



CEP Micro credit funded kiosks in Meligo, Bobonaro

**LESSONS LEARNED:**  
**The Community Empowerment and Local Governance Project (CEP)**

**THE ROLLING THINK TANK INITIATIVE:**  
**Joint Government-Civil Society Study of Development Projects**  
**Final Report**  
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## Abbreviations

ALGD	Local Government
CAA/O	Community Aid Abroad / Oxfam Australia
CEP	Community Empowerment and Local Governance Project
CIIR	Catholic Institute for International Relations
CNRT	National Council of Timorese Resistance
DCDC	District Community Development Committee
DIA	Department of Internal Administration
ETPA	East Timor Public Administration
ETTA	East Timor Transitional Administration
GoTL	Government of Timor-Leste
IDA	International Development Association
IDSS	International Development Support Services
JAM	Joint Assessment Mission
KDP	Kecamatan Development Project
MoPF	Ministry of Planning and Finance
NDPEAC	National Directorate of Planning and External Assistance Coordination (formerly PEAMD)
NGO	Non Government Organisation
OMT	Organisasaun Mulhere Trabalhadores
PEAMD	Planning and External Assistance Management Division
PMU	Project Management Unit
PPMV	Pilot Widows Program
RDTL	Democratic Republic of Timor-Leste
SSTL	Suco Survey of Timor-Leste
TFET	Trust Fund for East Timor
UNDP	United Nations Development Program
UNMISSET	United Nations Mission in East Timor
UNTAET	United Nations Transitional Administration in East Timor
UPK	Sub-District CEP Treasury

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## Executive Summary

This report is the first study conducted by the “Rolling Think Tank” – a research initiative of the National Directorate of Planning and External Assistance Coordination (NDPEAC) of the Ministry of Planning and Finance (MoPF). It aims to bring together participants from Government and Civil Society to gather the lessons learned from development activities in Timor-Leste and strengthen the analytical capacity of Timorese.

The Community Empowerment and Local Governance Project (CEP) was an \$18 million project that set up elected Village and Sub-District Development Councils throughout Timor-Leste in early 2000. These Councils were tasked with choosing, designing and implementing community proposed projects that best met their development priorities. This new model of aid delivery aimed to provide a transparent and democratic forum by which communities could participate in reducing their own poverty. Through three phases of funding over a 30-month period, the Councils implemented a wide range of projects including community centers, road repairs, building rehabilitation, water sanitation and micro credit activities.

- **Poverty Alleviation**

Most communities spoken with were grateful for the assistance offered by the CEP. Many projects visited by the research team significantly improved the quality of people’s lives, especially water and sanitation projects. Although most acknowledge that projects did not always reach the “poorest of the poor”.

The CEP Council structures were ill-equipped to manage the micro credit component. The final repayment rate of loans will only be somewhere between 30 to 40 per cent. Problems identified with micro credit include the lack of training of credit recipients, an ineffective system of incentives to repay loans, inappropriate funding sanctions and its inability to tackle poverty and its causes.

- **Governance**

The CEP Councils were intended to be the key governance institution at the local level. However, by not including traditional and existing authorities within this hastily introduced model, Councils often struggled to gain legitimacy with communities. This often led to confusion and conflict between the different governance structures and project recipients. For these reasons, external providers of assistance felt reluctant to consult with Councils on projects, although they often also had their own agendas.

In the districts examined, the CEP failed to build up a collaborative and complementary relationship with local government. This failure stemmed from managerial tensions between the CEP and government at all levels as well a view, embedded in project design, that government is ineffective in delivering services.

- **Participation and Empowerment**

Both CEP facilitators and Council members interviewed identified lack of community participation as the biggest problem facing the project. For the community, the Councils were repeatedly perceived as World Bank run, external to the community and therefore largely viewed as a source of ‘easy’ foreign money. Also discouraging community involvement was a lack of knowledge about the purpose and rules of the project, a legacy both of the ambitious scope of the project and the pace of project implementation. It was Council members who had to shoulder this burden of community disinterest although many spoken with did gain experience and confidence from their roles.

CEP initiatives to overcome gender barriers to participation were mixed. Confidence building exercises were viewed as positive steps although project enthusiasm in continuing these initiatives dropped off. Also many practical barriers to women's participation such as child care remained unaddressed.

- **Framework for Aid Delivery**

CEP had a tight system of financial accountability at least down to the Sub-District Council level. Beyond this stage, the research team certainly heard many allegations of KKN (Corruption, Collusion and Nepotism) although it is difficult to judge their truth or their extent.

Most participants interviewed commented that projects under the CEP had variable technical quality. Most people blamed technical staff that lacked training and literacy, but these weaknesses were exacerbated by placing them in a decentralized environment, separated from the relevant line departments in government able to effectively design and coordinate project infrastructure.

Budget-wise, only a small proportion of the budget has been spent on grants to Councils and this has been distributed slowly. Of the total expenditure, only 47.5 per cent has been spent on community grants and between 36.2% to 46.6% has been spent on 'overheads'.

- **Implementing Agencies and Project Management**

Unresolved institutional rivalry between UNTAET and the World Bank over the design and management of the CEP filtered down to the local level, undermining the Council's political legitimacy and encouraging the CEP to develop in parallel with UN local government rather than in cooperation with it. The GoTL, as the subsequent signatory to the project grant agreements, inherited this legacy.

As the de-facto project manager, the World Bank prioritized its goals of quick and transparent aid delivery and its development assumptions for the CEP. This agenda took on a momentum of its own as no stakeholder was in a position to question, debate and reprioritize project direction even when problems emerged with these choices.

## Main Lessons Learned

- 1. The CEP demonstrates that there is a strong need for long term investment in community level infrastructure.** Communities visited by the research team had received CEP assistance enthusiastically, despite their criticisms directed at the implementation of the project, and clearly demonstrated that meeting their basic development needs would require a long term commitment of similar resources.
- 2. Micro credit projects should be run through financial institutions that have the knowledge and resources to closely target, assist and monitor credit recipients.** Many of the problems with the micro credit component stem from using ill-equipped CEP Council structures as quasi-micro credit providers. The component was implemented hurriedly and without a clear framework. Instead, other ways for introducing liquidity into the community during the emergency period should have been examined.
- 3. The need for an economic analysis of the impact of CEP (and micro credit in particular) on local economies.** What impact does micro credit have on poverty alleviation? For example; is more competitively produced rice, cooking oil and coffee imported from overseas and sold at local kiosks stunting local industries? Further research could be integrated into a plan that develops sustainable local industries and agriculture.
- 4. Participatory and empowered learning must be given time to gestate in a supportive environment.** The community empowerment ideas within the CEP needed careful explanation, guidance and time to develop. In this case, rushed processes, shortened training and a centralized rules-based system discouraged community involvement in the project. Instead, the project could have benefited from:
  - More detailed socialization and training about participatory techniques and not just explanations of grant processes.
  - Utilization of existing local NGOs working on popular education and empowerment.
  - Letting the communities set the pace of project implementation rather than rushing grant disbursement (which ironically led to delays anyway.)
- 5. A Council model should be sensitive to the local governance realities of Timor-Leste.** When local institutions have an impressive history of resilience and adaptability, planners must be cautious about imposing an external structure. CEP's attempt to bypass pre-existing governance structures with a new Council structure was received ambiguously by communities and in many cases, generated local conflict that inhibited the project. Instead, the CEP model should have adopted the positive features of Timorese local authorities and challenged its regressive features through continuous dialogue. This could have enabled:
  - A sustainable Council and therefore a better use of capacity building resources
  - Stronger local legitimacy and therefore community participation
  - Quicker capacity to adopt the project and a more supportive environment to introduce the 'radical' aspects of CEP.
- 6. Stronger stakeholder involvement and ownership in the project at all levels.** This could have been encouraged by setting up a joint committee of overall management and district level coordinating bodies that meaningfully involved key stakeholders such as the GoTL, community groups and donors, rather than letting decision-making effectively lie with the World Bank Task Manager. Such a body could have debated and adapted project direction when problems emerged. Stronger joint ownership would have also given more political legitimacy to the project at the grassroots and reduced institutional rivalry and distance.

## **Part 1.**

### **Introduction: Developing Capacities for Learning**

This report is the result of research initiated by the National Directorate of Planning and External Assistance Coordination (NDPEAC) (formerly the Planning and External Assistance Management Division (PEAMD)) of the Ministry of Planning and Finance (MoPF). It is the first in a series of joint government-civil society studies to gather the 'lessons learned' from development projects in Timor-Leste.

The scope and urgency of Timor-Leste's reconstruction often means that donor and government energies are focused on funding processes and project implementation. However, the important task of gathering feedback about project successes or failures has been lacking. The NDPEAC believes that it is essential for government staff to develop the capacity to gather feedback and analyse it. The effective use of these skills can greatly aid future project design, enable staff to better participate in national strategic planning and ultimately, create a government more responsive to its people. This research--'lessons learned'--exercise hopes to begin the development of these capacities. The exercise aims to explore, unpack and discuss both the positive and negative aspects of project design and implementation.

This exercise has also commenced what is an important partnership between government and civil society. A research team representing a cross-section of perspectives strengthens the quality of the work and broadens the ownership of the results. It is also recognition that successful nation-building is best achieved through an inclusive, constructive and continuous dialogue between all facets of society.

The 'lessons learned' exercise is the first step in what is envisioned to be a program of strengthening and broadening analytical capacity among Timorese staff (government and civil society) involved in local and national development. Ideally, this will also include the ability to extract and compare lessons from projects implemented in other countries with Timorese projects. Only through the continual analysis of our own projects, compared with similar programmes in other countries, will we be able to develop a robust and systematic way of using past lessons to formulate better projects in the future. Although this first study did not get a chance to draw on comparative international experiences, we hope that future research efforts will be able to do so.

NDPEAC welcomes suggestions and contributions for future research.

#### **1.1 Methodology: A Collaborative Process of Learning**

The Community Empowerment and Local Governance Project (CEP) is the first project to be studied under this initiative because, as a project that is comprehensive in geographical coverage, multi-sectoral and due to finish at the end of 2003, it offers many important and timely lessons that can assist with the design of future programs.

As the first study to be undertaken under this initiative, we, the research team, felt that the process of collaboration and capacity building to be as important as the results of the research itself. Facilitating the meaningful involvement of participants from different parts of government and civil society, slowed the process a bit, but was nonetheless an important investment in laying the groundwork for future research.

This emphasis on collaboration took several forms. First, to begin the process, NDPEAC convened two initial meetings of stakeholders from Government, local

NGOs and the UNDP to assist with guiding the research. These meetings developed the terms of reference for the research by offering suggestions on its focus, leads and methodology.

At this stage, an initial team to conduct the research was formed although membership did grow. This team included:

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Julino Ximenes da Costa	Perkempulan Hak
Mateus Goncalves	Sa'he Institute for Liberation
Domingos Marques	NDPEAC
Evaristo Sarmento	Office of the President
Ben Moxham	Focus on the Global South, Bangkok, Thailand

Each team member brought something specific to the team. Government team members assisted with logistics, including field trip coordination, interviews and convening meetings. Members from Timorese NGOs added research experience, a practical knowledge of the issues and networks of people in the districts both to assist with field work and be interviewed. NDPEAC also invited Focus on the Global South (Focus), a research and advocacy organization based in Bangkok, to assist with this process. Focus has previously helped NDPEAC with information about the Poverty Reduction Strategy Paper (PRSP) and with some current initiatives from the donor community. They assisted the NDPEAC in organizing this study and committed a volunteer to work on this topic for a period of eight weeks.

Second, during the research phase, we regularly met and discussed with other stakeholders the progress of the research, areas to improve and new areas to examine. This was both a collaborative and dynamic effort. This method helped facilitate participation, information and skill sharing. Our meetings and exchanges were crucial, especially as most of us helped over and above our normal work commitments.

The research was conducted over eight weeks, from the middle of June until the middle of August 2003. In all, we interviewed over 120 people from all areas of the project including the World Bank, Government of Timor Leste (GoTL), donors, CEP staff and project recipients.

We initially spent three weeks in Dili collecting and analyzing documents and conducting interviews. Taking our lead from the terms of reference, we interviewed current and former staff from the CEP Project Management Unit (PMU), staff in a wide range of government departments, donors, and other NGOs.

We then spent one week in each of three districts. We chose three of the poorest districts identified in the Suco Survey of Timor-Leste of 2001 (SSTL) -- Manatuto, Bobonaro and Liquica. We believed that the experience of CEP in the poorest Districts would provide a strong basis to study its impact and effectiveness. We looked into a representative sample of different project types implemented under different project phases. The findings in this report are grounded in over 15 case studies taken from these districts. We held discussion groups with CEP project staff, Village Council members, *Chefe do Sucos*<sup>1</sup> and project recipients as well as interviewing a broad range of actors involved in project selection, design, implementation and maintenance. One very constructive morning of discussions was held with 20 members of the District Government of Manatuto.

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<sup>1</sup> The village leader under the CNRT (National Council of Timorese Resistance) system of local governance.



We then spent two weeks in Dili to expand upon and clarify issues examined in the Districts. A preliminary summary of findings was then presented to another meeting of stakeholders whose valuable suggestions have been considered. Finally, a presentation of results was made on the 21<sup>st</sup> of August 2003 at Memorial Independence Hall.

We acknowledge the diversity of community experiences under the CEP and believe these are reflected in the report. We felt that visiting more districts would have strengthened the findings. However, since this was our first study, we prioritized capacity building and skill sharing. In any event, the issues encountered and findings reached are supported and complemented by much of the written material on CEP, such as project documents and other studies. For details of the projects studied and the documents analyzed, please refer to Appendices A and B.

While the first part of this report has introduced the goals behind the research and methodology, the second part presents the findings of the research. These are framed around what we have identified and grouped as the four main goals of the CEP: Poverty Alleviation, Participation and Empowerment, Governance and Aid Delivery. They are interrelated and naturally, some issues overlap but we felt that this provided a strong basis for our research methodology. We tested the stated intentions of the project with what happened in practice, developing an understanding of why it achieved the level of success that it did.

The first section on poverty alleviation focuses on the two main project components that village councils deliberated over: grants for infrastructure activities and credit issued for economic activities. It also discusses the pilot program for vulnerable groups implemented under CEP. The second section on participation and empowerment looks at the involvement of community members generally, council members and women under the CEP. The third section then discusses the local governance goals of the CEP by examining the Council's relationship with pre-existing local authority, external providers of assistance and the district level government. The fourth section looks at the effectiveness of aid delivery using the CEP model. It discusses the technical quality of projects, issues of accountability and the appropriateness of budget disbursements. In addition, part two also contains a final section on implementing agencies and project management. It is a discussion of the stakeholder context in which these goals were developed, articulated and prioritized. We felt including this provides a stronger understanding as to why some goals were more successfully achieved than others.

The third part of the report provides a more detailed analysis of the findings presented in part two, extracting what lessons can be learned.

It should be stressed that this is not an exhaustive consideration of the CEP. While we examined several project components such as the Component A: Grants and Credits and Component B: Vulnerable Persons program, other components such as community radio and the cultural and heritage grants were beyond the limited resources and timeframe of the team. Stressing that such analysis should be a continual process, we hope that these areas can be covered in future.

The team would like to thank all those who were interviewed, provided input, helped with accessing documents and assisted with logistics. For more information please contact Bonifacio Belo of NDPEAC on [bobelo@mopf.gov.tp](mailto:bobelo@mopf.gov.tp)

## Part 2. The Community Empowerment and Local Governance Project (CEP): Research Findings

The Community Empowerment and Local Governance Project (CEP) was an \$18 million project that set up local council structures throughout Timor-Leste in early 2000. Through three phases of funding over a 30-month period, these newly elected Village Development Councils (the 'Councils') were tasked with choosing, designing and implementing village<sup>2</sup> initiated projects that best met their development priorities. The project was funded through the Trust Fund for East Timor (TFET). The project comprised three TFET grant agreements and a Japanese grant that delivered three phases of funding from February 2000 up until the project's expected end in December 2003.

The main goal of the CEP was to 'alleviate poverty and promote inclusive patterns of growth' by allowing communities, through the Council process, to:

- (i) build and reconstruct their basic economic infrastructure;
- (ii) support productive local economic activities; and
- (iii) support cultural heritage and social reconciliation<sup>3</sup>

In implementing these activities the Councils were designed to facilitate increased community participation in planning, implementing and maintaining projects. As the Project Appraisal Document states, 'projects would be produced *by* communities *for* community activities (emphasis in original).'<sup>4</sup> This would create a more responsive and efficient system of 'bottom-up' planning rather than a 'centralized administration which is disconnected from the needs and wants of the community.'<sup>5</sup>

Setting the foundations of local governance was also a high priority. The CEP came out of a recommendation of the World Bank-led Joint Assessment Mission (JAM) to Timor-Leste in late 1999. The JAM viewed the destruction of government structures in the violence of September 1999 as an opportunity to replace what it saw as a top-down, highly centralized and overstaffed system of government that often duplicated government functions. As an alternative, the Bank argued that the project would provide a sound foundation for the new country's structure of local government, a framework for channeling aid and facilitating the transition from the UN interim administration to an independent government.<sup>6</sup>

For the purpose of the research, we have grouped these goals into four areas:

1. Reduce poverty and support inclusive patterns of growth
2. Empower communities to decide upon and implement development projects
3. Provide a foundation for local governance that could coordinate local development and complement government planning
4. Ensure a transparent and efficient delivery of aid to the local level

The widespread destruction of physical and institutional infrastructure in late 1999 meant that implementing the CEP in post-occupation Timor-Leste was an ambitious task. The project established 418 elected Village (Suco) Councils and 62 Sub-District (Posto) Councils under UNTAET regulation 2000/13.

<sup>2</sup> In this report, the following Portuguese terms have been substituted by the English terms

Aldeia	Hamlet
Suco	Village
Posto	Sub-District

<sup>3</sup> Project Appraisal Document: Community Empowerment and Local Governance Project, May 15, 2000, World Bank, Report No. 20312 TP, p.2

<sup>4</sup> Project Appraisal Document, 2000 p. 2

<sup>5</sup> Project Appraisal Document, 2000 p. 9

<sup>6</sup> Project Appraisal Document, 2000, p. 9

Each Hamlet (Aldeia) elected a minimum of two representatives to sit on their local Village Council.<sup>7</sup> Each Village comprises of roughly five to ten Aldeias. Elections were first held in May 2000 and again in Mid-2001. Through three cycles of project funding, they were tasked with identifying the development needs of the village, and then planning, prioritizing and implementing them.

In the first project cycle, often referred to as the ‘emergency’ cycle, Village Councils were given an amount of money based on their population level which they could use to fund a project from a limited ‘closed menu’ of projects. The types of projects were limited because of the destruction of markets and distribution networks made it difficult to source external materials and expertise. Nearly \$1.5 million was distributed to villages in the following ways:

Table 1: First Phase Project Expenditure<sup>8</sup>

Community Centers	50%
Household Equipment	20.5%
Agriculture and Equipment	10.9%
Roads and Bridges	6.2%
Water Supply and Sanitation	6.1%
Irrigation	0.6%
Social – Various	0.7%
Council Administration	5.0%

For the two subsequent cycles, Village Council choices from an ‘open menu’ were forwarded to the Sub-District Council for final consideration. It was a competitive selection process, designed to encourage high quality proposals. The Sub-District Council is a higher body, composed of two elected representatives from each Village Council within the Sub-District. The second cycle commenced in the fourth quarter of 2000 and nearly \$3.5 million was spent on the following:

Table 2: Second Phase Project Expenditure<sup>9</sup>

Water Supply and Sanitation	28%
Irrigation	3.3%
Roads and Bridges	13.8%
Clinics and Schools	0.2%
Agriculture and Equipment	3.6%
Social Housing	6.6%
Household Equipment	2.8%
Electricity	0.2%
Social Various	0.9%
Women’s Group Activities	3.8%
Credit (Discussed Below)	29.8%
Council Administration	6%

The third phase commenced in the third quarter of 2002 and totals about \$3.7 million. This phase is yet to be complete but the type and number of projects selected is similar to that in the second cycle.<sup>10</sup>

<sup>7</sup> For an examination of the election process see Ospina Sofi and Tania Hohe, ‘Traditional Power Structures and the Community Empowerment and Local Governance Project’, Final Report 9/06/2001

<sup>8</sup> Data from CEP Project Management Unit

<sup>9</sup> Data from CEP Project Management Unit

<sup>10</sup> Although because of problems with credit, as discussed below in section 2.1.1.2 Credit, restrictions were placed on who could borrow in phase three.

Various organizations were involved in planning and implementing the CEP. The management of CEP went through many changes because of the rapidly changing political environment in Timor-Leste. The United Nations Transitional Administration in East Timor (UNTAET) was the signatory to the initial grant agreements for the project in early 2000. However, it could not devote the necessary resources to the project and out-sourced the creation and running of the CEP Project Management Unit (PMU) to Community Aid Abroad/Oxfam Australia (CAA/O) for the first nine months of the project. The PMU oversaw the day-to-day running of the CEP. This included the training of project staff and in particular, the facilitators who were the key liaison between the CEP PMU and communities and Councils.

In late 2000 it was decided to 'Timorese' the PMU – i.e. let it be Timorese run. It was formerly placed under the East Timor Transitional Administration (ETTA) and then various GoTL departments but always maintained a strong degree of independence. The role of government in project management in the CEP has always been a limited one.

Although UNTAET was the signatory to the grant agreement, the World Bank, as joint-trustee of TFET maintained close, day-to-day control over project design and direction. This role was codified in the grant agreements where the Bank supervised detailed procurement guidelines, project literature and fielded quarterly supervisory field missions that produced detailed recommendations for the PMU. As such, the Bank maintained stronger control over the project than either UNTAET or the Timorese government.

## 2.1 Poverty Alleviation

CEP aims to alleviate poverty by allowing affected communities to define what their most pressing needs are and addressing them through the CEP Council processes. As such, there is no working project definition of poverty, and as the first project appraisal document notes, no mechanism to target the poor,<sup>11</sup> or a definition of who they are or the nature of their difficulties.<sup>12</sup> Rather, the project design assumes that the wide coverage of the program, complemented by a decentralized and democratic disbursement mechanism (the Council), will work towards reducing poverty in a country where it is widespread.<sup>13</sup>

It is difficult to assess the number of people assisted by CEP projects. The tumultuous nature of the emergency phase meant that 'the number of beneficiaries is difficult to determine'.<sup>14</sup> The picture in the second phase is also a hazy one. The CEP records only that 70,000 people benefited from water projects although the total number of project beneficiaries would have been substantially higher considering that every village was involved in the CEP process and there was a substantial

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<sup>11</sup> Project Appraisal Document, 2000, p. 10. Although, the Pilot Program for Vulnerable Persons did attempt to explicitly target the 'poorest of the poor'. (see the discussion in section 2.1.2 Pilot Program for Vulnerable Groups)

<sup>12</sup> There is no quantitative data that explicitly addresses the effect CEP has had on poverty alleviation rather, Key Performance Indicators (KPIs) only measure the number and type of project and the number of people assisted by it (although this data is incomplete). Other KPIs recorded include the number of villages with Councils, villages with sub-projects and the percentage of agreed work completed. (Key performance indicator data from CEP Project Management Unit)

<sup>13</sup> It stands at 44 per cent of the population outside of urban areas (Timor Leste, Poverty in a New Nation: Analysis for Action, 2003)

<sup>14</sup> Key performance indicator data from CEP Project Management Unit

amount of infrastructure built, such as community centers and road projects that benefits the community at large.<sup>15</sup>

Without concrete data on this issue, we gathered general observations about the types of projects being implemented and the types and number of beneficiaries. Most communities spoken with were grateful for the assistance offered by the project. It reached them at a time when few other projects did. Council members and communities spoken with did however comment that projects did not always reach the poorest of the poor, an acknowledgement made by CEP staff and in World Bank Aide Memoires.<sup>16</sup> In the village of Oeleo for example, while CEP projects were clustered around the main street, including a rehabilitated school, a repaired road and several water projects, a neighboring hamlet had only received a toilet.

We also saw examples of communities excluded from the proposal selection process used in the second and third phase of the project either due to their village being poorly represented at Sub-District Council meetings or political discrimination or dubious project allocations. For example, we visited several Hamlets in the village of Ulmera who were disappointed in missing out on projects. Apart from the rehabilitation of a few houses in 2000, the CEP had been unable to provide them with anything. Community members were upset at this and queried the performance of their young council representative. In the Hamlet of Tunubibi, previously an Indonesian transmigration area in the village region of Tapo/Memo, there was a dispute over who owned the land. Tunubibi residents had unsuccessfully applied for separate status and were not recognized by the rest of the village and had consequently been excluded from the CEP process. We also heard several cases of Council members awarding grants to family members and visited one village where the CEP projects were clustered around the Chefe do Suco's house.

CEP staff made several interventions in proposals to better guarantee inclusion of vulnerable groups of people but such a trade-off with a fledging representative democratic process proved sensitive and only mildly effective in many cases examined.

## **2.1.1 Component A: Grants and Credits**

### **2.1.1.1 Grants**

Many community members interviewed were grateful for the assistance they had received, often mentioning that the CEP was the only or main source of assistance they had received. Several projects visited significantly improved the quality of people's lives. Water and sanitation projects (a common project in the second phase) provided clean and accessible water, the beneficiaries of which were women who do most of the cooking, cleaning and washing.<sup>17</sup> We also saw several irrigation projects that had enabled farmers to make land more productive.

We observed several types of projects that arguably have a low poverty alleviation value, for example, 235 Community Centers were constructed in the first cycle (see table 1 above) yet arguably, they have a minimal poverty alleviation value. People interviewed interpreted this high number of centers as Councils wanting to run a project that achieved 'consensus' especially in a climate where they had displaced local leadership structures.<sup>18</sup> In Bazartete Sub-District for example, the community

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<sup>15</sup> Key Performance Indicator data from CEP Project Management Unit

<sup>16</sup> World Bank Aide Memoire 2002

<sup>17</sup> There is however an issue of technical quality as many infrastructure projects are reported to be no longer working properly (see, section 2.4.2 Technical Quality of Projects)

<sup>18</sup> It should also be added that given the limited supply of materials in the first phase, the reconstruction of buildings was encouraged.

hall served primarily as the offices of the *Chefe do Suco* and Sub District Administrator. Similarly, the team heard of one village that avoided conflicts over resources by purchasing plastic chairs that were divided evenly among the community.

Surprisingly only a few pieces of critical social infrastructure such as schools and clinics were built under the CEP, despite a pressing need for them.<sup>19</sup> In Timor-Leste, only one in four women are assisted by a skilled medical practitioner during child birth<sup>20</sup> and the average student to teacher ratio is 52.<sup>21</sup> We did not get a definitive answer on why this was the case. Several possible explanations were offered by participants interviewed. First, the project's emphasis on communities building or reconstructing 'their basic economic infrastructure'<sup>22</sup> – a bias reflected in project manuals and training - may have systematically discouraged the construction of schools or clinics.<sup>23</sup> This is a strong possibility given that the project's predecessor, the Kecamatan Development Project (KDP) only allowed communities to build non-social infrastructure and the CEP was closely modeled on this.<sup>24</sup> Second, communities that proposed either of these found it difficult to get a commitment from a fledgling government or a distracted UNTAET, that the facility would be staffed and resourced – a requirement under project rules. Third, the CEP's ad hoc coordination with government sectors (which also lacked policy) meant that projects that did not need sectoral support were systematically favoured.<sup>25</sup> Fourth, some participants interviewed also suggested that communities place a low priority on these facilities; however, this was disputed by many other participants. Indeed, in the community consultations for the 'National Development Plan', education and health were identified as the priority areas.<sup>26</sup> Finally, other aid projects may have explicitly assisted these sectors, discouraging CEP processes to cover these areas.

#### **From the Districts: Water Project in Oeleo Village**

In the village of Oeleo in Bobonaro District, the community had built several water tanks and pipes placing clean water supplies in the center of their community. It improved the quality of life especially for women who do the majority of cooking cleaning and washing. Clean and accessible water was identified as a critical need for the community at a meeting run by the *Chefe do Suco*. The Council had a strong relationship with the *Chefe* and simply approved this decision. There was encouraging community participation in the implementation of this project.<sup>27</sup>

<sup>19</sup> Although perhaps the 'social housing' category in the table above may contain a small percentage of schools and clinics reconstructed or built.

<sup>20</sup> Timor Leste Analysis of Poverty, page. xv

<sup>21</sup> The 2001 Survey of Sucos: Initial Analysis and Implications for Poverty Reduction, ETDA, ADB, World Bank and UNDP, October 2001

<sup>22</sup> Project Appraisal Document, One, 2000

<sup>23</sup> It should be noted that the language of the CEP project appraisal documents did change to include 'social infrastructure activities' (PAD 2 2001, PAD 3 2002) but it is unclear how this change was reflected in project approval processes and literature.

<sup>24</sup> For a description of the KDP program see, Edstrom Judith 'Indonesia's Kecamatan Development Project: Is it Replicable?: Design Considerations in Community Driven Development', Social Development Papers No. 39 (March 2002)

<sup>25</sup> For a discussion on CEP's relationship with district-level government see the discussion below in 2.3.3 District Level Government.

<sup>26</sup> A nation-wide consultation for Timor-Leste's National Development Plan organized over 1000 forums covering more than 38,000 Timorese citizens. They produced the 20-year national vision for the country; identifying *education*, health and employment as the top priorities.

<sup>27</sup> A strong claim the team encountered upon returning to Dili is that a local NGO actually built and funded the water system they were shown. If true, this worryingly raises questions of accountability

While the community members were happy with the project the World Bank expressed concerns that this was an example of communities duplicating water systems. They commented that as a result, this system is an example of one: 'imposing inefficient design, high costs and unsustainable O&M (Operations and Maintenance) commitments which all result in the system breaking down very quickly with no long term benefits to society.'<sup>28</sup> (PAD 3, 2002 page 39)

**Comments:**

This was a positive project, well used by everyone, especially women. Part of the project success stems from the good relationship between the Chefe do Suco and the Council.

As the World Bank comments hint at, there is however a need to reconcile community wishes with an efficient allocation of resources for projects: to reconcile goals of local empowerment with national poverty alleviation. A nearby village had only received a toilet while this village has probably received two water systems. (This problem of decentralization is discussed in more detail in section 2.3.3 District Level Government)

### 2.1.1.2 Credit

For the second cycle of CEP, any approved proposal for an 'economic activity' was given to the recipient as a loan to be repaid to the CEP's Sub-District treasury (UPK). Issuing micro credit through the council project selection process was seen as a way to meet an 'urgent need to inject liquidity' into the community and 'jump-start economic growth in rural areas.'<sup>29</sup>

Loans approved by the Sub-District Council were issued on an 18-month basis at 10% p.a. with repayment to be collected on a monthly basis by a staff member from the UPK. It was then planned for repaid money to be 'revolved' or reissued to other community members through the same selection process. Money was issued as a loan to avoid undermining other fledgling providers of micro credit and presumably to reflect the private nature of economic activities. A total of US\$1,047,059 was loaned to credit groups (between 4-16 people) in the second cycle.<sup>30</sup>

Table 3: Credit Activities in the Second Cycle of CEP<sup>31</sup>

Activity	Percentage
Agriculture	5.4%
Small Kiosk	54%
Transportation	3%
Hand Tractor	2.8%
Livestock	12.4%
Fishing	5.9%
Rice Husking	5.7%
Furniture Making	2.9%
Other	7.8%

and transparency, especially as both the Chefe do Suco and CEP facilitator identified this project as CEP funded.

<sup>28</sup> Project Appraisal Document 3, 2002 p. 39

<sup>29</sup> World Bank Aide Memoire, 2001

<sup>30</sup> The third cycle of the project is yet to be completed.

<sup>31</sup> Data from the CEP Project Management Unit

Micro credit has been a controversial component under the CEP. According to the CEP PMU, the final repayment rate will only be somewhere between 30 to 40 percent<sup>32</sup>, well below the project goal of 80 percent repayment in the initial grant agreement. We investigated why there was such a low repayment rate but more importantly, what impact this component had on alleviating poverty.

We encountered the following reasons for why loans were not repaid.

- There was a lack of education and hence a lack of understanding about credit recipients obligations under the component. Several participants complained about abbreviated training and the confusion between the differing rules governing grants and credits and the differing rules for governing different project cycles. For example, the first cycle did not issue any money as credit. Several participants we spoke to, and other micro credit providers said that a lack of education about the credit component in CEP was a serious error in Timor-Leste given its historically low expectation to repay credit.<sup>33</sup>
- Credit recipients were often not financially able to repay the loan. Many credit recipients spoken with were either ill-equipped to run a business, spent their loan money on more urgent needs or were facing an economically miserable market. We heard stories of people spending money on food rather than the 'productive economic activity' they may have listed in their original business proposal. Credit recipients had limited skills and opportunities and this usually meant that, like everyone else, they set up the 'easy' option – a kiosk. The resulting oversupply of kiosks, - funded by 54% of all credit issued in phase two - in an already weak market, leading to predictable complaints about lack of customers and too much competition as well as the expensive price of goods in Dili and transport costs.
- A large reason why the CEP failed to achieve satisfactory rates of credit repayment is its ineffective system of incentives to repay loans. It lacked a legally enforceable debt recovery mechanism and instead entrusted this task ultimately to the village Council. As per the project manual, if the Village Council could not secure repayment from borrowers then entire funding would be suspended. Failure to do so would see that village's funding suspended. The research team found the following problems undermined the Council's effectiveness at demand repayment:
  - (i) Many credit recipients were genuinely unable to repay
  - (ii) Village Councils and the Sub-District treasury (UPK) often had weak legitimacy and therefore weak authority.
  - (iii) There were many cases of conflict of interest between Council members and credit recipients. In some cases credit recipients were also Council members or Council members were lending credit to family or friends
  - (iv) Credit recipients were often unconcerned with communities receiving future CEP funding and were therefore not pressured by funding sanctions. And conversely, suspending the entire village from CEP funding also unfairly punished other project recipients who were unrelated to problems with credit.

To apply for credit under the CEP, recipients must apply as a group. Presumably this was to ease the administrative burden of multiple loan applications and a belief that group cohesiveness would facilitate repayment. However, we saw that there was no

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<sup>32</sup> Interview with Chief Financial Officer, CEP

<sup>33</sup> Interview with Moris Rasik, a micro credit provider in Timor-Leste



guarantee that the members of the group would run an enterprise together, or pressure each other to repay the loan. Some people interviewed also suggested that the uncertainty surrounding the future of the program served as a strong disincentive to repay. Also, not rewarding compliant credit recipients with access to future loans, like most other micro credit programs, may have also deterred repayment.

**From the Districts:** Fishing in Manatuto.

Ten people, many from the same family, formed a group to receive \$1500 of credit to purchase a fishing boat, nets and other items. The repayment rate was about \$90 per month. The leader of the group was elected to the Village Council one month after they received this loan.

The group formed mainly for the purpose of receiving the loan and only a few of the group members could ever use the single set of fishing equipment. A dysfunctional group and a lack of incentive and income to repay saw all other group members abandoning their leader with the entire debt. He could not meet the repayment because he only earned about \$25-30 per month through fishing. It was difficult to sell his fish in Manatuto and a lack of viable transport and storage options ruled out using other national markets. For a few months he was able to meet the repayments by using income from his kiosk but eventually he ceased paying because of the economic difficulties.

The village was suspended from CEP funding for over a year. The group leader has recently signed an agreement to begin repayment under renegotiated terms. He hopes he can meet these terms.

**Comments:**

- The Council was unable to enforce repayment where the recipient of the loan was both a member of the Council and had no means to repay the loan.
- The group structure proved to be dysfunctional where the others had no intention of helping out and because of the nature of the activities for which the loan was taken, probably could not pay anyway.
- Poor market conditions mean that it would never make economic sense to purchase fishing equipment at this rate of repayment.

The poor work ethic of UPK staff was also raised as a reason for non-repayment by many participants interviewed, including local CEP staff, loan recipients and Council members. For example, both a CEP facilitator and one Chefe do Suco complained that a UPK staff member quickly gave up trying to find the farmers responsible for the repayment of a tractor after not being able to find them to collect the first two repayments. On the other hand, we felt that it is unfair to blame UPK staff for failing to patch up what are largely systemic failures in the credit component. In many cases it would be difficult for them to have sufficient authority to demand repayment under a dysfunctional credit system.

Did the micro credit component actually reduce poverty?

There is no data measuring if loans reduced the poverty of credit recipients. The only Key Performance Indicator for this component measures repayments rates however, from observations in the field, we felt that it is wrong to assume that those repaying loans are better off than before *because* of the loans. Often there is a story missing from those statistics. We found several cases where a separate wage or a second business was contributing to repayments. We also heard of recipients selling assets, in particular livestock, to meet the repayments. And conversely, several recipients interviewed that refused to repay loans often had viable businesses.

We found that loans often did not target the poor. The team visited a large and thriving kiosk in the middle of Manatuto that had taken out two loans totaling \$2800 and was having no trouble paying them back. This kiosk dominated the market and denied more needy recipients of funding and undermined them. In this case the Council had turned down a request from a women's organization to renovate their guesthouse and instead awarded a second grant to the kiosk presumably because it was a surer bet. Given the harsh sanctions facing Councils for credit default, Councils may have felt pressured to support the stronger enterprise.

Widespread credit default and the consequent, harsh funding sanctions applied to Village Councils created a crisis in the CEP system that it was slow in responding to. To correct the problem, future credit was limited to villages with a 90% repayment rate or loans that had fallen into arrears were allowed to be renegotiated. For the latter, recipients were required to sign a statement committing themselves to a new repayment schedule. While recipients may now be more aware of their repayment obligations, the uncertain future of the CEP program is still a disincentive to repay. Perhaps this is a way to free-up other village funds unfairly barred under project manual sanctions – a tacit acceptance of their failure - before the project finishes. In any event careful thought needs to go into managing the remaining funds as the project winds up.

**Moris Rasik:** Another micro credit provider in Timor-Leste

Moris Rasik is a micro credit provider with seven branches in the districts of Bobonaro, Covalima, Ainaro and Manufahi. It has achieved repayment rates of 98 per cent on its loans by closely supervising credit recipients, requiring small weekly repayments, offering savings facilities and tempting clients with future loans upon repayment. This does entail high overhead costs but the organization believes they can reach operational self-sufficiency by 2006. They charge 20 per cent per annum on loans and issue them in 6-month terms. They have disbursed a total of \$480,000, a bit under half the CEP portfolio in the second cycle. For kiosks, they also only fund existing businesses and apply an assets test to better identify needy recipients.

**From the Districts: Tractor in Batugade**

The Village Council of Batugade, Balibo loaned US\$2000 under the second cycle of CEP to a group of farmers to purchase a tractor to assist with rice cultivation. This group managed the use of the tractor and were responsible for paying back the loan at \$126 per month.

The tractor is only needed seasonally in rice production and is currently out of use. The farmers only have a cash income when the harvest can be sold and predictably, they have been unable to make repayments at any other time of the year. Some members of the group made the first few repayments then stopped. Others in the group never paid back any of the loan.

The Chefe de Suco also felt that the UPK failed to inform recipients adequately of the credit system and were lazy when collecting repayments. The perspective of the UPK could not be obtained but it is clear that the relationship between the Village Council and the treasury deteriorated over time.

Due to this default on repayment, the village has not received funding for the third cycle. They submitted a proposal but it was rejected by the Bobonaro District office of the CEP. About one year ago, the Suco attempted to resolve the problem with the district office by proposing the repayment rate be reduced to \$50 per month but no

agreement was reached, relations were strained and they have not communicated since

The CEP regional coordinator for the Western region also commented that this Suco had not completed other CEP projects.

**Comments:**

It should have been clear that farmers' income fluctuates with harvesting cycles and most of it is quickly used up. Without savings facilities or training on how to stretch income across the 18-month repayment period default would always be a high probability. The inflexibility of the system, given these obvious problems, disempowered the local community.

Under the present credit system it would never make economic sense for the farmers to purchase a tractor (unless they knew the system would not punish default). This is despite it being a valuable agricultural input. As rice production is the backbone of the economy in Batugade, there is a strong public interest in promoting its development. The distinction between issuing grants for infrastructure and credits for economic activities needs to be more flexible especially where the economic activity has a high public good value

### **2.1.2 Component B – Pilot Program for Vulnerable Groups (PPMV)**

In recognition that the CEP would not always help the 'poorest of the poor', a specific component targeting highly vulnerable groups such as widows, the elderly and the disabled was proposed. A pilot project for widows was run in the second cycle. It was very similar in design to credit offered Component A and hence encountered many of the problems discussed above. Widows groups were selected by the Village Council. We observed:

- A lack of viable economic options for widows given they had limited skills, markets were weak and already saturated with the enterprises they could run i.e. tais weaving and kiosks.
- Poor planning of enterprises. In one case visited, five widows groups in Meligo, Bobonaro had set up five kiosks in the same remote area. Again, 40 to 50 per cent of projects were kiosks.
- A lack of training and business skills. Some widows visited had no knowledge of the economic health of their business due to illiteracy and/or lack of training.
- Poor incentives to repay and lack of socialization of the program. For example two recipients spoken with claimed the money they had received was a grant and not a loan.

We found that the vulnerable nature of the recipients sadly, ironically and usually exacerbated the problems touched on above. Indeed, a World Bank study of the component concluded that there was a positive net return on only 30% of the projects. That is, 70% of the groups would not be able to earn and pay back the amount borrowed.<sup>34</sup> If payment was actually enforced, the poverty of the widows would have worsened.

The component also had difficulties in identifying candidates that were both vulnerable and capable of running a micro enterprise. Unlike other micro credit providers in Timor-Leste, there was no criteria for eligibility (such as an assets test) and in two cases we visited, Council members had simply chosen family members

<sup>34</sup> PPMV research, Appendix Four, World Bank Aide Memoire, 2002

(Kairui, Manatuto and Ulmera, Bazartete). Yet we saw clearly deserving candidates that were denied credit. For example, a group of women from Organisaun Mulheres Trabalhadores (OMT) in Manatuto were running a profitable guesthouse and wanted to take a loan to expand the operation but were denied assistance from the Sub-District Council. Yet they were far better positioned to identify vulnerable women and broadly tackle their sources of poverty by providing social services, education, counseling, childcare facilities etc.

#### **From the Districts: Plastic Chairs in Laleia Village**

The Sub District Council selected five widows to receive a \$500 grant under the PPMV. With this they purchased fifty plastic chairs that they rented out to the community at the rate of 10 cents per chair per day. People did not hire the chairs very often but last year they made \$215. They spent half of this on rice and the other half on purchasing more chairs. They did not believe the money was issued as a loan. There is little labor involved in this job although the group member interviewed was very nervous about handling these amounts of money. She has six children to look after all of whom need to purchase items for school, so she was very grateful for this assistance. She was illiterate so another group member kept the books

#### **Comments:**

This was a positive enterprise where the women had the skills to run a business that there was reasonable market demand for. The group structure worked well where the literate member of the group did the book keeping. Once again, there was confusion as to whether this should have been a grant or a loan. Repaying this loan within the usual 18-month period would have been very difficult for this project and clearly a grant was more desirable if poverty alleviation is the priority.

## **2.2 Participation and Empowerment**

Community 'participation' and 'empowerment' under the CEP was described in the project appraisal document as projects being 'produced *by* communities *for* community activities' (emphasis in original).<sup>35</sup> For the CEP, 'participation' is defined as community involvement in all aspects of project selection, design, implementation and maintenance. Such ownership, it was argued, would encourage project success in light of a weak and under-funded government. Community participation is also crucial in keeping Council processes transparent and accountable. These roles are fundamental to guarantee the fledgling Council's legitimacy and ultimately, project success. We interviewed a wide range of actors to assess what participation meant for them under the project and how successfully it was achieved under the CEP.

Before considering the experiences of specific groups of actors, several common themes emerged from all of our interviews.

Firstly, despite the CEP being labeled as a form of administrative decentralization, all actors in the system experienced frustration at their limited input into substantive decision making. Community participation for example, was limited to project selection and implementation. Other actors in the system such as CEP facilitators, some PMU staff and Council members were frustrated that their input into system design and direction was minimal. One discussion group with CEP facilitators felt that they did not feel comfortable raising criticisms of the program. Similarly, many people working at the District Level of Government had suggested better ways to run to CEP but felt powerless to change it. This lack of substantive participation in project design and management led to more general disinterest in the program.

<sup>35</sup> Project Appraisal Document, 2000, p. 2

Secondly, rigid problem solving mechanisms, or in some cases, no problem solving mechanisms, led to frustration and deterred participation. The best example is the problems with the micro credit component as touched on above. Suspending the entire village from CEP funding unfairly punished other project recipients who were unrelated to problems with credit. For example, the community in Sau village in Manatuto was prevented from receiving the second half of their grant to complete the construction of an irrigation channel because of bad credit in the village. The people implementing this project have no relationship with the credit recipients and cannot pressure them into paying back. They completed the channel anyway, in anticipation of the wet season, but have only received a fraction of their wages.

There were no procedures available in the project to address the root causes of the very problems that the project claimed to address. Instead, project rules were punitive and in some cases even exacerbated problems of poverty, vulnerability and lack of accountability.

Decision-making over how the CEP system was designed and run was effectively centralized in the World Bank Task Manager.<sup>36</sup> However, the Task Manager was distanced from the context in which the project was implemented, and those who did have valuable information and knowledge about local conditions and situations (such as CEP facilitators and Council Members), did not have the power to change project rules and procedures.

While some of these centrally determined rules could be justified on certain policy grounds, (e.g. a ban on the building of community halls to force communities to focus on projects that had a stronger poverty alleviation value), they were technocratic attempts to influence what are essentially political processes. As such they were poorly understood at the local level and a source of frustration for communities. In many cases central tweaking of the project rules undermined a participatory dynamism that could have more effectively solved problems. This was the case e.g. when villages with poor credit histories were suspended from the CEP for long periods while a locally negotiated solution could have moved the process along more quickly and appropriately.

A lack of socialization about the CEP also deterred participation. The haste to implement CEP cut short training on participatory techniques and left communities ill-prepared to receive and manage the money. As CAA/O warned in the early days of the project, the:

'Pace of implementation will severely restrict opportunities for building capacity of project staff, council members and communities to manage local development.'<sup>37</sup>  
(caa3 p.vi)

As a result, CAA/O felt that the community participation and empowerment goals were neglected meaning that Councils ended up resembling little more than aid disbursement mechanisms.

The extent and methods of training also need to be considered. CEP facilitators received training from staff in the CEP PMU and passed this training on to the Village Councils. It was then the Council's responsibility to inform and encourage the community. Such a cascade model of training may have been effective in covering a wide area, but weakened the information flow from one level to the next. Several people questioned whether facilitators had indeed received adequate training to then

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<sup>36</sup> For more detail on this, see the discussion in section 2.5 Implementing Agencies and Project Management.

<sup>37</sup> Community Aid Abroad / Oxfam Third Project Report page vi

pass this knowledge on to the Councils. In response to these problems, the project is placing a greater emphasis on capacity building in the final CEP grant agreement, particularly at the District Level.

### **2.2.1 Community Members**

As the project was driven by community participation we felt that community attitudes towards the CEP would be an excellent determinant of project health.

Most community members interviewed felt that the CEP was good for their community especially as it was often the only or main outside support they had received. Their participation in CEP processes was however variable. Both CEP facilitators and Council members interviewed identified lack of community participation as the biggest problem in the project. Similarly, an East Timor Community Development Review (conducted in late 2001) found generally, 'a lack of participation by communities in managing their development needs and hence a weak sense of ownership.'<sup>38</sup> We examined the various reasons as to why this was the case.

Many people, including project staff, Council members and community members themselves argued that community participation was hampered by the persistence of the 'Indonesian mentality' - a passive dependency on the state to provide services for the community. However, we felt that this was an incomplete answer. An argument blaming an inherited culture of laziness does not sit easily with the tremendous community unity and motivation behind the Timorese campaign for independence. The 'quality' of participation depends on how the activity demanding it is perceived by the potential participants. For the CEP, Councils were repeatedly identified by the community as World Bank run, external to the community and a source of easy foreign money. Many community members responded that they expected to be paid for their labour given that this was an external aid project. Another commented that participation under CEP meant 'doing the work the government used to do but not being paid very much for it'. For them participation was either seen as a necessary cost, or a hurdle to jump over to get funds.

Another community complaint that discouraged their involvement was a lack of knowledge about the purpose and rules of the project. This is a common concern highlighted in Bank Aide Memoires and the East Timor Community Development Review Report (Dec 2001). Although part of the confusion is to be expected given the ambitious scope and novelty of CEP, the pace of project implementation added to this confusion. Several CEP staff interviewed felt communities were often not ready to receive money and questioned the level of training received by Council members and how effective they were in passing on this information to communities. For CEP facilitators, this had further effects: they were constantly fielding questions and reactively dealing with problems rather than laying the groundwork for an effective self-managing local system. One facilitator remarked on the quick disbursement of money, "the PMU demands we distribute the money in two months but the communities are not ready so it will take four months."

In response to such criticism about the pace of disbursement, the Bank noted that communities often complained that money took too long to reach them. The team heard several stories of administrative delays frustrating communities and deterring participation. For example in Cairui, Manatuto, the community had finished constructing a CEP funded irrigation project one year ago but had only ever received

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<sup>38</sup> East Timor Community Development Review Report (December, 2001) Community Development Working Group, p. 2

half of the funding. The community lost motivation because the grant process took a long time.

We considered the apparent contradiction between complaints of money being disbursed too quickly and not quickly enough. We feel that these conflicting perspectives can be resolved by separating two project elements: firstly, there were administrative delays in receiving the money and secondly, inadequate preparation meant that communities lacked a clear understanding of the rules to effectively use and administer the funds. While communities were eager to receive money, without robust governance, it was often poorly monitored – especially in the case of credit. This illustrates the close relationship between community participation and project transparency. For example, communities frequently complained about not being informed of CEP activities or of not understanding the funding processes only to then become disinterested in the CEP, further compounding those very problems.

On the other hand, we did observe a few positive examples of empowered action, usually of communities working together to maintain CEP projects. For example, in Cailaco, Bobonaro, the community had pooled their money to rent machinery to repair a broken pipe of a CEP funded water project. Although this was expensive they realised no one else would do it for them. Staff from the World Bank also relayed the story of one community that delegated road maintenance to community members in five metre blocks. Additionally, community members donated a small amount of materials and labour usually for larger projects with a broad public benefit. However, we did not see an example of ‘empowerment’ extending beyond CEP grant processes.

#### **From the Districts: A Small Road in Tapo, Bobonaro**

In Tapo Village in Bobonaro District, the Council had decided to build 200 meters of road at the end of the village to link the community with a traditional site. Delays in funding, lack of money for wages, the demands of the harvesting season and poor Council relations with the Chefe led to the project stalling. The community did not trust the Council because they failed to work with the local authorities. The community called the CEP the ‘company’ and complained that it was the same as an external NGO. One villager even withdrew permission for the road to pass by their land after previously giving approval. Because of the delays, the money for the project was withdrawn by the Sub-District Council. Once trust was lost in the Council it was very hard to earn back and the Council member spoken decided to resign after receiving threats and false allegations that he had stolen project money. There is now a new Council who the CEP facilitator claims does not listen to him.

Asked why they withdrew from the project, the community members interviewed said that a lack of trust existed between the CEP Council and the community. For them, the project had to be led by the Chefe de Suco and the Chefe de Aldeia.

#### **Comments:**

Once trust was lost in the Council and the CEP it was very difficult for them to earn it back. Some communities are strongly allied with the Chefe do Suco and local authorities and these relationships are extremely important.

### **2.2.2 Village Council and Sub-District Council Members**

Council members played a key role in explaining the workings of the CEP system to the community at large and to local authorities. It was their role to consult the community as to what project best met their needs, to represent their interests on the Council and to act as an information liaison between the CEP system and the community itself.

Council members spoken with were generally young and educated - qualities community members presumably felt were important for understanding CEP procedures.<sup>39</sup> Yet this reduced their authority in the eyes of the community and placed pressure on them to co-operate with local authority. (Conversely, the team saw several examples of 'uncooperative' Council members who were removed from Councils by coalitions of community leaders and CEP staff.) This often meant that Council members had informally deferred their powers to existing local authority and decision-making methods. Most Council members interviewed therefore described their role as only guiding the community through CEP processes rather than making decisions on their behalf.

The quality and motivation of Council members was variable. At a meeting of local government in Manatuto (discussed in section 2.4.3 District Level Government) participants heavily criticized the quality of Council members blaming them for the lack of transparency and information about CEP. The worst examples the team met were Council members who had very little knowledge about the CEP process and projects and some who had simply approved grants for family members. But on general observation, such Council members were in the minority.

It is also unfair to blame Council members for what were systemic problems. Like CEP staff, their training was abbreviated and they were under pressure to comply with disbursement deadlines. Councillors often found it difficult to get communities involved in CEP activities thus placing on them a larger burden than the project design probably anticipated. This understandably fuelled their repeated but unmet calls for a wage. Council members also resented the comparatively generous wage by Timorese standards that CEP project staff received. This added to their lack of motivation. They also bore the social costs of project failure (See the Tapo example above). These issues, combined with the 'ousting' of poor performing councillors led to a high turnover rate of councillors and a loss in institutional knowledge. On a more positive note, the project has given Councillors excellent experience in governance though it remains to be seen how these skills can be used in the future.

### **2.2.3 Women**

The requirement that Councils have equal representation of women and men was always acknowledged as a difficult and small first step in achieving women's empowerment and equality in Timor-Leste. Although the research team was not able to attend any Council meetings, it did hear many stories of women remaining largely silent in Council meetings. As Ospina and Hohe relate:

"In CEP village meetings, female council members could mostly be observed taking care of food and drinks for the people in traditional power positions who attended the meeting."<sup>40</sup>

The implicit conclusion in the Ospina and Hohe report (2001) is that while attitudes to women's equality are poor, CEP is an encouraging albeit small step in the right direction. Indeed, several women council members spoken with felt being included on the council was a positive experience for them and assisted in building their confidence. However, a sad indication of attitudes towards gender equality are reflected in a 2000 study that notes that only two Councils out of the 328 studied had appointed women as their head.

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<sup>39</sup> Ospina and Hohe, above n. 7, p. 85

<sup>40</sup> Ospina and Hohe, above n.7, p. 118



CEP initiatives to overcome these barriers were mixed. The CEP focused on building up the confidence of women through training and encouraging them to caucus before Council meetings. While people interviewed felt these were positive steps, it is unclear if this program was continuing. Several participants we interviewed gave the impression that confidence building measures had quickly dropped off after the early stages of the project were complete. An interview with the Vulnerable Peoples Officers at the CEP PMU suggested that now, initiating future training was really up to local communities and that the CEP PMU had stepped back from this area. We were left with the impression that this program had dropped off everyone's agenda.

We heard about many practical barriers to women's participation as well. These include: restrictions on travelling alone, heavy domestic responsibilities, high degrees of illiteracy, pregnancy and child-raising. Here, the CEP intended to tie in with the work of existing women's networks, but rather than jointly addressing these barriers, women's NGOs spoken with had a very limited involvement with the CEP.

In conclusion, participants we spoke with had mixed views on the project's attempt to empower women. Some felt that it was a small but important step and certainly, it did elevate many women to positions of responsibility, but others felt that it was pushing the idea of women's rights without adequate practical support for women. As such, it was pushing the agenda too quickly.

## **2.3 Governance**

The Village and Sub-District Development Councils were intended to be the key governance institution at the local level. According to the Project Appraisal Document, the Councils would prepare and execute village development plans that addressed local needs in agriculture, healthcare, education and other community activities. They would assist with resolving disputes, managing village funds and strengthening democratic and participatory practices. Where they could not meet development needs through local efforts, they would relay requests to Sub-Districts and Districts for assistance.<sup>41</sup>

In managing the development needs of local communities, Councils had a role in ensuring the participation of existing and traditional authority, coordinating with external agencies such as international NGOs and donors and complementing government development efforts. Strong relationships with these bodies were critical to guarantee legitimate, respected and active Councils that had sustainability beyond the funding phases of the CEP. We examined the Council's relationship with these three bodies.

### **2.3.1 Traditional and Local Authorities**

Timor-Leste has a rich history of village level governance. Traditional structures are still strong in many parts of the country as well as more contemporary structures under the Indonesian administration and a clandestine structure in resistance to it. Timor-Leste's experience with local governance is one of strong adaptability and yet also of resilience in difficult circumstances.<sup>42</sup>

The CEP designers however decided to leave out all previously existing authorities or at least relegate them to an ambiguous position on the sidelines. It was an attempt to disempower what project designers saw as regressive and overlapping systems of decision making. The Bank for example felt that including the *Chefe do Suco* on the

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<sup>41</sup> Project Appraisal Document, 2000, p. 6

<sup>42</sup> For a background discussion on local governance systems in Timor-Leste, see Ospina and Hohe above n. 7 pp. 16-73

Village Council would undermine its democratic nature and instead, a new system would clarify the confused system of local governance. However, setting up what was a fourth system of local governance did not achieve this goal because it neither incorporated the other systems nor did it effectively delegitimize them.

We heard many diverse stories of local interactions between the CEP Councils and traditional structures.<sup>43</sup> A common theme that emerged was that the more successful Councils were the ones with good working relationships with traditional and existing decision making structures. These structures are still well respected and Council's that cooperated with them were seen by many participants interviewed as better reflecting the community's interests.

To discuss this issue, we held a meeting of *Chefe do Sucos* in the Sub-District of Bazartete. All *Chefes* noted that the CEP had initially caused problems in their respective villages because the Council's had worked without consulting them. Several projects failed because community members refused to co-operate with the Council's plans. In one case, a road project had to be abandoned when almost complete because the owner of the land the road was built over withdrew permission after the Councils relationship with the *Chefe* had deteriorated. Relations had improved – according to the *Chefes* - when Council members either began to cooperate or were replaced.

Our impression was that *Chefes* continued to play a strong role in decision-making processes. When asked how projects were selected for example, several council members told us that the *Chefe* would run a community meeting to decide and the Council would largely just ratify that decision. Similarly, several Council members commented that they saw their role as one of guiding the community through CEP processes rather than making decisions on their behalf.

Another way that *Chefe*'s maintained influence over the process was by appointing members to the Council. A study of Council election reports that 30 per cent of Council members were selected through 'acclamation' by traditional leaders rather than direct election.<sup>44</sup>

Other project planners interviewed mentioned that the relationship between the Council and pre-existing authority was meant to be similar to the separation of powers between the parliament and the judiciary. That is, while the Councils would deliberate on the development needs of the community, the *Chefe* would act as a resolver of disputes. However this role was never clearly articulated in the UNTAET regulation setting up the Councils or the CEP project material and we only saw a few isolated examples of this occurring. It is also difficult to expect the *Chefe* to be a resolver of problems when many problems stem from conflicts over his or her lack of authority.<sup>45</sup>

A major problem with the CEP governance model was that by not including traditional authorities, it had the potential to subvert both the negative and positive features of local traditional decision-making leading to confusion and contested legitimacy. We felt that it is questionable whether an imposed system of elected representatives is more democratic than community wishes being traditionally channeled through more leader-guided, consensus based processes – even if considered regressive and non-participatory by project planners.

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<sup>43</sup> For a more detailed discussion of interactions between local authority and CEP councils see Ospina and Hohe above n. 7 pp. 109-115

<sup>44</sup> See the discussion on 'acclamation' in Ospina and Hohe, above n. 7, p. 81

<sup>45</sup> We never met a female *Chefe*.

This contested legitimacy of bodies of local authority also meant that some of the more 'radical' ideas in the CEP model such as equal gender representation were introduced in a unfavourable environment and hence neither fully promoted, nor fully accepted.

Transformation of governance structures and processes is not necessarily bad if they promote progressive social change and mechanisms exist to mediate the inevitable conflicts between traditional and new structures. However, the CEP had a poor dispute resolution mechanism.<sup>46</sup> When problems emerged, communities fell back on the authority of the *Chefe do Suco*, still the most respected authority in the community. Other lines of authority that community members used, partially as an alternative complaints mechanism for the CEP, were the Sub-District Administrator, the District Administrator. Even the President's office received many complaints from the community about the CEP.

### **2.3.2 External Providers of Assistance**

Part of the councils' mandate was to coordinate and consult with providers of external assistance, matching their resources with development needs that CEP funding could not meet.

There were very few examples of the Council considering funding from other, non-CEP sources. We did see Council projects that complemented non-CEP ones. For example, in the Sub-District of Manatuto and Meligo in Bobonaro, CEP had built irrigation branches off a main channel built by JICA (Japanese Aid). In these cases however, it was not the Council setting the agenda. Most international NGOs refused to use the Councils citing their lack of credibility in the community. According to the Community Development Sector Review conducted in 2001, Councils were frequently identified as 'Banko Mundial' Councils and therefore, as the report concludes, 'external to the village'.<sup>47</sup> It should also be added that community members interviewed frequently complained that international NGOs usually had their own resources and priorities and ignored slower, yet more consultative processes. Some NGOs also thought that the Councils only deliberated upon CEP funding.

Throughout their Aide Memoires the World Bank showed concern about this issue and urged external providers of assistance to use the Councils. However, without a formal mechanism guaranteeing the participation of all stakeholders these recommendations were always unlikely to be effective. The Bank's concern cannot have been that deep either given that they themselves failed to use the Council structures to plan for any of their other projects.<sup>48</sup> Instead, our experience echoes the findings of the Community Development Sector Review, that the *Chefe do Suco* continued to be the main point of contact for providers of external assistance. Failure to expand the role of the Council lessened its legitimacy and different methods of NGO consultation created confusion and political divisions within communities.<sup>49</sup>

### **2.3.3 District Level Government**

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<sup>46</sup> And arguably it had no dispute resolution mechanism

<sup>47</sup> above n. 38, p. 6

<sup>48</sup> In a project Aide Memoire from December 2000, the World Bank defended themselves on this point saying that they didn't think the Councils were ready to deliberate on other TFET projects. In the subsequent two years of the project however, the Bank's position never changed.

<sup>49</sup> This is a strong finding from the East Timor Community Development Review Report, above n. 38.

Setting up a local governance system outside the usual government channels always ran the risk of duplicating and frustrating government. Confident this would not happen, the first Project Appraisal Document from 2000 argued that CEP:

‘would be compatible with other government sectors as it would provide these sectors (health, education, roads and agricultural sectors) with an administrative framework for bottom up participation in their planning and implementation’.<sup>50</sup>

Unfortunately, this claim did not materialize. The project was deliberately designed to by-pass government and had no clear strategy for linking these two arms of governance in a complementary and compatible way.

The consequences of this were discussed at a meeting with 18 members of the District Government of Manatuto on the 18<sup>th</sup> of July. Participants included the District Administrator, District Development Officer, most sectorial officers including public works, health, education, several sub-district administrators and various other community leaders. Most participants were frustrated that the CEP had gone directly to the community without consulting anyone from government. They commented that this had led to problems of transparency and a lack of coordination. They were very critical of Council members who failed to adequately inform the community about the CEP and were angry that they were only consulted when problems emerged.

CEP staff in the District felt differently saying they always informed local government of project activities however Government felt this was usually after the fact and did not allow them to play a meaningful role in planning and managing activities. CEP staff also responded that the decentralized nature of the CEP means that District Government involvement in the project should be minimal. The District Government in turn, pointed out that it may have been more willing to step back if it was not called upon to patch up problems that it felt it could have avoided itself.

#### **From the Districts:** Irrigation in Ma’abat

In the village of Ma’abat in Manatuto District the Council decided to build an irrigation channel linking a large water source to several rice fields. It was implemented in phase one.

The project installed a pipe connecting two main channels but it was only 16 inches in diameter when, according to the District Development Officer (DDO), it should have been at least 60 inches. As a result, water blockages caused flooding and the problem had not been fixed for over a year because of the expensive involved. The DDO complained that the technical team that designed this had cut corners to save on money and had very poor technical skills.

The DDO was upset because there was a lack of coordination with those who had previously managed the irrigation channel. His staff would have easily picked up on the error and would have consulted more broadly with other sectors of government and at a regional level. He also claimed that those implementing the project did so without the knowledge of most of the community and were unaccountable for their actions.

#### **Comments:**

By decentralizing or outsourcing the provision of technical advice, the CEP by-passed important sources of technical information. Timor-Leste was not ‘starting from scratch’ in 1999 as the World Bank PAD states but had people from

<sup>50</sup> Project Appraisal Document, 2000, p. 5

government departments with technical knowledge that were not involved in project planning until well into the project's life.

Without a formal mechanism for coordination between the two systems of governance, coordination was predictably left to ad hoc personal relationships between CEP staff and local government. These were often tense as local government staff were unhappy with the superior salaries and staffing levels of CEP when they felt they were a more legitimate representative of the people. District officials also felt that CEP staff were not well integrated into the community and were unaccountable to them.

These failures partly stem from a simplified view, embedded in project design, that government is ineffective in delivering services. Consider the Bank's comments on the provision of technical service:

'Technical and facilitation services will now come from the NGOs and private sector chosen or contracted by the community itself, rather than from a centralized administration which is disconnected from the needs and wants of the people.'<sup>51</sup>

As the Ma'abat case illustrates (see box above), such a negative view of government was instead to the detriment of project quality. It was clear that the talent and ability to coordinate lay with government departments - especially in the WSS for water and irrigation projects. Two years later the Bank was forced to rethink its views on this issue:

'The main lesson for the CEP is that there is a need to improve liaison with *line ministries* and NGOs who have the technical capacity to advise on appropriate design guidelines.'<sup>52</sup> (emphasis added)

This view was inherited from the Kecamatan Development Project, the Indonesian predecessor to CEP that it was largely modeled on. It aimed to 'by-pass government to get good government.'<sup>53</sup> Creating a parallel system of governance to transparently deliver development aid to the local level was intended to encourage reform of the existing system by example. But this required strong coordination between the two systems, which did not happen.

We spoke with people briefly about the District Community Development Committee that was set up in early 2003. Its body with members from a broad range of interests such as government, NGOs and church representatives) within each district to coordinate their area's development needs. Nearly all participants spoken with felt it was a positive initiative. CEP staff from Manatuto noted that it was easier to coordinate when the DCDC was created because it is a formal body that is more representative and therefore more legitimate than previous, more ad hoc attempts at coordination.

**From the Districts:** Private Clinic in Manatuto

A credit recipient had received a loan of \$750 from the Sub-District Council to purchase medicines for his small clinic by the beach in the town of Manatuto. There

<sup>51</sup> Project Appraisal Document, 2000, p. 9

<sup>52</sup> Project Appraisal Document, 2002, p. 39

<sup>53</sup> Edstrom Judith 'Indonesia's Kecamatan Development Project: Is it Replicable?: Design Considerations in Community Driven Development', Social Development Papers No. 39 (March 2002)

are only two clinics in Manatuto. His obligations were clearly explained to him by the UPK and despite some difficulties, he managed to repay the loan on time at the end of last year.

He also has a job as a nurse at the Government hospital. When queried as to what prevented him from acting on a potential conflict of interest he said it was just a moral one. He added that, in any event, his clinic provided faster service and supplied medicines not available in the hospital so patients could decide for themselves. No one from the Ministry of Health was involved in selecting his proposal.

**Comments:**

Assuming the Council had identified a need for a clinic in the community, it was limited to supporting a private one because all credit under CEP is for private economic activities. The development agenda for this Suco was set by proposals submitted rather than a broader consultation with local government. Why should a private clinic be better resourced, ultimately by TFET money, than the public health system?

## **2.4 Framework for Aid Delivery**

One of the key institutional and policy reforms driven by the CEP was the development of 'a framework for effective aid'.<sup>54</sup> As discussed above, the CEP framework differed from the previous Indonesian administration by delegating the task of selecting projects to the local level and keeping tight control of money transfers.

This section examines three key areas of this framework to assess whether this model has achieved the 'effective use of development funds'.<sup>55</sup> They are: financial accountability, the quality of technical assistance and the appropriateness of the budget allocations of the project. There are many more areas that could be examined under this section such as quality of staff and staff training, dispute resolution mechanism and the dynamics of PMU decision-making. We did not however, have enough time to cover these in the detail they deserved so did not include them here. Some of these issues are touched on in other sections.

### **2.4.1 Financial Accountability**

The flow of CEP project money through national and district level was initially maintained outside government channels.<sup>56</sup> It was later bought into the government system. While we did not examine "the books", we have no reason to doubt the Chief Financial Officer (CFO) of the CEP when he said that it was a tight system of financial accountability ensuring that the correct money went out to the councils. However, the CFO mentioned that beyond this stage it was difficult to know what happened with the money. According to the Project Appraisal Document this task was left to communities to monitor where: 'it is expected that the most effective controls will come from the communities, through the project's transparency mechanisms'.<sup>57</sup> Monitoring project transparency, what the World Bank defines as access to information about how money is used, was to be carried out by community members through accessing regularly updated community notice boards. CEP staff

<sup>54</sup> Project Appraisal Document, 2000, p. 9

<sup>55</sup> Project Appraisal Document, 2000, p. 4

<sup>56</sup> Details on the flow of funds and monitoring mechanisms are contained in Annex 2 of the Project Appraisal Document from 2000.

<sup>57</sup> Project Appraisal Document, 2000, p. 14

would also be expected to use a variety of media to convey information about the project and its process.

In practice though, as well as decentralizing governance, as one person interview commented, the CEP system may have also decentralized corruption. The research team certainly heard many allegations of KKN (Corruption, Collusion and Nepotism) although without a thorough investigation it is difficult to judge their truth or their extent. These allegations include for example:

- Several cases of individuals stealing money and fleeing to West Timor.
- Credit recipients deliberately defaulting on loans.
- Forged receipts. For example, CEP records showed that eight houses were rehabilitated in one Suco when the community members noted that only five actually had been.
- One community had only built four out of eight toilets planned and it was alleged that the Chefe's house was renovated with the missing money.
- Several NGO-funded projects being presented to us as CEP projects.
- Grants or credits being awarded to family members. In one case, a grant recipient was elected to the very Suco that was meant to monitor his activities.

Despite CEP strategies to make the project transparent, we spoke with many participants at the village level who were frustrated with the lack of knowledge they had about the program. Their information networks tended to be verbal and spread through respected village authorities who were often by-passed by CEP. The CEP also cut across kinship networks, causing conflicts between the project manuals idea of accountability and more traditional, personal responsibilities e.g. Council members often awarded grants to family members. There was a lack of understanding about accountability, especially so given the largely non-monetized economy CEP was operating in.

Communities interviewed were happy that they received the amount of money initially promised rather than see government bureaucrats take a slice out of it - as was usually case during Indonesian times. There was also a strong will to stamp out KKN and the 'Indonesian mentality' but many participants interviewed commented that the community did not always use the money wisely for the reasons discussed above.

#### **2.4.2 Technical Quality of Projects**

It was always acknowledged that finding the technical skill to design and build projects in post-conflict Timor-Leste would be difficult. The level of skill in the Districts was low and the widespread destruction of 1999 meant that support from government agencies or external technicians, was very limited. To overcome this problem, projects in the first phase were kept simple and were managed by the project's local technical verification team.

Most participants interviewed, including staff from the Ministry of Infrastructure commented that projects under the CEP had variable quality. A recent World Bank Aide Memoire notes that 'many activities implemented were of technically poor quality.'<sup>58</sup> The exact extent of technical failure is difficult to gauge by reading CEP data because the high rate of approval for projects does not necessarily reflect their technical health. One District Coordinator for CEP estimated that about 30 per cent of infrastructure projects failed but estimates varied widely. There is also no data on the health of projects post-verification.

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<sup>58</sup> Aide Memoire, November, 2002, World Bank, p. 4

Technical quality declined in the second phase when more complex projects like water sanitation and irrigation became popular. A couple of specific examples we encountered include:

- A water irrigation project in Manatuto (discussed in box above) had installed a 16-inch pipe instead of a 60 inch pipe. Poor technical verification had not picked up on this problem and flooding had resulted.
- CEP installed plumbing at a school that tapped into the existing water supply but took away the water pressure for the rest of the village.

Most people blamed technical staff that lacked training and literacy. A March 2001, World Bank Aide Memoire mentions that 'finding adequate technical ability has been one of the greatest technical challenges'.<sup>59</sup> However, as discussed in the section on district-level governance above, we felt that this was an easily predictable problem exacerbated by placing inexperienced technicians in a decentralized environment, separated from the relevant line departments in government that had superior skills and ability to coordinate.

Towards the end of the project, the World Bank recommended strengthening ties with, for example, Water and Public Works to assist with water resource management, based on plans defined by the Ministry.<sup>60</sup> We felt that this strategy should have been pursued from the beginning and been the foundation for the provision of technical assistance. It is unclear to what degree these recommendations were followed.

Other problems with technical quality of projects stem from administrative delay in funding approval or lack of participation that has seen many projects fall into disrepair e.g. roads with incomplete drains washed away in the wet season. We also, saw communities struggling to maintain water and sanitation projects given the high cost involved in their repair and the short life span of the CEP. As the World Bank writes in their third Project Appraisal Document, water systems can and did have 'high costs and unsustainable [Operations and Maintenance] commitments which all result in the systems breaking down very quickly with no long term benefits to society.'<sup>61</sup> This was a very real threat facing communities spoken with and we query how sustainable such projects will be without further project funding.

### **2.4.3 Budget Disbursement**

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<sup>59</sup> Aide Memoire, March 2001

<sup>60</sup> Project Appraisal Document, Three, 2002, p. 39

<sup>61</sup> Project Appraisal Document, Three, 2002, p. 39



Table 4: Expenditure from all CEP Trust Funds as at 31<sup>st</sup> May, 2003

	Community Sub-Grants	Goods*	Civil Works**	Oper'nal Costs	Con'tants Costs	Total
<b>Jap Grant TF026209</b>	1,050,000				500,000	1,550,000
<b>CEP 1 TF023534</b>	3,632,865	1,119,932	50,000		2,197,202	7,000,000
<b>CEP 2 TF028376</b>	2,213,849	366,213	794,031	172,853	1,398,347	4,945,293
<b>CEP 3 TF051103</b>	5,599	26,667	17,574	161,760	835,468	1,047,069
<b>Total Disbursed</b>	6,902,313	1,512,812	861,605	334,614	4,931,018	14,542,361
<b>Total Budget</b>	10,220,000	1,997,932	875,000	348,000	5,126,202	18,567,135

<b>% Total Actual</b>	47.5%	10.4%	5.9%	2.3%	33.9%	100.0%
<b>% Total Budget</b>	55.0%	10.8%	4.7%	1.9%	27.6%	100.0%

\* Community Radio Equipment, Project Assets \*\* Uma Fukun Restoration, Community Radio

The central debate among key implementers and designers of the CEP was how to balance the competing goals of quick aid disbursement and developing effective institutions of local governance. As argued below in section 2.5, the former goal was prioritized, largely by the World Bank as the de-facto project manager. It is surprising then, that only a small proportion of the budget has been spent on grants to Councils and that this has been distributed slowly. Of the total expenditure to date, only 47.5 per cent has been spent on community sub-grants and between 36.2% (Adding the consultants and operational costs categories above) to 46.6% (and then adding the 'Goods' category) has been spent on 'overheads'. This high proportion spent on 'overheads' could be justified if the broader institution building goals of the project were prioritized from the beginning and actually achieved but, as has been argued in this report, this did not happen.

Despite pressure on the project staff and Councils to disburse grants, at the end of May 2003, only \$6.9 million out of a budgeted \$10.22 million for community sub-grants has been released. The majority of the \$3.32 million that has not been spent in the Community Sub-Grants category comes from the second CEP grant Agreement. This slow rate of disbursement has been attributed to:

- (a) Poor community capacity to receive the money
- (b) Stalled projects or bad credit holding up Suco access to future funds.
- (c) Access problems e.g. bad roads, wet season.
- (d) Elections and independence celebrations

The third CEP grant agreement was negotiated partly in response to these disbursement issues. The \$1.5 million grant covers operational costs, (15.4%) consultant costs (79.8%) and a small grant component planned for Dili. The large consultant budget line is to maintain adequate staffing levels until the funds are disbursed and also to increase staff and council capacity in recognition that this was not done adequately in the beginning. On this last point, the wisdom of investing in capacity building at the end of the project needs to be questioned.

## 2.5 Implementing Agencies and Project Management

This section provides an overview of the roles of various agencies in implementing the CEP. An understanding of the dynamics between these various actors provides some clarity to the nature of the CEP.

The CEP came out of a recommendation of the World Bank-led Joint Assessment Mission (JAM) to Timor-Leste in late 1999. The Bank viewed the destruction of government structures in the violence of September 1999 as an opportunity to replace what it saw as a top-down, highly centralized and overstaffed system of government that often duplicated government function. The Bank argued that, as an alternative, the project would provide a sound foundation for the new country's structure of local government, a framework for channeling aid and facilitate the transition from the UN interim administration to an independent government.<sup>62</sup>

The United Nations Transitional Administration in East Timor (UNTAET) was initially reluctant to proceed with the project. It felt that the project was too drastic a step for an interim administration to take especially since it had not yet formulated any plans for local governance. It also felt under-resourced, especially in the Districts, and saw the Council model as too radical for post-conflict Timor-Leste. The World Bank however was in a strong political position to push the CEP. It had a strong relationship with key figures in National Council of Timorese Resistance (CNRT) who were supportive of the project and it acted quickly, arguing that the CEP would be based on its 'highly successful Kecamatan Development Project formerly implemented in East Timor'.<sup>63</sup> Under political pressure to show results from both Donors and the CNRT, UNTAET signed the initial grant agreements with the World Bank (acting as joint-Trustee of TFET), in February 2000. However it did so in a confrontational environment and this institutional rivalry continually plagued the CEP.

UNTAET did not have the capacity to implement the project and instead subcontracted this task out to Community Aid Abroad/Oxfam Australia (CAA/O) for the first nine months of the project's life. CAA was tasked with implementing the CEP, including setting up the project's central management body, the sub-PMU (Project Management Unit).

From the beginning of the relationship between CAA/O and the World Bank, there was tension over the direction of the project. CAA/O claimed that the goals of the project were never clearly articulated and were constantly changing. Fuelling this, CAA/O claimed that despite never having a contract directly with the Bank, the Bank 'micro-managed' the project, intervening on a regular basis.<sup>64</sup> While CAA/O staff focused on building the capacity of local Councils, the Bank wanted to prioritize quick and transparent aid disbursements. Prioritizing some goals over others frustrated CAA/O staff and as one of them commented about CEP:

'It therefore had a pile of rules to limit corruption but a participatory development model needs time and this was wiped out through program speed.'<sup>65</sup>

CAA/O also felt that other stakeholders did not have a substantial role in deciding upon the direction of the program. One former staff member of CAA/O recommended setting up an advisory council that would have participation from Timorese and Donors to overcome this managerial confusion over project direction but such an initiative was never implemented. After the CAA/O contract was not renewed, the

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<sup>62</sup> Project Appraisal Document, 2000, p. 9

<sup>63</sup> Project Appraisal Document, 2000, p. 2

<sup>64</sup> CAA/O Completion Report: Contracts issued by UNTAET to CAA/O in Australia under Grant No. TF 023534: Community Empowerment and Local Governance Project for Posto Facilitator Training and Support and sub-PMU Establishment (December 2000)

<sup>65</sup> Kieran Dwyer, former project trainer contracted to CAA/O

PMU was 'timorised' and then placed under East Timor Transitional Administration (ETTA) the parallel Timorese administration to UNTAET.

From our interviews and survey of the project literature, it is clear that the World Bank exercised key control over project design and direction despite UNTAET and then the GoTL being the implementing agents under the Grant Agreements. The Bank modeled the project on their other Community Driven Development initiatives throughout the world and maintained close control over the structure, communications strategy and procurement guidelines of the project. Its three-monthly supervisory missions also gave the Bank a detailed knowledge of the day to day running of the project and placed them in a position to make detailed recommendations to the CEP Project Management Unit (PMU).

In contrast, Timorese staff in the PMU had limited input into project direction despite being responsible for project implementation. Given the Bank's large degree of managerial control, it is slightly misleading to claim the project was 'Timorised' – transformed into a Timorese run body - as was publicized.<sup>66</sup>

The Timorese leadership also had a limited supervisory role over the project. One person interviewed from government complained that they were treated by the CEP and the World Bank 'like the bombeiros' – a fire brigade only called upon to douse the flames when problems emerged. The PMU was never fully integrated into government. A high turn-over of ministers and departments added to the PMU having a far closer relationship with the World Bank.

One issue that frustrated both the government and CEP staff was the vastly higher wages of the latter. This can not have endeared CEP staff to their government superiors nor would government pressure to reduce their wages have done likewise. A lack of control and knowledge over the project also alienated the government. Early on, UNTAET recommended overcoming this divide by giving Timorese in government outside analytical support and an independent review of the project so that it could be understood, owned and ultimately integrated into government however, this never happened. Similarly, the main project documents such as the Grant Agreement, Project Appraisal Documents and Aide Memoires were only available in English.

The only donor spoken with – whose funds supported the CEP through TFET - mentioned that they could not maintain a detailed knowledge of the program and were not overly involved in the day to day running of CEP. Although they attended supervision missions, this was usually done without them having a developed understanding of the project's history and it was difficult to follow up on any recommendations they made. This instead was left to the World Bank Task Manager for the CEP.

The legacy of poor stakeholder involvement in project design and negotiations and institutional tensions between the Bank, RDTL and UNTAET can be seen in several ways. Firstly, the lack of high level legitimacy partially born of UNTAET and World Bank rivalry over the project filtered down to the local level. The Councils were often identified by community members as World Bank Councils and treated as external to the village. This in turn, deterred community participation and other providers of external assistance to use the council structures. Secondly, through close control over all elements of project design, the World Bank prioritized its goals of quick and transparent aid delivery and its development assumptions for CEP. This agenda took on a momentum of its own as no stakeholder was in a position to question, debate and reprioritize project direction even when problems emerged with these choices.

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<sup>66</sup> World Bank Aide Memoire, 2001

Without critical input, the system was therefore unresponsive when these issues – discussed throughout this report - emerged. Finally, contrary to project aims, the CEP developed in parallel with local government rather than complementing it. This lack of meaningful integration between the two systems discouraged the government from continuing the CEP meaning that many of the investments in institutional capacity building will not be realized.

## Part 3

### Lessons Learned: A System under Stress

In gathering the lessons learned from this research exercise, the team draws upon the wide range of experiences and reflections gathered from participants interviewed, literature examined and observations in the Districts. The lessons learned are presented here in the same order as part two above.

#### Grants

- 1. Use of poverty data to assist with targeting the most vulnerable sucos would have better alleviated poverty.** Allocating funds on a population per village basis rather than on assessing the levels of poverty facing each village ignores the different degrees and manifestations of poverty throughout Timor-Leste. This method was understandable during the emergency phase of the project, given the lack of available data and the universal need for assistance. However, since 2001 the Suco Survey of Timor-Leste provides detailed data on social and economic needs that should have been used to target funds in subsequent phases. For example, the study shows that Liquica is the poorest District with poor scores in the study's wealth, social services and access index while districts like Manufahi or Cova Lima scored the best; yet all received funding based on their population level alone.<sup>67</sup>
- 2. Address the lack of social infrastructure built under the CEP, such as schools and health clinics.** We found that communities identified them as priorities, yet they were rarely built or maintained under the project. The project must address the systemic bias against these projects being selected. Without overcoming these sources of poverty any programs that are purely aimed at generating economic growth will have poor social foundations and consequently, limited success.
- 3. Direct transfer of funds to the village and the idea of participatory project selection were well received by communities.** Despite problems with the project discussed throughout this report, community criticisms were directed at the implementation of the CEP rather than the idea of it. In general, communities interviewed were thankful that they received the money promised and had input into how it would be allocated.
- 4. To better target the 'poorest of the poor', the project needs to develop a better understanding of political dynamics at the local level.** While communities benefited in a general sense from for example, the repair of a road, the project did not explicitly targeting the 'poorest of the poor'. The idea that the Council would naturally assist the poorest in the community ignores the dynamics of local power struggles. The distribution of project resources is a contested process and there is no guarantee that the Councils would challenge the political and historical processes that have marginalized some groups. Indeed, in some cases, the Council's fragile legitimacy meant that grants were often left open to elite capture either through poorly monitored Council members pocketing project funds, or local authorities hijacking the process for their own ends. CEP attempts at intervening in project design to guarantee they assisted the poor, while justified on policy grounds did frustrate a fledgling democratic process. To avoid this frustration and assist the poor, perhaps a better, community developed

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<sup>67</sup> Suco Survey of Timor-Leste, 2001 p. 106

definition of poverty, embraced by local decision makers and then binding council decision-making process could have assisted.

5. **The CEP demonstrates that there is a strong need for long term investment in community level infrastructure.** Communities visited had received CEP resources enthusiastically and clearly demonstrated that meeting their basic development needs would require a long term commitment of a project of this nature.
6. **An evaluation of the project's economic assumptions is needed.** The assumption that economic growth encouraged through physical infrastructure and economic activities will reduce poverty fails to answer the critical questions of what type of economic growth was being encouraged and who it would benefit? Even adopting the project's assumptions that any growth is good, there has been no economic study to assess whether this happened on a sufficient scale to benefit the communities. A study of the economic impact of CEP, proposed by UNTAET, asked the salient question – has CEP stimulated the economy, or has it simply eased the pain in the emergency period but with little lasting impact? Unfortunately, the proposal was never followed up on. We recommend a study examining the health of rural economies in light of the CEP.

#### **Micro credit:**

1. **Micro credit projects should be run through financial institutions that have the knowledge and resources to closely target, assist and monitor credit recipients.** Many of the problems with the micro credit component stem from using ill-equipped CEP Council structures as quasi-micro credit providers. This is a result of hurriedly using the Council structure to run a micro credit scheme without a clear framework.
2. **Without the time and resources to properly set up a micro credit system, it would have been wiser to pursue other options for injecting financial liquidity into the districts.** The World Bank defends the use of micro credit through the CEP, arguing that rural communities were starved of funds at the time and no other provider of micro credit was operating. However, the predictably large scope of problems with micro credit meant that other options for injecting financial liquidity into the communities should have been pursued. For example, more employment projects would have had less administrative problems and made local markets more responsive to wage-driven demand. Another option would have been to issue grants for economic activities that have a strong social good or poverty alleviation value.
3. **Stronger initial project design including drawing from comparative experiences of similar programs in other countries would have assisted.** Planners should have drawn upon the long history of micro credit experiences in other post-conflict countries. Even the World Bank's own Indonesian KDP program had already painfully learned these lessons<sup>68</sup>, but those credit failures were imported into the CEP.
4. **Purely providing micro-credit cannot solve the deep and complex roots of poverty.** Without addressing other sources of people's poverty, micro credit can thwart its own poverty alleviation objectives. Several recipients interviewed had

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<sup>68</sup> See for example the discussion of micro credit in Judith Edstrom's, 'Indonesia's Kecamatan Development Project: Is it Replicable?: Design Considerations in Community Driven Development', Social Development Papers No. 39 (March 2002)

spent their loan money on more pressing needs such as food and consequently slid into debt in the process. Others had pursued the easiest option available, setting up a kiosk in an economy already vastly oversupplied with kiosks. Without other enabling conditions for small businesses such as e.g. a strong consumer base or a financially literate and empowered owner, the impact of micro credit will always be limited and potentially negative.

- 5. The assumption that an injection of capital into communities will naturally assist with meaningful economic growth is incorrect.** The research team suspects that while some enterprises were keeping owners financially afloat through CEP loans, their ability to spark economic growth was limited. The micro-enterprises examined did not contribute to employment generation. Most were too small to employ people and were usually staffed by family members.

Kiosks did not always have a positive impact on local economies. They mostly sold packaged, imported goods such as oil, detergents or biscuits. One stallholder estimated that as a percentage of retail price, about 80 per cent went to the wholesaler, usually in Dili. The remainder went on tax, transport to market, loan repayments and income. A small amount of the money spent at the kiosk was therefore revolving amongst community members, but the bulk of money from sales was travelling to Dili and then abroad to places like Surabaya. Given the proliferation of kiosks financed by CEP, their impact on local economies encouraging.

- 6. A need for an economic strategy to keep wealth revolving in communities.** We observed generally, that more money is leaving communities, through e.g. kiosks, than is entering those communities through the sale of their locally produced goods. The dependency on kiosk goods is a predictable state of affairs given the historical dependency Timor-Leste had on Indonesia (and others) for all non-primary goods. However, the present system of small grants does not encourage communities to break this cycle.

One person interviewed argued that goods sold in kiosks may spur local production by providing an incentive for farmers to produce more crops to raise the necessary cash. However, in many cases, it is more likely to undermine local production. More competitively produced rice, cooking oil and coffee imported from overseas can stunt local industries. Whether the growth encouraged is desirable must also be questioned. In Bazartete Sub-District, for example, the main source of income spent at kiosks was gained from the sale of firewood on the side of the main road. There was no assessment of whether the wood was being harvested sustainably: a question worth asking, given the dry and denuded state of the village surrounds.

An analysis of what economic effects micro credit is having on local economies is crucial. This should be integrated into a plan to develop the rural sector that promotes sustainable local industries and agriculture. CEP assisted economic activities could provide more support for local production such as coffee, rice and cooking oil.

- 7. Develop specific criteria to identify appropriate credit recipients.** One tension that plagued the Sub-District Councils was finding recipients who were both deserving of assistance but also capable of running a profitable business. The Councils neither had specific criteria for eligibility to identify the most needy (for example a household assets test) nor the skills to assess credit risk. The team saw many examples of Councils erring on either side by either supporting an already dominant business player or giving credit to those unable to use it productively

## Pilot Widows Credit Program

- 1. Women's networks need to be utilized in a systematic manner to address the practical barriers to overcoming poverty that widows face.** Under the Pilot Scheme for Widows, widows were only offered micro-credit. Here and again, the Village Council proved unable to select widows that were both deserving of assistance but also capable of running a profitable enterprise. Women's organizations like Organisaun Mulheres Trabalhadores (OMT) have proved to be far more capable of identifying the most vulnerable and running activities that were both economically productive and socially constructive such as their guest house in Manatuto and child minding facilities.

We note that the revised structure of this component addressed many of these concerns. Because of its relative newness, the research team was not able to assess the effectiveness of the revised structure although general observations and comments suggested that it was positive.

- 2. It is necessary to tackle the many facets of poverty.** The Catholic Institute for International Relations (CIIR) was initially commissioned to produce a strategy to assist vulnerable groups. They proposed three complementary recommendations: community organizing and capacity building; revolving funds for vulnerable groups; and counselling and confidence building to be implemented with the assistance of existing women's networks. However, these recommendations were not followed in the pilot phase. Our feeling is that without addressing the urgent needs of widow credit recipients in health, food security and counseling etc, their micro enterprise is going to suffer. Similarly, there a limited number of widows who can run a profitable enterprise yet all widows should be assisted under this scheme.

## Participation and Empowerment

### Community Participation:

- 1. Participatory and empowered learning must be given time to gestate in a supportive environment.** The community empowerment ideas within the CEP needed careful explanation, guidance and time to develop. In this case, rushed processes and a centralised rules-based system discouraged community involvement in the project. Instead, the project could have benefited from:
  - More detailed socialization and training about participatory techniques and not just explanation of grant processes.
  - Utilization of existing local NGOs working on popular education and empowerment.
  - Letting the communities set the pace of project implementation rather than rushing grant disbursement (which ironically led to delays anyway.)
- 2. The levels and quality of community participation depended on how strongly the body representing them is perceived to represent their interests.** The Councils had variable levels of legitimacy and therefore community participation under the CEP was similarly variable. A development model should be more sensitive to local realities (see point 1 under 'Governance' below) such as power structures, negotiation processes and representation, to be both more legitimate and hence more effective.
- 3. The CEP should have encouraged the participation of communities in decision-making such as dispute resolution and system design to strengthen community involvement and ownership in the project.** Limiting community participation to project implementation frustrated communities and



deferred decisions about CEP system design to more centralized and technocratic processes. We saw communities frequently frustrated at micro credit repayment rules when a locally mediated solution could have quickly solved the conflict. An open, locally owned political process to resolve such tensions is preferable to a technocratic one that denies the political nature of the process. Although this may slow down decision-making processes, it leads to more creative and sustainable solutions and importantly, strengthens the Councils. It also strengthens the capacity of Council members, project staff and communities to manage their own development.

### **Council Member Participation:**

- 1. Council members could have received more support from the project, especially given the problems that emerged.** As the liaison point between the CEP PMU and CEP staff and communities, Council members played the key role in translating project rules and procedures into a grassroots process of governance and development. Without adequate comprehension of project rules or support for their tasks, Council members suffered. More detailed training on both project rules and participatory techniques would have aided Council Members. Also, given the level of work Council Members ended up performing to keep the project on track, perhaps it would have been wise to encourage some sort of payment for their work. This is a decision that could have been devolved to the District or Sub-District level.
- 2. Perhaps the establishment of District and/or regional forums for Council members to discuss plans and experiences under CEP could assist with confidence building and problem solving.** Some Council members interviewed often felt isolated in their duties and frustrated at the lack of ability to navigate CEP processes, while other had more positive experiences, developing constructive working relationships with all actors in the CEP process. A forum to share Council member experiences and develop strategies for project issues that arose could assist in strengthening Council member capacity. It would also be an important source of recommendations to improve the system.

### **Women's Participation:**

- 1. Assistance for women Council members must be ongoing and substantial.** The CEP PMU should have maintained a permanent program of confidence and capacity building for women Council members, including preparatory meetings before Council meetings, rather than an initial and piecemeal program that appears to have waned after early project enthusiasm.
- 2. Any campaign assisting women on the Councils must also tackle the broad cultural and practical barriers to women's participation on Councils.** We heard many examples of women's meaningful participation through council processes hampered by practical barriers such domestic and family obligations and also by negative attitudes towards women's participation generally. This reinforces the point that, just as negative attitudes towards women's equality have affected every part of their lives, so too must a program designed to empower them. We recommend using existing women's networks who already do work on literacy, child care and awareness raising around domestic violence.
- 3. There should have been practical assistance for women participating in Councils.** This could have included family friendly meetings that had child care facilities staffed and managed by widows identified under component B. (see 3.4), or catering provided by non-Council members.

## Governance Councils

1. **A Council model should be sensitive to the local governance realities of Timor-Leste.** When local institutions have a long and strong history of adaptability, planners must be cautious about imposing an external structure. CEP's attempt to bypass pre-existing governance structures with a new Council structure was received ambiguously by communities and in many cases, generated conflict that inhibited the project. Instead, the CEP model should have adopted the positive features of Timorese local authorities and challenged its regressive features through continuous dialogue. This could have enabled:
  - More sustainable use of capacity building resources
  - Stronger local legitimacy and therefore community participation
  - Stronger sustainability of Council knowledge
  - Quicker capacity to adopt the project and a more supportive environment to introduce the 'radical' aspects of CEP.
  
2. **The need for CEP Councils to coordinate with external providers of assistance and district level government.** Without a formal mechanism to coordinate between the two, the Village Councils and Sub-District Councils failed to make the efforts of external providers of assistance conform with the development priorities they had identified. As a result, local priorities were not always met and coordination was poor, e.g. in some cases projects were duplicated. Also, external providers of assistance used inconsistent methods of consulting with local structures often resulting in confused lines of local authority and a weakening of the legitimacy of the local councils.
  
3. **District level initiatives to coordinate local development are sorely needed.** Local planning can be decentralized but many projects require coordination and technical assistance that is better located at the district level. A District level planning body, such as the District Community Development Committee (DCDC), endorsed and encouraged by all stakeholders and implemented at the beginning of the project, would have aided coordination of development initiatives. It would have established a complementary relationship between the CEP Councils and Local Government rather than an occasionally adversarial one. It may also have encouraged the continuation of CEP structures after the project's expected wind-up. Another way to make a closer relationship between the two bodies is to give the District-level government a stronger role in managing local CEP staff, setting terms and conditions of work, reducing CEP salaries to government levels and ensuring a selection of staff appropriate to the community.

## System Delivery

### Financial Accountability:

1. **Financial accountability needs tight and uncompromising rules that are respected and understood at the local level.** The CEP shows that project funds can be tightly and successfully controlled at the national and regional levels. It remains to be seen whether the tight bureaucratic requirements of the CEP system are engendering a respect for transparency and accountability that will continue beyond the life of CEP. The research team believes that this instead involves creating robust and respected local institutions rather than ones that are centrally controlled by external agencies.
  
2. **Strengthening community participation in the CEP processes may have reduced the misuse of project funds.** An overemphasis on dispersing project funds, to the detriment of developing and strengthening the governance aspect of the Councils, encouraged the misuse of funds. Rapid socialization of the project

meant that communities often poorly understood or followed CEP council activities. Especially as people had difficulty understanding strict procurement guidelines, ill-suited to the non-monetized and weak rural economies of Timor-Leste. Similarly, the capacity of Councils to receive and distribute funds was often low. The resulting weak legitimacy and scrutiny of councils often meant that elites or project recipients misused funds. We observed that local level accountability of project funds is closely related to the levels of community participation in the CEP processes and hence their respect for the village Council. A stronger effort to strengthen the legitimacy of CEP Councils would have reduced the opportunities for money to be misused.

Another improvement that could be made is to develop a sensible, clear and locally-owned system of accountability. For example, rather than rely excessively on notice boards and paper work, the project could have used existing communication channels, which are mostly verbal and operate through social networks.

#### **Technical Assistance:**

- 1. Stronger links between the relevant government departments and the CEP could have aided the technical quality and sustainability of projects.** The decentralized and semi-privatized nature of technical assistance meant that the project failed to use the skills and knowledge in line ministries. As the project appraisal document states, it felt they were 'centralized and detached from the people.' The result was poorly planned projects that were often not integrated into other district planning, e.g. water supply. The project would have benefited from the input of e.g. the Department of Water and Sanitation which had a stronger skill base and was able to propose appropriate solutions and plan and design complementary systems.
- 2. The sustainability of projects with high maintenance costs was uncertain.** We doubt the ability of communities to maintain projects with expensive infrastructure such as water sanitation. Cheaper project materials better suited to the environment of Timor-Leste may have to be investigated if donors are unwilling to provide similar levels of support to local communities in the future.

#### **Budget Allocations:**

- 1. It is hard to justify the high overhead budget costs of the CEP when the rationale for them – the governance and participatory goals of the project - were deprioritized.** Setting up a comprehensive system of local development Councils requires a huge investment in building the human resources of project staff, Council members and the community in general. However, the project emphasized the quick disbursement of funds and completion of projects as its main goal and neglected building up a credible system of local governance. If the Councils were only ever to be used as a funds disbursement mechanism, it would have been far more efficient from an economic perspective, simply to disburse the funds through UN structures, down to the Village Chief.
- 2. It is a better use of resources to invest in capacity building at the commencement of the project rather than as a reaction to problems that emerge later on.** Pressure to disburse funds quickly, but without adequate community capacity to receive and use the money, created a number of problems that the project never fully recovered from. This ironically led to delays in disbursement.

## Implementing Agencies and Project Management

- 1. The importance of meaningful government involvement in the project at all levels.** Perhaps this could have been achieved by setting up a joint committee of management that meaningfully involved key stakeholders such as the GoTL and donors, as suggested by CAA/O originally, rather than letting decision-making effectively being centralised with the World Bank Task Manager. The DCDC, operating at the District level seems to be a good model here. Such a body could have debated and agreed upon project goals and assumptions when problems emerged. Stronger ownership would have also given more political legitimacy to the project and reduced institutional rivalry.
- 2. The CEP would have benefited from a higher prioritization of the governance goals of the project.** This report has argued strongly that the hurried disbursement of aid was to the detriment of developing strong local institutions of governance. Our experience however is that setting up robust and respected institutions are fundamental to project success. Without this, Councils were ill-equipped to manage funds and had weak legitimacy in the eyes of communities. Unfortunately for the CEP, once these issues it emerged, project momentum and managerial intransigence made it difficult to correct.
- 3. The need for a mutually developed strategy between the World Bank, UNTAET and GoTL for the eventual integration of the institutions of the CEP into GoTL plans for decentralization.** A continuous dialogue between stakeholders to sketch out and implement this plan would have guaranteed the survival of the important investments the project made into local governance capacity building. Despite the criticisms of the project made in this report there are many positive elements of the CEP that will unfortunately be discontinued due to a lack of such a strategy of integration.

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### Appendix B: Projects Studied

District	Posto	Suco	Project	Visited
Liquica	Bazartete	Lauhata	Water Sanitation	2/7
		Maumeta	Water Sanitation	3/7
		Ulmera	Rejected water and road proposals PPMV Credit	4/7
		Bazartete	Water Sanitation Community Hall	4/7
Bobonaro	Maliana	Ritabou	Water Sanitation	8/7
	Bobonaro	Oeleo	Water Sanitation School Rehabilitation Road Rehabilitation	8/7
		Tapo	Road Construction	8/7
	Balibo	Aman Dato	Water Sanitation Project	10/7
		Batugade	Credit – Tractor Purchase	10/7
	Cailaco	Meligo	Water Irrigation Water Irrigation 5 Kiosks Hand Tractor Livestock	
	Tapo/Memo	Tunubibi (Aldeia)	Exclusion from CEP	9/7
Manatuto	Manatuto		Furniture/credit Clinic/credit	17/7
	Natabora		Kiosks/credit	17/7
	Laclubar	Sau	Water channel kiosk	18/7