and guidelines including on Gender, Disability and Child Protection and the Independent Progress Report template.
- ODE Review report (December 2008)

Other relevant documents including those relating to the Sector Wide Approach, the Timor-Leste Infrastructure Plan.