

The Auditor-General
Audit Report No.20 2003–04
Performance Audit

Aid to East Timor

Australian Agency for International Development

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of Australia 2003

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Canberra ACT
19 December 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Agency for International Development in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Aid to East Timor*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

AETRDP	Australia East Timor Rural Development Program
AMB	Activity Monitoring Brief
ANAO	Australian National Audit Office
AusAID	Australian Agency for International Development
CAPET	Capacity-Building Program for East Timor
CPRAMP	Country Program Risk Assessment and Monitoring Plan
ETCAS	East Timor Community Assistance Scheme
GDP	Gross Domestic Product
INTERFET	International Force in East Timor
NGO	Non-government organisation
OCHA	(United Nations) Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
TFET	Trust Fund for East Timor
UN	United Nations
UNAMET	United Nations Mission to East Timor
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNTAET	United Nations Transitional Administration in East Timor

Summary and Recommendations

Summary

Background

Australian government assistance to East Timor

1. Over the past four years, Australia has provided substantial assistance to the restoration and maintenance of security and the economic and social recovery of East Timor. This assistance has been a significant part of the international response to the destruction of property and the displacement of the East Timorese people after the August 1999 ballot on separation from Indonesia.
2. The main components of Australian government assistance have been security assistance, aid and policing assistance. The aid component, estimated to cost \$235 million over the five years 1999–2000 to 2003–04, is managed by the Australian Agency for International Development (AusAID).

Audit objective

3. The objective of the audit was to assess AusAID's planning for, and management of, the delivery of aid to East Timor.

Initial response to the 1999 crisis (Chapter 2)

4. The violence that followed the August 1999 ballot created an immediate need for humanitarian assistance, particularly food, water, shelter and medical supplies. AusAID's pre-crisis monitoring of developments in East Timor placed it in a good position to respond quickly and appropriately to this need.
5. At the time of the response there were no specific, current AusAID guidelines for responding to emergency and humanitarian crises. However, AusAID was able to rely on the expertise of key staff, who were familiar with United Nations disaster coordination arrangements, to ensure that appropriate steps were taken. AusAID has since issued guidelines for emergency and humanitarian assistance.
6. Australia's contribution of \$37 million in 1999–2000 was the largest ever AusAID contribution to a humanitarian crisis. Most of this contribution was provided through four assistance packages, which were approved by AusAID and by the Minister for Foreign Affairs between September and November 1999. Delivery of the assistance was primarily through funding the activities of United Nations agencies.

7. In addition to providing a substantial financial contribution, AusAID actively facilitated the international response, providing significant support for planning, coordination, administration and implementation. Stakeholders confirmed the important part played by AusAID in the response to the crisis.

8. The international response concluded in mid 2000, with a transition to reconstruction and development assistance. The ANAO did not seek to assess the effectiveness of the international response as this involved a range of donors. However, two external reviews indicated that the response was effective and well coordinated. Stakeholders consulted by the ANAO supported this view.

Post-crisis country strategy (Chapter 3)

Strategy development and focus

9. AusAID developed an interim country strategy for East Timor through extensive and effective consultations with Australian and overseas stakeholders over a six-month period during 2000. The ANAO found that the timing of the preparation of the strategy was appropriate. It followed an easing in the need for emergency relief and enabled AusAID to take into account assistance proposals of other donors, which became clearer during 2000.

10. AusAID's East Timor country strategy articulated Australia's aid objectives and provided the framework for the management and delivery of aid during 2001 and 2002. It identified East Timor's development needs and recognised its limited capacity to manage assistance and sustain aid outcomes. It also utilised lessons learned from previous post-conflict situations.

11. The strategy acknowledged the role of non-government organisations (NGOs) in providing Australian aid to East Timor, but did not explicitly address the role of other Commonwealth and State government agencies or how the Commonwealth contribution would be coordinated. It would be appropriate to ensure that future strategies address such issues.

12. In developing the strategy, AusAID considered the appropriate balance between different means of providing assistance which would promote Australian aid objectives in East Timor. The main choice was between 'bilateral aid', that is, aid provided directly by Australia, and aid channelled to East Timor trust funds, and similar arrangements, managed by multilateral agencies ('multilateral aid'). Following an initial focus on multilateral aid, bilateral aid is now the main focus of Australian assistance to East Timor.

13. The strategy provided a sound and comprehensive basis for planning and managing bilateral aid at the sectoral level. The choice of priority sectors—governance; education and training; water supply and sanitation; rural

development; and health—and specific priorities within each sector, were based on expert assessments of East Timor’s development needs.

Risk management

14. The East Timor interim country strategy set out a risk management matrix. The matrix identified *strategic* risks to the aid program, such as the potential lack of East Timorese capacity and possible lack of donor coordination, and addressed ways of managing those risks. However, it was not supported by an assessment of each risk in terms of its likelihood and the severity of its consequences, to assist in prioritising risks and their treatment. In addition, the matrix had not been updated since the finalisation of the interim strategy in October 2000.

15. AusAID’s *strategic* risk management framework for country programs is underpinned by *operational* plans for activity monitoring, referred to as Country Program Risk Assessment and Monitoring Plans (CPRAMPs). However, a CPRAMP was not prepared for East Timor until March 2003, more than two years after the country strategy was in place.

16. Notwithstanding the need for AusAID to address these shortcomings in the risk management process, the ANAO found that AusAID has put considerable emphasis on the day-to-day management of risks associated with East Timor aid. The main means of monitoring risks included project site visits; independent project reviews; and regular reporting by Australian contractors.

Performance management

17. The East Timor interim country strategy included a performance monitoring plan, which set out program objectives and linked them to what are described as ‘outputs’ and ‘performance indicators’. However, this plan had some limitations, which affected its usefulness in monitoring program performance. For example, outputs (goods and services) to be delivered were not clearly stated for each program objective. Where outputs were identified, they were not specified in measurable terms.

18. In practice, AusAID did not use the performance monitoring plan to assess the strategy’s effectiveness. The focus of AusAID’s monitoring was on the individual components of the country program. However, the lack of *overall* performance monitoring at the country program level is a shortcoming, which has meant that AusAID is not well placed to demonstrate clearly that the strategy has achieved the overall desired aid objectives.

19. The ANAO recognises that it would have been difficult, at least initially, to establish performance measures and targets for some outputs and outcomes,

given the timeframe and context within which the interim strategy was developed. However, the ANAO considers that it would have been beneficial to add appropriate measures and targets subsequently as the program components were being designed and implemented. This would have provided a more robust and well articulated performance monitoring plan, which would have enhanced AusAID's capacity for performance management.

Review of the interim country strategy

20. AusAID commissioned a team of consultants to review the interim country strategy in October 2002. The review had a number of strengths—including its independence from AusAID and involving a team with appropriate knowledge and experience of East Timor. AusAID provided the team with pre-departure briefings and documentation on the East Timor aid program. However, there were some limitations to the review process, including limited time for the team to absorb a substantial part of the briefing material, which could have been avoided by earlier preparation by AusAID.

21. The review team highlighted the significant contributions of Australian aid to capacity-building in East Timor government administration. It also highlighted AusAID's contribution to peace-building, reconciliation and the development of NGO capacities.

22. The review team found that AusAID's bilateral activities aimed at the restoration of basic services had achieved some success. However, it noted the slow pace of implementation of some of these activities and the considerable challenges facing aid delivery in some sectors. The review team also found that, on balance, the multilateral trust fund mechanism made an important contribution during East Timor's transition to independence.

International donor coordination (Chapter 4)

23. The international donor community recognised that effective coordination between donors would be crucial to the success of the international response to the East Timor crisis. Australia was an active participant in international donor conferences, convened between December 1999 and May 2002. It hosted one of these meetings, in Canberra, in June 2001. These meetings facilitated donor consultation on East Timor's recovery and transition to independence, as well as donor approval and monitoring of multilateral reconstruction projects.

24. The ANAO found that AusAID's strategic preparation for these donor meetings was well managed. AusAID identified objectives to be pursued at each donor conference and prepared briefing material on key topics for the Australian delegation. AusAID also maintained a consistent team of senior officials to

represent Australia's interests at these donor meetings. On occasions, AusAID would have benefited from further background preparatory work and more detailed reporting back on some issues discussed at the meetings.

25. The ANAO found that AusAID actively advanced Australia's views on East Timor aid and development issues through these forums. AusAID's dialogue with other stakeholders made a positive contribution to successful outcomes in relation to its broad aims of encouraging wide international support for East Timor and continued donor engagement and aid coordination. On some specific issues, Australia played an important role in influencing developments.

Multilateral assistance (Chapter 5)

26. The Trust Fund for East Timor (TFET) was established by the World Bank for East Timor's reconstruction and development. Australia has contributed some US\$12 million to this multilateral trust fund. The World Bank and the Asian Development Bank have managed individual TFET projects.

27. TFET donors have been provided with six-monthly reports containing summary information on TFET, and information on individual TFET projects. However, the ANAO found that AusAID would be in a better position to review TFET performance if it could obtain enhanced project reporting from the development banks. In particular, an overall assessment (rating) of the status of each project could be included in the reports. In response to the draft audit report, the World Bank advised that it has now improved project reporting to TFET donors.

28. AusAID actively participated in a wide range of joint project supervision missions, through which donors and other stakeholders jointly assessed the TFET and other aid activities. These missions have been a valuable mechanism for providing Australia and other donors with information on the performance of TFET projects. AusAID has also used mission reports for monitoring sectoral developments and identifying future aid opportunities.

29. AusAID has assessed the performance of the World Bank and the Asian Development Bank in managing TFET. AusAID canvassed some concerns regarding the Asian Development Bank's assistance to the roads and power sectors with the banks and other stakeholders through donor coordination processes. The Asian Development Bank advised the ANAO that these concerns had been brought to the Bank's attention at appropriate times and this had helped resolve some of the issues in these sectors. Following further TFET and other donor assistance, some performance improvements have been achieved in the power sector. AusAID has assisted with the provision of expert advice on the main issues of concern.

30. The TFET trust fund arrangements produced major benefits, including the mobilisation and consolidation of considerable donor resources into a common reconstruction fund. Australian assistance through TFET contributed to East Timor's social and economic recovery within a relatively short timeframe, particularly through the reconstruction of schools, health facilities and transportation infrastructure.

31. TFET was successful in preparing projects for implementation more rapidly than is the norm for World Bank projects. However, project management and implementation difficulties were greater than anticipated by the development banks, particularly in the early phase of East Timor's reconstruction. TFET financial disbursements and project progress have been much slower than originally planned.

Bilateral assistance (Chapter 6)

32. Bilateral assistance has comprised both *shorter-term transitional assistance activities* and *medium-term development assistance activities*. The former were designed and implemented rapidly in 1999 and 2000 to meet East Timor's immediate needs. The latter were designed more methodically, under less pressing time constraints, from 2001 onwards. The ANAO sampled 14 bilateral activities covering each of AusAID's key aid sectors.

Activity planning and design

33. The ANAO found that sampled *transitional activities* were prepared and approved within shorter than normal design timeframes, to enable AusAID to deliver assistance more rapidly. This meant that they did not go through AusAID's full design processes. Reduced design processes included limited stakeholder consultation and risk management planning.

34. One consequence was that outputs/outcomes and performance indicators were not specified for most activities examined. While this was understandable at the design stage of these activities, AusAID did not take the opportunity to subsequently identify and use suitable outcomes/outputs and performance indicators. This occurred notwithstanding that some activities were substantial and implemented over more than a year.

35. These limitations hampered AusAID's ability to assess and manage performance. It would have been beneficial for AusAID to have addressed this issue early in the implementation of transitional activities.

36. The ANAO found that sampled *medium-term activities* generally met the attributes of good planning and design. Performance indicators were specified

for all of these activities. However, the indicators had a number of shortcomings. For example, they did not adequately measure or assess the quality of outputs or the effectiveness of activities, which are critical for assessing performance. Most indicators did not incorporate targets; as a result it was unclear what would constitute good performance.

37. The ANAO acknowledges that the performance measurement of aid activities is challenging. However, the ANAO identified several ways in which the indicators employed could have been strengthened to better monitor the performance of East Timor activities. This is an aspect of activity management that warrants further attention by AusAID for future projects.

Monitoring of activity implementation and performance

38. The ANAO found that there was regular, and generally effective, communication and exchange of information between AusAID staff in Canberra and in Dili during the delivery of aid activities. In addition, contractors provided regular reports on activity progress and performance, although there is a need for AusAID to strengthen its efforts to ensure that contractor reporting requirements are more focused on performance achieved.

39. AusAID regularly monitored activity expenditure against budget. It also monitored activity progress, using qualitative information. However, it made only limited use of performance indicators in assessing activity performance, partly reflecting the design problems noted at paragraphs 34 to 36. AusAID's activity monitoring should incorporate preferably quantitative performance measurement, to enable more rigorous assessment against planned activity outcomes and outputs.

Risk management and fraud awareness

40. AusAID prepared a risk management plan for each medium-term activity. In the case of most transitional activities, risks were identified in other activity documentation. However, the ANAO found risk management strategies in plans, or other related documentation, were not *systematically* reviewed or updated during the implementation of the majority of activities.

41. AusAID is aware of the potential for fraud in aid activities in East Timor and has explicitly addressed fraud risk in activity monitoring. Two instances of suspected fraud were identified and investigated by AusAID. These involved grants for relatively small amounts under the East Timor Community Assistance Scheme (ETCAS). AusAID now has tighter procedures for assessing ETCAS applications and for monitoring activity progress.

Activity achievements

42. Audit evidence indicated that, overall, Australia's bilateral aid has made an important contribution to East Timor's reconstruction and development. East Timor government stakeholders supported this conclusion. They indicated to the ANAO that Australia's bilateral assistance program has been of high quality and has delivered positive outcomes for East Timor in a number of high priority sectors and activities.

43. Weaknesses in AusAID's performance information, for both transitional and medium-term activities, limited the ANAO's capacity to assess activity performance. Notwithstanding this, the ANAO considers that the individual bilateral aid activities have had positive results and mostly achieved planned outcomes and outputs, in a difficult operating environment.

Sustainability of activities

44. AusAID requires that bilateral aid activities have a sustainability strategy for ensuring that the benefits of the activity are maintained to the maximum extent possible, when Australian assistance ends. The ANAO found that a sustainability strategy was included in the designs of most medium-term activities. Sustainability issues were also generally considered in the designs of most transitional activities examined.

45. Notwithstanding the attention given to sustainability issues in activity designs, the ANAO observed that the continued sustainability of many activities examined was problematic. Likely sustainability of some 30 per cent of activities in the audit sample was rated by AusAID as 'weak' or 'marginally satisfactory'. The extent of this risk was also evident in ANAO visits to activities and discussions with stakeholders in East Timor. Reviews of East Timor aid activities commissioned by AusAID have also consistently identified sustainability as an area of relative weakness.

Overall conclusion

46. The ANAO concluded that AusAID made a significant and timely contribution to the international response to the humanitarian crisis that followed the ballot on separation from Indonesia. In addition to providing a substantial financial contribution, AusAID provided key planning and logistical support elements that helped to make the international response timely and effective.

47. AusAID's humanitarian response was followed by a well planned and targeted interim strategy for the delivery of post-crisis assistance to East Timor. This interim strategy took into account stakeholder views, East Timor's

development needs and the activities of other donors. However, there were some administrative shortcomings.

48. In particular, risk management did not include an assessment of the likelihood and consequences of individual risks, to assist in prioritising risks and their treatment. Identified risks were not regularly updated to reflect changing conditions in East Timor. In addition, limitations in performance management at the country program level hampered AusAID's ability to assess whether overall desired aid objectives have been met.

49. AusAID has played an active role in the successful coordination of international assistance to East Timor, and had adequate mechanisms to assess whether Australia's financial contributions to the Trust Fund for East Timor have been used effectively. On the basis of these assessments and audit examination, the TFET trust fund arrangements produced major benefits for AusAID and other stakeholders. However, unanticipated difficulties and delays were encountered by the development banks in the implementation of TFET projects.

50. AusAID's management of most aspects of the design and implementation of individual bilateral aid activities has been sound, although the ANAO identified limitations in some supporting structures. In particular, the quality of performance indicators and associated targets can be improved to better monitor the performance of East Timor activities. In addition, the relatively high inherent risk in delivering aid to East Timor warrants stricter adherence to AusAID requirements for preparing and updating risk management plans for activities.

51. Australian bilateral aid has made an important contribution to East Timor's reconstruction and development, by providing assistance in a number of high priority sectors. Individual aid activities have mostly achieved planned outcomes and outputs. However, the sustainability of many of these activities is at risk.

Recommendations and AusAID response

52. The ANAO made four recommendations aimed at strengthening AusAID's risk management and performance management in its delivery of aid to East Timor. AusAID agreed with all four recommendations in the report.

AusAID response

53. AusAID's response to the proposed report is set in out in full below:

AusAID welcomes the ANAO review findings of aid to East Timor which confirm the Australian aid program's significant and timely contribution not only to the humanitarian crisis following the ballot in 1999, but also to East Timor's

subsequent reconstruction and development. Importantly, the ANAO recognises that despite the difficult operating environment, AusAID actively facilitated the international response and provided significant support for planning, coordination and implementation of international assistance for East Timor's reconstruction.

AusAID agrees with the audit report recommendations and acknowledges the importance of risk and performance management in administration of the aid program. The report reinforces the direction of work under way to improve risk and performance management systems, thus contributing to stronger development outcomes and greater sustainability.

Recommendations

Set out below are the ANAO's recommendations aimed at improving AusAID's delivery of aid to East Timor. Report paragraph references and abbreviated AusAID responses are also included. More detailed responses are shown in the body of the report.

**Recommendation
No.1
Para.3.25**

**Risk management
plan for the
country program**

The ANAO recommends that AusAID strengthen its risk management of aid to East Timor, by:

- undertaking a risk analysis of the likelihood and consequences of risk, to assist in prioritising risks and their treatment, as part of developing a risk management plan for its new East Timor country strategy; and
- reviewing and updating the risk management plan at least annually.

AusAID response: Agreed.

**Recommendation
No.2
Para.3.40**

**Performance
management**

The ANAO recommends that AusAID strengthen the monitoring of the performance of the overall East Timor country strategy by:

- clearly specifying the outputs of the country program, and linking them to outcomes and program objectives; and
- developing performance indicators, including targets, to assess the quality and quantity of outputs and their effectiveness in contributing to outcomes and program objectives.

AusAID response: Agreed.

**Recommendation
No.3
Para.6.25**

**Performance
information**

To improve the quality of performance information for effective activity management, the ANAO recommends that AusAID develop a range of performance indicators that:

- incorporate realistic and measurable targets; and
- enable assessment of the quality of outputs and the achievement of outcomes.

AusAID response: Agreed.

**Recommendation
No.4
Para.6.36**

**Risk management
of individual
bilateral activities**

The ANAO recommends that AusAID prepare risk management plans for all individual bilateral aid activities in East Timor and review them at least annually.

AusAID response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of Australian government assistance to East Timor. It also outlines the audit approach.

Australian government assistance to East Timor

1.1 Over the past four years, Australia has provided substantial assistance to the restoration and maintenance of security and the economic and social recovery of East Timor. This assistance has been a significant part of the international response to the destruction of property and the displacement of the East Timorese people after the August 1999 ballot on separation from Indonesia.¹

1.2 The main components of Australian government assistance to East Timor have been security assistance, aid and policing assistance. This audit focuses on the aid component managed by the Australian Agency for International Development (AusAID) (highlighted in Figure 1.1) This aid is estimated to cost \$235 million over the five years 1999–2000 to 2003–04.²

Figure 1.1

Main components of Australian government assistance to East Timor^(a)

Agency and component	1999–2000	2000–01	2001–02	2002–03 (Estimate) ^(b)	2003–04 (Estimate)	Total ^(c)
Department of Defence— <i>Security assistance</i>	\$607.5m	\$815.2m	\$664.9m	\$115.6m	\$115.6m	\$2 318.8m
Australian Agency for International Development — <i>Aid</i>	\$81.0m	\$40.5m	\$39.5m	\$38.9m	\$34.7m	\$234.5m
Australian Federal Police — <i>Policing assistance</i>	\$12.1m	\$20.5m	\$16.9m	\$22.0m	\$19.7m	\$91.1m

Notes: (a) Other assistance was also provided by other Australian government agencies (see Appendix 1 for details).

(b) Final aid expenditure data for 2002–03 will not be available until reconciliation processes are completed in March 2004.

(c) Numbers may not add due to rounding.

Source: ANAO analysis of AusAID, Department of Defence and Australian Federal Police data.

¹ The international response has included peace keeping operations, emergency aid, reconstruction assistance and development assistance.

² Australia's security assistance was the subject of a separate ANAO audit, reported in Audit Report No.38 2001–2002, *Management of Australian Defence Force Deployments to East Timor*.

Managing aid and stakeholder relationships

Australia's overseas aid program

1.3 Australia's aid to East Timor is part of the Australian official aid program. This program aims to help developing countries, particularly in the Asia-Pacific region, to reduce poverty and achieve sustainable development. It focuses on promoting improved governance, economic growth, stability, regional security, and sustainable resource management. Appendix 2 contains further information on Australia's overseas aid program.

1.4 AusAID is the Australian government agency responsible for the management of Australia's aid program. It is an administratively autonomous agency within the Foreign Affairs and Trade portfolio, and reports to the Minister for Foreign Affairs.

Stakeholder relationships

1.5 In general, Australian aid is built on partnerships with the recipient government and communities. It also takes into account the assistance of other donors.³ In the case of East Timor, there has been a large number of stakeholders involved in the provision of aid, as summarised in Figure 1.2.

1.6 Australia, Japan, Portugal, the European Commission, the United States and the United Kingdom have been the major bilateral donors in East Timor. However, many other countries also provided financial assistance.

1.7 Two multilateral trust funds were established to consolidate donor resources for East Timor's recovery and transition to independence. Australia has made substantial financial contributions to both trust funds (see Chapter 5).

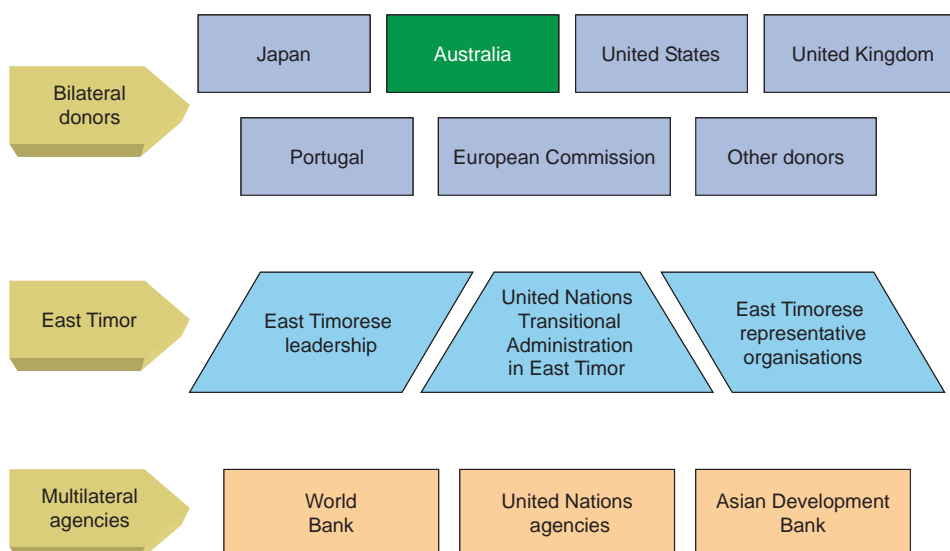
1.8 The United Nations Transitional Administration in East Timor (UNTAET) was the governing authority in East Timor from October 1999 until the country's independence in May 2002. East Timorese participation in governance was progressively increased during the UNTAET administration, particularly through 'co government' decision-making structures and civil service appointments.

³ Typically, developing countries will also receive *bilateral aid* directly from other countries' national aid agencies and *multilateral aid* through multilateral development banks and international organisations.

1.9 AusAID worked closely with UNTAET, other bilateral donors, and multilateral development banks and agencies, within an international donor coordination framework established to assist East Timor from 1999 until 2002.⁴ AusAID also consulted directly with the East Timorese national leadership and representative organisations. These organisations included the National Council of Timorese Resistance, and church and non-government organisations.

Figure 1.2

Key aid stakeholders in East Timor’s transition to independence, 1999–2002



Source: ANAO analysis.

East Timor’s development needs

1.10 East Timor is one of the *poorest* nations in the world. In 1999, it ranked 152nd out of 162 countries in the world in terms of the United Nations Development Programme (UNDP) human development index.⁵ Since then, East Timor’s Gross Domestic Product (GDP) per capita has risen, but is still less than US\$500 per year. A country profile for East Timor, including statistical development indicators, is set out in Appendix 3.

⁴ This included six-monthly donor conferences, co-chaired by the World Bank and UNTAET. Australia’s participation in these arrangements is examined in Chapter 4.

⁵ The UNDP human development index combines indicators on life expectancy, knowledge and standard of living to produce a single overall index. East Timor’s ranking on this index is set out in the United Nations Development Programme publication, *East Timor Human Development Report 2002*, Dili, 2002. Further details are in Appendix 3.

1.11 The East Timorese people face major development challenges in the economy, society and public administration. These stem from underlying conditions prior to the 1999 ballot, but were greatly worsened by the destruction of property and the displacement of people after the ballot.

1.12 Most of the population of 838 000 live in rural areas, and depend on subsistence *agriculture* to meet basic needs. Agricultural productivity is low. The country's proneness to drought, combined with poor soil conditions and mountainous terrain, mean that the food supply is problematic and agricultural development is difficult. The post-ballot violence in 1999 disrupted agriculture and severely affected food and coffee production.

1.13 East Timor faces significant *health* problems. These include high infant and child mortality; low life expectancy; and the prevalence of diseases such as malaria, tuberculosis and childhood infections. Poverty, illiteracy, lack of access to safe water and sanitation, as well as remoteness from health facilities, contribute to poor health standards.

1.14 Standards of *education* are low. About half of the population has never attended school and cannot read or write. There is a substantial shortage of teachers, and teaching quality is low. The re-introduction of Portuguese and Tetum⁶ as East Timor's official languages, replacing Indonesian, is a challenge for the national education system.

1.15 East Timor has limited *infrastructure* for providing electric power, water and sanitation, postal and telecommunication services, roads, and air and sea transport. Much of the country's infrastructure was destroyed or severely damaged during the post-ballot violence in 1999.

1.16 Public service *institutional and administrative capacity* also remains weak. Many senior administrative, health and teaching staff left in 1999. East Timor officials appointed since that time have had limited training and experience in public administration.

1.17 There has been much progress in economic and social recovery since 1999.⁷ However, East Timor is still establishing basic infrastructure and community services, and building up institutional capacity for effective public administration and good governance. Strategies to address these development needs are articulated in the country's first national development plan, which was approved shortly after independence in 2002.⁸

⁶ Tetum or Tetun is a local language that predated Portuguese.

⁷ East Timor's progress during the UN transitional administration was reported in background papers prepared by the World Bank and UNTAET for donor meetings from 1999 to 2002. These public-domain documents are accessible at the Timor-Leste (East Timor) webpage on the World Bank website: <<http://www.worldbank.org>>.

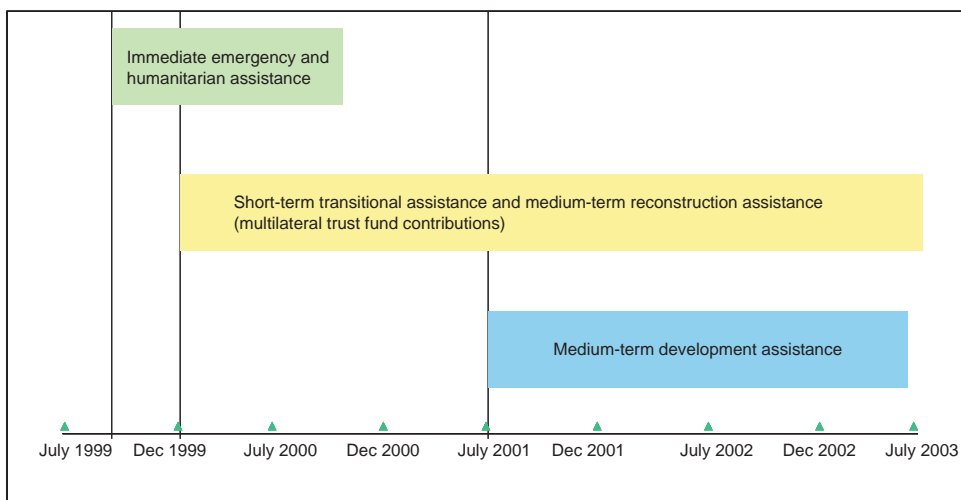
⁸ Government of East Timor, *East Timor National Development Plan*, Dili, 2002. The plan addresses the development of East Timor over the next five years.

Aid to East Timor

1.18 The goal of Australia's aid to East Timor is to 'reduce poverty and build East Timorese capacity to govern a peaceful, democratic and independent East Timor'.⁹ This aid has been provided in three distinct, overlapping phases; see Figure 1.3.

Figure 1.3

Phases of Australian aid to East Timor, 1999–2003



Source: ANAO analysis of AusAID news updates, especially *East Timor Update* Nos.10–13, February 2000 to June 2001, accessible at the AusAID website, <<http://www.ausaid.gov.au>> and other AusAID information.

1.19 The initial phase of Australian aid during 1999 and 2000 focused on the provision of *emergency and humanitarian assistance*. The key priority was to respond quickly and effectively to East Timor's major humanitarian crisis. The response was Australia's largest ever to an overseas emergency. It:

- provided emergency food, medical and shelter supplies;
- supported the return and reintegration of displaced persons; and
- provided transportation and logistics support for the international aid effort.

1.20 As the need for emergency aid abated, the second phase during 2000 and 2001 focused on *transitional and reconstruction assistance*. Key priorities were to:

- facilitate the establishment of the UN transitional administration;
- undertake major reconstruction activities; and

⁹ AusAID, *Interim Country Program Strategy for East Timor*, January 2001, p.1.

- meet basic community needs particularly in education, health, water supply and food production.

Australia addressed these priorities by providing short-term staff assistance to the UN transitional administration. Later on, short-term technical assistance and training was provided to build East Timorese capacity in public administration.

1.21 The third phase of Australia's aid program, under way since mid 2001, focused on medium-term *development assistance*. Key priorities have been to support the establishment of an independent democratic government and functioning public service, and to promote sustainable development in East Timor.

1.22 Since East Timor's independence, Australia's aid program has focused on developing partnership arrangements with the new East Timor Government. Australia and East Timor signed a memorandum of understanding on technical cooperation in February 2003, and a new strategy for Australian aid to East Timor is now being prepared.

The audit

Audit objective and criteria

1.23 The objective of the audit was to assess AusAID's planning for, and management of, the delivery of aid to East Timor. To this end, the audit examined whether AusAID had:

- developed timely and appropriate strategies for assisting East Timor;
- established appropriate arrangements to enable the effective implementation of its strategies;
- effectively coordinated the development of its strategies and their implementation/delivery with other international donors and other Australian stakeholders; and
- developed appropriate strategies to assess the effectiveness and quality of its assistance strategies to date.

1.24 The audit looked at AusAID's management of: bilateral assistance, through its East Timor country program; and multilateral assistance, through multilateral development banks and international organisations. The audit included coverage of AusAID's coordination with other Australian government agencies and non-government organisations which have provided aid.

1.25 The audit criteria were derived from good practice in aid management and from benchmarks in previous ANAO audits. The ANAO also had regard to

pertinent findings in parliamentary committee reports.¹⁰ The audit criteria are summarised in Appendix 4.

Audit methodology

1.26 Audit fieldwork was undertaken in AusAID Canberra and in East Timor. The ANAO interviewed officers and reviewed files, documentation and management information systems. The ANAO examined a sample of bilateral activities. An AusAID officer assisted the audit team during this fieldwork.

1.27 The ANAO interviewed a number of East Timor government ministers and agency officials, resident mission officials of other donor countries and multilateral organisations, and representatives of international and East Timorese non-government organisations.

1.28 The ANAO also interviewed Australian project staff implementing aid projects in-country, as well as Australian technical advisers working in various East Timor government agencies. On-site visits were undertaken to a range of assisted local communities and aid activities in the Bobonaro and Ermera districts of East Timor (see map at Figure 1.5).

1.29 The audit was conducted in accordance with ANAO standards. The cost of the audit to report tabling was \$510 000. The ANAO engaged ORIMA Research Pty Ltd to assist with the conduct of the audit.

Report structure

1.30 The report structure is set out in Figure 1.4. Australia's immediate emergency and humanitarian response to the 1999 crisis is addressed in Chapter 2. AusAID's strategy of providing multilateral and bilateral assistance to East Timor following the initial humanitarian response is examined in Chapter 3.

1.31 Chapters 4 and 5 deal with AusAID's coordination with overseas donors and Australia's financial contributions to multilateral reconstruction assistance. Australia's bilateral assistance, comprising shorter-term transitional assistance and medium-term development assistance, is examined in Chapter 6.

¹⁰ Senate Foreign Affairs, Defence and Trade References Committee, *Interim Report on East Timor*, September 1999, and *Final Report on East Timor*, December 2000. The final report included coverage of Australia's immediate humanitarian assistance in 1999 and the Australian Government's financial commitments for the reconstruction of East Timor announced in 1999–2000.

Figure 1.4

Structure of the report

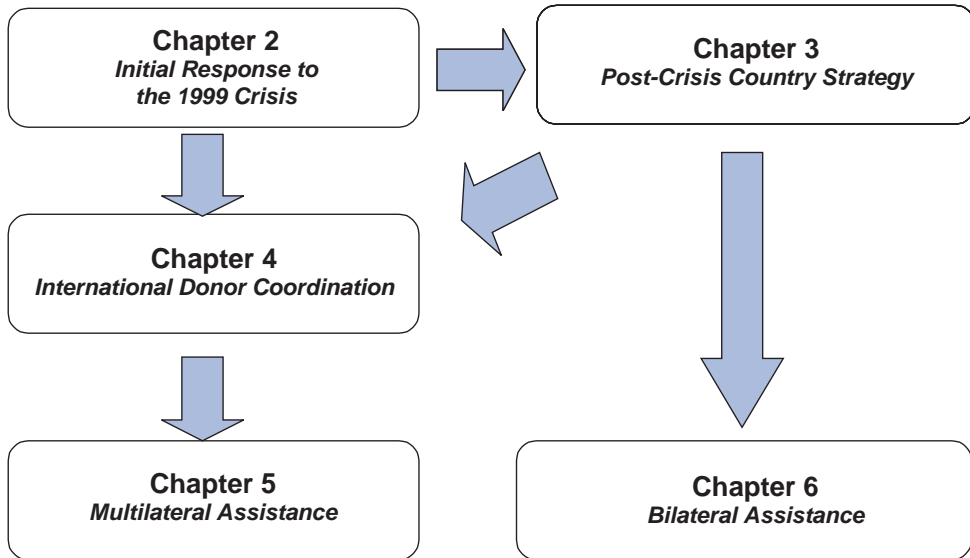
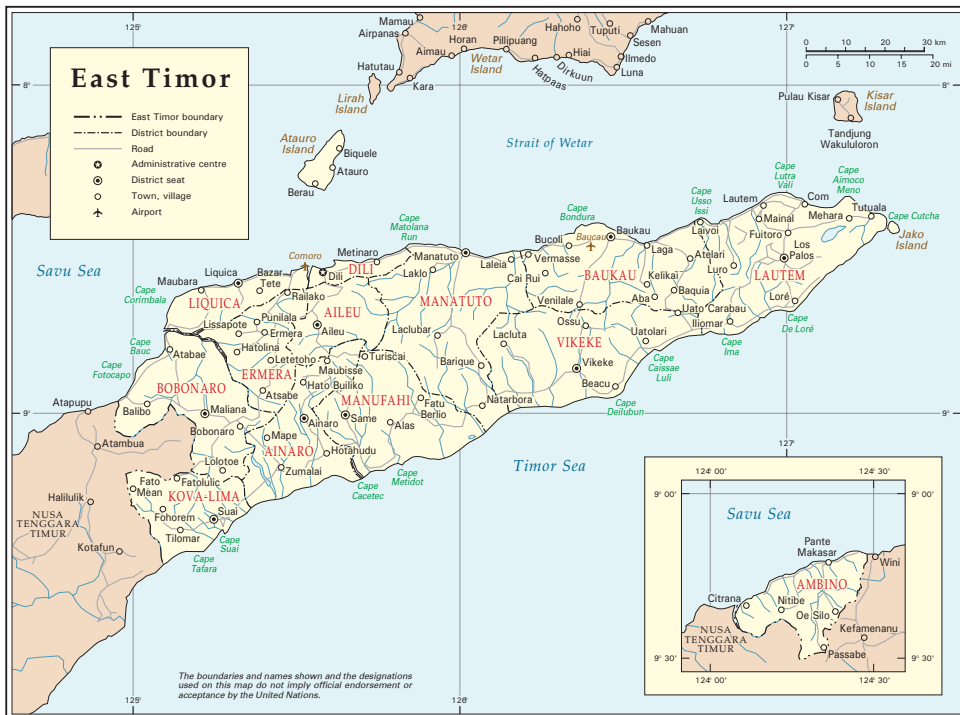


Figure 1.5

Map of East Timor



Source: United Nations map on AusAID website.

2. Initial Response to the 1999 Crisis

This chapter examines AusAID's preparedness for, and response to, the humanitarian crisis that followed the 1999 ballot on separation from Indonesia.

Introduction

2.1 The violence that followed the ballot in East Timor in August 1999 created an immediate need for humanitarian assistance, particularly food, water, shelter and medical supplies. The impact of the violence is outlined in Appendix 5.

2.2 The Australian Government, through AusAID, responded by contributing \$37 million in 1999–2000 to an international humanitarian response, coordinated by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA).¹¹

2.3 The international response involved the rapid mobilisation of UN and non-government organisation (NGO) personnel. During the first month of aid delivery (mid-September to mid-October), interventions focused on meeting acute humanitarian needs (see Appendix 5). By late October 1999, more than 700 people were engaged by the UN and NGOs in the operation. Key milestones in the response are outlined in Figure 2.1.

¹¹ Around 40 humanitarian agencies were involved, including the United Nations Children's Fund (UNICEF), the World Food Programme (WFP) of the United Nations, the United Nations High Commissioner for Refugees (UNHCR) and a range of non-government organisations.



Photos: AusAID

Destruction in Manututo in 1999. Following the August 1999 ballot, more than half of East Timor's population was displaced from their homes.



Figure 2.1**International humanitarian response, September–October 1999**

Early Sep	OCHA established a temporary headquarters in Darwin, at which it commenced planning for the international humanitarian response. Seven UN agencies and 11 NGOs were brought together.
Mid Sep	OCHA developed a preliminary assessment of the humanitarian assistance needs of East Timor.
20 Sep	Representatives of OCHA and other UN agencies arrived in Dili alongside the initial deployment of INTERFET forces. ¹²
25 Sep	A UN Humanitarian Operations Centre was established in Dili to provide office space and accommodation for UN and NGO humanitarian agencies. The first NGOs arrived in Dili.
27 Oct	OCHA released the <i>UN Consolidated Inter-Agency Appeal for the East Timor Crisis</i> , ¹³ which identified a total funding requirement of US\$199 million for humanitarian assistance over the period October 1999 to June 2000.

Source: ANAO analysis.

AusAID's preparedness for the crisis

Pre-crisis monitoring

2.4 The ANAO found that pre-crisis monitoring of developments in East Timor placed AusAID in a good position to respond quickly and appropriately to post-ballot needs. AusAID employed a number of monitoring methods, as described in Figure 2.2.

2.5 In response to the developments, AusAID established an East Timor taskforce in April 1999 to facilitate coordination of activities across AusAID. In August 1999, this was replaced with a permanent East Timor section.

2.6 Wider coordination and communication across Australian government agencies was facilitated through the establishment in March 1999 of an interdepartmental working group on East Timor.¹⁴ The ANAO found, through file examination and interviews with officers of relevant agencies, that consultation worked well in the pre-crisis period.

¹² The international aid effort was supported by the Australian Defence Force-led International Force in East Timor (INTERFET) which provided a secure environment to conduct humanitarian operations. It also actively participated in humanitarian operations, including by protecting convoys carrying humanitarian assistance, providing warehouse security, and assisting with food distribution.

¹³ The UN Consolidated Inter-Agency Appeal for the East Timor Crisis outlined a framework—a *Common Humanitarian Action Plan*—for the delivery of humanitarian programs. The plan included a set of goals and coordination arrangements agreed by all participating humanitarian agencies.

¹⁴ The interdepartmental working group comprised: AusAID, the Department of Foreign Affairs and Trade, the Department of Defence, the Australian Federal Police and the Australian Electoral Commission.

Figure 2.2

Key AusAID monitoring mechanisms in the lead up to the crisis

- Regular monitoring visits to Australian bilateral aid projects in East Timor by AusAID officer based in Jakarta.
- Communication with the Australian Consul in East Timor, other Australian government agencies, the United Nations, NGOs, and other international donors.
- AusAID support for the United Nations Mission to East Timor (UNAMET).¹⁵
- AusAID missions^(a) in March 1999 and August 1999, to assess humanitarian assistance needs.
- AusAID planning mission in May 1999, in preparation for a post-ballot expansion of Australia's bilateral aid program.¹⁶

Note: (a) 'Missions' are official field studies undertaken in developing countries by AusAID staff and/or specialist consultants for a variety of aid purposes.

Guidelines for missions are set out in *AusGuidelines* 11: Planning and managing in-country missions, AusAID, *AusGuide*, Canberra, 2002.

Source: ANAO analysis.

Emergency and humanitarian guidelines

2.7 In general, procedural guidelines for responding to emergencies are important in clarifying roles and responsibilities. They can also improve coordination with other agencies by increasing their understanding of agency procedures.

2.8 At the time of the September 1999 crisis, there were no specific, current AusAID guidelines for responding to emergency and humanitarian crises.¹⁷ However, AusAID was able to rely on the expertise of key staff, who were familiar with United Nations disaster coordination arrangements, to ensure that appropriate steps were taken.

2.9 Since the East Timor crisis, AusAID has issued guidelines for emergency and humanitarian assistance. These include:

¹⁵ UNAMET was established by the UN to organise and conduct the ballot on separation from Indonesia. Australia, through AusAID, provided cash and in-kind assistance to UNAMET, to the value of \$20 million.

¹⁶ Prior to the ballot, Australia was one of only two countries providing bilateral assistance to East Timor. In the lead up to the ballot, AusAID planned for the expansion of this assistance.

¹⁷ AusAID's main guidelines for the preparation and implementation of bilateral aid activities are set out in the AusAID publication, *AusGuide*. This consists of two parts: the main document which addresses key issues and processes in activity management, and supplementary *AusGuidelines* which provide more detailed information on specific procedures. *AusGuide*, which was first issued in 1998–99, contains no specific guidance on emergency and humanitarian assistance. Procedural guidelines for such circumstances had been promulgated by AusAID's predecessor, the Australian International Development Assistance Bureau (AIDAB). However, these guidelines were last updated in March 1993 and were replaced by *AusGuide*.

- standard operating procedures for responding to natural disasters and other types of emergency;
- a *Humanitarian Program Strategy* outlining priorities and directions for the Program in the period 2001–03;¹⁸ and
- a *Peace, Conflict and Development Policy*¹⁹ which sets out a framework for improving AusAID’s ability to address conflict and instability.

In developing these documents, AusAID drew on its own, and other donors’, experience in responding to the East Timor crisis and other recent conflict situations, as well as to natural disasters. Some of the key areas for improving AusAID’s operational effectiveness identified in the peace, conflict and development policy are summarised in Figure 2.3.

Figure 2.3

AusAID’s *Peace, Conflict and Development Policy*—examples of key initiatives to improve operational effectiveness

- Enhance conflict analysis at both the strategic and operational levels.
- Share AusAID’s analysis of conflict-prone countries with other donor stakeholders.
- Develop a rapid response capacity through the utilisation of period contracts, NGOs and small activity schemes.
- Strengthen relationships with key areas of government in both Canberra and in the field to improve coordination of Australia’s response to crises.
- Establish engagement strategies and strategic partnerships with selected international organisations (eg, UN humanitarian agencies) and Australian NGOs.
- Enhance the ability of AusAID staff to plan, facilitate and implement AusAID’s approach to peace and conflict issues.

Source: AusAID, *Peace, Conflict and Development Policy*, June 2002, Chapter 4.

AusAID’s contribution to the international humanitarian response

2.10 Australia’s contribution of \$37 million to the international humanitarian response in 1999–2000 was the largest ever AusAID contribution to a humanitarian crisis. The distribution of funding by form of assistance is shown in Figure 2.4.

¹⁸ AusAID’s *Humanitarian Program Strategy 2001–2003*, released in January 2001, reviews lessons learned from East Timor and other crises, and presents a strategic framework for AusAID’s response to emergency situations. It sets out broad roles and responsibilities within AusAID, emphasises the importance of good preparation, covers the need for strong coordination with multilateral agencies and outlines a whole of government approach coordinated with other government departments.

¹⁹ The *Peace, Conflict and Development Policy* was finalised in June 2002.

Figure 2.4

Australia's contribution to the international humanitarian response, 1999–2000

Form of humanitarian assistance	Contribution
Repatriation and resettlement, emergency shelter	\$15.2m
Transport, food, logistical support	\$8.6m
Restoration of health services	\$5.4m
Restoration of water and sanitation services	\$3.9m
Restoration of education services	\$1.5m
Assistance through Australian and East Timorese NGOs	\$1.4m
Reconciliation and peace-building	\$1.0m
Total	\$37.0m

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.

2.11 Most of this contribution was provided through four packages of humanitarian assistance. Each assistance package was approved by AusAID and by the Minister for Foreign Affairs, and announced by the Government between September and November 1999 (see Figure 2.5).²⁰ AusAID primarily funded UN agencies to undertake the delivery of the assistance.

²⁰ The four assistance packages totalled \$36 million. The remaining \$1 million contribution related to humanitarian assistance which was under way prior to the ballot. The first of the packages was announced by the Prime Minister in a media release on 10 September 1999, and subsequent packages were announced by the Minister for Foreign Affairs in media releases on 21 September, 12 October and 22 November 1999.

Figure 2.5**Australian humanitarian assistance packages to East Timor, 1999**

Package 1 10 September	\$3 million to assist UN agencies procure emergency relief supplies; assist with logistical support; and establish coordination mechanisms.
Package 2 21 September	\$4 million for logistical and transport support for delivering humanitarian assistance to East Timor; support for four Australian NGOs; and for the International Committee of the Red Cross to provide assistance to displaced East Timorese.
Package 3 12 October	\$6 million for logistical and transport support to UN agencies; repatriation of displaced persons; shelter materials; and seed and tool packs for farmers.
Package 4 22 November	<p>\$23 million in response to the <i>UN Consolidated Inter-Agency Appeal for the East Timor Crisis</i>:</p> <ul style="list-style-type: none"> • \$10 million to UN agencies and the International Committee of the Red Cross to repatriate displaced East Timorese; provide resettlement packages; provide materials to help people rebuild homes; and provide tracing services to reunify families; • \$3.5 million to fund technical advice and repair work in water supply and sanitation; • \$2 million to help East Timorese NGOs and community groups to become involved in relief work; • \$3.5 million to UN agencies for basic education and health programs; • \$1 million in transport and logistical support; and • \$3 million to support UN agencies and NGOs in assisting displaced people in West Timor.

Source: ANAO analysis of AusAID documents.

2.12 In addition to providing a substantial financial contribution, the ANAO found that AusAID actively facilitated the international response, providing significant support for planning, coordination, administration and implementation. Key support elements provided by AusAID are described in Figure 2.6.

Figure 2.6

Support provided by AusAID to the international response

- Establishment of two warehouses in Darwin to store emergency supplies for humanitarian activities in East Timor.
- Provision of two specialist officers to assist OCHA to identify humanitarian needs.
- Organisation of office space, through the Northern Territory Government, for UN agencies and NGOs.
- Support to the Australian Council for Overseas Aid (ACFOA), the peak organisation representing Australian aid NGOs, to travel to Darwin and organise an NGO response.
- Facilitation of military and commercial air and sea transport for emergency relief supplies and aid workers.
- Location of two AusAID officers in Darwin to assist international humanitarian operations.
- Purchase of food supplies in Australia for the international aid effort.
- Provision of guidance to Australian businesses, NGOs and community groups, and Commonwealth and State agencies on aid needs and effective means of delivering the aid.

Source: ANAO analysis.

2.13 Commonwealth agencies and Northern Territory government departments, NGOs and East Timor government representatives confirmed to the ANAO that AusAID had played an important part in the international humanitarian response. Many commented that individual AusAID officers had made highly effective contributions to the implementation of the response.

2.14 Australian NGOs advised the ANAO that AusAID had provided critical support to their mobilisation and participation in the humanitarian response. During the initial stages of the response, NGOs reported having daily communication with AusAID.

2.15 Officers of the Department of Defence/Australian Defence Force, the Department of Foreign Affairs and Trade and the Australian Federal Police advised that their agencies had a close working relationship with AusAID throughout the response period. This was characterised by regular communication and coordination of activities.

The achievements of the international humanitarian response

2.16 The international humanitarian response concluded in mid 2000, with a transition to reconstruction and development assistance phases. Some of the main achievements of the response are set out in Figure 2.7.

Figure 2.7

Achievements of the international humanitarian response

- Distribution of more than 35 000 tonnes of foodstuffs.
- Re-opening of 734 of the 788 primary schools operating before the crisis.
- Distribution of around 400 tonnes of maize seed and over 300 tonnes of rice seed.
- Distribution of around 250 000 plastic sheets as emergency shelter.
- Return of 161 000 displaced persons from West Timor.

Source: UNTAET, *External Review of the Humanitarian Response to the East Timor Crisis*, May 2000.

2.17 The ANAO did not seek to assess the effectiveness of the international humanitarian response as this involved a range of donors. However, two reviews of the response have been conducted. Both indicate that the response was effective and well coordinated (see Figure 2.8).

Figure 2.8

Reviews of the effectiveness of the international humanitarian response

UNTAET, *External Review of the Humanitarian Response to the East Timor Crisis*, May 2000²¹

- The review concluded: *'the overall performance and achievements of the humanitarian response in East Timor has been very positive and timely. It has likely contributed to cover the most urgent needs of the population.'*
- The review also identified one of the key strengths of the response as being the availability of significant, immediate, 'in kind' support by donors, particularly Australia.

OCHA, *OCHA and the East Timor Crisis, 1999: An Independent Study for OCHA*, November 2001²²

- The review evaluated OCHA's performance and concluded that the international response to the East Timor crisis had been effectively coordinated, and that OCHA had performed well as the lead coordinating body.

Source: ANAO analysis of the reviews.

2.18 East Timor government stakeholders, NGO representatives and officers of Australian government agencies advised the ANAO that the international response had been effectively coordinated and was successful in addressing humanitarian assistance needs.

2.19 Overall, the ANAO concluded that AusAID responded quickly with financial support to provide humanitarian assistance, delivered through UN humanitarian agencies and NGOs, to the people of East Timor following the post-ballot violence. AusAID also contributed timely and effective planning and logistical support to the international response.

²¹ This review was commissioned by UNTAET and undertaken by a team of three consultants and representatives of AusAID, the United States Department of State and the Japan International Co-operation Agency.

²² This review was commissioned by OCHA and undertaken by two independent consultants.



Photo: AusAID

The CARE warehouse in Dili was an important distribution point for emergency supplies during the crisis. CARE and World Vision were funded by AusAID to distribute Australian humanitarian assistance.



Photo: AusAID

Emergency supplies reaching East Timorese households at a local World Vision distribution point in Aileu in 1999.

3. Post–Crisis Country Strategy

This chapter examines AusAID’s country strategy for assisting East Timor after the initial response to the humanitarian crisis in 1999.

Introduction

3.1 Country program strategies are a key feature of AusAID’s management of overseas aid. The interim country strategy for East Timor was developed in 2000, following the initial response to the 1999 humanitarian crisis. It articulated Australia’s aid objectives and provided the framework for the management and delivery of aid during 2001 and 2002. At the time of the audit, AusAID was reviewing this strategy and developing a new strategy, as the interim strategy was only intended to cover the period until East Timor’s independence. The main elements of the interim country strategy are shown in Figure 3.1.

Figure 3.1

Main elements of the interim country strategy for East Timor

- Specification of the goal and objectives of Australia’s aid program to East Timor.
- Identification of East Timor’s development needs.
- Activities of other donors and donor aid coordination arrangements.
- Identification of lessons learned.
- Poverty reduction framework.
- Sustainability strategy.
- Mix of bilateral, multilateral and humanitarian assistance.
- Sectoral and cross-sectoral priorities.
- Risk management matrix.
- Performance monitoring plan.

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.

The strategy development process

3.2 AusAID guidelines for the preparation and content of country strategies include requirements for extensive internal and external consultations with stakeholders, and identification of development needs. The guidelines also require the activities of other donors to be taken into account, and lessons learned from previous aid experience to be incorporated into strategies.²³

²³ AusAID, *Guidelines for the Production and Review of Country, Regional and Multilateral Strategies*, May 2000. These guidelines support AusAID’s processes for developing country strategies. Guidance on the identification, design and management of individual aid activities, which contribute to achieving country strategy objectives, is set out in the main AusAID publication, *AusGuide*.

3.3 The interim strategy for post-crisis assistance to East Timor took these considerations into account. It was well planned and targeted.

Stakeholder consultations

3.4 The ANAO found that stakeholder consultative arrangements for the interim country strategy were effective. The strategy was developed through extensive consultations with relevant stakeholders over a six-month timeframe during 2000.²⁴ Figure 3.2 outlines the main stages of the strategy development process.

Figure 3.2

Development of the East Timor country strategy

Mar 2000	Circulation of an internal issues paper to AusAID staff.
Apr 2000	Finalisation of an external issues paper, as the basis for consultation with Australian and overseas stakeholders.
May 2000	Approval by the Minister of Foreign Affairs of a paper outlining the proposed strategy, as the basis for further planning of the program of assistance to East Timor.
Oct 2000	Finalisation of the interim country strategy.

Source: ANAO analysis.

3.5 The ANAO found that the timing of the preparation of the strategy was appropriate. Strategy formulation commenced as the need for emergency relief was easing and as other donors focused increasingly on East Timor's reconstruction and development needs.

3.6 AusAID had an iterative approach to strategy development, which enabled stakeholder views to be considered and incorporated in the strategy.²⁵ The timeframe also enabled AusAID to take into account assistance proposals of other donors, which became clearer during 2000.

3.7 The strategy acknowledged the role of NGOs in Australian aid to East Timor, and highlighted the substantial response of the Australian community to the 1999 crisis. However, the ANAO found that it did not explicitly address the role of other Commonwealth and State government agencies. Nor did it indicate how the Commonwealth contribution would be coordinated. It would be appropriate to ensure that future strategies reflect the contribution of other

²⁴ Australian stakeholders consulted included other relevant government agencies; aid contractors; non-government organisations; and academics. Overseas stakeholders included UNTAET; the East Timorese leadership; and aid donors assisting East Timor. The Catholic Church in East Timor and East Timorese NGOs were consulted as representative organisations of the East Timorese community.

²⁵ For example, there was an increased emphasis in the final text of the interim country strategy on building East Timorese capacity to govern after the transition to independence.

government agencies and associated coordination arrangements. This would be consistent with the recent increased policy emphasis, articulated in AusAID's peace, conflict and development policy, on enhanced coordination of Australia's response to conflict and post-conflict situations such as in East Timor.²⁶

3.8 Commonwealth and Northern Territory government officers and NGO representatives advised the ANAO that regular communication and consultation with AusAID has continued during strategy implementation. Discussions between Commonwealth agencies on Australian participation in an East Timor police 'needs assessment' mission was a recent example of close consultation. NGOs with operations in East Timor also advised that liaison arrangements with AusAID staff in Dili were satisfactory.

East Timor's development needs

3.9 The ANAO found that AusAID's country strategy identified East Timor's development needs and recognised East Timor's limited capacity to manage assistance and sustain aid outcomes.²⁷ The strategy highlighted the damage to infrastructure and most basic services; the disruption of agricultural production; and the country's shortage of managerial and professional resources.

3.10 The strategy drew on the reports of joint missions undertaken by the international donor community in 1999 and 2000 to assess East Timor's development situation and funding requirements (see Figure 3.3). In some key sectors, AusAID also conducted complementary assessment missions.

²⁶ AusAID, *Peace, Conflict and Development Policy*, June 2002, Foreword by Minister for Foreign Affairs and p.15. The policy paper indicated that the aid program would strengthen relationships with key areas of government to improve coordination of Australia's response to crises.

²⁷ AusAID and other donors refer to this as a recipient country's *absorptive capacity*.

Figure 3.3

Key international assessments and action on East Timor's development needs

Sep-Oct 1999	United Nations assessments of immediate humanitarian needs (referred to in Figure 2.1).
Nov 1999	Joint assessment by the World Bank and United Nations of East Timor's short-term and medium-term reconstruction needs. AusAID contributed technical experts and provided logistical support.
Dec 1999	International donor consensus to provide coordinated assistance to East Timor on the basis of the recommendations of the November 1999 joint assessment mission.
Early 2000	Identification by joint donor missions of possible multilateral and bilateral aid activities in key assistance sectors, as a guide for donor funding. The missions, led by the World Bank and the Asian Development Bank, included AusAID-nominated personnel.

Source: ANAO analysis.

Aid activities of other donors

3.11 The strategy also took into account the proposed aid activities of other donors. This included the bilateral assistance of the other major donor countries, as summarised in Figure 3.4.

Figure 3.4

Focus of bilateral assistance of other major donors, 2000

Japan	Infrastructure (particularly roads and water supply), human resource development and community development.
Portugal	Education, including Portuguese language training, primary school teacher training and tertiary scholarships.
United States	Employment generation through community works, private sector development and agricultural production.
United Kingdom	Power sector and emergency road repair funding.

Note: The other major donor, the European Commission, channelled most of its assistance through the multilateral trust funds for East Timor.

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.

3.12 AusAID continued to have regard to the aid activities of other donors during and after East Timor's transition to independence. In particular, aid information was exchanged by donors through six-monthly international conferences and through monthly coordination meetings in Dili. AusAID also supported an aid coordination unit established under UNTAET and has provided further assistance since independence.

Use of lessons learned from previous experience in aid delivery

3.13 The ANAO found that the strategy utilised lessons learned from experience in establishing aid programs in previous post-conflict situations, such as Fiji, Bougainville, Cambodia and Mozambique. These included the need for: close donor coordination; effective local partnership arrangements; and flexible delivery mechanisms, to avoid overloading local institutional capacity and to maximise aid effectiveness. The strategy identified specific actions to incorporate these lessons into the country program (see Appendix 6).

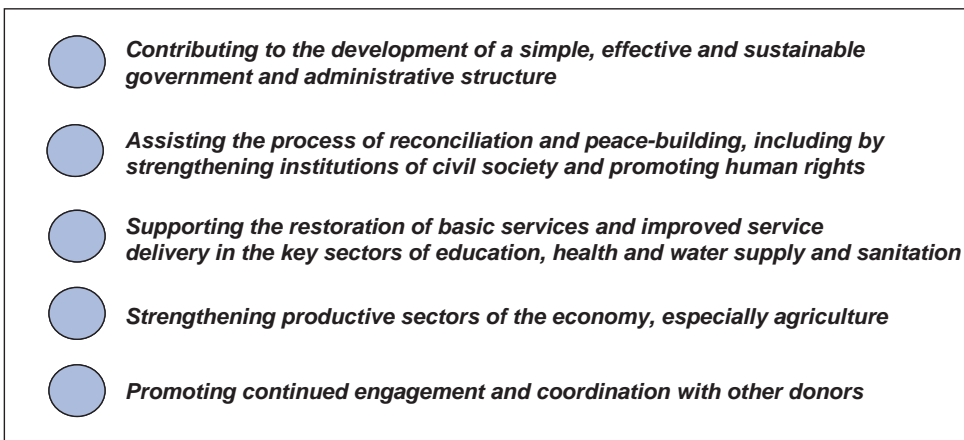
Aid objectives, aid mix and sectoral priorities

Program objectives

3.14 Australia's aid objectives for East Timor were articulated in the interim country strategy issued in January 2001. The goal of reducing poverty and building East Timorese capacity to govern a peaceful, democratic and independent East Timor was to be achieved through five key program objectives, listed in Figure 3.5.

Figure 3.5

Australian aid objectives for East Timor



Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.



Photos: AusAID

Election day at Metinaro (above) and Cai Rui (below) in 2001. East Timor held its first Constituent Assembly election in August 2001 and Presidential election in April 2002. East Timorese capacity-building in electoral administration was funded by AusAID to support the transition to independence.



Types of assistance

3.15 The ANAO found that, during the strategy development process, AusAID considered the appropriate balance between different means of providing assistance which would promote Australian aid objectives for East Timor. The main choice was between direct 'bilateral aid' by Australia and aid channelled to East Timor trust funds, and similar arrangements, managed by multilateral agencies ('multilateral aid'). The emphasis on bilateral assistance primarily reflected Australia's proximity to East Timor and its experience in providing aid to East Timor. At the same time, AusAID recognised the benefit of providing a substantial contribution to the multilateral trust funds to encourage other donors to do likewise.

3.16 Figure 3.6 shows that bilateral aid accounted for two-thirds of the East Timor country program by 2001–02. The increasing use of bilateral aid over the three years to 2001–02 was in line with the strategy. This followed AusAID's initial focus on providing humanitarian assistance and contributing to reconstruction assistance through multilateral trust funds. The increase in multilateral assistance in 2002–03 mainly reflected Australia's financial contribution to the multi-donor transition support program which is providing post-independence budget support to East Timor. This program is managed by the World Bank.

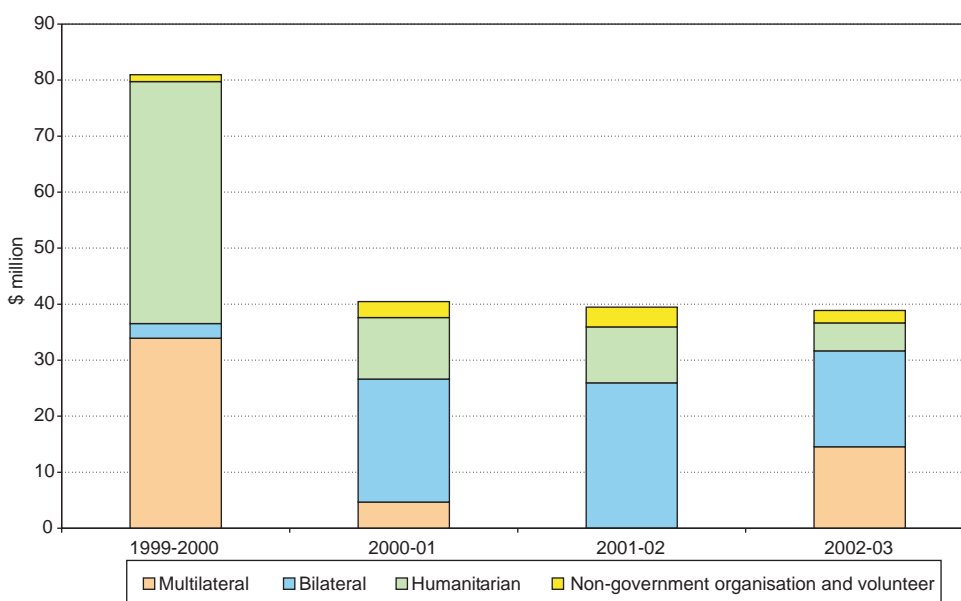
Key aid sectors

3.17 The ANAO found that the strategy provided a sound and comprehensive basis for planning and managing bilateral aid at the sectoral level. Five key sectors were identified in the strategy: governance; education and training; water supply and sanitation (in the infrastructure sector); rural development; and health. In each sector, the objectives and priorities for bilateral aid activities were specified in some detail (see Appendix 7).

3.18 The ANAO also found that the choice of the priority sectors reflected East Timor's development needs, identified in joint missions and in AusAID's own missions. Priorities within each sector were selected on the basis of the recommendations of these expert missions, which were supported by analysis of key issues in particular sectors and outline of possible areas for Australian assistance. They also took into account Australia's areas of comparative advantage and previous experience, as well as the focus areas of other donors.

Figure 3.6

Australian aid to East Timor, by type of assistance, 1999–2000 to 2002–03



Note: Figure covers Australian aid managed by AusAID. It excludes assistance delivered by other agencies, particularly security and policing assistance (see Figure 1.1).

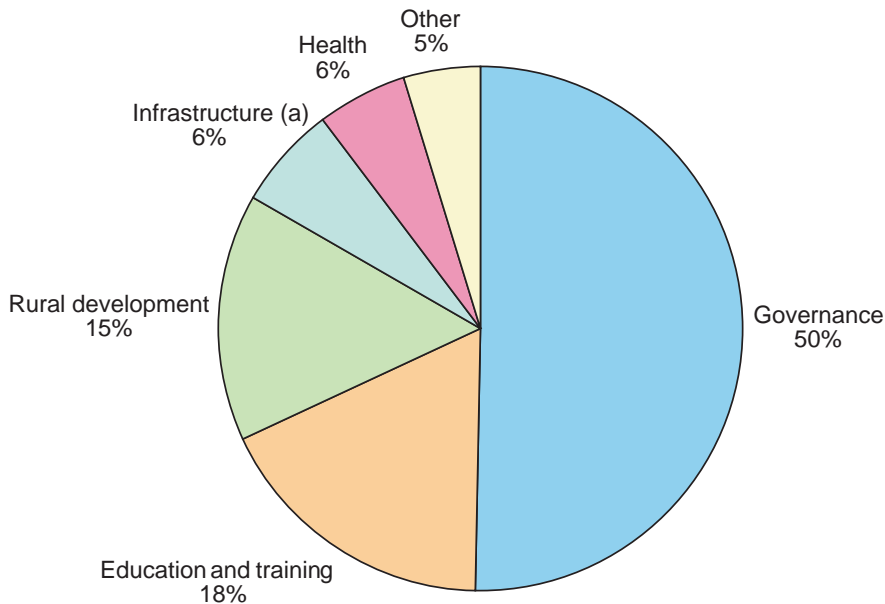
Source: ANAO analysis of AusAID data. Note these data differ from statistical data published by AusAID. The published data does not separate out East Timor aid channelled through the multilateral trust funds and similar arrangements. Rather, it counts this aid as part of the overall East Timor program.

3.19 The sectors chosen for the strategy were also closely aligned with the sectoral priority areas recommended in the 1997 Simons Committee review of the Australian overseas aid program, *One Clear Objective. Poverty Reduction through Sustainable Development*,²⁸ and the Minister for Foreign Affairs' 1997 policy statement *Better Aid for a Better Future*.²⁹

3.20 Figure 3.7 shows that the largest sectoral allocations of bilateral aid expenditure from 1999–2000 to 2002–03 were to *governance* and to *education and training*.

²⁸ Report of the Committee of Review of Australia's Aid Program (Simons Committee), *One Clear Objective. Poverty Reduction through Sustainable Development*, Canberra, 1997.

²⁹ Minister for Foreign Affairs, *Better Aid for a Better Future: Seventh Annual Report to Parliament on Australia's Development Cooperation Program and the Government's Response to the Committee of Review of Australia's Overseas Aid Program*, Canberra, 1997.

Figure 3.7**Australian bilateral aid to East Timor, by sector, 1999–2000 to 2002–03**

Note: (a) Mostly allocated to water supply and sanitation.

Source: ANAO analysis of AusAID data.

Risk management

Risk assessment

3.21 Given the uncertain, complex and challenging environment in which aid is delivered, risk management is a central part of effective management. It is therefore an AusAID requirement that country strategies provide a realistic *strategic* assessment of major risks and indicate how those risks will be managed.³⁰

3.22 The East Timor interim country strategy included a risk management matrix, which identified seven strategic risks to the aid program (see Figure 3.8). This matrix identified strategies for managing these risks, but it was not supported by an assessment of each risk in terms of its likelihood and the severity of its consequences. The preparation of such a risk analysis assists in prioritising risks and their treatment, and is recognised better practice and is recommended

³⁰ AusAID, *Toolkit for the Production and Review of Program Strategies*, July 2002 identifies AusAID requirements for risk assessment at the *country* program level. Chapter 6 of this audit report addresses risk management for individual *activities*.

in AusAID's risk management guidelines.³¹ It is normally a prerequisite to identifying an appropriate strategy to manage risks.

3.23 As discussed at paragraph 3.1, AusAID is developing a new country strategy for East Timor. There would be merit in AusAID undertaking a more robust analysis of country risk than for the interim strategy, which fully accords with its guidelines.

Figure 3.8

Country program risks identified in the East Timor interim country strategy

- Lack of East Timorese capacity.
- Lack of political stability and certainty leading to, and following, elections.
- Deteriorating security, particularly in western districts.
- Lack of East Timorese ownership.
- Lack of supporting recurrent budget.
- Lack of donor coordination.
- Decline in donor and Australian public interest.

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001, Annex 5.

3.24 The ANAO also found that the risk management matrix had not been updated since the finalisation of the interim strategy in October 2000. This undermines its value in supporting good risk management. AusAID indicated that risk management would be reviewed as part of the development of the new country strategy for East Timor. The ANAO considers that AusAID should, in future, comply with its own requirement that risk management plans be updated at least annually. This will help ensure that risk assessments and treatments take account of changing conditions in a systematic manner. It will also provide management and stakeholders with greater assurance that risks are being managed effectively.

³¹ These include AusAID, *AusGuide: Stage 4 and AusGuidelines*, Canberra, 2002; and AusAID, *Risk Management Policy*, 8 November 1999.

Recommendation No.1

3.25 The ANAO recommends that AusAID strengthen its risk management of aid to East Timor, by:

- undertaking a risk analysis of the likelihood and consequences of risk, to assist in prioritising risks and their treatment, as part of developing a risk management plan for its new East Timor country strategy; and
- reviewing and updating the risk management plan at least annually.

AusAID response

3.26 Agreed. AusAID is currently developing a new country strategy for East Timor. Part of the development of the country strategy will include a comprehensive risk assessment with increased focus on the likelihood and consequences of risk to assist prioritisation and treatment. The risk management plan will be reviewed and updated annually.

3.27 A risk and fraud management toolkit is currently being finalised for country program implementation.

Risk-based plans for activity monitoring

3.28 AusAID's *strategic* risk management framework for country programs is underpinned by *operational* plans for activity monitoring, referred to as Country Program Risk Assessment and Monitoring Plans (CPRAMPs). It is an AusAID requirement that CPRAMPs be produced and updated every six months for all country programs, to guide the frequency of monitoring of aid activities, based on their assessed level of risk.³²

3.29 AusAID did not prepare a CPRAMP for East Timor until March 2003, more than two years after the country strategy was in place. AusAID advised that it initially assessed that a CPRAMP was not appropriate, given staffing constraints and because the East Timor aid program was in transition (from a short-term humanitarian and reconstruction focus to a more conventional longer-term development assistance focus). AusAID also advised that the CPRAMP was being updated in August 2003 to take into account new activities and changes in mission scheduling.

3.30 The ANAO considers that the *significant inherent risks* identified in the strategy for East Timor (see Figure 3.8) warranted adherence to AusAID risk

³² AusAID, *AusGuide* identifies the requirement for a CPRAMP. The CPRAMP is intended to cover all aid activities for which an AusAID post has monitoring responsibilities. Activities are ranked according to the risk which the post attaches to them. Four levels of risk are normally used: low, medium, high, and extreme.

management guidelines. Earlier implementation of a CPRAMP was necessary, to ensure that activity monitoring reflected assessed risks.

Managing risks

3.31 Notwithstanding shortcomings in the formal risk management process, the ANAO found that AusAID has put considerable emphasis on the day-to-day management of risks associated with East Timor aid. AusAID staff demonstrated a practical understanding of risks and risk treatment strategies and options. The main means to monitor risks used by AusAID are summarised in Figure 3.9.

Figure 3.9

AusAID mechanisms for monitoring and identifying emerging risk

- Regular reports from Australian contractors (generally monthly or quarterly).
- Liaison with Australian contractors managing aid projects.
- Site visits by AusAID activity managers and staff at the Dili post.
- Independent project reviews.
- Internal AusAID project reviews and assessments.
- Discussions with the United Nations transitional administration (prior to May 2002) and the Government of East Timor (since May 2002).
- Participation in six-monthly donor coordination meetings.
- Participation in project supervision missions jointly conducted with other donors.

Source: ANAO analysis.

3.32 AusAID is currently strengthening risk management and fraud control at the Dili post, through staff training and further development of local systems and procedures. This is being supported by a draft 'toolbox' for risk management and fraud control, which was being trialled at some posts, including Dili, from July 2003.

Performance management

3.33 The specification of an appropriate framework for measuring and monitoring performance is essential to enable assessment and management of progress towards achieving country strategy objectives. Recognised better practice for performance information is to use an *outcomes and outputs framework* and to develop suitable *performance indicators* of output quality, quantity and effectiveness.³³ (For definitions of key performance information concepts, see Appendix 8.)

³³ ANAO, *Performance Information in Portfolio Budget Statements—Better Practice Guide*, May 2002.

Performance monitoring plan

3.34 The East Timor interim country strategy included a performance monitoring plan, which set out program objectives and linked them to what are described as ‘outputs’ and ‘performance indicators’. The ANAO found that this performance monitoring plan had some limitations, which affected its usefulness in monitoring program performance. Examples are presented in Appendix 8. These included:

- outputs (goods and services) to be delivered were not clearly stated for each program objective;
- some outputs identified were more in the nature of intermediate outcomes;
- those outcomes and outputs which were identified were not specified in measurable terms; and
- most performance indicators did not contain specific targets, to provide meaningful benchmarks for assessing performance.

3.35 The ANAO also found that the performance monitoring plan was not developed subsequently, to make it more useful operationally. For example, adjustments and enhancements were not made to the original performance indicators in the course of delivering the country program.

3.36 In practice, AusAID did not use the performance monitoring plan to assess the strategy’s effectiveness. The focus of AusAID’s monitoring was on the components of the country program, particularly multilateral trust fund activities and individual bilateral aid activities. (AusAID monitoring processes for these activities are discussed in Chapters 5 and 6.)

3.37 However, the lack of *overall* performance monitoring at the country program level is a shortcoming in the management and implementation of the strategy. It has meant that AusAID is not well placed to demonstrate clearly that the strategy has been appropriate and effective and that it has achieved the overall desired aid objectives. This has also limited the capacity of an independent review to make a systematic assessment of the achievements of the strategy. This review is discussed in paragraphs 3.42 to 3.48.³⁴

3.38 The ANAO recognises that it would have been difficult, at least initially, to establish performance measures and targets for some outputs and outcomes, given the timeframe and context within which the interim strategy was

³⁴ Given AusAID’s lack of performance information on overall strategy effectiveness, the ANAO analysis of aid to East Timor in this report focuses on AusAID’s performance at the program component level, in providing humanitarian assistance; financial contributions to multilateral reconstruction assistance; and bilateral assistance.

developed. However, the ANAO considers that it would have been beneficial to add appropriate measures and targets subsequently as the program components were being designed and implemented. This would have provided a more robust and well articulated performance monitoring plan, which would have enhanced AusAID's capacity for performance management. Appendix 8 presents some ANAO suggestions for improving the performance monitoring plan.

3.39 AusAID has recognised the need for a more effective framework for assessing the performance of country program strategies. It has recently developed a trial framework, known as the Country Program Results Frame, modelled on approaches of other donors and the OECD. It is intended to provide a more robust structure for addressing the appropriateness of a country strategy; the likelihood of achieving its objectives; and the extent to which objectives are being delivered efficiently and effectively. The framework has been endorsed by the AusAID Executive and is being tested on a number of country programs.³⁵

Recommendation No.2

3.40 The ANAO recommends that AusAID strengthen the monitoring of the performance of the overall East Timor country strategy by:

- clearly specifying the outputs of the country program, and linking them to outcomes and program objectives; and
- developing performance indicators, including targets, to assess the quality and quantity of outputs and their effectiveness in contributing to outcomes and program objectives.

AusAID response

3.41 Agreed. AusAID's current Strategic Plan recognises that the ability to report on effectiveness and demonstrate value for money is a key challenge in aid administration. Country strategies are placing greater attention on performance monitoring and assessing the achievement of objectives at the country program level. New approaches to performance measurement are being trialled in different country strategies. Preparation of the new country strategy for East Timor will take the outcome of these trials into consideration. Objectives, performance indicators and targets for key areas of the country strategy will be jointly developed with the Government of East Timor.

³⁵ The ANAO acknowledges that there are difficulties in assessing the effectiveness of aid outputs in achieving outcomes and their broader impact in contributing to country program objectives. These issues are discussed in an OECD Development Assistance Committee publication, *Evaluating Country Programmes*, 1999.

Review of the interim country strategy

Conduct of the strategy review

3.42 AusAID commissioned a team of consultants to review the interim country strategy in October 2002. This was about fifteen months later than the review timeframe originally proposed in the strategy. However, the ANAO found that there were reasonable grounds for the postponement. East Timor's transition to independence did not take place until May 2002, about six months later than expected. AusAID's judgment was that the review would be more effective if conducted after the new Government had time to establish itself and articulate its priorities.

3.43 The strategy review was undertaken between 15 October and 13 November 2002. The ANAO found that the review process had a number of strengths. It was an independent review, comprising six members from outside AusAID. The team included international consultants, as well as East Timorese members with knowledge and experience of East Timor. AusAID provided comprehensive oral pre-departure briefings for the review team, assembled documentation on the East Timor aid program, and scheduled an extensive program of meetings with key stakeholders and on-site visits in East Timor.

3.44 However, the ANAO also found that the review process had some limitations. There was limited time for the team to absorb a substantial part of the briefing material, which could have been avoided by earlier preparation by AusAID. Moreover, the team had just two weeks in East Timor to carry out the review and prepare an aide-memoire presenting preliminary findings to the Dili post and the East Timor Government. A less compressed timeframe for task completion would have enhanced the review process. As discussed in the review report, the team's capacity to assess the achievement of strategy objectives was hampered by the variable quality of AusAID's information on particular aid activities and the limited performance information on overall strategy results.

Outcome of the review

3.45 The review team provided its report to AusAID in November 2002. The report has been used by AusAID to develop new funding proposals for aid to East Timor. It has also contributed to the development of a new East Timor country strategy, which is due to come into effect in July 2004.

3.46 In its report, the review team highlighted the significant contributions of Australian aid to capacity-building in the East Timor Government, particularly through support for electoral administration and public sector financial management. It also highlighted AusAID's contribution to peace-building, reconciliation and the development of NGO capacities.

3.47 The review team found that AusAID’s bilateral activities aimed at the restoration of basic services, including water supply and sanitation and rural development, had achieved some success. However, it noted the slow pace of implementation of some of these activities, particularly in rural development, and the considerable challenges facing aid design and delivery in these sectors. The review team also found that, on balance, the multilateral trust fund mechanism through which AusAID channelled assistance made an important contribution during East Timor’s transition to independence, particularly through improved donor coordination. However, there was uneven progress among assisted sectors.

3.48 The report outlined a number of key issues for AusAID to consider and recommended some broad parameters for the new country strategy. These included the retention of the focus on capacity-building and poverty reduction, and a consolidation of the aid program around fewer, larger aid activities. The review proposed an increased emphasis on monitoring and evaluation of the results of aid interventions and early identification of successful ones which can be replicated (further details are set out in Appendix 9).



Photo: ANAO

The Tas Masak community in the Bobonaro district now has access to piped water, through the Australia East Timor Community Water Supply and Sanitation Program. This project is assisting local communities in three districts of East Timor, at a cost of \$14.5 million.

Developing a new country strategy

3.49 Overall, the ANAO concluded that AusAID's East Timor interim country strategy was well planned and targeted. It took into account stakeholder views, East Timor's development needs, and the activities of other donors. The strategy articulated a sound rationale for Australian aid, focusing on bilateral development assistance in five key sectors, as the country's humanitarian crisis eased.

3.50 However, risk management was not supported by a risk analysis of the likelihood and consequences of individual risks to the country program, to assist in prioritising risks and their treatment. Nor was it reviewed regularly to reflect changing conditions in East Timor. Adequate performance information also was not available at the country program level, to report systematically on progress towards the achievement of overall strategy objectives.

3.51 These shortcomings should be addressed in the new country strategy for East Timor, which is being prepared by AusAID for implementation from 2004-05 onwards. The strategy is being developed in consultation with the East Timor Government, which is also consulting other international donors on future development assistance.³⁶

³⁶ At the request of the East Timor Government, initial consultations on the new country strategy were not held until April 2003. Since then, the East Timor Government has commenced a broader exercise to identify its aid priorities for all international donors. AusAID is providing technical assistance to this process, which will provide input into the AusAID country strategy.

4. International Donor Coordination

This chapter examines AusAID's participation in coordination arrangements with overseas donors from the time of the crisis until East Timor's independence in May 2002. It also examines AusAID's influence, through policy dialogue, on the response of the international donor community to East Timor's development needs.

Introduction

4.1 The international donor community recognised that effective coordination between donors would be crucial to the success of the substantial international aid response. Australia and other donors therefore worked within a framework for coordinating assistance, as summarised in Figure 4.1.

Figure 4.1

Donor coordination framework, 1999–2002

High-level donor consultation

Six-monthly donor conferences, co-chaired by the World Bank and UNTAET, to consult on East Timor's progress towards independence.^(a)

Donor council meetings, to oversight the reconstruction trust fund, the Trust Fund for East Timor (see paragraphs 5.1 to 5.2).

Field-level donor coordination

Monthly meetings of donor representatives in East Timor, to coordinate in-country aid activities.

Joint donor needs assessment

Joint missions of donor representatives and sector experts, to identify development needs and associated external funding requirements.

Joint donor project supervision

Joint missions of donor representatives and sector experts, to facilitate the supervision of the Trust Fund for East Timor projects and coordination with bilateral donor projects (see paragraph 5.4).

Note: (a) Since independence, the East Timor Government and the World Bank have convened six-monthly Timor-Leste and Development Partners meetings.

Source: ANAO analysis.

Participation in donor coordination arrangements

4.2 Australia was one of many donor countries which made a strong commitment to aid coordination at the first international donor meeting on East Timor held in Tokyo in December 1999. AusAID's interim country strategy for East Timor, which was finalised in 2000, affirmed that donor coordination was one of Australia's five key aid objectives for East Timor (see Figure 3.5).

4.3 Australia was an active participant in the international donor conferences, and associated Trust Fund for East Timor (TFET) donor council meetings, which were convened every six months between December 1999 and May 2002. It hosted one of these meetings, in Canberra, in June 2001. These meetings facilitated donor consultation on East Timor's recovery and transition to independence, as well as donor approval and monitoring of TFET reconstruction projects.

4.4 The ANAO reviewed AusAID's participation in all of the donor meetings. In addition, AusAID's background preparatory work for two of these donor meetings was closely examined. The ANAO found that AusAID's strategic preparation for the six donor meetings was well managed. AusAID identified objectives to be pursued at each donor conference and prepared briefing material on key topics for the Australian delegation. AusAID also maintained a consistent team of senior officials to represent Australia's interests at these donor meetings.

4.5 The ANAO also found that AusAID's background preparatory work for the Canberra June 2001 donor meetings was comprehensive and of a high standard, as summarised in Figure 4.2. However, briefings prepared for the Australian delegation to the Dili May 2002 donor meetings did not adequately address the range of TFET operations. They covered the performance of TFET projects in only four of nine sectors, and records of the review of projects in other sectors were not kept.

Figure 4.2

Features of AusAID preparation for the Canberra June 2001 donor meetings

Briefing paper preparation

Useful briefing papers, including informed and candid summary assessments of TFET projects in all sectors, were prepared for the Australian delegation.

Pre-meeting representations

Overseas posts represented Australia's proposed positions on some key issues to other donors ahead of the donor meetings.

Supplementary discussions before and during the donor meetings

Supplementary discussions were held with a number of bilateral and multilateral donors before and during the donor meetings.

Source: ANAO analysis.

4.6 AusAID advised that less comprehensive briefings had been prepared for the Dili meetings because the delegation had a high level of background knowledge and the meetings were expected to be of short duration. AusAID also advised that limited staff resources constrained background briefing preparation. The ANAO considers that more comprehensive briefings, covering a review of

the performance of TFET projects, would have provided greater assurance that Australia's financial contributions were being used effectively.

4.7 The ANAO found that AusAID had arrangements for reporting on the outcomes of donor meetings, through cable reports. However, AusAID would have benefited from more detailed reporting on some issues discussed at the meetings, to supplement what were essentially summary reports of the meetings. For example, additional debriefing notes, indicating what representations had been made regarding problems affecting particular TFET projects, would have helped AusAID to assess whether any Australian views needed to be pursued further through other donor coordination mechanisms.

Australian influence on aid and development issues

4.8 Australia had several broad aims that it sought to pursue through policy dialogue with stakeholders at donor conferences and other forums (see Figure 4.3). Particular objectives relating to these broad aims, which were pursued at these meetings, are summarised in Appendix 10.

Figure 4.3

Broad themes of Australian objectives at donor meetings, 1999–2002

- Encouraging wide international support for East Timor and continued *donor engagement and aid coordination*.
- Encouraging the East Timor transitional administration to establish political and administrative frameworks for *good governance and sound economic management*, which would be sustainable after East Timor's independence.
- Encouraging stakeholders to *focus on East Timor's priority development needs*.

Source: ANAO summary of Australian objectives identified prior to donor meetings.

4.9 The ANAO found that AusAID actively advanced Australia's views on East Timor aid and development issues through these forums. The pursuit of these objectives was also supported by staffing and technical assistance for donor coordination, budget management and national planning. Aid and development outcomes achieved in each of the above areas generally accorded with Australia's objectives.

4.10 The ANAO assessment is that AusAID's dialogue with other stakeholders made a positive contribution to successful outcomes against Australian objectives in relation to the three broad themes. On some specific issues, Australia played an important role in influencing developments. This was the case with the proposal for a continued UN civilian presence in East Timor. A successor mission to UNTAET, which includes a civilian component, was established by the United Nations with a mandate to provide assistance to core administrative structures and to contribute to the maintenance of East Timor's security. Another

example was the proposal for transitional budget support for East Timor after independence. Further substantial assistance was pledged by donors to help meet East Timor's budget gap for three years from independence.

Effectiveness of donor coordination

4.11 The donor coordination framework (Figure 4.1) reflected recognised good practice in aid management within the international donor community and facilitated the coordination of Australia's aid with other donors. In particular, donors considered the arrangements for regular high-level donor meetings, the multilateral reconstruction trust fund (discussed in Chapter 5) and joint donor needs assessment for East Timor to be innovative and effective.

4.12 The high level of international donor coordination achieved through these arrangements helped to minimise the risks of gaps and overlaps in donor assistance; excessive demands on East Timorese institutional capacity; and inconsistent donor advice to the UN administration and East Timorese leadership.

4.13 These arrangements also provided a mechanism for UNTAET and World Bank accountability to donors, through progress reports on the achievements and challenges of East Timor's transition. Problem areas requiring changed management strategies or additional resourcing to strengthen performance were appropriately highlighted in the reports. Reporting rigour was enhanced by the adoption and use of agreed progress benchmarks.

4.14 In addition, the ANAO found that monthly coordination meetings of donors in East Timor facilitated liaison between donors on aid and development issues and the exchange of information on their aid activities. AusAID and international donor staff interviewed in Dili by the ANAO confirmed that there had been a high and sustained level of communication, consultation and coordination among donors in East Timor. This has contributed to the effectiveness of the international aid effort to assist East Timor's recovery and political transition and also assisted AusAID in the management of Australian aid activities.

4.15 Overall, the ANAO concluded that Australia, primarily through AusAID, was an active participant in international donor arrangements for coordinating assistance to East Timor. AusAID's strategic preparation for, and representation of, Australia's interests at donor meetings was well managed, although on occasions this would have benefited from further background preparatory work and reporting back on some issues. AusAID actively advanced Australia's views on East Timor aid and development issues through these forums. Aid coordination among donor representatives in Dili was also effective.

5. Multilateral Assistance

This chapter examines the arrangements which enable AusAID to be assured that Australia's multilateral assistance contributions for East Timor's reconstruction and development have been used effectively.

Introduction

5.1 The Trust Fund for East Timor (TFET) was established in December 1999 by the World Bank as a multilateral trust fund for East Timor's reconstruction and development.³⁷ TFET contributions and associated investment income totalled US\$174 million between December 1999 and November 2002. Australia contributed some US\$12 million to the trust fund; the other major contributors were the European Commission, Portugal and Japan (see Figure 5.1).³⁸

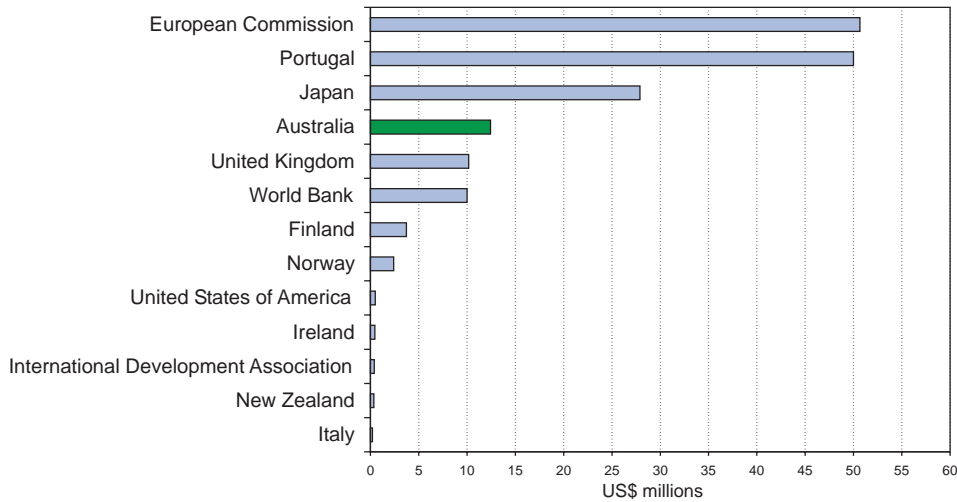
5.2 TFET contributions have been applied mainly to the physical rehabilitation of key social and economic infrastructure. This includes assistance for roads, ports and power; education; health; and community empowerment and local governance. The World Bank and the Asian Development Bank have managed these projects.³⁹ The full set of TFET projects and the respective project management responsibilities of the two development banks are listed in Appendix 11.

³⁷ Multilateral assistance refers to aid flows from donors to recipient countries through intermediate arrangements such as multilateral development banks, international organisations, or special trust fund arrangements. The World Bank established TFET in December 1999 and approved arrangements for TFET to operate as a multi-donor trust fund for reconstruction assistance in February 2000. A separate multilateral trust fund, the Consolidated Fund for East Timor (CFET) was set up by UNTAET to meet the costs of the East Timorese civil service.

³⁸ Australia's multilateral reconstruction assistance through TFET was separate from its contribution to the international humanitarian response, examined in Chapter 2. Australia provided A\$18 million to TFET in 1999–2000 and contributed a further A\$3 million in 2000–01.

³⁹ Six per cent of committed TFET funds has been budgeted for the operating and administrative costs of the World Bank and the Asian Development Bank.

Figure 5.1
Donor contributions to TFET, 1999 to 2002



Source: TFET papers.

Joint project supervision missions

Mission arrangements

5.3 Joint project supervision missions are arrangements whereby donors and other stakeholders jointly assess the TFET and other aid activities (see Figure 5.2). Missions have been organised by the World Bank and the Asian Development Bank in the respective TFET sectors for which they have had project management responsibilities. This is the first aid situation involving the World Bank in which such joint missions have been undertaken.

5.4 The ANAO found that participation in missions and mission reports have been a valuable mechanism for providing Australia and other international donors with information on the performance of TFET projects and the aid activities of other donors on a sector-wide basis. More recently, they have also enabled donors to contribute to government planning for key sectors.

5.5 Early missions were affected by weaknesses in planning and team coordination. Improvements were made to the organisation of missions during 2000 and 2001, in response to initial donor concerns about mission arrangements. Some more recent missions have also had weaknesses, including limited donor participation and limited examination of project performance.

Figure 5.2

Joint supervision mission arrangements

Participants	Nominated experts, interested donor representatives and East Timor government agency staff.
Work program	Visits to selected TFET and other project sites, and consultations with key stakeholders.
Sector coverage	Undertaken in most sectors, including agriculture, health and education.
Frequency	Initially scheduled at six-monthly intervals; some have been conducted annually.
Reporting	Findings and recommendations provided to interested parties including AusAID.

Source: ANAO analysis of TFET and other papers.

Australian participation in missions and use of mission reports

5.6 The ANAO found that AusAID has actively participated in a wide range of missions. AusAID also endeavoured to ensure continuity of Australian representation on successive missions, to support assessment of sectoral progress against previous mission benchmarks. AusAID’s assignment of experts in sectors such as health and education has been recognised as particularly valuable in facilitating the assessment of aid activities by missions.

5.7 The ANAO also found that mission reports are examined by AusAID staff, both in Dili and Canberra. Supplementary reports from Australian mission team members have also sometimes been commissioned. AusAID has used these reports both for monitoring sectoral developments and for identifying future Australian aid opportunities in, for example, the health sector. Australian participation in particular missions has also enhanced AusAID’s knowledge of emerging issues in East Timor.

5.8 While mission reports are retained for possible future reference, AusAID does not have a systematic way of bringing to attention, when appropriate, matters raised in the reports which do not require immediate action. These include experts’ comments on activity design, coordination and management issues relating to particular sectors, and on possible areas for future Australian aid. The ANAO suggests that AusAID address how these matters could be more effectively recorded and carried forward into future aid planning and design.

AusAID review of management of TFET

5.9 AusAID reviews the development banks’ management of individual TFET projects through various means. These include: review of the banks’ reports to

TFET contributors; discussions with other donors; and participation in joint missions.

Monitoring and reporting of TFET performance

5.10 The World Bank and the Asian Development Bank have responsibility for monitoring TFET's financial position and work program, and the status of individual TFET projects. Their reports to TFET contributors are an important means by which AusAID can be assured that Australian contributions have been used effectively.⁴⁰

5.11 The ANAO found that TFET donors have been provided with six-monthly reports containing summary information on the overall operation of TFET, and information on individual TFET projects. Project progress and financial disbursements are addressed in these reports. Donors also have full access to TFET program and project papers, following Australian representations on this issue.

5.12 However, the ANAO found that AusAID would be in a better position to review TFET performance if it could obtain enhanced project reporting from the development banks. In particular, inclusion of an overall assessment (rating) of the status of each project would indicate more clearly the extent to which projects are making satisfactory progress and are achieving their objectives. More extensive coverage of actions under way or proposed to address project difficulties would also provide AusAID with greater assurance that these issues are being managed effectively. In response to the draft audit report, the World Bank advised that it has now improved project reporting to TFET donors.⁴¹

5.13 During 2002, a major TFET donor, the European Commission, proposed to conduct an independent evaluation of TFET achievements on behalf of the TFET donor council. Other donors, including AusAID, provided input into the terms of reference for this review. However, the European Commission has delayed commencement of the review, due to other priorities. AusAID advised that the review had its strong support and an alternative review mechanism would be considered if the European Commission initiative did not proceed.

⁴⁰ A range of TFET reports and other information, including six-monthly trustee reports, periodic updates on TFET activities, and project summaries, are publicly accessible at the World Bank website at <<http://www.worldbank.org>>.

⁴¹ The World Bank advised that, since November 2002, TFET donors have received a monthly TFET portfolio management report, which presents the performance ratings for every project and outlines salient implementation issues. TFET donors also receive reports of each financial management supervision mission, with a detailed assessment of the financial management for every TFET project administered by the World Bank. Since September 2003, TFET donors receive a monthly matrix update for World Bank-administered projects, which presents the ratings for development outcome and implementation progress, as well as salient outcome and management achievements and weaknesses over the preceding month.

AusAID's assessment process

5.14 AusAID assessed the effectiveness of its engagement with the World Bank and the Asian Development Bank through AusAID-wide surveys in 2002. The surveys addressed the banks' communication, coordination and cooperation; their in-country representation; and trust fund arrangements.

5.15 The surveys were internal to AusAID, and the overall assessments were not shared with the banks. It would be better practice in future to share the assessment with the banks to facilitate a more robust and transparent assessment process in support of improved overall performance. AusAID advised that it is reviewing its survey methodology to this end.

5.16 The 2002 surveys confirmed some concerns regarding the initial attention paid by the Asian Development Bank to recurrent cost implications of road and power projects and its efforts to resolve some emerging problems affecting the power sector.

5.17 AusAID canvassed these concerns with the banks and other stakeholders through donor consultation processes. The aim of these discussions was to facilitate improved management by the Asian Development Bank of aid delivery in the power sector. In addition, other international donors decided to provide separate financial assistance to the power sector.

5.18 The Asian Development Bank advised the ANAO that there were difficult issues to address in both the roads and power sectors, particularly regarding recurrent costs and the operation and maintenance of rehabilitated infrastructure. It also advised that AusAID had brought its concerns to the Bank's attention at appropriate times and that this had helped to resolve some of the issues related to recurrent costs in those sectors.

5.19 The power sector continues to be a priority for the East Timor Government and donors. In 2002–03, the Asian Development Bank assisted, through TFET, with the preparation of contract documentation for engaging a management contractor to manage the East Timor power authority. It also provided assistance to improve utility billing, revenue collection and staff training in this sector. Further work was undertaken to rehabilitate rural power stations.

5.20 Through this assistance, and the additional financial assistance provided by international donors, power supply conditions in East Timor have improved. Some steps have also been taken towards future cost-recovery in the power sector, although stakeholder concerns remain about the budgetary implications of current subsidies to power operations. AusAID has provided expert advice to the East Timor Government and the Asian Development Bank on issues relating to power sector management and recurrent costs, and continues to work with other stakeholders to review progress in this sector.

Applying bilateral monitoring tools to TFET projects

5.21 Although various sources of information were used to review TFET projects from 2000 to 2002, AusAID did not *formally* articulate the rationale for the frequency and form of monitoring of particular TFET projects. The ANAO raised with AusAID the potential extension of its corporate tool, CPRAMPs, to cover TFET projects with only minor additional planning effort. This would provide a more robust basis for monitoring these projects. As discussed in Chapter 3, CPRAMPs provide a systematic, risk-based framework for monitoring bilateral assistance. AusAID advised that the first East Timor CPRAMP prepared in March 2003 included TFET projects.

5.22 AusAID's assessment of TFET project performance has mainly been in the form of qualitative commentaries on identified inadequacies in particular TFET projects. These observations have been incorporated in briefing papers for Australian delegations attending donor council meetings.

5.23 AusAID has a structured *rating* system to assess the quality of individual aid activities, but applies this to bilateral assistance only.⁴² The performance of individual TFET projects has not been assessed using this system or any other similar system. Application of elements of this rating framework for TFET projects would help AusAID to assess the performance of these projects in a more systematic manner. It would also highlight any poorly rated projects requiring close monitoring attention.

TFET performance outcomes

Benefits of the trust fund arrangements

5.24 The ANAO observed that TFET trust fund arrangements had three major benefits. Firstly, they were an effective means of mobilising and consolidating considerable donor resources into a common reconstruction fund for East Timor. Donor pledges to TFET in 1999 and 2000 covered approximately 45 per cent of East Timor's estimated three-year reconstruction requirements.

5.25 Secondly, funnelling core reconstruction funds through TFET provided a strong basis for cooperation between the World Bank and the Asian Development Bank in program management. This reinforced the broader aid coordination efforts of bilateral donors in assisting East Timor's recovery, through donor meetings and joint project supervision arrangements. It also helped ensure that major reconstruction and development needs across major economic and social sectors were prioritised.

⁴² AusAID's rating system for the assessment of aid quality is described in more detail in Chapter 6.

5.26 Thirdly, TFET enabled the East Timorese leadership to participate in setting reconstruction priorities through a series of evolving consultative and decision-making arrangements during the transition to independence. Importantly, the provision of TFET assistance in grant form meant that East Timor was not burdened with aid debt upon its independence.

Implementation difficulties

5.27 The ANAO observed that aid management and delivery in East Timor has been challenging for the multilateral development banks. TFET was successful in preparing projects for implementation more rapidly than is the norm for World Bank projects. However, project management and implementation difficulties were greater than anticipated, particularly in the early phase of East Timor's reconstruction. Some of these difficulties arose because the World Bank did not initially have sufficient staff resources in East Timor for effective project support. Other problems related to UNTAET not having mechanisms for prioritising projects and not delegating authority to line agencies (see Appendix 12 for other factors).⁴³

5.28 Timely action was generally taken by the banks to address problems as they arose, and the problems and remedial actions were outlined in World Bank performance reports to donors. Lessons were also drawn from these experiences, to help improve the delivery of reconstruction assistance in any future post-conflict situations. These lessons have been publicly reported by the World Bank.

5.29 Notwithstanding the efforts of the development banks to overcome emerging problems, TFET financial disbursements and project progress were much slower than originally planned. Cumulative TFET disbursements were 20 to 25 per cent below the original disbursement targets planned to be realised by 2002–03.

5.30 From the total of US\$174 million of TFET funds at the end of October 2002, only US\$106 million had been disbursed on the approved TFET work program, leaving almost 40 per cent unspent. Some 30 per cent was still unspent at the end of April 2003 (see Figure 5.3).⁴⁴

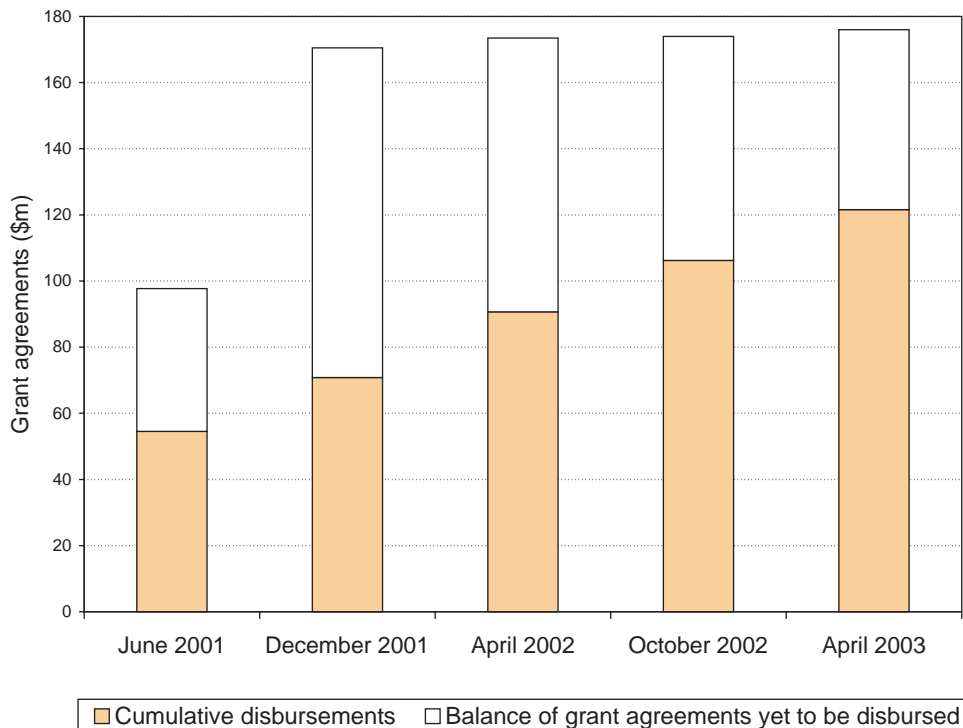
⁴³ TFET implementation difficulties were systematically identified in various World Bank reports and papers, which are publicly accessible at the World Bank website. These include: UNTAET and The World Bank, *Background Paper for the Donor Meeting on East Timor, Lisbon, June 2000*; The World Bank, *Memorandum on a Transitional Support Strategy of the World Bank Group for East Timor, November 2000*; and The World Bank, *Report of the Trustee and Proposed Work Program for January–June 2002*.

⁴⁴ Actual disbursements against targets were regularly reported to TFET donor council meetings. Disbursements at the end of October 2002 and April 2003 respectively were set out in the following reports at the World Bank website: The World Bank, *Report of the Trustee and Proposed Work Program for January–June 2003* and The World Bank, *Report of the Trustee and Proposed Work Program for July–December 2003*.

5.31 The World Bank advised the ANAO that slower than planned TFET disbursements and project progress were partly due to decisions made since East Timor's independence. These have involved adjusting TFET to accommodate East Timor national development planning priorities and to increase East Timor Government responsibility for TFET project implementation. The Bank commented that these decisions have enhanced the ownership of the programs by the Government.

Figure 5.3

TFET cumulative disbursements, reported to the TFET donor council



Source: TFET papers.

Project achievements

5.32 Although difficulties and delays were experienced in the implementation of TFET projects, Australian assistance through TFET contributed to East Timor's social and economic recovery within a relatively short timeframe.

5.33 By mid 2001, within fifteen months of the commencement of TFET operations, major achievements of the first round of TFET reconstruction activities included:

- the physical restoration of much of the school infrastructure;
- the restoration of community access to basic health care facilities;
- support for the recovery of agricultural production to pre-crisis levels;
- the substantial rehabilitation of the core road network; and
- the normalisation of major port and airport operations.⁴⁵

Figure 5.4 sets out the achievements of several illustrative TFET projects and describes a number of difficulties associated with these projects.⁴⁶

5.34 The second round of TFET projects, which commenced from mid 2001 onwards, continued to support the completion of these basic reconstruction needs, but had a stronger emphasis on institutional capacity-building and support to policy development (including sectoral policy studies).⁴⁷

⁴⁵ These achievements were reported in the following reports, accessible at the World Bank website: The World Bank, *Background Paper for the Donor Meeting on East Timor, Canberra, June 2001* and The World Bank, *Background Paper for the Donor Meeting on East Timor, Oslo, December 2001*.

⁴⁶ Details of achievements and difficulties of TFET projects are set out in The World Bank, *Report of the Trustee and Proposed Work Program for July-December 2003*.

⁴⁷ The World Bank, *Report of the Trustee and Proposed Work Program for January-June 2002, Oslo, December 2001*.

Figure 5.4
Achievements and associated difficulties of illustrative TFET projects

Project: Emergency school readiness project	
Objective:	<ul style="list-style-type: none"> Rebuilding of school physical infrastructure. Budget: US\$13.9 million.
Timeframe:	<ul style="list-style-type: none"> Commenced August 2000. Closed June 2002.
Achievements:	<ul style="list-style-type: none"> 535 schools reconstructed. 2 780 classrooms rebuilt. 72 000 sets of student furniture delivered. 2 million books distributed.
Difficulties and remedial action:	<ul style="list-style-type: none"> Significant delays in school rehabilitation activities due to project management, procurement and logistics problems with the provision of materials. Local procurement of some materials was approved to address these issues.
Project: Agricultural rehabilitation and development project	
Objective:	<ul style="list-style-type: none"> Restoration of priority productive assets (including livestock, chicks and tools). Budget: US\$6.8 million.
Timeframe:	<ul style="list-style-type: none"> Commenced August 2000. Closed September 2002.
Achievements:	<ul style="list-style-type: none"> 168 000 cattle and 99 000 buffaloes vaccinated. 2 600 cattle and buffaloes distributed. 71 000 chicks distributed. 77 000 hand tools distributed.
Difficulties and remedial action:	<ul style="list-style-type: none"> Delays in the selection of beneficiaries of the project. Problems with chick mortality, poor quality tools, and distribution logistics. The follow-on project piloted alternative ways of assisting poor communities through grants for agricultural development activities.

Continued on following page

Project: Community empowerment and local governance project Community grant component, second funding cycle	
Objective:	<ul style="list-style-type: none"> Administration of community grants for infrastructure, credit and social welfare. Budget (second funding cycle): US\$3.4 million.
Timeframe:	<ul style="list-style-type: none"> Commenced February 2000. Closed June 2002.
Achievements:	<ul style="list-style-type: none"> 170 wells dug. 441 kilometres of water pipe installed. 47 bridges constructed. 438 kilometres of community and rural road built. 34 000 East Timorese people benefited from temporary employment.
Difficulties and remedial action:	<ul style="list-style-type: none"> Variable quality of community projects and weaknesses in accountability for the use of funds, including credit. The project identified the need to strengthen support to communities in the project design process and to improve access to, and use of, other local technical resources. Project management training and capacity-building activities now have a strong focus on improving community capacities, especially in financial management.

Source: ANAO analysis of TFET and other papers.

5.35 Overall, the ANAO concluded that AusAID had appropriate mechanisms to assess whether Australia’s financial contributions to TFET have been used effectively. AusAID actively participated in joint project supervision missions, which have assessed the TFET and other aid activities. AusAID also reviewed and assessed the development banks’ management of TFET, particularly through the banks’ reports on overall TFET operations and on individual TFET projects, and through discussions with other donors.

5.36 The ANAO also concluded, on the basis of these assessments and audit examination, that TFET trust fund arrangements produced major benefits for AusAID and other stakeholders. Australian assistance through TFET contributed to East Timor’s social and economic recovery within a relatively short timeframe. However, unanticipated project management and implementation difficulties encountered by the development banks have resulted in TFET financial disbursements and project progress being much slower than originally planned.

5.37 AusAID canvassed some concerns regarding the Asian Development Bank's assistance to the roads and power sectors with the banks and other stakeholders through donor coordination processes. The Asian Development Bank advised the ANAO that these concerns had been brought to the Bank's attention at appropriate times and that this had helped resolve some of the issues in those sectors. Some performance improvements in the power sector have subsequently been achieved through further TFET and other donor assistance.



Photo: ANAO

The Poetete community in the Ermera district installed community water supply facilities using funds from the TFET Community Empowerment and Local Governance Project.

6. Bilateral Assistance

This chapter examines AusAID's management of Australia's bilateral assistance to East Timor.

Introduction

6.1 Bilateral assistance—aid provided directly by Australia to East Timor—has been the main form of Australian aid to East Timor since 2000–01. Australian expenditure on bilateral assistance to East Timor totalled an estimated \$67.6 million over the four years from 1999–2000 to 2002–03.⁴⁸

6.2 Bilateral assistance has comprised both *shorter-term transitional assistance activities* and *medium-term development assistance activities* (see Figure 1.3). The former were designed and implemented rapidly in 1999 and 2000 to meet East Timor's immediate needs. The latter were designed more methodically, under less pressing time constraints, from 2001 onwards.

6.3 The two principal mechanisms for the delivery of these activities have been *technical assistance* and *projects* (described in Figure 6.1). *Technical assistance* was especially used for shorter-term assistance, while *projects* have been the preferred mechanism for medium-term assistance. In addition, other activities, involving scholarship awards and small grants to community and non-government organisations, have been provided during both phases of assistance.

⁴⁸ This figure excludes Australian aid to East Timor channelled through multilateral trust fund and similar arrangements (shown as a separate aid category in Figure 3.6). The total figure for 1999–2000 to 2002–03 includes an estimate of bilateral assistance expenditure in 2002–03 (\$17.1 million). Final aid expenditure data for each financial year are not available until reconciliation processes are completed in March of the following year, due to differences in financial reporting arrangements for non-government organisations and some multilateral agencies.

Figure 6.1**Key features of aid delivery through technical assistance and projects****Technical assistance**

- Technical assistance activities involve activities delivered to support recipient government programs or reforms.
- These activities usually involve small-scale, short-term assistance which is responsive to emerging needs.
- Individual experts are usually employed to fill staff positions, or to be advisers to provide technical support and training to recipient government agency staff.
- AusAID may appoint a contractor to manage these experts.

Projects

- A project has a defined scope, in terms of objectives, cost, and start and finish dates.
- Projects are typically used for larger, longer-term and fully-designed aid activities.
- A contractor is usually appointed by AusAID to deliver the project.
- The contractor employs a team to carry out specific tasks under the direction of a team leader.
- The team works in partnership with recipient government agency staff and local communities.

Source: ANAO analysis and AusAID guidelines.

6.4 The ANAO examined 14 bilateral activities—seven transitional activities and seven medium-term activities—covering each of AusAID’s key aid sectors.⁴⁹ These activities accounted for 83 per cent of Australia’s bilateral aid to East Timor between 1999–2000 and 2002–03. They also represent 56 per cent of approved bilateral expenditure for 2003–04 to 2006–07. Descriptions and expenditure details for these activities are listed in Appendix 13.

6.5 This chapter examines AusAID’s planning and design of bilateral aid activities; its monitoring of activity performance; and its management of activity risks. The achievements of bilateral aid activities and their likely sustainability after aid funding ceases are also examined.

Activity planning and design

6.6 AusAID requires that the designs of proposed bilateral aid activities incorporate clear and appropriate objectives and performance indicators. In addition, stakeholders should be actively involved in the design process,⁵⁰ and the designs should take account of other aid activities and lessons learned. Standard

⁴⁹ The sectoral breakdown of Australian bilateral assistance is presented in Figure 3.7.

⁵⁰ AusAID’s design process involves three stages: an activity identification and initial assessment stage; a feasibility/design stage (design work is usually contracted out to the private sector); and an appraisal and approval stage. The resulting ‘project design document’ is usually agreed with the recipient government and is a key document for activity approval; tendering and contract negotiation; and activity implementation.

documentation must be prepared for the design, implementation and completion phases of each activity (see Appendix 14 for details). These requirements are recognised good practice in aid planning and design.⁵¹

Transitional activities

6.7 The ANAO found that sampled transitional activities were prepared and approved within shorter than normal design timeframes, to enable AusAID to deliver assistance more rapidly. This meant that they did not go through AusAID's full design processes. Figure 6.2 summarises some aspects of the design of these activities which were not undertaken in accordance with AusAID design requirements.

Figure 6.2

Reduced design processes for transitional activities

- There were *limited consultations* with key stakeholders for the majority of transitional activities, due to the tight timeframes for their design and implementation. The scope for involvement of the East Timorese in activity design was also constrained by their limited role in the initial governance arrangements of the UN transitional administration.
- Although the designs for the majority of transitional activities explicitly drew on relevant aid experience in East Timor or other countries, some activities did not make use of *lessons learned*.
- *Risk management plans* were not prepared for the majority of transitional activities. However, risks were otherwise identified in various kinds of activity documentation for most of these activities.
- None of the transitional activities had *structured sustainability strategies* to maximise the likelihood of the continuation of activity benefits after AusAID funding ceases. However, sustainability issues were considered in the design of most of these activities.
- Due to the short design timeframe, *key documentation* was not completed for the design of most transitional activities.

Source: ANAO analysis.

6.8 Overall, this was a pragmatic approach which was reasonable in the circumstances, to meet East Timor's pressing needs for assistance.

6.9 However, one consequence was that outcomes/outputs and performance indicators were not specified for most transitional activities examined. While this was understandable at the design stage of these activities, AusAID did not take the opportunity to subsequently identify and use suitable outcomes/outputs and performance indicators. This occurred notwithstanding that some activities were substantial and implemented over more than a year.

⁵¹ The requirements are part of AusAID's quality standards for bilateral aid activities, which are specified in AusAID, *AusGuide*, AusGuidelines, Canberra, 2002.

6.10 In particular, the ANAO found that two activities examined did not have adequately defined planned outputs for each component of the activity, and another two did not have clearly stated planned outcomes to which specified outputs would contribute. In addition, the majority of transitional activities did not have performance indicators for measuring achievements. One of these activities, the Capacity-Building Program for East Timor (CAPET), involved expenditure of more than \$14 million across five sectors (described in Figure 6.3). Four of the five activities without indicators were planned to finish within a short timeframe of six to 12 months, but actually continued for two years or longer.⁵²

6.11 The above limitations hampered AusAID's ability to assess and manage the performance of transitional activities. It would have been beneficial for AusAID to have addressed this issue early in the implementation of these activities. The specification of clear, realistic and appropriate outputs and outcomes informs stakeholders of the intended aims of activities. Performance indicators are necessary for systematically assessing the extent to which activities are progressing satisfactorily and achieving their objectives.

Medium-term activities

6.12 The ANAO found that sampled medium-term activities generally met most of the attributes of good planning and design identified in paragraph 6.6. In particular:

- objectives, planned outcomes and outputs were specified for all activities;
- key documentation, including project design documents, was prepared for the majority of activities; and
- appropriate consultations took place with East Timorese and other stakeholders during the design of most activities.

The more robust planning and design of the medium-term activities reflected the less pressing time constraints facing AusAID in preparing these activity proposals, compared with earlier transitional activities.

⁵² The main reasons for these extensions related to delays in finalising designs of follow-on projects, discussed in paragraphs 6.16 to 6.17.

Figure 6.3

Capacity-Building Program for East Timor (CAPET)

Objectives:	<ul style="list-style-type: none">• CAPET had separate objectives for each assisted sector: governance; education; water supply and sanitation; rural development and agriculture; and health. (These are set out under activity descriptions in Appendix 13.)
Outputs:	<ul style="list-style-type: none">• CAPET consisted of 44 discrete activity components. Clearly defined outputs were not specified for each activity component.
Performance indicators:	<ul style="list-style-type: none">• CAPET did not have effectiveness indicators for measuring its achievements.• However, qualitative information on the implementation and performance of CAPET activities was included in progress reports and other reviews.
Assistance provided:	<ul style="list-style-type: none">• Some 120 consultants were deployed on the 44 activity components. The following are examples of CAPET assistance:<ul style="list-style-type: none">o Management training was provided to 350 senior public servants – the first of its kind in East Timor.o Technical assistance supported the establishment of the East Timor Revenue Service; the development of East Timor’s first national development plan; and the establishment of land administration arrangements.
Strengths/ achievements, difficulties and remedial action:	<ul style="list-style-type: none">• A review of CAPET indicated that it was able to provide resources to address many identified needs for technical advice and training assistance in the UN transitional administration.• The review indicated that CAPET mostly achieved good outcomes, in a difficult operating environment where government organisation structures were still being established and East Timorese staff were being appointed to senior positions.• These circumstances constrained its capacity-building impacts, which were one of the activity’s key objectives. A follow-on capacity-building project is expected to address this issue more systematically.

Source: ANAO analysis.

6.13 Figure 6.4 highlights strengths of the consultative arrangements for these activities at the design stage. The ANAO observed during the audit visit to East Timor that East Timor government stakeholders maintain a close and continuing interest in the progress of activities during their implementation.

Figure 6.4

Strengths of consultative arrangements for medium-term activities

- Consultations took place with East Timorese officials, non-government organisations and local communities which were likely to benefit from proposed activities, as part of both the initial scoping and the final design of activities.
- Draft planning documentation was provided to East Timor government agencies for comment and approval.
- Design documents and guidelines were translated into East Timor's official and working languages (Portuguese, Tetum and Indonesian).

Source: ANAO analysis.

6.14 The ANAO also found that the designs of all medium-term activities took into account Australian and other donors' aid activities, as well as East Timor government programs. This helped to promote effective coordination and avoid duplication of effort.

6.15 Designs also drew upon relevant aid experience in East Timor and other countries. For example, lessons learned from aid delivery in rural communities in East Timor were considered in the design of the Australia East Timor Rural Development Program, a major project costing \$8.2 million in its first phase which commenced in 2001 (see Figure 6.5). The audit field visit confirmed that these lessons continue to be critical to the success of community-based aid activities in East Timor.

Figure 6.5

Lessons learned from aid delivery in rural communities

- Recognising farmers' risk aversion and resistance to changing traditional farming techniques.
- Dealing with 'handout' expectations of rural communities.
- Tapping into appropriate representative community-based organisations.

Source: ANAO analysis.

6.16 The ANAO observed that there were substantial time delays in the finalisation of designs which went through the full design processes. However, these delays were largely outside AusAID's control.

6.17 One source of delay was the difficulty experienced by AusAID in obtaining the services of suitably qualified personnel to undertake designs. Another was the time required to consult with East Timor authorities and obtain their approval of the final design. These difficulties delayed implementation and required some associated transitional activities to be extended considerably beyond their initial planned timeframe.

6.18 The ANAO also observed that the design documents of many medium-term activities were unavoidably long and complex (some were over 500 pages long).⁵³ This made it difficult for East Timor government agencies to fully comprehend the activity designs.

6.19 Enhancing East Timor government agencies' understanding of designs is likely both to expedite approval and strengthen their commitment to successful implementation. A practical means of addressing this issue would be for AusAID to provide short, executive summaries expressed in simple language for all activities. This was done in one case examined.⁵⁴

6.20 The ANAO found that performance indicators were specified for all medium-term activities. This was a substantial improvement compared with performance management arrangements for transitional activities, reflecting the greater time available for project design. Nonetheless, indicators for medium-term activities had a number of shortcomings. In particular, they focused on measuring the completion of outputs or the attainment of activity milestones (such as finalising planning documents or organising meetings). They did not adequately measure or assess the quality of outputs or the effectiveness of activities, which are critical for assessing performance.

6.21 For example, in the case of the Australia East Timor Rural Development Program (described in Figure 6.6), performance indicators focused on reporting the completion of scheduled activities and the maintenance of specified activity records. These included project staff training and appraisal; training for East Timor government agency staff; and capacity-building assistance to community stakeholders. However, these indicators did not adequately address the extent and quality of training and capacity-building assistance, nor its effectiveness in improving the capacity of the range of stakeholders. Indeed, an AusAID review found that this contributed to weaker capacity-building results in the first phase of this activity.⁵⁵ AusAID is now seeking to overcome these problems, by developing an improved design for the second phase.

6.22 The ANAO also found that a number of indicators for medium-term activities were not sufficiently precise to enable them to be adequately measured. Most indicators did not incorporate targets. It was therefore unclear as to what would constitute high or low performance. This had the effect of reducing

⁵³ A similar observation was made in Audit Report No.59, 2001–2002, *AusAID Contract Management*, pp.65–66.

⁵⁴ An executive summary of the project design document was prepared for the Ministry of Planning and Finance Capacity-Building activity.

⁵⁵ A number of other difficulties affected the implementation of AETRDP during its first phase in 2002. In particular, the contractor reported that there were few suitable local NGOs to help implement its rapid impact projects, and local staffing arrangements in the relevant East Timor government agency were still being finalised. The contractor also identified a need to strengthen AETRDP's capacity-building expertise.

AusAID's capacity to assess the extent to which activities achieved their objectives. Appendix 15 provides some examples and indicates possible ways for AusAID to strengthen its indicators.

Figure 6.6

Australia East Timor Rural Development Program (AETRDP)

<p>Objectives:</p>	<ul style="list-style-type: none"> • AETRDP aims to build the capacity of East Timor's rural communities to increase household productivity and income. It is a two-phase project. • The objectives of the first phase were to implement 'rapid impact projects'; establish technical resource service centres for rural communities; and design the second three-year phase. • During this first phase, AETRDP planned to identify the capacity-building needs of communities, the contracting organisations helping to implement the projects, and relevant East Timor government agency staff. Assistance was to be provided to build the capacity of these stakeholders.
<p>Outputs:</p>	<ul style="list-style-type: none"> • The planned outputs for the rapid impact project component included the development and submission of community project proposals; the implementation of approved projects; and the selection of contracted organisations to help implement the projects. • The planned outputs for the technical services component included the establishment of service centres; and the design and implementation of training.
<p>Performance indicators:</p>	<ul style="list-style-type: none"> • A substantial number of performance indicators were specified for the project. However, they focused on: <ul style="list-style-type: none"> o the completion of scheduled activities eg documentation of the capacity of beneficiary communities by a certain date; and o the maintenance of activity records eg log of the provision of technical support, information services, training and capacity-building assistance; and records of project staff training and appraisal. • While these performance indicators provided information on the needs of stakeholders and on project activities undertaken, they did not adequately address output quality or the effectiveness of activities, particularly in building the capacity of stakeholders. Performance indicators addressing these issues would have more effectively supported the assessment of the achievement of activity outcomes.
<p>Assistance provided:</p>	<ul style="list-style-type: none"> • During the first phase of the project, implemented in 2002, a large number of relatively low-cost, small-scale 'rapid impact projects' were carried out in three districts. • Technical resource service centres were developed and staffed with technical personnel in these districts.

Continued on following page

**Strengths/
achievements,
difficulties
and remedial
action:**

- The project was commended by an AusAID-commissioned review for establishing the 'rapid impact projects' in a timely manner under difficult operating circumstances.
- This review also identified several problem areas during this first phase of activity implementation, including that the effectiveness of the 'rapid impact projects' was weak, and capacity-building progress had not been achieved.
- A second phase design was developed, in conjunction with the relevant East Timor government agency and local communities. However, after consideration by AusAID and consultation with the relevant East Timor government agency, it was decided not to proceed with the design.
- A new design team is now developing an improved design, which AusAID expects will address the recognised capacity-building weaknesses in the first phase. In the interim, the current project has been extended to implement some high-priority activities.

Source: ANAO analysis.



Photo: AETRDP

An AETRDP 'rapid impact project' visited by the ANAO in the Bobonaro district. The Leber village community is raising pack-horses, which will be used to transport produce to market.

6.23 The ANAO acknowledges that the performance measurement of aid activities presents many challenges for AusAID (and other international aid agencies). In particular, measuring the effectiveness of newer kinds of aid activities that are focused on capacity-building, policy reform and enhanced governance, is recognised as being more difficult than more established, direct service provision.⁵⁶ Enhanced performance measurement typically also involves some additional costs.

6.24 AusAID has undertaken a number of corporate initiatives to improve activity-level performance monitoring in recent years.⁵⁷ Nevertheless, as discussed above, the ANAO considers that the quality of indicators can be improved to better monitor the performance of East Timor activities.

Recommendation No.3

6.25 To improve the quality of performance information for effective activity management, the ANAO recommends that AusAID develop a range of performance indicators that:

- incorporate realistic and measurable targets; and
- enable assessment of the quality of outputs and the achievement of outcomes.

AusAID response

Agreed. Increased focus is being placed on achieving a consistent quality of performance indicators, across bilateral programs. Formulation of realistic targets will complement performance indicators where such targets can be established.

⁵⁶ These issues were highlighted in a recent OECD review of the performance measurement experience of aid agencies. See A. Binnendijk, *Results Based Measurement in the Development Co-operation Agencies: A Review of Experience*, OECD Development Assistance Committee Working Party on Aid Evaluation, 2000.

⁵⁷ These initiatives include: making activity designs and contracts more outcomes-focused; undertaking a review of performance monitoring in 2001; appointing a senior advisor for designs; conducting workshops on baseline studies; and examining monitoring levels in the context of the transition of activity management from Canberra to AusAID staff in overseas posts.

Monitoring of activity implementation and performance

6.26 AusAID guidelines require regular and effective communication between activity managers in Canberra and staff at overseas posts, and appropriate monitoring of the expenditure, implementation progress and performance of bilateral aid activities.⁵⁸ These attributes are generally recognised as crucial for effective aid management.

6.27 The ANAO found that there was regular, and generally effective, communication and exchange of information between AusAID staff in Canberra and in Dili during the delivery of aid activities. Some initial difficulties in communication and coordination in relation to AusAID's staffing assistance and technical assistance programs were overcome as the activities were implemented.

6.28 Contractors provided information on activity progress and performance through monthly, quarterly and/or six-monthly reports. However, the ANAO observed that part of this report material was of limited use to AusAID activity managers. For example, some reports included long and detailed descriptions of particular activities undertaken; others did not clearly distinguish between new and previously-reported information. These report formats did not help AusAID activity managers to readily identify and assess whether the activities were performing satisfactorily.

6.29 Concerns about the burden of contractor reporting requirements were communicated by a contractor and an independent review team to AusAID in relation to two activities examined. This issue was previously raised in an ANAO audit of AusAID contract management, which noted that AusAID was implementing measures to reduce contractor reporting.⁵⁹

6.30 Excessive reporting requirements can divert contractors' attention from their main responsibilities and add to costs without improving aid quality. AusAID should therefore strengthen its efforts to ensure that the contractor reporting required for each activity is focused more clearly on performance achieved.

6.31 The ANAO found that AusAID regularly monitored activity expenditure against budget for all of the sampled activities. There was also regular monitoring of the progress of most activities, based on various kinds of qualitative

⁵⁸ AusAID *AusGuide*: Stage 4 and AusGuidelines, Canberra, 2002. The monitoring framework for each aid activity is developed using a standard AusAID analytical tool, the logical framework approach. The resulting project logical framework (logframe) sets out the objectives, outcomes, outputs and performance indicators for the activity.

⁵⁹ Audit Report No.59 2001–2002, *AusAID Contract Management*, pp.72–73.

information. This included the progress reports of Australian contractors; records of site visits by AusAID staff; activity review reports commissioned by AusAID; and feedback from East Timorese stakeholders.

6.32 Qualitative information from these sources was used by AusAID to monitor and improve activity performance. However, AusAID made only limited use of quantitative performance indicators in assessing activity performance. This partly reflected weaknesses in AusAID's performance indicators for the activities, discussed in paragraph 6.20. In the ANAO's view, AusAID's activity monitoring should incorporate preferably quantitative performance measurement, to enable more rigorous assessment against planned activity outcomes and outputs. Relevant qualitative information should continue to be valued to complement quantitative performance information, providing context and adding depth to performance assessments.

Risk management and fraud awareness

6.33 AusAID requires the ongoing management of activity risks, including the preparation and review of risk management plans. It also requires activity managers to maintain an awareness of the potential for fraud at the activity level. These are recognised attributes of effective management of aid delivery.

Ongoing risk management

6.34 AusAID prepared a risk management plan for all medium-term activities, which adequately addressed activity risks. In the case of most transitional activities, activity risks were identified in other activity planning, design or approval documentation. The ANAO found that the risk management strategies in these plans, or other related documentation, were not *systematically* reviewed or updated during the implementation of the majority of activities. AusAID guidelines emphasise the importance of re-evaluating risks to ensure risk management plans remain relevant. This is because project risks and risks associated with the external operating environment may change over time.⁶⁰

6.35 The ANAO considers that updating risk management plans for activities in East Timor is particularly important, to reflect changes in individual project risks as activities are implemented and to take account of relevant developments in the country's political, economic and social environment. The relatively high level of inherent risk in aid delivery in East Timor warrants stricter adherence to AusAID's risk management guidelines regarding the preparation and updating of risk management plans.

⁶⁰ AusAID, *AusGuide*, AusGuidelines, Canberra, 2002.

Recommendation No.4

6.36 The ANAO recommends that AusAID prepare risk management plans for all individual bilateral aid activities in East Timor and review them at least annually.

AusAID response

6.37 Agreed. Risk management plans are already prepared for all significant bilateral activities. These will be reviewed annually as part of the activity annual plan process and will be emphasised in AusAID's guidance on projects. The focus on risk management will, through the new country strategy development process, be sharpened to enable a more comprehensive risk assessment of activities and the development of appropriate treatments.

Fraud awareness

6.38 AusAID is aware of the potential for fraud in aid activities in East Timor (and other countries), and has explicitly addressed fraud risk in activity monitoring. Arrangements which have helped AusAID to manage fraud risk in East Timor include: the delivery of a number of activities through Australian government agencies; progress payments to contractors being linked to the achievement of milestones certified by AusAID staff; and regular AusAID liaison with contractors, East Timor government officials and other stakeholders.

6.39 The ANAO found that contractor invoices were routinely scrutinised, and project trust account arrangements were checked by AusAID Internal Audit. These assisted in the management of fraud risk. In some cases, AusAID obtained assurance through independent verification of project costs and through review of contractor procurement.

6.40 Two instances of suspected fraud were identified and investigated by AusAID. These involved grants for relatively small amounts under the East Timor Community Assistance Scheme (ETCAS). One of the cases is outlined in Figure 6.7. AusAID initially did not closely monitor the use of ETCAS grants, but subsequently strengthened controls to minimise the risk of recurrence. AusAID now has tighter procedures for assessing ETCAS applications and for monitoring activity progress. The ANAO considers that AusAID's revised arrangements have addressed weaknesses in ETCAS administration which contributed to the suspected fraud case.

Figure 6.7**AusAID action to manage fraud risks associated with ETCAS**

- Since November 1999, ETCAS has funded over 270 separate community activities. Aid expenditure on ETCAS has totalled \$3.3 million over four years.
- During this time, two cases of suspected fraud were identified by AusAID. One of the cases involved the provision of AusAID funds to establish a community marketplace.
- A year after the funds had been provided, AusAID found out that market facilities had not been built. At the time of audit, AusAID had investigated the case and was examining the possible recovery of the grant (\$20 000).
- Controls over ETCAS were strengthened in late 2001 following the engagement of a senior program support officer at the Dili post. These controls included monitoring visits to local communities which have received grants.

Source: ANAO analysis.

Activity achievements**Overall contribution to East Timor's reconstruction and development**

6.41 Audit evidence indicated that, overall, Australia's bilateral aid has made an important contribution to East Timor's reconstruction and development. AusAID has developed, and is delivering, a substantial bilateral assistance program which addresses East Timor's priority development needs and draws on Australian aid expertise. Figure 6.8 highlights the ANAO's assessment of the major strengths/achievements and weaknesses in the design and delivery of this assistance.⁶¹

6.42 This aid has been provided in a high-risk, demanding and dynamic environment, as East Timor moved from the crisis in 1999, through a complex political and administrative transition, to independence in 2002. The processes of rebuilding the country's physical infrastructure and establishing good governance arrangements are still in train and are likely to continue to influence the effectiveness of Australian aid.

6.43 East Timor government stakeholders indicated to the ANAO that Australia's bilateral assistance program has been of high quality and has delivered positive outcomes for East Timor in a number of high priority sectors and activities. East Timorese community representatives also provided positive feedback to the ANAO about individual aid activities at the local level.

⁶¹ The ANAO assessment was based on examination of the interim country strategy for East Timor and the report of the review of the interim country strategy; AusAID activity documentation, commissioned reviews and project completion reports; interviews with AusAID staff in Canberra and Dili; and interviews with project staff and other stakeholders, and visits to activity sites, in East Timor. This audit coverage included the 14 sampled bilateral activities listed in Appendix 13.

6.44 As noted in paragraphs 3.46 to 3.47, the AusAID-commissioned review of the interim country strategy for East Timor also reported on Australian bilateral assistance to East Timor in generally positive terms.



Photo: ANAO

Ceremony to mark the completion of the Batumigi community water supply project, implemented by the East Timorese NGO, Bia Hula, with ETCAS assistance.



Photo: ANAO

An ETCAS grant was provided to the Catholic Parish of Balibo, to assist with upgrading the girls' boarding school dormitory.

Figure 6.8**Major strengths/achievements and weaknesses of bilateral assistance to East Timor**

Major strengths/achievements	
Focus of assistance	<ul style="list-style-type: none"> • Strong emphasis on governance and capacity-building. • Focus on assisting rural communities, in line with national development priorities.
Aid delivery mechanisms	<ul style="list-style-type: none"> • Use of a variety of aid delivery mechanisms, appropriate for meeting particular identified needs. These included staffing and technical assistance, project aid, small grants and scholarship assistance.
Support for governance and nation-building	<ul style="list-style-type: none"> • Flexible and responsive provision of staffing and technical assistance following the crisis and during the UN transitional administration. • Provision of strategic assistance for key government functions such as budget preparation, tax revenue services, coordination of donor assistance and national development planning. • Specialist technical assistance for important niche areas such as geographic information systems and land title administration. • Key contributions to East Timor nation-building and democratisation processes, through electoral capacity-building, assistance with the new parliament building, and preparations for independence.
Coordination of assistance	<ul style="list-style-type: none"> • Coordination of Australian bilateral aid with sectoral assistance from other donors, including the Trust Fund for East Timor projects, in key sectors such as health.
East Timorese community involvement	<ul style="list-style-type: none"> • Support for the strengthening of non-government organisations and local communities through capacity-building and small grants. • Support for project designs that promote non-government organisation participation and community consultation in larger projects.
Geographical focus of aid	<ul style="list-style-type: none"> • Geographic focus of some components of Australian bilateral assistance in areas of East Timor where the impact of the 1999 crisis was severe.
Language issues	<ul style="list-style-type: none"> • Encouragement of contractors to have team members who can speak East Timor's official and working languages (Portuguese, Tetum and Indonesian). • Translations of key activity documents into these languages.
Forward planning	<ul style="list-style-type: none"> • Identification of a future 'pipeline' of aid activities which continue to address East Timor's priority needs.

Weaknesses

Delays

- Delays in the finalisation of the design and the implementation of a number of activities.

Mixed results for some activities

- Limited results from some rapid intervention activities and some small grant activities.
- Limited or unclear capacity-building impact of many activities.

Source: ANAO analysis.

Achievements of activities against planned outcomes

6.45 Weaknesses in AusAID's performance information, for both transitional and medium-term activities, limited the ANAO's capacity to assess activity performance. As discussed at paragraphs 6.20 to 6.24, enhanced performance indicators are required to enable AusAID to manage individual activities more effectively and to obtain greater assurance that Australia's bilateral aid is providing value for money.

6.46 Notwithstanding these assessment difficulties, the ANAO considers that the individual bilateral aid activities have achieved positive results, particularly given the difficult operating environment for the delivery of aid. Activities in the audit sample (that covered 83 per cent of bilateral aid expenditure to East Timor) mostly achieved planned outcomes and outputs.

6.47 These achievements included: staffing assistance and technical support to East Timor government agencies; the training of government officials and NGO staff; scholarship assistance to East Timorese students; the construction of national facilities and the establishment of resource centres; assistance to rural communities; and financial support for small-scale community activities. The major strengths/achievements and weaknesses of seven activities, which were examined during the ANAO field visit to East Timor, are set out in Appendix 16.

AusAID ratings of sampled aid activities

6.48 AusAID has a rating system for assessing the quality of most bilateral aid activities in terms of four broad quality attributes: the appropriateness of their objectives and design; professional management; achievement of their objectives; and their likely sustainability. A rating of 'satisfactory overall' for an attribute is the lowest score that satisfies AusAID minimum requirements.

6.49 Appendix 17 describes this rating system in more detail and graphically presents AusAID ratings which are available for nine of the 14 activities in the

audit sample. As noted in the appendix, those ratings which are available are not directly comparable to the ANAO analysis in this chapter.

6.50 AusAID assessed approximately 90 per cent of the activities in the audit sample for which ratings were available as being at least 'satisfactory overall' in terms of each of the first three quality attributes. The fourth attribute—likely sustainability—was at least 'satisfactory overall' for about 70 per cent of the same activities.

6.51 AusAID ratings for the East Timor sample were comparable with those for aid activities in other countries in 2001–02. AusAID internal or commissioned reviews of the East Timor activities have also provided generally positive assessments of the extent to which activities have achieved their planned outcomes.



Photo: AusAID

The interior of the parliament building in Dili. The refurbishment of the building was part of a package of support for nation-building and democratisation in East Timor, funded by AusAID.

Sustainability of activities

6.52 The sustainability of aid activities refers to the likelihood that benefits will continue after donor assistance has ended.⁶² Sustainability is recognised by AusAID to be a key attribute of high-quality aid. It is also a major challenge for aid activities. For example, an activity may achieve its planned outcomes, but may not have a continued flow of benefits into the future.

⁶² AusAID, *Promoting Practical Sustainability*, Canberra, 2000, p.1.

6.53 Ultimate responsibility for ensuring the continued benefit of aid activities rests with recipient government agencies and other local stakeholders. However, sustainability may be promoted by addressing this key aid attribute in the selection, design and implementation of aid activities and, where appropriate, through limited follow-on support of these activities.

Inclusion of sustainability strategies in activity designs

6.54 AusAID requires that bilateral aid activities have a sustainability strategy for ensuring that the benefits of the activity are maintained to the maximum extent possible, when Australian assistance ends.

6.55 The ANAO found that a sustainability strategy was included in the designs of most medium-term activities. Figure 6.9 sets out examples of strategies identified for particular activities in the audit sample.

Figure 6.9

Sustainability strategies included in activity designs

- Working within existing institutional structures.
- A strong focus on capacity-building.
- Effective community participation in the design and maintenance of community-based services.
- Minimisation of recurrent activity costs for which future local funds are unlikely to be available.
- Regular review and appropriate adjustment of activity design to reflect changing circumstances.

Source: ANAO analysis.

6.56 Sustainability issues were also generally considered in the designs of most transitional activities examined. One significant exception, which did not adequately address these issues, was the major technical assistance activity, the Capacity-Building Program for East Timor (CAPET) (see first dot point in Figure 6.10).

Figure 6.10

Sustainability issues for technical assistance activities

- Activity documentation for CAPET did not adequately address the longer-term sustainability of activity benefits. An AusAID review, undertaken in 2000, also identified this design limitation.
- Technical advisers interviewed in East Timor during the audit indicated that the delivery of technical assistance involves a range of significant sustainability risks. These risks include the potential loss of key East Timor government agency staff who have benefited from intensive skills transfer.

Source: ANAO analysis.

6.57 The continuation of benefits from such technical assistance activities can be enhanced by good activity design and implementation, including establishing effective working arrangements between technical advisers and recipient government agency staff.⁶³ The ANAO considers that ways to promote sustainable outcomes therefore should receive close attention in the design of any future technical assistance to East Timor.

Likely sustainability of activities

6.58 Notwithstanding the fact that sustainability issues were considered in the design of most transitional and medium-term activities, the ANAO observed that the continued sustainability of many activities examined was problematic. As discussed in paragraph 6.50, AusAID assessed sustainability to be the weakest of the four aid quality attributes for the East Timor audit sample. Some 30 per cent of activities in the audit sample were rated by AusAID as 'weak' or 'marginally satisfactory', indicating that their sustainability was at risk (see Appendix 17).

6.59 The importance of sustainability was reinforced by the ANAO visit to activities and discussions with stakeholders in East Timor. A number of project staff and experts expressed the view that their projects or technical assistance would require longer timeframes than are currently approved to ensure sustainable outcomes. Reviews of East Timor aid activities commissioned by AusAID have also consistently identified sustainability as an area of relative weakness.

6.60 The audit visit to East Timor indicated that East Timor government agencies and assisted communities have limited organisational, financial and human resources, and this is likely to be a significant constraint on their capacity to maintain the ongoing benefits from Australian bilateral assistance.

6.61 Overall, the ANAO concluded that most aspects of the planning and implementation of individual bilateral aid activities have been sound. However, the quality of performance indicators and associated targets can be improved to better monitor the performance of East Timor activities. Systematic updating of risk management strategies for bilateral activities is also required, to ensure that they take account of any changes in conditions in East Timor.

⁶³ Some practical ways to improve the prospects for sustainability of technical assistance are identified in AusAID, *Promoting Practical Sustainability*, Canberra, 2000, p.5. These include emphasising team work approaches; clearly defining the advisory role; identifying multiple, rather than one or two, recipient government agency staff to work with each technical adviser; and having a phase-out strategy for the assistance.

6.62 The ANAO also concluded that Australian bilateral aid has made an important contribution to East Timor's reconstruction and development, by providing assistance in a number of high priority sectors. Individual bilateral aid activities have mostly achieved planned outcomes and outputs in a difficult operating environment. AusAID has generally considered sustainability issues in the design of aid activities. However, the sustainability of many of these activities is at risk.

Canberra ACT
19 December 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1: Australian government assistance to East Timor

Data on annual expenditure by 11 Australian government agencies to assist East Timor over the period 1999–2000 to 2003–04, estimated to total \$2 660 million, is set out below. This data was supplied by the agencies directly to the ANAO for the purposes of this audit.

Most of the agencies have classified their expenditure as ‘official development assistance’ (ODA) or ‘other assistance’. This classification should be regarded as indicative only, because AusAID has official responsibility for classifying Australian government assistance for international aid reporting purposes.

‘Official development assistance’ is a technical term used by the international donor community to refer to aid flows by government agencies to a prescribed list of developing countries. To qualify as ODA, assistance must have the promotion of the economic development and welfare of those countries as its main objective, and it must be concessional in character and convey a grant element of at least 25 per cent.

‘Other assistance’ refers to the assistance of Australian government agencies to East Timor which does not meet this definition. For example, most of the assistance provided by the Department of Defence aimed to contribute to East Timor’s external and internal security, and therefore does not qualify as ODA.

Australian government assistance, by agency and type of assistance

Agency	Type	1999–2000	2000–01	2001–02	2002–03 (Estimate)	2003–04 (Estimate)	Total ^(a)
Department of Defence ^(b)	ODA	\$42.5m	\$32.6m	\$6.6m	\$0m	\$0m	\$81.8m
	Other	\$565.0m	\$782.5m	\$658.2m	\$115.6m	\$115.6m	\$2237.0m
	Total	\$607.5m	\$815.2m	\$664.9m	\$115.6m	\$115.6m	\$2318.8m
AusAID	ODA	\$81.0m	\$40.5m	\$39.5m	\$38.9m	\$34.7m	\$234.5m
Australian Federal Police	ODA	\$12.1m	\$20.5m	\$16.9m	\$22.0m	\$19.7m	\$91.1m
Australian Quarantine and Inspection Service (AQIS), Department of Agriculture, Fisheries and Forestry—Australia	ODA	\$0m	\$0.1m	\$0.1m	\$0.2m	\$0.2m	\$0.6m
	Other	\$1.8m	\$1.7m	\$1.6m	\$1.6m	\$1.8m	\$8.4m
	Total	\$1.8m	\$1.7m	\$1.7m	\$1.7m	\$1.9m	\$8.9m

Continued on following page

Department of Immigration, Multicultural and Indigenous Affairs	ODA	\$7.7m	\$0.3m	\$0m	\$0m	\$0m	\$8.1m
	Other	\$0m	\$0m	\$0.2m	\$0.3m	\$0.2m	\$0.8m
	Total	\$7.7m	\$0.4m	\$0.2m	\$0.3m	\$0.2m	\$8.8m
Department of Health and Ageing ^(c)	Total	\$2.2m	\$0.8m	\$0m	\$0m	\$0m	\$3.0m
Australian Centre for International Agricultural Research	ODA	\$0m	\$0m	\$0.5m	\$0.7m	\$0.5m	\$1.7m
Other agencies ^(d)	ODA	\$0m	\$0m	\$0m	\$0.2m	\$0.2m	\$0.5m
Total-All agencies (adjusted) ^(e)	Total	\$712.5m	\$877.2m	\$721.8m	\$177.5m	\$170.8m	\$2659.8m

Notes: (a) Numbers may not add due to rounding.

(b) The Department of Defence does not separately identify the cost of the ODA component of security assistance to East Timor. Figures are based on an agreement between AusAID and the Department of Defence to calculate the ODA component using the following percentages of total resourcing of Australian Defence Force operations in East Timor:

- 1999–2000: 7 per cent
- 2000–01: 4 per cent
- 2001–02: 1 per cent
- 2002–03 onwards: 0 per cent

(c) The Department of Health and Ageing figures combine ODA and other assistance.

(d) 'Other agencies' comprises assistance provided by the following agencies:

- Department of Education, Science and Training;
- Department of Industry, Tourism and Resources;
- Department of Communications, Information Technology and the Arts; and
- Australian Bureau of Statistics.

(e) The total has been adjusted downwards to avoid double counting of AQIS assistance. From 2000–01 onwards, AQIS received annual funding of \$1.6m from AusAID and \$0.3m from the Department of Defence to meet the cost of quarantine assistance relating to East Timor.

Legend: 'ODA' refers to 'Official development assistance'.

Source: Australian government agency responses to the ANAO's request for information on assistance to East Timor, May 2003.

Appendix 2: Australia's overseas aid program, 2003–04

Program objectives	<p>Australia's aid program aims to advance Australia's national interest by assisting developing countries, particularly in the Asia-Pacific region, to reduce poverty and achieve sustainable development.</p> <p>The program focuses on promoting improved governance; assisting countries to maximise the benefits from trade and new information technologies; supporting stability through improved delivery of basic services; strengthening regional security; and promoting sustainable resource management.</p>
Program expenditure	<p>In 2003–04, Australia will provide some \$1.894 billion as official development assistance (which is measured internationally on a cash basis). AusAID manages some \$1.622 billion of this cash total (\$1.308 billion on an accrual basis).</p> <p>Australia's official development assistance is estimated to be 0.25 per cent of Gross National Income. This places Australia above the Organisation for Economic Cooperation and Development donor average of 0.23 per cent for the latest year available (2002).</p>
Main components	<p>The major part of the AusAID program (\$962 million) is distributed through country programs to developing countries and regions. Most of this amount comprises <i>bilateral aid</i> to individual countries.</p> <p>The remainder (\$276 million) is distributed through the global program. This includes:</p> <ul style="list-style-type: none"> • emergency aid (\$132 million); and • contributions to multilateral development banks and international organisations (\$91 million). <p>AusAID expenses on aid policy advice and program management total \$70 million.</p>
Geographic focus	<p>The areas of Australia's highest aid expenditure are:</p> <ul style="list-style-type: none"> • East Asia (\$386 million); • Papua New Guinea (\$314 million); and • the Pacific Island countries (\$150 million).
Sectoral focus	<p>Australian assistance is concentrated in five priority sectors:</p> <ul style="list-style-type: none"> • governance (21%); • education (15%); • rural development (14%); • health (13%); and • infrastructure (13%). <p>The remainder comprises emergency, humanitarian and refugee assistance (14%), and multi-sector assistance including gender, environment and food security (10%).</p>

Source: Minister for Foreign Affairs, *Australia's Overseas Aid Program 2003–04. Statement by the Honourable Alexander Downer MP Minister for Foreign Affairs, 13 May 2003*, Canberra, 2003.

Appendix 3: East Timor profile

This appendix sets out basic country information on East Timor and provides further information on East Timor's relative international ranking in terms of the United Nations Development Programme (UNDP) human development index (discussed in Chapter 1).

It also presents a set of socio-economic indicators that measure particular dimensions of East Timor's development.

This profile of East Timor and associated indicators are sourced mainly from the UNDP publication, *East Timor Human Development Report 2002*. The UNDP report noted that the data should be used with caution because of various data quality limitations.

Country information

Official name:	Democratic Republic of Timor-Leste
Date of independence:	20 May 2002
Location:	The eastern half of the island of Timor, the enclave of Oecussi (also known as Ambino) in the western half of the island, and the islands of Atauro and Jaco.
Total area:	Approximately 15 007 square kilometres
Capital:	Dili
Population:	838 000 persons (2003)
Official and working languages:	Tetum and Portuguese are East Timor's official languages; Indonesian and English are additional working languages in the civil service.
Currency:	US dollar
Distance from Australia:	Dili is approximately 800 kilometres from Darwin

UNDP human development index

As discussed in Chapter 1, East Timor ranked 152nd in terms of the UNDP human development index in 1999.

The human development index is a composite index based on three components covering longevity; knowledge; and standard of living:

Component	Measurement
Longevity	Life expectancy
Knowledge	Adult literacy (two-thirds weight)
	Average (mean) years of schooling (one-third weight)
Standard of living	Purchasing power, based on real GDP per capita adjusted for the local cost of living (purchasing power parity)

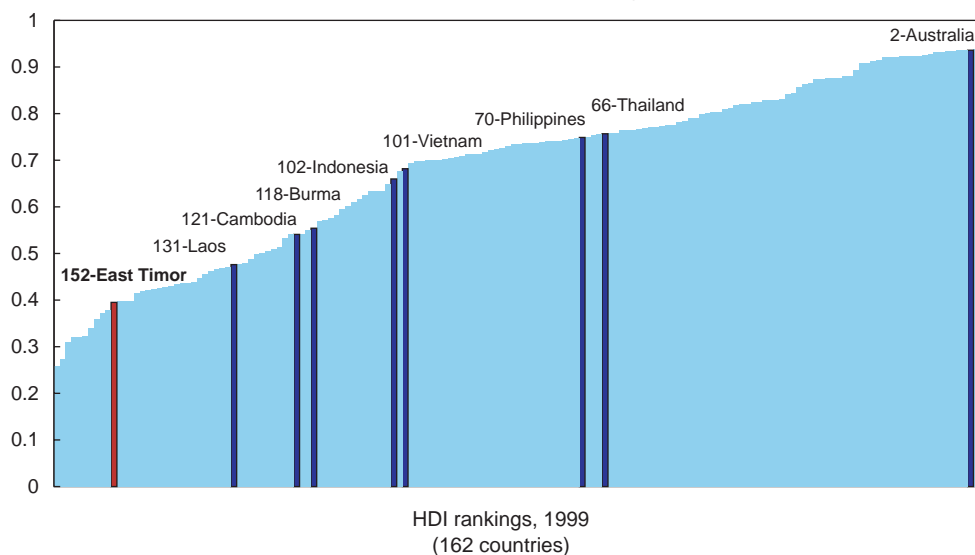
Source: United Nations Development Programme, *East Timor Human Development Report 2002*, Dili, 2002, p.20.

The index provides an overall value for each country between 0 and 1 (low to high). For East Timor, the index value was 0.395 in 1999 and 0.421 in 2001.

The figure below shows East Timor's human development index ranking relative to 162 countries throughout the world in 1999, the year for which the latest global values were calculated by the UNDP. The rankings of other countries in South-East Asia which are recipients of Australian aid are also presented.

Figure

East Timor's human development index ranking, 1999



Source: UNDP data.

Key indicators for East Timor

Set out below are key socio-economic indicators for East Timor. These data are for 2001, unless otherwise stated.

Demographic indicators	
Average household size	5.1 persons
Population under age 15	43.9 per cent
Population aged 65 and above	2.4 per cent
Urban population	23.5 per cent

Life expectancy and mortality indicators	
Life expectancy	57.4 years
Infant mortality rate (per 1000 live births)	80.1
Under 5 years of age mortality rate (per 1000 live births)	143.5
Maternal mortality rate (per 100 000 live births)	420 (1999)
Underweight children under 5 years of age	44.5 per cent (1999)

Health indicators	
Births attended by skilled health staff	30.0 per cent (1999)

Education indicators	
Adult literacy rate (persons aged 15 and over)	43.0 per cent
Average years of schooling for persons of prime working age of 20 to 54	3.5 years
Net enrolment ratio for primary education (students aged 7 to 12 enrolled in primary school)	76.2 per cent

Housing and living conditions indicators	
Households with less than 10 square metres of floor area per person	56.9 per cent
Households with access to piped or pump drinking water	46.3 per cent
Households with main lighting of electricity	35.9 per cent
Households with own sanitation facilities	53.6 per cent (1999)

Poverty indicators	
Population living below the income poverty line	41.0 per cent

Note: The poverty line in East Timor is defined as the minimum standard to meet a person's basic needs, including food and non-food items. This was calculated to be 55 US cents per person per day in September 2001 (UNDP, *East Timor Human Development Report 2002*, Dili, 2002, p.16, p.88).

Economic indicators	
GDP total	US\$380m (2001 projection)
GDP per capita	US\$478 (2001 projection) US\$337 (1999 estimate)

Appendix 4: Audit criteria

1. Was AusAID able to respond quickly and in accordance with Government policy to the emergency and humanitarian crisis?
2. Did AusAID develop a timely and appropriate strategy to deliver short, medium and longer-term assistance to East Timor?
3. Did AusAID consider the effectiveness of the various delivery mechanisms—eg, assistance through multilateral agencies, bilateral assistance and assistance through non-government organisations—when allocating funds between them?
4. Do implementation arrangements enable aid to be delivered in a timely manner, and enable appropriate monitoring to occur?
5. Has AusAID identified and managed those risks (inherent in its strategies) that might affect the achievement of its aid objectives?
6. Did AusAID have regard to the assistance being proposed by other bilateral donors and multilateral agencies in developing its own assistance strategies?
7. Did AusAID establish or participate in arrangements to jointly monitor implementation of multilateral activities to which it contributed?
8. Did AusAID establish appropriate liaison/coordination arrangements with other government agencies and community groups?
9. Was AusAID influential in the development of the international response to East Timor?
10. Has AusAID established appropriate arrangements to assess the effectiveness of funding provided via multilateral agencies to date?
11. Has AusAID established appropriate arrangements to assess the effectiveness of its bilateral assistance to date?
12. Has AusAID put in place arrangements to review the effectiveness of its interim strategy?

Appendix 5: Post-ballot violence and key humanitarian interventions

The ballot on separation from Indonesia was held on 30 August 1999. The question put to voters was whether to accept or reject the special autonomy arrangement offered by the Government of Indonesia. 98.6 per cent of the registered electorate went to the polls. Some 78.5 per cent of the voters rejected the autonomy proposal, thus opting for a transition to independence.

The results of the ballot were announced on 4 September 1999. The ensuing violence resulted in the displacement of most of the East Timorese population and the widespread destruction of property.

Impact of the violence

Population	<ul style="list-style-type: none"> • Between 1000 and 2000 people were killed in the lead up to, and immediately following, the ballot result (UNDP estimate). • As many as 500 000 people were displaced from their homes. This included 200 000 people who went to West Timor. • Most of the UN staff who had organised and conducted the ballot had to be evacuated to Australia; a small team remained in Dili.
Civil service	<ul style="list-style-type: none"> • About 75 per cent of government administrative buildings were damaged and almost all office equipment and consumables were destroyed. Essential government records were removed or burned. • Virtually no senior administrators or skilled technical staff remained in East Timor. About 20 to 25 per cent of civil service staff left.
Education	<ul style="list-style-type: none"> • About 80 to 90 per cent of primary schools were damaged. School furniture, teaching materials and records were stolen or burned. • Many teachers, including most secondary school teachers, left.
Health	<ul style="list-style-type: none"> • About 75 per cent of health facilities were damaged and all health equipment and consumables (medicines) were lost. • The majority of doctors and health administrators left East Timor.
Agriculture	<ul style="list-style-type: none"> • Rural communities suffered substantial losses of cattle, buffaloes, goats, and pigs. There were also seed shortages. • Agricultural production was disrupted by the displacement of the population and the destruction of farm implements.

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Banking and commerce	<ul style="list-style-type: none"> • All banks were destroyed or looted, depositors lost access to their savings, and economic transactions shifted to a cash basis.
Infrastructure	<ul style="list-style-type: none"> • Electricity generation capacity was reduced substantially and urban water supply management ceased to function. • There were severe shortages of fuel and transportation services. • Essential equipment at ports and airports was removed or destroyed. • Telephone services were affected significantly. • Television and print media facilities were destroyed.
Economy	<ul style="list-style-type: none"> • Prices in Dili spiralled between August and October 1999, because of acute commodity shortages. • East Timor's Gross Domestic Product (GDP) fell by an estimated 40 to 45 per cent in 1999.

Source: United Nations Development Programme, *East Timor Human Development Report 2002*, Dili, 2002; United Nations and World Bank, *Overview of External Funding Requirements for East Timor*, December 1999.

Key humanitarian interventions, September to October 1999

In response to the crisis in East Timor, international aid efforts in September to October 1999 focused on meeting the acute humanitarian needs of the population. Key interventions are summarised below.

- Creation of 'safe-haven' camps for displaced persons.
- A general rice distribution for more than 64 000 people who had returned to Dili.
- A general distribution of emergency non-food assistance—including blankets, household items and shelter material—to people returning to Dili.
- Re-opening of all 10 hospitals and health facilities in Dili.
- Repairs to the piped and well-water system in Dili.
- Despatch of more than 60 convoys from Dili, carrying food, emergency shelters, water and health care supplies to tens of thousands of displaced people throughout East Timor.
- Operation by non-government organisations of more than 20 mobile health clinics in the eastern part of East Timor.
- Return via UNHCR-chartered aircraft of 2000 East Timorese who had been displaced to West Timor.

Source: United Nations Office for the Coordination of Humanitarian Affairs, *UN Consolidated Inter-Agency Appeal for the East Timor Crisis*, October 1999; United Nations Transitional Administration in East Timor, *External Review of the Humanitarian Response to the East Timor Crisis*, May 2000.

Appendix 6: AusAID interim country strategy for East Timor - Summary of lessons learned from aid delivery in post-conflict situations

Lessons	Actions to be taken to incorporate lessons in the interim country strategy
<p>Donor coordination</p> <p>Donor responses can be overwhelming, uncoordinated and wasteful, creating a significant burden for the recipient government.</p>	<p>Australia will coordinate closely with multilateral and bilateral donors to East Timor under a UN/World Bank framework in the planning and implementation of all assistance activities.</p>
<p>Partnership</p> <p>Local ownership of a development strategy is essential.</p>	<p>Australia's development program will be developed in partnership with East Timorese representatives and will maximise East Timorese involvement in activity planning, implementation, monitoring and review.</p>
<p>Delivery mechanisms</p> <p>Flexible and responsive delivery mechanisms are required in the uncertain environment of post-conflict situations.</p>	<p>Managing a large number of urgent requests for small scale-scale technical and training assistance requires the use of contractors. Early activities under short-term capacity-building facilities will help identify longer-term, more comprehensive project activities.</p>
<p>Absorptive capacity</p> <p>Activity designs must take into account the capacity of the recipient country to sustain activity outcomes.</p>	<p>All Australian designs will carefully consider the recurrent budget and staffing implications of the systems, processes and infrastructure proposed.</p>
<p>Importance of civil society</p> <p>In post-conflict crises, local and Australian NGOs have played an important role in delivering flexible and rapid assistance at the community level.</p>	<p>NGOs will play a major role as service providers and implementing partners on bilateral projects.</p>
<p>Operating in an environment of ongoing tension</p> <p>Post-conflict situations require careful attention to security in activity design and implementation and the impact of trauma in communities.</p>	<p>All activities will have fully developed security and evacuation plans. All programs will take care in targeting beneficiaries and look for opportunities to promote reconciliation.</p>

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.

Appendix 7: AusAID interim country strategy for East Timor—Summary of sectoral priorities for Australia’s bilateral aid

Sector and objective	Bilateral aid priorities
<p>Governance</p> <p>Objective: Assist East Timor to develop a simple, effective and self-sustaining government and administrative structure, and assist the process of reconciliation and peace-building by strengthening civil society and building democratic systems.</p>	<ul style="list-style-type: none"> • Civil service – technical assistance and training for public servants across education, health, agriculture, water supply and sanitation, and public administration. • Support for democratic systems – training and capacity-building for parliamentary and electoral processes; construction of parliament building. • Economic management and revenue collection – development of systems for budget preparation and development of the tax system. • Strengthening civil society – grants to support local community groups and capacity-building for local NGOs.
<p>Education and training</p> <p>Objective: Assist East Timor to establish and sustain the capacity to provide an education to all and to supply the skills required for national development.</p>	<ul style="list-style-type: none"> • Tertiary scholarships program – scholarships for East Timorese to study in Australia. • Support for English language training – training for tertiary students, secondary school teachers and public servants. • Skills training linked to labour market needs – training of technical and vocational teachers.
<p>Water supply and sanitation (infrastructure)</p> <p>Objective: Assist East Timor to develop a simple, effective and self-sustaining administrative structure for the Water and Sanitation Services agency in the East Timor Transitional Administration, and to help provide an effective and efficient water supply and sanitation service in rural areas.</p>	<ul style="list-style-type: none"> • Capacity-building – support for the Water and Sanitation Services agency. • Environmental health – support for NGOs conducting emergency water supply and health awareness activities. • Rural water supply and sanitation – commencement of a long-term project to rehabilitate water supply and sanitation facilities in rural districts.

<p>Rural development</p> <p>Objective: Assist East Timor to develop an effective Department of Agricultural Affairs in the East Timor Transitional Administration and to reduce poverty by strengthening the rural sector of the economy, providing food security and increasing income.</p>	<ul style="list-style-type: none"> • Capacity-building – support for the development of systems and capabilities in the Department of Agricultural Affairs. • Immediate assistance to rural communities – pest control and support for establishment of silkworm industry. • Rural development – commencement of a long-term project that supports activities that promote food security and increase rural incomes.
<p>Health</p> <p>Objective: Support East Timorese initiatives to build a sustainable health system, which emphasises community-level services and disease prevention.</p>	<ul style="list-style-type: none"> • Capacity-building – technical assistance and training to the East Timor Transitional Administration's Division of Health Services. • Support for public health programs – support for control of vector borne disease, tuberculosis and HIV/AIDS. • Specialist services – support for the development of public dental care, surgical, nutrition, and mental health services.

Note: A number of East Timor government agencies mentioned above have been renamed since the interim country strategy was issued. For example, the Department of Agricultural Affairs is now the Ministry of Agriculture, Forestry and Fisheries.

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001.

Appendix 8: Improving performance information for the East Timor country strategy

This appendix defines key concepts for the design of performance information. These concepts have been published by the ANAO as recognised better practice for the Australian Public Service.⁶⁴

The appendix also presents an extract from the AusAID performance monitoring plan for the East Timor interim country strategy, and describes specific problems with this plan.

Performance information—key better practice concepts

Outcomes:	The results or impact sought in a given policy area. For AusAID country strategy purposes, these are identified as program objectives.
Intermediate outcomes:	Outcomes which contribute to higher-level outcomes. These may be partial outcomes to be achieved for particular target groups within a shorter timeframe.
Effectiveness indicators:	These measure the extent to which outputs make positive contributions to specified outcomes.
Outputs:	The actual deliverables—goods and services—produced to generate desired outcomes.
Output indicators:	Quality and quantity indicators measure characteristics of outputs. Quality indicators include: <ul style="list-style-type: none"> tangible objective criteria such as timeliness, coverage, and conformity to specification, as well as less tangible criteria such as client satisfaction and peer review.
Targets:	Targets express quantifiable performance levels to be attained at a future date. Targets generally should be set for effectiveness and output indicators.

Source: ANAO, *Performance Information in Portfolio Budget Statements - Better Practice Guide*, May 2002.

⁶⁴ ANAO, *Performance Information in Portfolio Budget Statements - Better Practice Guide*, May 2002.

Extract from AusAID performance monitoring plan

Outputs and performance indicators for one of the five program objectives of the East Timor interim country strategy are set out below:

Program objectives	Outputs	Performance indicator
Assisting the process of reconciliation and peace-building, including by strengthening institutions of civil society and promoting human rights.	<ul style="list-style-type: none"> Local NGOs and community-based organisations strengthened. East Timor Transitional Administration and NGO reconciliation and peace activities supported as requested. Coordination by AusAID projects with reconciliation and community development activities where appropriate. Demobilised combatants reintegrated into communities with livelihood assistance. 	<ul style="list-style-type: none"> Demonstrable record of capacity-building, including training, technical and material assistance for local NGOs and community-based organisations. Demonstrable record of training and technical assistance in human rights. Community-level reconciliation activities assisted by AusAID successfully conducted. Ex-combatants and their communities benefiting from re-integration programs supported by AusAID.

Source: AusAID, *Interim Country Program Strategy for East Timor*, January 2001, Annex 6.

The above extract from the plan does not clearly identify the outputs (goods and services) to be delivered, does not separately identify intermediate outcomes and does not distinguish effectiveness indicators from output indicators. Some of the 'outputs' and 'performance indicators' listed above, in fact, appear to be intermediate outcomes.

Some examples of specific problems with the design of outputs and performance indicators in the AusAID performance monitoring plan, and ways to improve them, are described in more detail below:

'Output' in the strategy	Problem with the design of the output	Possible ways to improve
Local NGOs and community-based organisations strengthened.	This is not an output, as it does not indicate the goods or services to be provided. It is an intermediate outcome, which indicates the desired result or the impact to be achieved from the unspecified output.	Specify the output eg provision of basic resources for selected community organisations and the transfer of organisation skills and knowledge to their staff.

'Performance indicator' in the strategy	Problem with the design of the indicator	Possible ways to improve
<p>Demonstrable record of capacity-building, including training, technical and material assistance for local NGOs and community-based organisations.</p>	<p>The specific characteristics of the output are not defined in terms of quality or quantity.</p> <p>The indicator does not include a target to enable performance assessment.</p>	<p>Identify quantity performance indicators relating to, eg:</p> <ul style="list-style-type: none"> • the level of resources to be provided to organisations; • the number of personnel to be trained; and • the levels of skills and knowledge to be attained through training. <p>These indicators should include targets and specify the timeframe for their achievement.</p>

Appendix 9: Issues for the new strategy identified by the Review of the East Timor Interim Country Strategy, 2002

Key issues

- East Timor will continue to need substantial support from the donor community for at least another five years.
- Major challenges include overcoming severe shortages of management and technical skills, building the capacities of the country for effective government, laying the foundations for sustained strong economic growth, and making inroads on acute poverty.
- The main risks stem from weak economic growth, poverty as a source of social instability, and difficulties in providing adequate levels of policing.

Recommended design parameters

- Focus on capacity-building and poverty reduction.
- Continue to emphasise the provision of basic services, especially among rural communities, and interventions that raise the incomes of poor rural communities.
- Provide support to strengthen key service ministries, promote sound governance and internal security.
- Promote a policy environment conducive to economic growth, including the promotion of a strong private sector.
- Consolidate the aid program around more sharply-focused interventions, with no more than 25 active projects in the program.
- Increase the average size of projects, but retain flexibility to respond to unforeseen needs.
- Conduct a detailed review of aid project design and implementation lessons.
- Place more emphasis on monitoring and evaluation.
- Strengthen the risk management strategy around the program.

Source: ANAO analysis of *Review of the Interim Country Strategy for East Timor: Lessons Learned, Issues and Prospects*, November 2002.

Appendix 10: Australian dialogue objectives for East Timor donor meetings, 1999-2002 and key results achieved

Overview

This appendix sets out particular objectives pursued, and key results achieved, in terms of the three broad themes of Australian dialogue with stakeholders at East Timor donor meetings in 1999-2002. These themes were:

- donor engagement and aid coordination;
- good governance and sound economic management; and
- focus on East Timor's priority development needs.

Donor engagement and aid coordination

Australia emphasised the importance of the continued engagement of the donor community in assisting East Timor and the establishment and maintenance of effective arrangements for aid coordination.

Main objectives

Encouragement for:

Widespread international support for East Timor's recovery and political transition.

Delivery of bilateral assistance within a multilateral development framework and in consultation with East Timorese stakeholders.

Donors working with multilateral trust funds to the greatest extent possible and paying pledged contributions to the TFET multilateral reconstruction fund.

A continued UN civilian presence after East Timor's independence, funded through UN assessed contributions.

Post-independence budget support arrangements for East Timor, incorporating agreed performance benchmarks, under World Bank management and funded by a substantial number of donors.

Source: ANAO summary of Australian objectives identified prior to donor meetings.

Key results

Attendance of a large number of delegations at donor meetings.

Multilateral trust fund pledges by some 21 donors to support the East Timor transitional administration and by 13 donors to fund East Timor's reconstruction.

Improvement in the TFET financial position as a result of paid-up donor contributions.

United Nations approval of a follow-on mission for East Timor, funded through assessed contributions.^(a)

Agreement of the Government of East Timor and nine donors to a three-year World Bank-managed budget support program for East Timor.

Note: (a) UN peace keeping operations are financed by apportioning mission costs among member countries of the United Nations, using a contribution assessment scale approved for each calendar year. For example, Australia's assessed contribution in 2002 was 1.64 per cent of peace keeping costs.

Source: ANAO analysis.

Good governance and sound economic management

Australia sought to encourage the East Timor transitional administration to establish a sustainable framework for good governance and sound economic management for East Timor.

Main objectives

A streamlined transitional administration with a clear, coordinated and comprehensive transition strategy.

Rapid integration of East Timorese personnel into the transitional administration and acceleration of East Timorese capacity-building.

A responsible budget and effective national development planning framework to prepare affordable budgets and realistic plans and to close East Timor's projected recurrent cost 'funding gap'.

Preparation for East Timor's management of Timor Sea oil and gas revenues.

Source: ANAO summary of Australian objectives identified prior to donor meetings.

Key results

Sectoral benchmarks established in the first half of 2001 to plan and monitor East Timor's political and administrative transition and economic and social recovery.

Transfer of the principal functions of government to the East Timorese national leadership in the second half of 2001.

Progress in East Timorese civil service recruitment and training in the lead up to independence.

Significant progress in promoting sustainable public finances for East Timor, through its first post-independence budget, development of a medium-term fiscal framework, and specification of saving and investment principles for Timor Sea oil and gas revenues.

Source: ANAO analysis.

Focus on East Timor's priority development needs

Australia put strong emphasis on development effort focussing on East Timor's priority needs.

Main objectives

Support for:

Clear national and donor strategies for poverty reduction, especially in rural areas.

Wide community consultation in the preparation of East Timor's first national development plan.

Source: ANAO summary of Australian objectives identified prior to donor meetings.

Key results

Publication in May 2002 of East Timor's first national development plan, for the first five years of independence within a 20 year planning perspective.

Clear focus of the plan on poverty reduction as the primary objective for development.

Intensive consultation with stakeholders, including discussions with almost 40 000 people nation-wide, as part of plan preparation.

Source: ANAO analysis.

Appendix 11: Project management responsibilities for TFET projects

This appendix shows the sectoral responsibilities of the World Bank and the Asian Development Bank for the management of TFET projects. It also lists the individual activities for which each bank is responsible, grouped by sector.

Sectoral responsibilities for TFET projects

World Bank	Asian Development Bank
<ul style="list-style-type: none">• Education• Health• Community empowerment and local governance• Agriculture• Private sector development• Economic capacity-building	<ul style="list-style-type: none">• Infrastructure<ul style="list-style-type: none">○ Roads○ Ports○ Power○ Water utilities○ Telecommunications• Microfinance

Source: TFET papers

TFET projects and other activities and grants, October 2002

Project/ activity/grant	Grant agreement date	Cumulative disbursements (US\$ million)	Balance yet to be disbursed (US\$ million)
World Bank			
Education			
Education (1)	Jun 2000	13.90	0.00
Education (2)	Oct 2001	2.79	11.11
Education supplementary I & II (under preparation)		n/a	6.00
Health			
Health (1)	Jun 2000	10.30	2.40
Health (2)	Oct 2001	1.99	10.61
Community Empowerment			
Community Empowerment (1)	Feb 2000	9.00	0.00
Dili Community Employment	Apr 2000	0.49	0.01
Community Empowerment (2)	May 2001	4.23	4.27
Community Empowerment (supplementary)	Jul 2002	0.49	1.01
Agriculture			
Agriculture (1)	Jun 2000	6.80	0.00
Agriculture (2)	Oct 2001	3.15	4.86
Agricultural supplementary (under preparation)		n/a	3.00
Private Sector Development			
Small Enterprise (1)	Apr 2000	4.77	0.08
Small Enterprise (2)	Oct 2001	1.50	6.00
Economic Capacity-Building			
Economic Capacity-Building	Feb 2001	0.43	0.17
Other			
Human Resources Survey	Jan 2000	0.38	0.02
Petroleum Technical Assistance	Pending	n/a	0.24
World Bank total		60.22	49.78

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Project/ activity/grant	Grant agreement date	Cumulative disbursements (US\$ million)	Balance yet to be disbursed (US\$ million)
Asian Development Bank			
Emergency Infrastructure			
Emergency Infrastructure	Apr 2000	27.80	0.00
Emergency Infrastructure (supplementary)	Oct 2001	1.09	0.91
Emergency Infrastructure (supplementary)	May 2002	0.00	9.00
Water and Sanitation			
Water and Sanitation (1)	Aug 2000	4.50	0.00
Water and Sanitation (2)	Aug 2001	1.85	2.65
Microfinance			
Microfinance (1)	Dec 2000	3.24	0.76
Other			
Hera Port (part of Agriculture (2))	Nov 2001	0.50	0.50
Power sector technical assistance (under preparation)		n/a	0.60
Asian Development Bank total		38.98	14.42
World Bank and Asian Development Bank - Operating and administrative costs			
Project preparation and supervision		6.03	2.77
Fiduciary and management fee		1.00	0.76
Operating and administrative costs total		7.03	3.53
Total TFET work program to date		106.23	67.72

Source: ANAO analysis.

Appendix 12: TFET project management and implementation difficulties

This appendix sets out details of general project management and implementation difficulties of TFET projects, which were referred to in Chapter 5.

- Outstanding donor pledges delaying some project commencements.
- Standard World Bank project requirements inflexibly applied to small projects.
- Insufficient in-country World Bank staff resources for effective project management and support.
- UNTAET not initially having mechanisms for prioritising projects.
- Limited initial scope for East Timorese participation in project decisions.
- Limited delegation of authority to UNTAET line agencies, affecting project implementation.
- High turnover of international and East Timorese staff in TFET project management units.
- Trade-off between capacity-building for East Timorese staff and rapid service delivery.
- Gaps in East Timor laws and regulations constraining project implementation.
- Project progress slowing down in key phases of the political transition to independence.
- Limited East Timorese project support capacity contributing to implementation delays.

Source: ANAO analysis of TFET and other papers.

Appendix 13: Description and expenditure for sampled aid activities

As discussed in Chapter 6, a sample of 14 bilateral activities managed by AusAID were examined during the audit. A brief description and details of aid expenditure for each of these activities are set out below.

One activity, the Capacity-Building Program for East Timor (CAPET), comprised five sub-activities in different sectors; each of these is separately described below and is shaded grey for ease of reference.

The activities in the sample were classified by the ANAO into two categories: *shorter-term transitional assistance activities (STA)* and *medium-term development assistance activities (MTA)*, for analytic purposes. The ANAO classification for each activity is shown in the second column and the terms are explained in notes under the figure.

Aid activity by sector	ANAO classification	Activity description	Total estimated expenditure (\$ million) 1999–2000 to 2002–03	Estimated future expenditure (\$ million) 2003–04 to 2006–07
Governance				
Capacity-Building Program for East Timor (CAPET) – Governance	STA (1)	Advice and training to help develop democratic institutions, and to build East Timorese capacity in public administration and economic management.	6.791	-
Staffing Assistance Program for East Timor (SAPET)	STA	Provision of Australian personnel to fill essential staff positions in the East Timor transitional administration; and training to develop the capacity of East Timorese staff.	4.515	-
Preparations for Independence Project	STA* (2)	Construction of a simple multi-purpose culture and trade exhibition facility; and provision of buses for use in independence celebrations.	3.579	-
East Timor Community Assistance Scheme	STA	Provision of funding to community, church groups and NGOs for small-scale community development activities.	3.278	0.750

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Aid activity by sector	ANAO classification	Activity description	Total estimated expenditure (\$ million) 1999–2000 to 2002–03	Estimated future expenditure (\$ million) 2003–04 to 2006–07
Technical Assistance for the Central Fiscal Authority	STA	Assistance in the development of a Central Fiscal Authority for East Timor, combining the functions of a treasury, finance department and tax office.	2.476	-
Electoral Capacity-Building Project	STA	Technical and material support to build East Timorese electoral administrative capacity in preparation for elections during the transition to independence and to start development of a longer-term capacity to hold future elections.	1.528	-
NGO Capacity-Building Program	MTA* (3)	Support to activities implemented by Australian NGOs to build the capacity of East Timorese NGOs and civil society organisations to meet the development needs of their communities.	0.726	0.256
Ministry of Planning & Finance Capacity-Building	MTA (4)	Assistance focused on addressing capacity-building needs in the Budget Office and the East Timor Revenue Service.	0.030	8.000
		Sub-total - Governance	22.923	9.006
Education and training				
CAPET - Education	STA	Support to restore basic education services and to contribute to capacity-building and policy/systems development, through placement of experts and advisers and training courses in East Timor and Australia.	2.450	-
East Timor Australian Development Scholarships	MTA* (3)	Provision of scholarships to Australian or third country universities in high priority development fields.	8.113	10.365
		Sub-total – Education and training	10.563	10.365

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Aid activity by sector	ANAO classification	Activity description	Total estimated expenditure (\$ million) 1999–2000 to 2002–03	Estimated future expenditure (\$ million) 2003–04 to 2006–07
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Water supply and sanitation				
CAPET – Water Supply & Sanitation	STA	Provision of capacity-building assistance to the East Timor Water Authority including through training and technical assistance.	1.709	-
Community Water Supply & Sanitation Program	MTA	Provision of water supply and sanitation systems, training and awareness raising on water usage and storage, in partnership with NGOs and community-based organisations and also directly with communities.	4.991	9.509
		Sub-total – Water supply and sanitation	6.700	9.509

Rural development				
CAPET - Rural Development/ Agriculture/Environment	STA	Provision of assistance to develop the East Timorese capacity to effectively manage natural resources and to develop appropriate land use plans in both rural and urban areas.	1.814	0.503
Australia East Timor Rural Development Program (AETRDP)	MTA* (5)	Provision of assistance to build capacity in rural communities to increase the productivity and profitability of economic activities of rural households.	7.303	0.897
		Sub-total – Rural development	9.117	1.400

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Aid activity by sector	ANAO classification	Activity description	Total estimated expenditure (\$ million) 1999–2000 to 2002–03	Estimated future expenditure (\$ million) 2003–04 to 2006–07
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Health				
CAPET – Health	STA	Provision of capacity-building assistance to the East Timor health administration.	1.625	-
Mental Health Activity (PRADET)	STA	Building of the capacity of East Timorese health workers and other relevant people to initiate community-based primary care mental health services by providing intensive training in mental health and establishing a stratified network of primary care and community mental health services across the country.	1.623	-
National Oral Health Program	MTA	Provision of technical advice, training, equipment and clinic rehabilitation and oral health promotion across all districts in East Timor.	2.684	1.405
National Mental Health Project	MTA	Provision of assistance to increase the capacity of the Ministry of Health to provide a sustainable national mental health program.	1.147	2.475
Sub-total – Health			7.079	3.880

Total expenditure – Sample	56.382	34.160
Total approved bilateral development assistance expenditure	67.561	61.476
Sample as a percentage of total approved bilateral assistance	83.5%	55.6%

Notes:

- (1) STA Shorter-term transitional assistance activities designed and implemented rapidly in 1999 and 2000 to meet East Timor's immediate needs.
- (2) STA* The Preparations for Independence Project has been classified by the ANAO as short-term transitional assistance, although it was not designed until 2002. This was a short-term project required to be implemented rapidly.
- (3) MTA* The NGO Capacity-Building Program and East Timor Australian Development Scholarships have been classified by the ANAO as medium-term development assistance. Although launched in 2000, the design of both activities drew on established models for such assistance which AusAID has previously used for other developing countries.
- (4) MTA Medium-term development assistance activities designed from 2001 onwards under less pressing time constraints.
- (5) MTA* The cost of the first phase of AETRDP is \$8.2 million. The cost of the second phase is yet to be determined.

Source: ANAO analysis of AusAID records.

Appendix 14: Documentation required for aid activities

As discussed in Chapter 6, AusAID guidelines require activity managers to ensure that standard documentation is prepared during the design, implementation and completion phases of each activity.

Descriptions of six types of documents used by AusAID are set out below.

Document title	Description
Design phase:	
Project design documents	<ul style="list-style-type: none"> Project design documents are key planning documents used as the basis for the design phase of activities. They are developed by a design team, subject to scrutiny and approval by AusAID and provided to the recipient government for approval before being finalised. <i>AusGuidelines 4: Preparing Project Design Documents</i> provides more comprehensive information on these documents.
Activity Planning Briefs	<ul style="list-style-type: none"> Activity Planning Briefs are internal documents developed by AusAID activity managers during the design phase. They follow a standard template which includes fields for recording key planning information expected of all AusAID activities, including objectives, risks, use of lessons learned, a basic description of the activity design and expected budget. <i>AusGuide</i> provides details about how these documents are used for the management of AusAID activities.
Logframes	<ul style="list-style-type: none"> Logical frameworks (or logframes) provide a detailed presentation, in tabular form, of the objectives, outcomes, outputs and performance indicators for aid activities. Logframes are often included as appendices in project design documents. <i>AusGuidelines 1: The Logical Framework Approach</i> details the elements of logframes and how they should be completed.
Implementation phase:	
Annual Plans	<ul style="list-style-type: none"> The annual plan is the key document for defining, justifying and monitoring implementation for each activity on an annual basis.
Activity Monitoring Briefs	<ul style="list-style-type: none"> Activity Monitoring Briefs are AusAID's key reporting documents for recording activity-specific information, including performance information, during the implementation phase of activities. They are prepared by AusAID activity managers and officers at overseas posts responsible for particular activities. Many activities are exempt from the requirement to complete an activity monitoring brief, including all activities with total expenses of less than \$200 000, all scholarship programs, and all humanitarian, emergency and peace keeping activities.

Completion phase:

Project completion reports	<ul style="list-style-type: none">• Project completion reports are prepared by Australian contractors at the end of their contract.• These reports focus on activity outcomes, likely sustainability and developmental impact, and any lessons learned.
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Source: ANAO review of AusAID documentation.

Appendix 15: Examples of weaknesses in performance indicators for sampled aid activities

Performance indicator and objective/output to be measured	Weakness in the performance indicator and possible ways to improve
<p>National Oral Health Program:</p> <p>The performance indicator was stated as: 'Number of activities that encompass health promotion principles'.</p> <p>The objective/output to be measured was: 'Appropriate oral health promotion interventions implemented'.</p>	<p>The performance indicator is not sufficiently precise to enable it to be adequately measured. No target was set to assess performance.</p> <p>Specify those health promotion principles which activities are to meet.</p> <p>Specify a target for how many activities are to meet these principles e.g. 80% of activities to meet health promotion principles A, B and C.</p>
<p>Community Water Supply and Sanitation Program:</p> <p>The indicator was stated as: 'Number of agreements by district by sector focus'.</p> <p>The objective/output to be measured was: 'Agreements drafted and negotiated with partner organisations and groups'.</p>	<p>No target was set to assist assessment of performance.</p> <p>Specify targets to allow performance assessment:</p> <ul style="list-style-type: none"> • how many agreements are required, by district and by when; • how many agreements are required, by sector focus and by when; and • who is going to assess/verify that this has occurred.

<p>Ministry of Planning and Finance Capacity-Building:</p> <p>The indicator was stated as: 'Number of local staff in management positions in budget and revenue areas'.</p> <p>The objective/output to be measured was: 'Prudent fiscal outcomes can be sustained by the Government of East Timor'.</p>	<p>No target was set to assist assessment of performance.</p> <p>Specify targets for:</p> <ul style="list-style-type: none"> • how many or what proportion of positions to be occupied by local staff; and • when this will be achieved.
<p>National Oral Health Program:</p> <p>The performance indicator was stated as: 'Report summarising methodology, proposed implementation plan accepted by AusAID. To be completed by end of Q2 in year 1'.</p> <p>The objective/output to be measured was: 'A population based resource allocation model for allocating dental care resources equitably across the 13 districts developed and implemented'.</p>	<p>A report is an intermediate output – no guidance was provided on how AusAID should assess aid quality.</p> <p>Specify a few key criteria to guide AusAID assessment of output quality, which would indicate:</p> <ul style="list-style-type: none"> • adequate coverage of districts; and • a realistic and timely implementation schedule.

Source: ANAO analysis.

Appendix 16: Major strengths/ achievements and weaknesses of seven sampled aid activities

This appendix presents summaries of the major strengths/achievements and weaknesses of the seven aid activities examined during the ANAO field visit to East Timor. This included interviews with AusAID, project and East Timor government agency staff, and visits to selected activity sites. The activities include *short-term transitional assistance activities* (STA), as well as *medium-term development assistance activities* (MTA). Other information sources, including AusAID activity documentation, commissioned reviews and project completion reports, have also been used for these summaries.

Capacity-Building Program for East Timor (CAPET)	STA
Description	
<p>CAPET's objectives were to provide technical advice, training assistance and capacity-building assistance, to contribute to the operation of UNTAET and to enable effective East Timorese participation in administration.</p>	
<p>The activity was managed by an Australian contractor and involved the deployment of 120 consultants in 44 components across five sectors: governance; education; water supply and sanitation; rural development; and health. Total expenditure was \$14.4 million.</p>	
<p>Examples of key CAPET activities which were undertaken in the governance and agriculture sectors included:</p>	
<ul style="list-style-type: none"> • technical support for the establishment of revenue services and assistance with the collection of tax revenues; • management training for 350 newly appointed senior East Timorese public servants, delivered in four languages; and • specialist technical assistance with land title administration and national spatial analysis and mapping. 	
ANAO observations	
<p>CAPET provided a flexible and responsive mechanism for recruiting and managing advisers and experts to meet identified high priority needs of the transitional administration. It mostly achieved good outcomes, in a difficult and fluid operating environment where government organisation structures were still being established and the appointment of East Timorese to staff positions was proceeding relatively slowly. These circumstances constrained CAPET's capacity-building impact. Its short-term focus also meant sustainability issues received little attention; a follow-on capacity-building project is expected to address this issue more systematically.</p>	
<p>An AusAID review in 2000 reported that CAPET had been successful in assigning consultants to meet UNTAET's needs. CAPET activities in most sectors were favourably rated by AusAID.</p>	
<p>The ANAO met technical advisers in a forum discussion in Dili, which covered management and delivery arrangements for technical assistance. The ANAO also interviewed staff from the land administration office in Dili.</p>	

East Timor Community Assistance Scheme (ETCAS)	STA
<p>Description</p> <p>ETCAS provides direct assistance to help fund small-scale community development activities through small grants to community applicants. Since 1999, the scheme has funded over 270 activities. These activities have covered a broad range of sectors, including agriculture; social infrastructure and services; education; water supply and sanitation; and culture and recreation.</p> <p>The AusAID post in Dili manages the Scheme, with considerable involvement of locally-engaged staff. This includes outreach information to community organisations; the assessment of applications; and the monitoring of the use of funds. Aid expenditure on ETCAS has totalled \$3.3 million over four years.</p> <p>ANAO observations</p> <p>Funds have been dispersed to various community organisations across East Timor, and have helped improve local living conditions and strengthen communities recovering from the destruction and trauma of the 1999 crisis. During ANAO visits to activities, community representatives expressed their appreciation for grants which had assisted with school dormitory improvements and the installation of water supply facilities.</p> <p>Scheme administration is necessarily resource-intensive, relative to the value of grants. Arrangements for assessing applications and monitoring grants have been strengthened, to address administrative weaknesses identified since scheme inception. Funds have also been directed away from certain kinds of activities which did not have great community benefit.</p> <p>ETCAS was assessed by an AusAID review in 2002 as having achieved its overall objectives.</p>	

Technical Assistance for the Central Fiscal Authority	STA
<p>Description</p> <p>The objectives of this activity were to provide operational and technical support to strengthen East Timor's public finance systems and to build East Timorese capacity in public finance administration.</p> <p>The Australian Department of Finance and Administration managed this activity. This mainly involved technical assistance in budget preparation and management. The advisory team commenced in May 2000. Total project cost was \$2.5 million.</p> <p>ANAO observations</p> <p>The main achievements of this activity included:</p> <ul style="list-style-type: none"> • the preparation of East Timor's first three annual budgets, from 2000–01 onwards; • the development of a medium-term fiscal framework for East Timor; and • the training of East Timorese Budget Unit staff in public finance administration. <p>The activity was delivered to a very high standard, often under tight deadlines and in a challenging environment, by a professional team. Its achievements have been acknowledged by UNTAET, the East Timor Government, the IMF and other stakeholders. Stakeholders interviewed during the ANAO visit confirmed this positive assessment.</p> <p>The extent to which the activity achieved its secondary objective of capacity-building is less clear. A planned longer-term follow-on project, the Ministry of Planning and Finance Capacity-Building Project, has a strong focus on addressing capacity-building needs through training coordination and delivery.</p>	

Electoral Capacity-Building Project	STA
<p>Description</p> <p>This project aimed to build East Timor's electoral administration capacity and to compile a record and collection of electoral resource material as the potential nucleus of a post-independence electoral management body.</p> <p>The project was managed by the Australian Electoral Commission and operated from November 2000 until May 2002. Assistance included technical advice and material support. Total project cost was \$1.5 million.</p> <p>ANAO observations</p> <p>The project contributed to the successful conduct of East Timor constitutional assembly and presidential elections in 2001 and 2002 and increased East Timorese participation in electoral management and administration. Some 4500 East Timorese officials were directly or indirectly trained through the project.</p> <p>An AusAID review in 2002 rated highly the project's achievement of objectives and management, but noted that the sustainability of the benefits of the assistance was not clear. A new electoral commission was established later in 2002. The commission was transformed into a permanent Technical Secretariat for Electoral Administration within the Ministry of State Administration in 2003.</p> <p>During the visit, the ANAO met with electoral staff in Dili and sighted electoral resource material from the project.</p>	

NGO Capacity-Building Program	MTA
<p>Description</p> <p>This program aims to build the organisational capacities of East Timorese NGOs, through training, organisational development and on-the-job training provided by Australian NGOs with partner organisations in East Timor.</p> <p>Ten capacity-building projects are being funded under this three-year program, which was approved in October 2000. Aid expenditure on the program is expected to amount to \$1 million.</p> <p>ANAO observations</p> <p>Project documentation on two selected projects reviewed by the ANAO indicated that their objectives were mostly being achieved. A number of representatives of East Timorese NGOs who attended a forum discussion with the ANAO in Dili indicated that partnering arrangements with overseas NGOs assisted their organisations with capacity-building, resourcing and general support.</p>	

Community Water Supply and Sanitation Program (CWSSP)	MTA
<p>Description</p> <p>The CWSSP aims to improve the health of communities in three districts of East Timor, through support for the development of community-based water and sanitation services and improvement of environmental health awareness. It also aims to build community capacity in the development and maintenance of water supply and sanitation systems.</p> <p>The CWSSP is managed by an Australian contractor and will cost \$14.5 million.</p> <p>ANAO observations</p> <p>The project has a strong focus on community consultation, appraisal of community needs, prioritisation of project activities, and partnership with community-based organisations in the provision of water supply and sanitation services.</p> <p>An AusAID review in 2002 found that the project was progressing satisfactorily. However, activity reports examined by the ANAO indicated that there had been time delays on some activities in 2002.</p> <p>Representatives of an assisted community visited by the ANAO indicated that they were happy with installed water supply facilities that provide village households with piped water.</p>	

Description

AETRDP aims to build the capacity of East Timor's rural communities to increase household productivity and income.

It is managed by an Australian contractor and is staffed by advisory teams, supported by East Timorese project staff. The program operates in three districts, which are among the poorest in East Timor and cover a wide range of farming systems. The cost of the first phase of the program is \$8.2 million.

AETRDP is being implemented in two phases. The first one-year phase of the program undertaken in 2002 had three objectives. Two of the objectives were to implement 'rapid impact projects' and to establish technical resource service centres for rural communities. The third objective was to design the second phase of three-years duration, in conjunction with the relevant East Timor government agency and local communities.

During 2002, AETRDP carried out a large number of relatively low-cost, small-scale 'rapid impact projects' including community goat and pig production, vegetable cultivation, harvest storage, and packhorse-rearing. Technical resource services centres were established and staffed in the three districts. Design work for the second phase was also undertaken.

ANAO observations

The ANAO visited a project office in one district and also visited a community packhorse-rearing project. This activity has had effective community support and was progressing satisfactorily. Project staff acknowledged that implementation difficulties had been experienced with some activities in other locations.

An AusAID review in 2002 commended AETRDP for establishing the 'rapid impact projects' in a timely manner under difficult operating circumstances. However, it also identified several problem areas for the project, including that the effectiveness of these small-scale activities was weak, and capacity-building progress had not been achieved.

Recent developments

Since audit fieldwork was undertaken, AusAID decided not to proceed with the initial second phase design proposed by the contracted team. A new design team is now developing an improved delivery mechanism for this assistance. AusAID expects that this will address concerns raised about the project.

In the interim, the current project has been extended to implement some high-priority activities.

Appendix 17: AusAID ratings of sampled aid activities

The AusAID rating system

AusAID has a corporate system for the assessment (rating) of bilateral aid activities, in terms of four quality attributes:

- having appropriate objectives and design;
- being professionally managed;
- achieving their objectives; and
- having sustainable outcomes.⁶⁵

AusAID activity managers and staff at posts responsible for particular activities record their assessments when they complete project status reports known as Activity Monitoring Briefs (AMBs) on at least an annual basis.

The following five-point rating scale is used for assessments:

Rating	Aid quality
1	Weak
2	Marginally satisfactory
3	Satisfactory overall
4	Fully satisfactory
5	Best practice

The rating 'satisfactory overall' for an attribute is the lowest score that satisfies AusAID requirements. It represents an activity that has some minor weaknesses as well as strengths but where the weaknesses are not severe enough to threaten the activity.

Limitations of the AusAID rating system

AMB ratings have a number of limitations, which were addressed in Audit Report No.59 2001–2002 *AusAID Contract Management*. This audit reported that:

- about 30 per cent of aid activities were exempted from the requirement to be rated;

⁶⁵ AusAID, *AusGuide*, AusGuidelines, Canberra, 2002, p.1. Professional management incorporates the quality of management of the Australian contractor, the recipient government agency and AusAID. Therefore, it contains a number of elements that do not directly relate to AusAID's performance.

- required ratings were completed for only 85 per cent of activities in 1999–2000 and 79 per cent for 2000–01; the incomplete use of the rating system appeared to be related to negative views of activity managers of AMBs used to record the ratings; and
- ratings of many aid activities appeared to be unreliable. Ratings were made as part of ‘self-assessments’ by activity managers as part of their management of individual aid activities. As such, there was substantial subjectivity and a risk of over-optimism, which was confirmed by a 1999 AusAID quality assurance review.

AusAID introduced reforms in August 2001 to the rating system. Those reforms and their impact on ratings have not been subjected to further ANAO review.

Coverage of the audit sample by AusAID ratings

Five of the 14 activities included in the audit sample of bilateral activities were not covered by AusAID ratings and are, therefore, not included in the figures below. These activities were either exempt from the requirement to be rated or had not completed their AMB.

The audit sample included one activity, the Capacity-Building Program for East Timor (CAPET) which comprised five sub-activities in different sectors (see Appendix 13 for details of the sub-activities). AusAID recorded a separate rating for each of these sub-activities. This means that the AusAID ratings in the figures below reflect 13 ratings for nine of the individual activities in the audit sample.

Comparability of AusAID ratings and the ANAO analysis

The AusAID rating system assesses four quality attributes of activities—appropriate objectives and design; professional management; achievement of objectives and sustainability—which are defined in broad terms. The ANAO examination focused on a narrow range of specific quality attributes (see Chapter 6).

The five-point rating scale used by AusAID and the assessments of the ANAO are not directly comparable.

The AusAID ratings for the audit sample appear to be more positive than the ANAO analysis of these activities. However, the ANAO considers that the results are not directly comparable, because the AusAID ratings do not provide matching coverage of the audit sample and there are important differences in the assessment frameworks. It is not known whether the risk of over-optimism in AusAID ratings was successfully addressed by changes made to the rating system in 2001.

AusAID ratings for the East Timor sample and for other countries

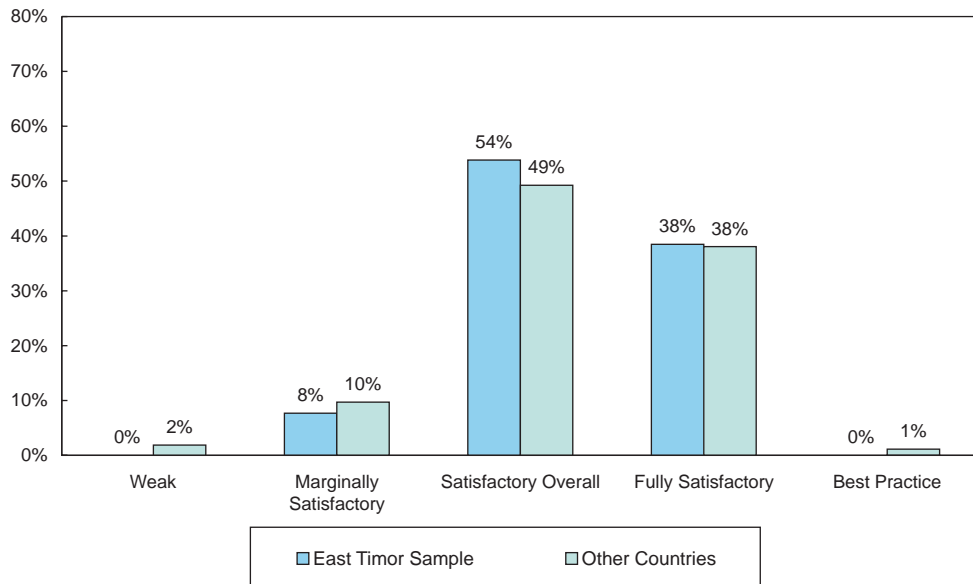
AusAID ratings for the nine activities in the audit sample were recorded in the period August 2001 to July 2002. The ANAO confirmed that the ratings for the sampled activities were similar to ratings for all East Timor activities.

Ratings for the sample are compared with aid activities delivered to other countries over the same period, in the figures below. The ratings for other countries are based on 284 AusAID activities in other countries that had completed an AMB.

Each percentage figure indicates the proportion of activities achieving a particular rating.

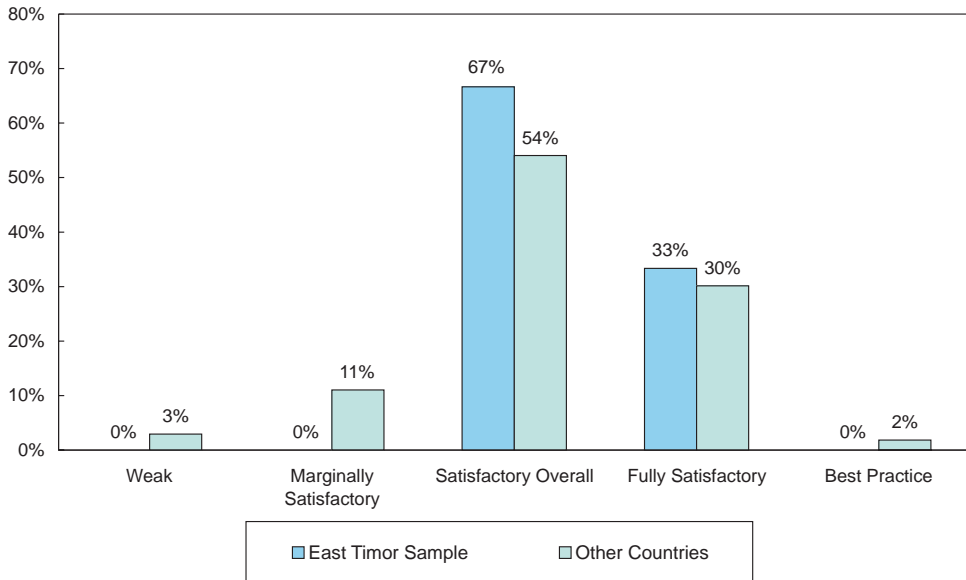
Figure 1

AMB ratings for appropriateness of objectives and design



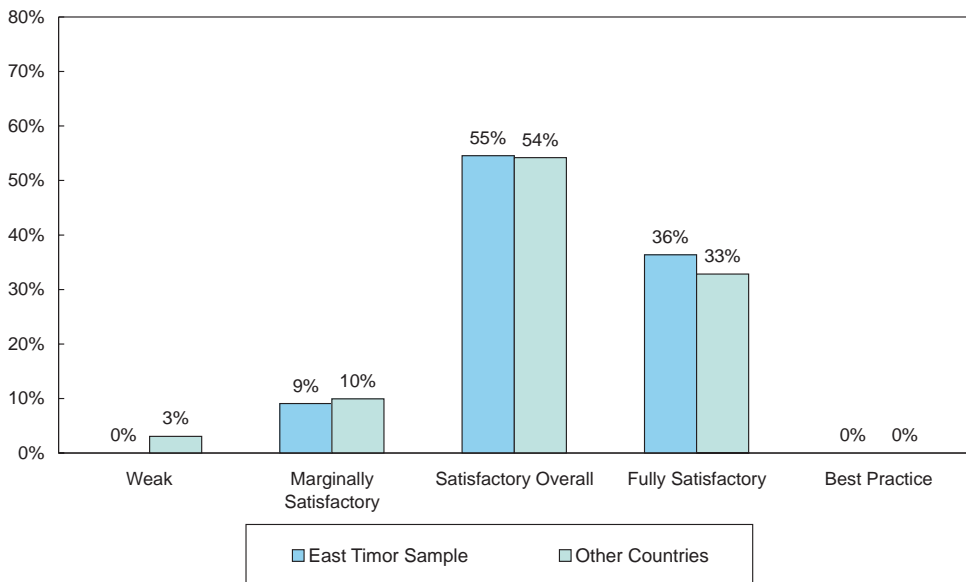
Source: AusAID, Activity Management System.

Figure 2
AMB ratings of overall management quality



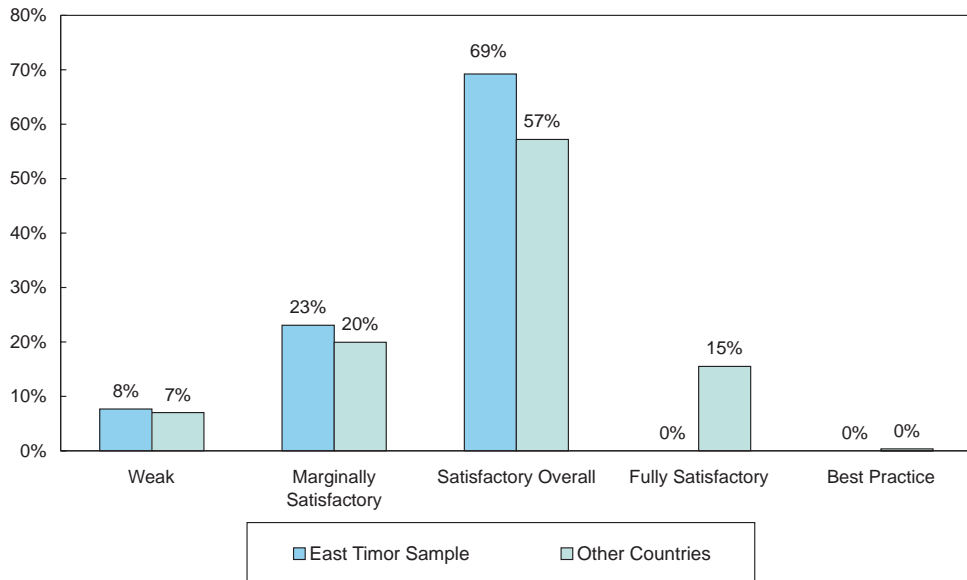
Source: AusAID, Activity Management System.

Figure 3
AMB ratings of achievement of objectives



Source: AusAID, Activity Management System.

Figure 4
AMB ratings of sustainability



Source: AusAID, Activity Management System.

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