

# Handover Report

## Report on the Governance Process of the Ministry of Finance

August 2007 – 29 February 2012

### Table of Contents

<b>Acronyms .....</b>	<b>4</b>
<b>I. SUMMARY OF REFORMS UNDERTAKEN BY MINISTRY OF FINANCE DURING THE TERM OF GOVERNMENT .....</b>	<b>7</b>
<b>Mandate of the Ministry of Finance.....</b>	<b>7</b>
<b>Summary of reforms undertaken and accomplished by Ministry of Finance.....</b>	<b>8</b>
A. Policy and legislative reform.....	9
2007.....	9
2008.....	10
2009.....	11
2010.....	12
2011.....	13
2012.....	16
Major Policies Developed and Adopted .....	16
B. Systems and procedures reform.....	17
Improved Treasury functions .....	17
Integrated Financial Management Information Systems .....	20
Decentralised procurement functions .....	22
Improved budgetary functions.....	25
Enhanced asset management .....	26
Managing petroleum resources .....	28
Enhanced revenue generation functions .....	31
Other undertakings .....	32
C. Institution building.....	33
Improved Corporate Services .....	33
Institutionalised management bodies.....	33
Enhanced legal support.....	35
Aligned donor-funded program management .....	36
Improved monitoring of the MDG's progress .....	38
Strengthened aid coordination and harmonisation .....	39
Improved coordination with autonomous public authorities .....	43
Improved economic forecasting and analysis .....	44
Enhanced statistical data collection and publications .....	45
Implemented Sensus Fo Fila Fali .....	45
Other undertakings .....	47
D. Human resource development .....	48
Increasing the functionality of the Human Resources Department.....	48
Staff Mapping Project.....	49
New job descriptions / person specifications .....	49
Specific training identified.....	49
Change management .....	50
Professional Development Centre .....	50
Support to other Government bodies.....	51
E. Infrastructure development .....	52
List of Ministry of Finance' Fixed Assets.....	54

List of Ministry of Finance's Movable Assets .....	55
<b>Status of the physical projects implemented by MoF .....</b>	<b>55</b>
<b>II. SUMMARY OF THE CURRENT FINANCIAL, ORGANISATIONAL AND STRATEGIC POLICY POSITION OF THE MINISTRY OF FINANCE .....</b>	<b>57</b>
<b>MoF's current organisational set up .....</b>	<b>57</b>
<b>MoF's Strategic Plan: 2012-2030.....</b>	<b>59</b>
Vision of the Ministry of Finance.....	60
Strategic goals.....	60
GOAL ONE - Attain high quality and responsive PFM services.....	60
GOAL TWO - Be active in the identification of issues, challenges, risks and opportunities and advising on beneficial changes .....	61
GOAL THREE - Be able to recruit and retain staff from among the top graduates in economics, finance, and other relevant disciplines .....	61
GOAL FOUR - Establish adequate systems as well as effective and efficient processes .....	62
GOAL FIVE - Adopt appropriate organisational structures and working conditions .....	63
<b>III. DESCRIPTION AND ASSESSMENT OF THE STATUS OF PROJECTS IMPLEMENTED AS WELL AS THEIR FINANCIAL AND PHYSICAL EXECUTION, INCLUDING ONGOING PROJECTS THAT WILL CARRY OVER TO THE NEW GOVERNMENT.....</b>	<b>64</b>
<b>MoF's Expenditure Review: 2007-2011 .....</b>	<b>64</b>
Expenditure and execution.....	64
Conclusion .....	67
<b>IV. DIFFICULTIES AND CHALLENGES FACED BY THE MINISTRY IN ACHIEVING ITS OBJECTIVES.....</b>	<b>68</b>
<b>Public Finance Management (PFM) in Timor-Leste .....</b>	<b>68</b>
Weaknesses identified in the PFM system in Timor-Leste.....	69
Weaknesses identified by the 'Public Expenditure and Financial Accountability' diagnostic study .....	69
Weaknesses identified by the Report on the Observance of Standards and Codes .....	70
<b>Implications of the SDP on the mandate and performance of the Ministry of Finance .....</b>	<b>71</b>
<b>Other operational difficulties and challenges faced by the Ministry in achieving its objectives .....</b>	<b>75</b>
Revenue and Customs .....	75
Treasury .....	76
<b>V. RECOMMENDATIONS FOR FUTURE ACTIONS TO BE TAKEN.....</b>	<b>77</b>
<b>Implementing the updated Organic Law .....</b>	<b>77</b>
<b>Ongoing reforms in the General Directorate of Corporate Services .....</b>	<b>77</b>
Elevate three Departments to Directorate level and create three new Director positions within DGCS .....	77
Create a new Unit called 'Partnerships Unit' within DGCS.....	78

Other ongoing reforms in Corporate Services.....	79
<b>Ongoing reforms in the General Directorate of State Finances.....</b>	<b>79</b>
New National Directorate of Information Systems and Technology.....	79
New National Directorate Governance and Institutional Strengthening.....	80
Training and capacity building.....	81
Further strengthen the monitoring of Autonomous Public Authorities .....	81
<b>Ongoing reforms in the General Directorate of Revenue and Customs.....</b>	<b>81</b>
Domestic Revenue .....	81
Petroleum Revenue .....	82
Customs .....	82
Petroleum Fund .....	83
<b>Office of the General Director of Policy and Research .....</b>	<b>83</b>
Continue to develop and strengthen policy analysis and economic forecasting.....	83
Continue to work towards an independent National Directorate of Statistics.....	84

## Acronyms

AAA	Accra Agenda for Action
AIMS	Aid Management Information System
AMPS	Aid Management Platform Software
ACP	African, Caribbean and Pacific
APT	Additional Petroleum Tax
ADB	Asian Development Bank
ASEAN	Association of the Southeast Asian Nations
AusAID	Australian Agency for International Development
BoP	Balance of Payments
BCTL	Banco Comercio de Timor-Leste
CBTL	Central Bank of Timor-Leste
CCFM	Consultative Council for Financial Management
CDO	Community Development Officer
CFET	Consolidated Fund for East Timor
COM	Council of Ministers
CPI	Consumer Price Index
CPV	Commitment and Payment Voucher
DDO	District Development Officer
DDP	Dili Development Pact
DGCS	General Directorate of Corporate Services
DGPAR	General Directorate of Policy Analysis and Research
DGRC	General Directorate of Revenue and Customs
DGSF	General Directorate of State Finances
DHS	Demographic Health Survey
EC	European Commission
EDF	European Development Fund
EDTL	Electricidade de Timor-Leste
EITI	Extractive Industry Transparency Initiative
ESI	Estimated Sustainable Income
FMIS	Financial Management Information Systems
HLF-4	Fourth High Level Forum
GDP	Gross Domestic Product
IDA	International Development Association (IDA)
IAB	Investment Advisory Board
IFC	International Finance Corporation

IDPs	Internally Displaced Persons
IMF	International Monetary Fund
Irish AID	Irish Agency for International Aid
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LGO	Local Government Officers
LSU	Legal Support Unit
MDG	Millennium Development Goals
MoU	Memorandum of Understanding
MoE	Ministry of Education
MoF	Ministry of Finance
MoJ	Ministry of Justice
MTCI	Ministry of Tourism, Commerce and Industry
NAO	National Authorising Officer/Office
NDAE	National Directorate of Aid Effectiveness
NDAPA	National Directorate on Autonomous Public Authorities
NDB	National Directorate of Budget
NDC	National Directorate of Customs
NDAM	National Directorate on Assets Management
NDME	National Directorate of Macroeconomy
NDPR	National Directorate on Petroleum Revenue
NDDR	National Directorate on Domestic Revenue
NDT	National Directorate of Treasury
NGO	Non-government Organisation
NSD	National Statistics Directorate
OECD	Organisation for Economic Cooperation and Development
ODI	Overseas Development Institute
PALOP	Países Africanos de Língua Oficial Portuguesa
PDD	Pakote Desenvolvimento Descentralizado
PDP	Professional Development Program
PFTAC	Pacific Financial Technical Assistance Centre
PPP	Public-Private Partnership
PEFA	Public Expenditure and Financial Accountability
PFMCB	Planning and Financial Management Capacity Building Program
PNTL	Polícia Nacional Timor-Leste
PSC	Public Service Commission
RDTL	República Democrática de Timor-Leste

RTTL	Radio and Television of Timor-Leste
SAMES	Autonomous Service of Drugs and Medical Equipment
SIGTAS	Standard Integrated Government Tax Administration System
SDP	Strategic Development Plan
SSPE	Secretary of State for the Promotion of Equality
SSEP	Secretary of State for Energy Policies
SSVTE	Secretary of State for Vocational Training and Employment
SP	Strategic Plan
SWF	Sovereign Wealth Funds
TB	Transition Budget
TFET	Trust Fund for East Timor
TLDPM	Timor-Leste and Development Partners' Meeting
TPO	Treasury Payment Order
TVTL	Televisaun Timor-Leste
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program
UNMIT	United Nations Integrated Mission in Timor-Leste
UNTAET	United Nations Transitional Administration in East Timor
UNTL	Universidade Nacional Timor-Leste
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	The World Bank
WHO	World Health Organization

# I. Summary of reforms undertaken by Ministry of Finance during the Term of Government

## Mandate of the Ministry of Finance

The mandate of the Ministry of Finance set out in Article 21 of the Organic Law of the Fourth Constitutional Government Decree-Law 7/2007, is as follows:

The Ministry of Finance is the Government's main body responsible for the design, execution, coordination and assessment of the policies defined and approved by the Council of Ministers for the areas of budget and finance, annual planning and monitoring, namely:

- a) Proposing the macroeconomic, monetary and exchange policies, in collaboration with the Central Bank
- b) Proposing the policy and drafting the regulation proposals for tax and non-tax revenues, budget framework, procurement, public accounting, public finance, auditing and control of the State treasury, issuing and management of the public debt
- c) Administering the petroleum fund of Timor-Leste
- d) Working in cooperation with the Ministry of Foreign Affairs, so as to coordinate the relationship of Timor-Leste with the donors
- e) Managing the external public debt, the State participations and the external assistance, coordinating and defining the financial and tax aspects
- f) Managing the patrimony of the State, without harm to the attributions of the Ministry of Justice in terms of real estate patrimony
- g) Drafting and publicising official statistics
- h) Assuming the responsibility for the implementation of the budget allocated from the State General Budget
- i) Promoting the necessary regulation and carrying out financial control over the expenses of the State General Budget that are attributed to the remaining ministries, in view of pursuing a policy of greater financial autonomy for the services
- j) Looking after the good management of the funding from the State General Budget by the State indirect administration bodies and by the local governance bodies, through audits and monitoring
- k) Administering and promoting international technical assistance in terms of technical advisory for the State bodies, except for the areas of human resource training, and
- l) Setting up collaboration and coordination mechanisms with other Government bodies responsible for connected areas.

## Summary of reforms undertaken and accomplished by Ministry of Finance

Strong Public Financial Management (PFM) systems are essential to improve service delivery, reduce poverty and to achieve the MDGs. Effective PFM systems maximise financial efficiency, improve transparency and accountability and, in theory, will contribute to long-term economic success. PFM activities range from preparing and fulfilling the budget cycle, overseeing and controlling the budget, tax and debt management and procurement, to resource allocation and income distribution. These activities are increasingly seen as a set of inter-related sub-systems rather than stand-alone activities.

PFM reform in a post-conflict environment, such as in Timor-Leste, poses a different and complex set of challenges as well as opportunities. It was understood that the important first steps to sustainable peace and economic growth were setting up governance of financial management institutions together with addressing the basic causes of the conflict.

However, five years into self governance, the Public Finance Management of Timor-Leste had all but failed. In August 2007, the Ministry of Finance was not only dysfunctional but full of deficiencies. Of the 720 staff in the Ministry, average mathematics skills were at a third grade level. Lack of focused training since the first Constitutional Government, confusion between 10 separate Ministerial units, limited oversight over both technical assistance and local staff, and over-centralised systems had all but immobilised budget execution.

Carry-overs<sup>1</sup> and outstanding debts added to the mounting challenges. Between April and August 2007, the Xanana Gusmao Government inherited USD \$119 million in budget carry-overs; equivalent to almost one third of the recurrent budget.

When auditors analysed record keeping they discovered 54% of all Government expenditure in 2006/2007 was made to a vendor called 'no vendor'.<sup>2</sup> Whether this was a method to disguise corrupt practice or simple negligence in management or systems, the lack of transparency was immeasurable and harsh centralisation only added to the limits in checks and balances.

To make matters worse, according to the Linpico report titled the *Timor-Leste Performance Report* commissioned by the European Union (EU) which tracked budget performance between 2002 and 2007, the accounting system being used was in direct violation of the RDTL's own Budget and Financial Management Regulation Section 39.1. The modified accrual accounting system did not meet international standards for either transparency or accountability and made auditing a near impossible endeavour.<sup>3</sup>

All normal prerequisites to effective budget planning, including an official handover of materials from the outgoing to the incoming Government and access to updated statistics and comprehensive data were absent.

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<sup>1</sup> Carry-overs occurred when an earlier commitment to fund works that had not been completed in time still needed payment. Some of the carry-overs were more than 2 years old.

<sup>2</sup> Deloitte Audit Report. "Review of the Government of Timor-Leste's Procurement Process." 2008: 5.

<sup>3</sup> Linpico. "Timor-Leste Public Finance Management Performance Report." 2007: 46.  
[http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/timor\\_leste\\_en.pdf](http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/timor_leste_en.pdf)



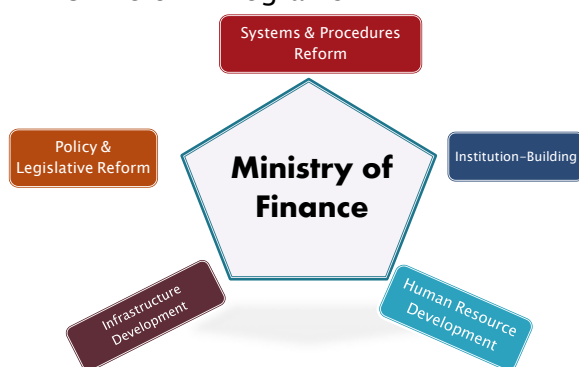
Recognising these challenges, the Ministry of Finance, in late 2007, embarked on its PFM reform based on the following five areas:

- A. Policy and legislative reform
- B. Systems and procedures reform
- C. Institution building
- D. Human resources development, and
- E. Infrastructure development.

The overarching reform goals were to:

- Ensure that the Public Financial Management in Timor-Leste would be transparent and accountable, and
- Transform the Ministry of Finance into a client-friendly and results-oriented institution.

#### MOF Reform Programs



## A. Policy and legislative reform

Below, in chronological order, is the list of all the policies and legislation developed, revised, approved and enacted from August 2007 to the date of this report:

### 2007

#### 1. Law that changed the budget period

Law 8/2007, 21 September, changed the State Budget period. In accordance with this law the budget period of Timor-Leste now starts on 1 January and finishes on 31 December.

#### 2. State Budget Law for the Transition Period 1 July to 31 December 2007

The State Budget Law for the Transition Period 1 July to 31 December included all revenues and expenses of the State of Timor-Leste for that same period. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) was \$578.7 million. The total budget appropriation was \$116.409 million and distributed as:

- \$19.485 million for Salaries and Wages
- \$73.107 million for Goods and Services

- \$2.964 million for Minor Capital
- \$8.739 million for Capital Development, and
- \$12.114 million for Public Transfers.

The State Budget was approved to give support to urgent needs related to security, internally displaced people (IDPs) and to establish offices for the new Government.

### *3. State Budget Law – 2008*

The State Budget Law for 2008, Law 10/2007, 31 December, included all revenues and expenses of the State of Timor-Leste for the period from 1 January 2008 to 31 December 2008. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$1.385,6 million. The total budget appropriation was \$347.753 million and distributed as:

- \$48.028 million for Salaries and Wages
- \$143.696 million for Goods and Services
- \$24.536 million for Minor Capital
- \$67.615 million for Capital Development, and
- \$63.878 million for Public Transfers.

The State Budget was approved to support the reforms needed in order to guarantee efficiency of public administration, for security of the country, to address the IDP problem, reduce poverty and prepare for sustainable development.

## **2008**

### *4. Tax Law*

The Tax Law was approved by Law 8/2008, 30 June, as part of three separate stages of the fiscal reform of the State. This law consolidated and replaced the UNTAET legislation on the operation of taxes and, at the same time, resulted in reducing the fiscal burden which was considered to not reflect the reality of the country's situation. All taxes and duties in force in Timor-Leste were previewed in this piece of legislation. The remaining two stages to reform taxation, (Taxes and Duties Laws) have been prepared and are being translated from English to Portuguese to be presented to the Council of Ministers and subsequently to the National Parliament. These new laws tighten up on tax loopholes and will ensure a fairer system for all stakeholders

### *5. Alterations to the State Budget Law for 2008*

Law 12/2008, 5 August, approved the first alteration to the State Budget Law for 2008, which was Law 10/2007, 31 December. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$2.025,6 million. The total budget appropriation was \$788.312 million and distributed as:

- \$58.884 million for Salaries and Wages
- \$447.409 million for Goods and Services
- \$39.249 million for Minor Capital
- \$110,553 million for Capital Development, and
- \$132.217 million for Public Transfers

This budget accounted for the increased number of old age pension beneficiaries, the pension payments to combatants of the national liberation, assistance to internally displaced people, additional assistance to petitioners, greater support to sporting organisations throughout the country and increased payments for ‘cash for work’.

In the revised budget for 2008, an Economic Stabilisation Fund (ESF) of \$240 million was established. This measure resulted from the worldwide increased cost of essential goods, not only making the goods more expensive but also increasing the scarcity of their supply in the international market. Further, this occurred at the same time as investment in capital development projects increased, the country faced shortages in building materials, in particular when procured individually by the private sector, which now required Government support.

## 2009

### 6. *State Budget Law – 2009*

The State Budget Law for 2009 - Law 1/2009, 9 February, included all revenues and expenses of the State of Timor-Leste for the period from 1 January 2009 to 31 December 2009. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$1.344,1 million. The total budget appropriation was \$680.873 million and distributed as:

- \$93.822 million for Salaries and Wages
- \$247.262 million for Goods and Services
- \$38.053 million for Minor Capital
- \$205.371 million for Capital Development, and
- \$96.365 million for Public Transfers.

The State Budget was approved to support the beginning of the implementation of social reforms and building of basic infrastructure.

### 7. *Budget and Public Financial Management Law*

Law 13/2009, 21 October, on Budget and Financial Management introduced the legal framework for the preparation and presentation of the State Budget to the National Parliament as well as the rules for budget transfers and budget reporting.

### 8. *State Budget Law – 2010*

The State Budget Law for 2010 - Law 15/2009, 23 December, included all revenues and expenses of the State of Timor-Leste for the period from 1 January 2010 to 31 December 2010. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$1.480,5 million. The total budget appropriation was \$659.9 million and distributed as:

- \$97.7 million for Salaries and Wages
- \$210.2 million for Goods and Services
- \$29.8 million for Minor Capital
- \$216.8 million for Capital Development, and
- \$105.4 million for Public Transfers.

## 9. *Public Grants Decree-Law*

The legal regime for public grants was approved by Government Decree 1/2009, 18 February. This legal framework established the criteria and procedures that need to be followed when State Budget funds are transferred to bodies that undertake activities of general public interest as well as for the payment of pensions.

## 10. *Organic Law and Ministerial Diplomas*

The Organic Law for the Ministry of Finance was approved by Decree-Law 13/2009, 25 February. This piece of legislation defined the structure of the Ministry and the functions of its General Directorates and National Directorates.

The Decree-Law was further complemented by five Ministerial Diplomas, 30 April, which established the organisation of each General Directorate:

Ministerial Diploma 1/2009, State Finances General Directorate

Ministerial Diploma 2/2009, Corporate Services General Directorate

Ministerial Diploma 3/2009, Customs and Revenue General Directorate

Ministerial Diploma 4/2009, Policy Analysis and Research General Directorate, and

Ministerial Diploma 5/2009, Aid Effectiveness National Directorate.

## 2010

## 11. *Alterations to the State Budget Law for 2010*

Law 8/2010, 14 July, approved the first alteration to the State Budget Law for 2010 - Law 15/2009, 23 December. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$1.938,7 million. The total budget for appropriations was \$837.981 million and distributed as:

- \$99.099 million for Salaries and Wages
- \$266.998 million for Goods and Services
- \$34.469 million for Minor Capital
- \$252.783 million for Capital Development, and
- \$184.632 million for Public Transfers.

The total increase in the budget rectification was \$177 million. This increase was concentrated in Capital Development (\$34 million), Goods and Services (\$58 million) and Public Transfers (\$79 million, which included \$31 million transferred from line ministries for the Development Decentralisation Package). Development Decentralisation Package, approved in February 2010, authorised special procedures to award construction works valued up to USD \$250,000 to local companies based in the sub-districts. The majority of the additional expenses were for infrastructure, tourism, trade and industry, social welfare, state administration and whole-of-government.

## 12. *Law on Census 2010*

Census 2010 was carried out in accordance with Census Law 5/2010, 21 April. The Census enabled the Government to know the number of the people resident in Timor-Leste as well as the number and the conditions of households.

## 2011

### 13. *State Budget Law – 2011*

The State Budget Law for 2011 - Law 1/2011, 14 February, included all revenues and expenses of the State of Timor-Leste for the period from 1 January 2011 to 31 December 2011. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) were \$2.398,7 million. The total budget appropriation was \$1.306 billion and distributed as:

- \$116.834 million for Salaries and Wages
- \$294.151 million for Goods and Services
- \$29.262 million for Minor Capital
- \$688.315 million for Capital Development, and
- \$177.456 million for Public Transfers.

This Budget Law created two special funds in article 9: the Infrastructure Fund, (with an appropriation of \$599.306 million) and the Human Capital Development Fund (with an appropriation of \$25 million).

### 14. *Special Funds - Infrastructure and Human Capital Development Fund Laws*

Article 9 of the State Budget Law 1/2011, 14 February, created two Special Funds, namely, the Infrastructure Fund and the Human Capital Development Fund.

The Infrastructure Fund was regulated by Decree-Law 8/2011, 16 March. The Infrastructure Fund was created to finance large infrastructure project above \$1 million and multi-year projects, to ensure not only continuity of large investment programs in infrastructure but also a more efficient way to prioritise, coordinate and implement projects.

The Human Capital Development Fund was regulated by Decree-Law 12/2011, 23 March. This Fund was created to finance multi-year programs for capacity development of Timorese human resources in strategic sectors like justice, health, education, infrastructure, agriculture, tourism, petroleum and financial management.

### 15. *Amendments to the Petroleum Fund Law*

Amendments to Law 9/2005, 3 August, were done in accordance with the Santiago Principles proposed by an International Working Group on Sovereign Wealth Funds, which represented an international effort to identify best governance practices and investment policies. Among the amendments made, investment principles were altered to introduce more flexibility in terms of investment portfolio diversification with the objective of increasing the investment return of the Petroleum Fund in the future with a clear definition of the risk exposure. These amendments helped keep Timor-Leste as one of the best examples of Sovereign Wealth Fund management.

### 16. *Public Debt Law*

Law 13/2011, 28 September, Public Debt Legal Framework, established for the first time in Timor-Leste the legal framework for State borrowing. It specified that the purpose of any

State public debt would be to finance State priorities related to building strategic infrastructure for the development of Timor-Leste. This Law gave the Government power to enter into loan agreements after approval of the National Parliament in the Budget Bill, and gave the Minister of Finance, when authorised by the Council of Ministers, the power to negotiate and sign loan agreements.

#### *17. State Budget Law – 2012*

The State Budget Law for 2012 - Law 16/2011, 21 December, included all revenues and expenses of the State of Timor-Leste for the period from 1 January 2012 to 31 December 2012. The estimated total revenues from all sources (oil, non-oil, development partners and non-tax revenues) was \$2,269.4 million. The total budget appropriation was \$1,674.1 million and distributed as :

- \$140.1 million for Salaries and Wages
- \$376.3 million for Goods and Services
- \$42.9 million for Minor Capital
- \$915.3 million for Capital Development, and
- \$199.6 million for Public Transfers.

This Budget Law retained the two special funds: the Infrastructure Fund (with an appropriation of \$800.3 million) and the Human Capital Development Fund (with an appropriation of \$30 million). The Government was authorised by the National Parliament to sign loan agreements in 2012 up to an amount of \$160 million and to spend \$43.1 million in infrastructure projects.

#### *18. Decentralised Development Program*

The Decentralised Development Program Decree-Law allowed the participation of local companies located in districts and sub-districts in the implementation of public infrastructure projects worth up to \$500,000.

#### *19. Timor-Leste Investment Corporation Decree-Law*

Timor-Leste Investment Corporation – TLIC - was approved by Decree-Law 41/2011, 21 September. This Corporation is capitalised with public funds but follows the legal framework for commercial companies. It was established to promote the development of investment opportunities and the growth of national wealth by carrying out important strategic projects with commercial relevance.

#### *20. National Development Agency*

National Development Agency (NDA) was approved by Decree-Law 11/2011, 23 March. This agency was established under the Prime Minister's direct administration to evaluate capital development projects in terms of value for money and to supervise the implementation and execution of projects through a system of quality certification. National Development Agency is another layer of checks and balances to ensure better use of public funds.

## 21. *National Procurement Commission*

National Procurement Commission (NPC) was approved by Decree-Law 14/20011, 30 March. NPC is a service under the direct administration of the Prime Minister and was created to undertake the procurement of major projects above 1 million dollars as well as to provide technical assistance to the procurement procedures undertaken by other public entities.

## 22. *Decree-Law on Management and Disposal of Public Assets*

The legal framework for management and disposal of public assets was approved by Decree-Law 32/2011, 27 July. This law allows the State's movable assets to be better managed and, at the same time, established a transparent process for disposal of public assets.

## 23. *Various Procurement Laws*

The Procurement Legal Framework of Timor-Leste was approved by Decree-Law 10/2005, 8 November. This law was amended five times. The more relevant alterations were introduced by Decree-Law 1/2010, 18 February, which decentralised procurement of up to \$1 million to line ministries, established that the Prime Minister is able to approve procurement procedures between \$1 and \$3 million while the Council of Ministers has powers to approve projects above \$3 million.

However, with the introduction of Decree-Laws 15/2011, 29 March, and 38/2011, 17 August, the Council of Administration of both the Infrastructure and Human Capital Development Funds are able to approve procurement procedures of projects worth up to \$5 million. Line ministers retained the responsibility of approving procurement procedures of up to \$1 million while the Prime Minister's competency increased from between \$1 million and \$3 million to between \$1 million and \$5 million. The Council of Ministers is responsible for approving all procurement procedures above \$5 million.

## 24. *Double Tax Agreement with Portugal and the Memorandum of Understanding with Portugal on the Double Tax Agreement*

This Convention sought to prevent double taxing and tax evasion in regard to income tax, covering people who live in one or both countries. It determined which State will tax incomes from real estate, company profits, sea and air transport, associated companies, dividends, interests, royalties, profits, independent professions, dependent professions, artists and sports people, percentages from council members, pensions, public remunerations, researching professors and students.

## 25. *Decree-Law 30/2011*

The Customs Directorate with support from the International Finance Corporation presented a policy document to the Council of Ministers aimed at reforming the importation of motor vehicles into Timor-Leste. The Council of Ministers subsequently introduced Decree-Law 30/2011 aimed at providing a consistent approach to the entry of motor vehicles and their clearance at the border. The new decree-law listed possible exemptions, enshrined a five-year rule for passenger vehicles and made Customs responsible for all vehicle inspections.



## 2012

### 26. *Public-Private Partnerships (PPP) Policy and Decree-Law*

This policy and legislation established the procedures, principals and special procurement regime for projects financed through a Public-Private Partnership. The Decree-Law set the competences and processes for identifying, assessing, procuring and building infrastructures by way of Public-Private Partnership arrangements, as well as the principles and instruments for establishing infrastructure partnerships between the Government and other bodies. These documents were approved by the Council of Ministers on 8 February 2012.

### 27. *Consolidated Customs Code*

The draft consolidated code for Customs will be translated into Portuguese before being considered by Parliament. The new code brings together a number of pieces of current legislation into one code and strengthens areas which required review.

## Major Policies Developed and Adopted

Policies developed and adopted by MoF between 2007 and 2012 are summarised in the following table. Adopted policies are formalised either through Circulars, Guidelines or Notifications.

Policy	Instrument or Document Number	Type
Award of scholarships to MoF staff	Directriz 01/2008/IVGC/MF	Guidelines
Nomination of MoF staff to attend training courses, including seminars	Directriz 01/2009/IVGC/MF	Guidelines
On the contracting of temporary staff for MoF	Circular 03/GAB/MF/2009	Circular
Procurement process within MoF	Directriz 04/2009/IVGC/MF	Guidelines
Reallocation and development of job descriptions for all staff	Circular 02/GAB/MF/2009	Circular
On financial management within MoF	Circular 01/2010/IVGC/MF	Circular
On drafting, classification and management of official documents within MoF	Directriz 01/2010/IVGC/MF	Guidelines
On processing funds allocated to former ‘Titular dos Órgãos de Soberania’	Circular 01/2011/IVGC/MF	Circular
On official working hours at MoF	Circular 02/2011/IVGC/MF	Circular
On spending allowed for snack and meals during events organised by MoF	Circular 03/2011/IVGC/MF	
On procedures for submitting annual leave	Circular 05/2011/IVGC/MF	Circular
On how to act in case of assets lost within MoF	Directriz 01/2012/IVGC/MF	Guidelines
Expenditure authorisation notices	Annual Circular	Circular
Schedule for year-end transactions	Annual Circular	Circular



## B. Systems and procedures reform

This section describes the systems and procedures established to improve public financial management.

### Improved Treasury functions

#### *Accounting and Reporting: Full Reconciliation of Accounts for the first time*

The Ministry of Finance was able to fully reconcile its accounts for the first time since 2005 when the annual accounts of 2008 were prepared. This was a very significant development as for the first time ever in the Government all the accounts of Government in the Treasury were fully reconciled with the Government account held with the Central Bank of Timor-Leste (CBTL).

Revenue accounts of the National Directorate of Treasury (NDT) were also reconciled with the collections made by the Customs and Tax Directorates and with the banks that were collecting them. Also, significantly, the Government was for the first time ever, able to depict the closing and opening balances in government accounts in its annual financial statements.

All these developments were audited by external auditors and commented upon favourably by them. For the first time, the accounts were not qualified by the auditors on the grounds that they were not able to reconcile accounts or establish the closing and opening balances.

Treasury has since then been able to reconcile accounts on a regular basis which has contributed greatly to the preparation of true and accurate accounts.

#### *Accounting and Reporting: A Treasury Single Account System in Government is established*

The Ministry of Finance has been able to establish a Treasury single account system in Government. This was done by first identifying bank accounts opened in various commercial banks by Government since 2000. A large number of bank accounts were not being operated at all for many years by the ministries that had opened them. In addition, many of the bank accounts had very large balances in them which had been lying idle for a number of years.

After extensive consultation with the ministries and institutions that had opened these accounts, the Government was able to close 141 bank accounts. The idle balances that were transferred from these accounts to the Government account with CBTL were in excess of \$65 million.

In order to ensure that Treasury has full control over the bank accounts, the Budget and Financial Management rules were amended so that no bank account can be opened in any commercial bank without the prior approval of the Director of Treasury.

Instructions were also issued to all commercial banks not to entertain requests for opening new accounts without the prior approval of the Director of Treasury. These orders are now being strictly observed by all concerned. In addition, Treasury maintains an oversight over

the operations of all bank accounts and takes action to close accounts that remain inoperative for a long period.

### *Accounting and Reporting: An integrated payroll system providing accountability*

In 2008, the payroll system which was based on the Comprehensive Human Resource Integrated Solution software module was moved to the FreeBalance Payroll module. This was done so that the payroll system could be harmonised with the other Treasury modules which were all using FreeBalance systems. This helped to bring about greater accounting accuracy to payroll accounting in Treasury.

In order to bring about better integrity in payroll data, Treasury sent the details of payments made to staff in each ministry and institution to each ministry for verification. It was also observed that most staff in Government was drawing their pay in cash which caused problems in disbursement in commercial banks.

The Ministry of Finance took a conscious decision in consultation with commercial banks to induce more staff to opt for deposit of salaries directly into their personal bank account rather than draw it in cash, by waiving some bank charges. A large number of employees opted to draw their salaries by credit to their accounts. To date, out of 31,135 staff, entailing a payment of USD \$8 million, only about 700 are NOT yet paid through their bank account and this is only because there are no banks in both Manatuto and Lautem. Also, Defence has been exempted from using bank accounts, but the Police are paid through bank accounts. It is hoped that this scheme encourages better saving habits among Timorese.

With the opening of bank branches in all but two districts, the Government has made it compulsory for all employees, except in the two districts where there are no bank branches, to draw their salaries through credit into their personal bank account. The advantages of doing so are:

- No ghost workers can draw pay as the identities of all those drawing pay are first confirmed by the commercial bank
- The possibilities of cash being lost while taking cash to districts for disbursement of pay is greatly minimised, and
- The cost of transactions to Government has fallen.

In 2011, the FreeBalance upgraded payroll module was introduced in Treasury. This module has improved features which will contribute to better control of the payroll by Treasury.

Treasury is also currently working with the Public Service Commission (PSC) to harmonise the unique identity numbers of staff members in Government in each database to improve the integrity of data and to allow for greater operational efficiency.

### *Accounting and Reporting: Salaries to teachers*

The Treasury was able to pay salaries to 11,685 teachers under the special career regime in 2011. The Treasury was directed to pay salaries in the revised grade within a period of three months. The Treasury was able to do so despite shortage of staff and software problems by working closely with the Ministry of Education (MoE) and the PSC.

### *Budget and Financial Management Act*

The Treasury took the lead in amending the UNTAET Regulation 2001/13 which governed Public Financial Management in the country. This Regulation came into effect when Timor-Leste was being administered by the UN. Changes to UNTAET Regulation 2001/13 were considered necessary in view of the changes that have been effected since 2001 and also because of the perceived need of Government and Parliament to manage financial administration more effectively, efficiently and in a transparent manner, and to update the regulation in accordance with best practices prevailing internationally. The Budget and Financial Management Act 2009/13 was adopted in October 2009.

#### *Accounting and Reporting: Decentralisation of financial powers*

In 2010, powers were delegated to Ministries to commit funds from their budget in the Financial Accounting module of FreeBalance. This work was previously done by the Treasury. This was a major step in delegating financial powers to Ministries and involved the successful training of a large number of personnel from all Ministries in the use of the FreeBalance system.

#### *Accounting and Reporting: Stoppage of cash payments*

The Treasury has been able to move away from payment of cash to settlement of all transactions of Government through the credit of payments directly into the bank accounts of the payees. This represented a major step forward in improving transparency and providing a clear audit train of all payments and beneficiaries whether they are within the country or abroad.

#### *Accounting and Reporting: Non tax revenues*

In 2010, the Treasury issued instructions to all Ministries regarding the collection of non tax revenues by ministries authorised to do so, deposit of these collections into designated bank accounts, the accounting thereof and reconciliation with the Treasury. This has resulted in better accounting of non tax revenues. A total of 37 bank accounts have been opened with the approval of the Treasury for the deposit of non tax revenues collected by Ministries authorised to do so.

#### *Accounting and Reporting: Increase in the number of transactions*

Since 2007, the budget has increased by almost eight times. As a result, the Treasury has had to cater to a huge number of increased transactions. The number of Commitment and Payment Vouchers (CPVs) dealt with by the Treasury has increased three times since 2007. All these transactions had to be fully accounted for and the documents preserved safely for audit purposes and court cases. Record management is now done methodically and documents preserved in compactors provided for this purpose.

#### *Audit: External audits*

The Treasury has been assisting the external auditors, Deloitte, to conduct the audit of the annual financial statements. In addition, the Treasury has also facilitated the conduct of special audits of selected Ministries and institutions by the external auditor. To date, a total of at least 42 audits have been conducted as part of the Government reform agenda as well as special requests from the National Parliament. At the time of this report the auditors are

conducting procurement audit of 14 ministries and institutions on request of the Ministry of Finance.

#### *Audit: Internal audits*

In spite of a shortage of staff, the Internal Audit Unit of the Treasury has been able to conduct 36 audits since 2007 which includes internal audit of the National Hospital, Ministry of Tourism, Commerce and Industry (MTCI), Ministry of Education (MoE), and the Secretary of State for Energy Policy (SSEP). The audit reported on delays in depositing non tax revenues collected into bank accounts and recommended that such revenues be deposited immediately into designated official bank accounts opened for this purpose. The reports also brought to light examples where operational guidelines are not being followed and have recommended that Government instructions should be strictly followed to enhance good governance.

#### *Execution: Disbursement of subsidies and pensions to the elderly and veterans*

The Treasury has been responsible for making payments to the elderly and veterans twice a year. The Treasury staff had to disburse more than \$61.5 million every year in cash to the elderly and veterans over a two-week period. This involved taking cash physically from Dili to the districts to make payments in sucos and villages. Beginning 2011, the Treasury has started using banking channels to transport cash to districts. Treasury staff then withdraw the cash required on a daily basis for distribution in districts and sucos. This has reduced the risks in transporting huge amounts of cash.

#### *Systems: Draft Decree-Law on duties and responsibilities of the Treasury*

A draft decree-law listing the duties and responsibilities of the Treasury has been prepared and is ready for internal discussions in the Ministry of Finance. The Budget and Financial Management Act lists the duties and responsibilities of the Ministry of Finance in the areas of budgeting, revenues, expenditures and accounting. The proposed Decree-Law for the Treasury is considered necessary as Treasury functions impact all of Government and therefore it is necessary that the duties and responsibilities of the Treasury, and that of line ministries in the area of Public Financial Management, are clearly laid out.

#### *Systems: Treasury Manual*

The existing Treasury Manual is out of date as many functions have been automated. Many of the procedures have also undergone changes since the Treasury Manual was first written in 2001 and hence, needs to be changed. A revised Treasury Manual will be completed in early 2012.

### **Integrated Financial Management Information Systems**

FreeBalance has been providing Financial Management Information Systems (FMIS) to Timor-Leste since 2000. Starting in July 2010, the Government of Timor-Leste (GoTL) contracted FreeBalance to significantly enhance the Timor-Leste FMIS. A contract in 2010 and 2011 covered the procurement of a comprehensive set of FMIS software, hardware and technical services.

FreeBalance provided the technology and infrastructure enabling all line ministries to connect securely to a centrally managed and supported FMIS solution. FreeBalance repaired and activated the existing connectivity of the fibre optic and wi-max within the network that existed between 27 State institutions located in Dili enabling access to the existing FreeBalance software hosted at MoF.

The network connectivity and hardware set up will serve as the basis for building and extending the network, including to the districts in the future.

Software developments included the following modules and portals:

- Transparency Portal
- Budget Transparency Portal
- eProcurement Portal
- Government Results Portal
- Contract management module (v7 web-based)
- Procurement module (v7 web-based)
- Assets Management module (v7 web-based)
- Civil Service Management/Payroll (v7 web-based)
- Document management system (v7 web-based)
- Manager's dashboard
- Data Mart and OLAP (On-line analytical processing) tools

The **Budget Transparency Portal** is a public website where citizens, donors, non-government organisations (NGOs) and the press can analyse and interrogate RDTL budget execution information from the FMIS in an interactive way. It presents budget information in terms of amount appropriated by Parliament, virements, funds that are committed, obligated and actuals.

The **eProcurement Portal** allows citizens, donors, NGOs and the press to analyse and search information related to goods, services or works that RDTL is procuring. All tenders by line ministries will be posted at a single site, for potential bidders to be able to download tenders from the site, for award of tenders to be published, and for all citizens to be able to follow all required procedures. This system will save the State millions of dollars as it will allow value for money when undertaking procurement of goods. It also encourages competition.

The **Contract management module** enables the Government to keep track of the execution of contracts, tasks, documents, payment and closure. It ensures that vendor performance meets contractual requirements. Tasks, payments, milestones, inspection reports, and approvals will be adapted through the workflow process built into the system. Workflow offers alerting messages functionality as a reminder that specific tasks have yet to be performed. This system also contributes to improvement cash management.

Other software implemented include the Managers Dashboard, Document Management System, and the FreeBalance Analytics (OLAP), which are business intelligence tools to support the decision making process. The Budget Office has been able to increase its analytical capability to provide critical analysis of budget execution to the Budget Review Committee during the budget preparation process.

The systems support component covered support of key initiatives underway, including the decentralisation and support of the Government Performance Budgeting system, Procurement Module, Government Fixed Assets, Payroll and Customised Management Reporting.

Achievements in FMIS from 2008 onwards to date include:

- ***Automatic printing of cheques and Treasury Payment Orders (TPOs)*** from the FreeBalance system has been fully implemented. Before 2008, cheques and TPOs were hand written and were posted to the ledger after being written. This resulted in errors and difficulty in reconciliation. Now the ledger gets updated simultaneously, improving reporting and accounting.
- The **Chart of Accounts** was upgraded in 2008. As a result, program-based budgeting and reporting of budget execution is now technically enabled up to the village level. The upgraded Chart of Accounts has harmonised the budget and accounts codes, resulting in better financial reporting. This has also helped to improve planning and budgeting in Government.
- A new **Performance Budgeting Software** was introduced in the Budget Directorate replacing the earlier GRIMS software. The new software uses the same harmonised Chart of Accounts and so facilitates budget preparation and execution. The new software is extensively used by all ministries to prepare their budgets. This has greatly improved staff's productivity and efficiency as it replaced the use of multiple Excel spreadsheets which caused errors in the Budget Books.
- Automated and on-the-fly reports were created to monitor real time budget execution in an easy to use format.
- With a significant focus on transparency and accountability the Government launched Budget Transparency Portal, e-Procurement Portal, Aid Transparency Portal and Government Results Portal. These portals enable the public to access live budget execution information, tender processes, donor spending and to track the progress of projects.
- A significant number of training sessions were conducted for line ministry staff as well as key administrative users for management and use of the hardware and new software modules.

## Decentralised procurement functions

The Government has reformed the RDTL procurement system. Budget execution rates are a key indicator of the success of these reforms:

- In 2006/2007 financial year, there was a 49% execution rate of a budget of USD \$328 million
- In 2010 financial year, there was a 91% execution rate of a budget of USD \$838 million
- In 2011 financial year, there was an 83.8% execution rate of a budget of USD \$1.306 billion

In 2008, the Government embarked on a range of procurement reforms which had a direct impact, on a whole-of-government level, on both the RDTL procurement system governing purchasing by line ministries and State agencies, and the Procurement Service which administers it.

Reforms have included:

- decentralising procurement authority to line ministries
- changes to existing procurement Decree-Law, and new Decree-Laws



- the development of Best Practice Guidelines on key stages of the procurement cycle
- mentoring and coaching of Procurement service officials in strategic contracting and contract management of projects
- training and capacity building of line ministry officials
- amending existing standard form documents and developing a new and enhanced set of standard quotation, tender and contract documentation for goods and services, works and consultancies, and
- developing procurement modules for integrated Financial Management Information Systems (FMIS).

Implementation of these reforms on an incremental basis started in 2008 and, in that year, **79%** of the budget of USD **\$610 million** was executed.

Reform actions introduced in 2008 were consolidated in 2009 and planning was completed for further reforms. With decentralisation of procurement authority up to \$250,000 to line ministries, the Procurement Service focused on establishing strategic contracts, including for:

- Large and medium size tractors, rice milling equipment, mini power tillers and associated agricultural equipment
- Vehicles
- Renegotiation of key elements of the Power Plants and Electricity Grid contract
- Supervision of works for the Power Plants and Electricity Grid
- Information technology equipment for MoF
- Audit of Consolidated Fund of East Timor (CFET) / Trust Fund for East Timor (TFET)
- Integrated Border Security Posts, and
- EITI audit.

Significant assistance was provided to line ministries in planning, establishing and managing contracts within their decentralisation limit. Within the Procurement Service, the client management unit continued to manage large contracts established by MoF and was fully engaged with line ministries in executing the Pacote Referendum Package. The outcome was expenditure of the vast majority of earmarked funds for minor works in the districts.

Existing standard form quotation, tender and contract documents were amended to incorporate reforms introduced by Procurement Decree-Law 24/2008. A large and complex project to review all standard form procurement documents – goods, services, works and consultancies - was initiated and will be reflected in the rollout of procurement and contract management software.

Three Procurement e-Cycle Training Programs were completed in 2009. Training programs were of three weeks duration and covered each phase of the procurement cycle. Over 100 participants from all line ministries attended the courses, and the courses were evaluated as ‘commendable’.

Business requirements documentation was completed for the procurement modules for the integrated Financial Management Information Systems (FMIS).

In 2009, two thirds of the budget involved the procurement of goods, services, works and consultancies. The Procurement Service, together with decentralised procurement units within line ministries, had responsibility for facilitating this purchasing activity.

In 2009, significant planning work was undertaken to establish a Procurement Commission. The Commission was a further component of the reforms taking place in procurement. A key activity was to scrutinise procurement processes for major projects, over \$1 million, before signing of a contract, to ensure compliance with Decree-Law and best practice. It was initially proposed that the mandate of the Commission include policy and Decree-Law development, compliance and auditing, reporting, and training and capacity building.

A Decree-Law was drafted following consultation with the Offices of the Prime Minister, Vice-Prime Minister and Coordinator for Management and State Administration Affairs, and President, among others. Briefings were provided to the Minister and Council of Ministers. However, there were divergent views expressed by stakeholders on the scope of the Commission's mandate, its role and powers. In January 2010, the Council of Ministers decided to establish a Procurement Monitoring Commission with responsibility for:

- monitoring and verifying the implementation of procurement procedures
- monitoring and verifying the execution of projects, and
- assessing outcomes.

A Procurement Technical Secretariat was also established to provide technical support and advisory services in procurement procedures up to USD \$1 million, carry out procurement procedures above USD \$1 million, and collaborate with the Procurement Monitoring Commission.

Capacity building in procurement continued, as outlined elsewhere in this report.

In 2009, **84.5%** of the budget of **USD \$681 million** was executed.

In January 2010, Decree-Law 1/2010 was promulgated, decentralising the authorisation of procurement procedures to Ministries. Also, two further laws were promulgated, Decree-Law 2/2010 and Decree-Law 3/2010. One law provided for developing and implementing the PDD (Program of Development and Decentralisation) for small scale construction works up to \$250,000.

In terms of decentralisation, up to this time, line ministries had been authorised to procure goods, services, works and consultancies up to \$250,000. This threshold reflected the second tier of a four tier accreditation process. The accreditation tiers were (Level 1) \$100,000; (Level 2) \$250,000, (Level 3) \$500,000 and (Level 4) \$1 million. With decentralisation, a significant volume of work previously undertaken by the Procurement Service has now become the responsibility of line ministries.

The Government's decision to decentralise all procurement was balanced with a requirement that higher value tender processes, over \$1 million, be undertaken by the new Procurement Technical Secretariat. Also, the new Procurement Monitoring Commission was established to monitor and verify the implementation of all State procurement procedures. Both entities were to report to the Vice-Prime Minister and Coordinator for Management and State Administration Affairs. These two entities were created with the important tasks of ensuring



procurement is undertaken by Ministries in accordance with the Law and good practice – significant roles in a newly decentralised environment.

During 2010, the World Bank undertook its mid-term review. Regarding procurement reforms, the Bank reported significant improvements in:

- the legislative framework
- procurement processes and guidance material, and
- budget execution rates at the ‘whole of Government’ level.

It also reported weaknesses in governance arrangements, which the Government addressed in 2011.

In 2010, the execution rate was **91%** of a budget of **USD \$838 million**.

In 2011, noting the human resource difficulties of the Procurement Technical Secretariat, the Government decided to abolish it and established a Procurement Commission with redefined roles and responsibilities. By then, authority for all procurement had been decentralised to line ministries to avoid implementation delays. This acceleration of decentralisation presented challenges in terms of capacity building. Many officers undertaking procurement at the time were new to the discipline. The new Procurement Commission operated with a mandate to undertake major procurement over USD \$1 million. An Infrastructure Fund was established to fund all major projects. These projects amounted to USD \$2.8 billion over five years. These projects are foreshadowed in the RDTL Strategic Development Plan (SDP) 2012-2030.

Further work is being undertaken to consolidate 13 Procurement Decree-Laws into one omnibus Law. This Law will consolidate all mandatory legal requirements for public officials undertaking procurement. It incorporates a range of new standard form quotation, tender and contract documents for goods, services, works and consultancies.

Another strategic project underway involves establishing procurement performance benchmarks, targets and compliance indicators.

### **Improved budgetary functions**

Prior to the new system being introduced, the Budget Directorate was using very simple systems like Excel spreadsheets to prepare the State Budget. This created many problems such as errors in the Budget Books and Budget Law presented to the National Parliament. This Government has put in place systems and procedures to make sure budget information is accurate and timely. Now, in preparing the Budget, an IT application is used in which the ministries can input their budgetary requirements and based on approval by the National Parliament and after scrutiny by Commission ‘C’, the National Directorate can more easily finalise the budget documents.

This data is then transferred to the Financial Accounting package where budget execution is done based on the approved budget. Complete information is also available for the two special funds which were created in 2011. A separate book is printed and submitted with the other detailed documents.

There are now six Budget Books which are submitted to the Parliament giving all the details of the budget. Further, to effectively manage the budget, the virements are closely monitored and made, as permitted under the law. In addition, the management of Contingency Reserve is done to effectively utilise the budget provided in this area by the Parliament.

All the Budget Books are available on the Ministry's website even when the budget is proposed to the Parliament, so any stakeholder can access this information. The final Budget Books, after the approval of the Parliament, are also placed on the website. This, in addition to the other features on the Budget Transparency Portal, makes Timor-Leste one of the most transparent countries in terms of the availability of financial information.

MoF has consistently presented the budget according to the schedule laid down by the Financial Management Law 13/2009. For the 2012 budget, the schedule was advanced and MoF completed the process in time and the budget was finally promulgated by the President of the Republic on 20 December 2011.

Recently, the Public Expenditure and Financial Accountability (PEFA) review mentioned that overall, Timor-Leste has made solid progress in strengthening PFM systems in just a few years<sup>4</sup>. The PEFA assessment also said that the budget documents provides quite comprehensive information and fiscal transparency is relatively high.

There is now an Expenditure Review unit in the National Directorate of Budget (NDB) which examines how programs are being implemented in different ministries and identifies options for improvements. The Ministry of Finance is striving to provide a comprehensive support to all parts of the Government to more efficiently and effectively manage their budgets and programs consistent with Government's SDP.

### **Enhanced asset management**

The Ministry of Finance has implemented several valuable asset management initiatives since 2007, including the introduction of Decree-Law 32/2011. This Decree-Law, which streamlined the management and disposal of state movable assets, has now been applied to line ministries and State institutions, along with technical procedures and guidelines on asset management.

A Property Disposal Manual has been developed to serve as a practical guide to procedures for administering disposal of State movable assets. It has resulted in more rational, transparent, effective and accountable disposal of assets. Policies, procedures and guidelines in implementing the disposal of state movable assets clearly presents and explains concepts in accordance with the Government approved decrees and law on asset disposal.

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<sup>4</sup> Pg 7, PEFA Review -2010

Implemented three phases of asset disposal as follows:

<i>Year</i>	<i>Assets disposed</i>	<i>Net sale in USD</i>		<i>Donation</i>
2009	26 vehicles 57 motorcycles	92,567.75		4 vehicles 1 motorcycle
2010	Assets such as vehicles, motorcycles, refrigerators, generators, ablution, portable toilets, 20ft containers, water and septic tanks	73,416.46		4 vehicles 2 motorcycles
2011	Assets such as vehicles, motorcycles, refrigerators, generators, ablution, portable toilets, 20ft containers, water and septic tanks.	DILI  126,488.50	OECUSSI  6,550.00	

The Ministry has conducted training in vehicle operation and maintenance skills and knowledge training for 43 staff in line ministries and State institutions to improve administrative efficiency and the management of vehicles. This has resulted in optimum vehicle operation, economical maintenance and less breakdowns. Another valuable initiative was introduction of monitoring and evaluation of vehicle trip tickets. Analysis of trip tickets traced vehicle movement and recorded fuel consumption. Reports prepared by Assets Management noted discrepancies in fuel consumption of various vehicle types and identified corrective actions.

Since June 2010, asset management programs have been decentralised to line ministries and State institutions. Specific initiatives included monitoring and supervision of the management and the disposal of State movable assets and ensuring required procedures for the sale and transfer of State movable assets were in accordance with the policies and guidelines of the law. Also performance evaluations on the implementation of asset management guidelines were carried out in order to measure compliance and efficiency.

Technical Asset Management training was conducted at the national level and in the districts of Oecusse, Ermera, Lautem, Baucau and Manufahi with participants from all line ministries:

Oecusse: 22-24 February 2011 with 57 participants  
 Ermera: 7-9 June 2011 with 47 participants  
 Lautem: 14-16 June 2011 with 47 participants  
 Baucau: 28-30 June 2011 with 58 participants, and  
 Manufahi: 24-26 May 2011 with 37 participants.

The training will eventually lead to the decentralisation of the National Directorate of Assets Management (NDAM) within these districts.

Training on FreeBalance – Asset Module/ Asset End-User and Manager was completed. The FreeBalance module for asset management was rolled out to line ministries and State institutions during 2011. Participants were divided into groups which started from 25 July to 28 October with approximately 113 asset end users and managers completing training and becoming certified. The introduction of this system streamlined the asset registry process. FreeBalance data is entered by line ministries and State institutions and monitored by MoF to minimise errors. Line ministries and State institutions can now view their asset registry through the system, from the system's search and from the asset reporting features. Line ministries have been given the license and user authorisation to operate the system by FMIS and Asset Management.

## **Managing petroleum resources**

The current fiscal regime was implemented in 2005 after a fundamental reform process.

### *Tax audits*

The National Directorate of Petroleum Revenue (NDPR) has strengthened the enforcement of the taxation laws governing the oil and gas sector. A dedicated tax audit team was inaugurated in March 2011. Enforcement activities over the last two years have generated approximately \$207 million of additional revenue. Twenty-eight substantial tax audits relating to capital gains, decommissioning provision, and head office expenses were concluded in 2011. Additional revenue associated with tax audits in 2011 increased by over \$130 million over the 2010 tax period.

### *Audit Manual incorporating strategies and procedures is now in place at NDPR*

Effective from July 2010, all Contractors and major Subcontractors are now required to keep copies of their books and records in Timor-Leste to facilitate easy access during tax audits. The records were previously kept in foreign jurisdictions and thereby hampered any meaningful tax audits. The Bayu-Undan facility is now under audit. The audit of the gas pipeline project is planned for the first quarter of 2012.

The total 2011 petroleum tax collection was approximately \$1.4 billion, representing a 65% increase over the sum collected in 2010.

### *Capacity building*

The most serious challenge facing NDPR is qualified staff. The taxation of oil and gas is a complicated subject and requires expertise with background in subjects like tax law, tax accounting, economics and engineering.

Over the past 12 months, there has been a number of training, formal and informal sessions, to improve the competency level of the national staff. The training program is being expanded in 2012 to cover certain basic subjects concerning petroleum taxation with a defined objective of enhancing the technical capability of national staff.

A recruitment search is underway to identify national and international candidates with relevant background for employment at NDPR.

### *Public Rulings*

NDPR issued three interpretive Public Rulings to resolve areas of material ambiguities in the taxation laws. Furthermore, the entire income tax and Additional Petroleum Tax (APT) information returns were overhauled with a view of eliciting more comprehensive information from taxpayers.

### *Tax litigations*

Some taxpayers have instituted civil actions in the law courts to challenge some of the tax assessments issued pursuant to certain tax audits. NDPR is confident about the legal merit of the assessments and will vigorously defend its position at the District Court. However, some of the affected taxpayers have initiated an out-of-court settlement proposal with NDPR. With respect to such settlement proposals, discussions are ongoing with a view to resolving the court actions in a manner most favourable to the Government of Timor-Leste.

### *Petroleum Fund performance*

The market value of the Petroleum Fund as of 31 December 2011 was USD \$9.311 million. This is an increase of USD \$7.225 million from just USD \$2.086 million at the end of 2007. The Fund's net investment return since inception was 4.08% nominal by the end of 2011.

### *Petroleum Fund Investment Strategy*

From the outset, the Fund's investment strategy has been simple and prudent in order to avoid exposure to risk and volatility during the first years of operation. The Fund was invested in US Government bonds only and measured against Merrill Lynch US Government bonds 0-5 year's index. Until June 2009, the entire portfolio was managed by the BPA (predecessor of CBTL).

In June 2009, the Bank for International Settlements (BIS) was appointed as the first external manager of the Petroleum Fund to invest USD \$1 billion in a broader range of Government and Supranational bonds. This was equivalent to 20% of the Petroleum Fund. The BIS benchmark comprises both US Government bonds 0-5 and 5-10 years, Government bonds issued by Australia, European Union, UK and Japan in local currencies and foreign Government and Supranational bonds denominated in USD.

In October 2010, the Schroders Investment Management Limited (Schroders) was appointed as the first external equity manager for the Fund. Schroders manages 4% of the Fund invested in the global equity market.

From October 2010, the global benchmark for the Petroleum Fund has consisted of three investment mandates adopted for the CBTL (76%), BIS (20%) and Schroders (4%) respectively.

In 2011, Minister of Finance, in accordance with the advice received from the Investment Advisory Board (IAB), reviewed the strategic asset allocation of the Fund under the provision of the previous Petroleum Fund law and in anticipation of changes to the Petroleum Fund law and approved to:

- establish a Transitional Panel that consist of three external managers who may be required to manage the assets of the Petroleum Fund on an interim basis. The objective is to reduce transaction costs and to manage the market risk;
- increase the asset allocation to global equity from 4% to 8% by reconstructing the BIS mandate to make room for the new equity mandate. The BIS, which still manages 20% of the Fund's assets, was given a new mandate with longer duration with the 5-10 year US Treasury index as the benchmark. This was implemented in December 2011;
- appoint State Street Global Advisory (SSgA) as the second global equity manager to manage 4% of the Fund's asset; the mandate is expected to be fully implemented in 2012;
- re-structure CBTL's mandate into both short and longer bonds portfolio duration aimed at improving the expected returns; the mandate is expected to be fully implemented in 2012.

It is expected that from 2012 there will be a major shift in the implementation of the Petroleum Fund's strategic assets allocation which focuses on increasing the equity exposure of the Fund with the objective of improving the expected return and better managing risk through a more diversified portfolio.

#### *First Amendment of Petroleum Fund Law No 9/2005*

The Petroleum Fund Law amendments were submitted to Parliament 27 June 2011, after several years of thorough technical analyses and public discussions. The amended legislation was passed by Parliament on 23 August 2011, unchanged from the Government's proposal. Two principles are especially reflected in the legislation: *Good governance* and *diversification*.

#### *Good governance*

Based on the 'Santiago principles'<sup>5</sup>, the Petroleum Fund governance model is now based on a high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. Transparency ensures that information can be used to measure the authorities' performance and also guards against any possible misuse of powers. Transparency serves to enable accountability, which means authorities and whoever handles public money can be held responsible for their actions.

The amended Petroleum Fund Law further strengthened Timor-Leste's internationally recognised governance framework by improving reporting requirements, strengthening checks and balances and strengthening the requirements for technical skills in the management of the Fund.

#### *Diversification*

The amended Petroleum Fund Law states that the objective of the investment policy is to maximise the risk-adjusted return. A necessary condition to achieve this objective is to employ the principle of diversification. Diversification is the process of exposing an

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<sup>5</sup> International Working Group's "Sovereign Wealth Funds: Generally Accepted Principles and Practices", otherwise known as the Santiago Principles. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.



investment portfolio to a number of different asset classes, risk factors, and individual financial assets, rather than being concentrated in any one of these.

The cornerstone of the fiscal policy is the Estimated Sustainable Income (ESI), which is estimated at 3% of the petroleum wealth. A necessary condition for the ESI to actually be sustainable is that the Fund's investments earn a real return of 3%. The amended law allows for a maximum of 50% of the Fund to be invested in equities. Modelling predicts this will give a reasonable probability of achieving a 3% real return over time with a risk level the Government is willing to accept, thus aligning the Petroleum Fund investment policy with the ESI budget spending guideline.

The Ministry of Finance has taken the lead to efficiently implement the investment policy as enacted in the Petroleum Fund Law amendments. This involved coordinated efforts by relevant institutions (IAB and CBTL as the operational manager), while at the same time safeguarding the division of labour.

Appreciating the importance of local ownership, the implementation needs to take into account the capacity of nationals in the Petroleum Fund management environment. One of the necessary conditions for a successful outcome is therefore to train key national staff to be able to drive the implementation process.

### **Enhanced revenue generation functions**

- The National Directorate Petroleum Revenue (NDPR) commenced a number of comprehensive audits of Petroleum taxpayers which has led to a significant increase in revenue collections.
- New Laws have been drafted that will assist revenue collection when enacted
- Throughout 2011, the National Directorate of Domestic Revenue (NDDR) conducted taxpayer education throughout the districts aimed particularly at the construction industry.
- A billboard campaign was launched in Dili to encourage compliance by educating the community about the benefits of paying taxes. Emphasis was placed on better public facilities such as schools and hospitals.
- NDDR initiated a progressive penalty program for repeat fail-to-pay and fail-to-file offenders
- Enhanced audit programs included monitoring of transparency portal awards for taxes paid.
- The planning for the introduction of a Value Added Tax (VAT) has commenced, to enable the new Government to consider this policy change.
- In 2011, the National Directorate Customs (NDC) introduced a new approach to the processing of goods at Dili Port based on risk management. The new processes were designed to better target high risk consignments and integrate the x-ray technology employed at the port.
- The building of new Integrated Border Posts greatly enhances the operations at the major crossing points of Batugade, Salele and Sakato.
- The joining of the Oceania Customs Organisation and the Pacific Islands Tax Administration Association greatly enhanced Timor-Leste's learning from similar sized organisations and provided access to European Commission funding for training and capacity development.

## Other undertakings

- During February and March, an extensive publicity campaign was undertaken to promote the 2008 Annual Income Tax lodgement requirements through Media Electronic News Paper, Radio and Televisaun Timor-Leste (TVTL).
- Socialisation was carried out for Annual Income Tax 2008 for three days in Dili as well as in 10 districts.
- The major achievement in 2008 in terms of public information campaigns was the setting up and operating of a stand at the Dili Trade Fair in August / September. This was done in conjunction with Customs staff, with information and brochures being available for Revenue and Customs clients. Staff from both Directorates attended at all times and a total of 4,700 people visited the stand, including the Prime Minister.
- A workshop presentation was conducted for Trade Fair participants and was also attended by students and businesses from the districts
- Processes were established to enable the reconciliation of the Standard Integrated Government Tax Administration System (SIGTAS), SIGTAS postings to BNU deposits, and FreeBalance postings.
- A Memorandum of Understanding to enter into a Double Tax Agreement with Portugal was signed in 2009.
- A process for daily reconciliation of SIGTAS postings to BNU deposits was implemented and is now in operation.
- Draft laws posted on the internet and presented to stakeholder forums were arranged by International Finance Corporation's Better Business Initiative. Attendees included lawyers, accountants, Chamber of Commerce and representatives of other Ministries. Constructive comments were received. Revenue Crimes training presented to Prosecutor General's office as well as police and anti-corruption representatives.
- SIGTAS was upgraded to better service Ministry needs and a new *International* Refund Module was installed. All SIGTAS data was also migrated to a new server.
- Formal training workshops were conducted for Audit Unit staff on tax law interpretation and application and in audit methodologies and techniques.
- Liaison continued with Treasury, Procurement and FreeBalance in respect of data used for income matching purposes, in conducting risk assessments for audit case selection purposes. A working party was formed to ensure that taxpayers are certified at the beginning of the Procurement bidding process and that Treasury payments will only be made to bona fide taxpayers.
- Continued liaison with, and provided input to, Ministry of Justice in moving forward to sign an MOU to establish a 'One Stop Shop' to streamline the business registration process and to improve the 'ease of doing business' in Timor-Leste. Draft Memorandum of Understanding (MOU) has been prepared and is currently being reviewed and meetings held with Ministry of Justice (MoJ) representatives.
- Substantial progress has been made on an advertising campaign that involves a five-minute television show that will be distributed to districts on DVD. Posters have been designed to be placed on large billboards as well as flyers. Advertising will also be undertaken via radio and newspaper.
- Timor-Leste became a member of the IMF Pacific Financial Technical Assistance Centre (PFTAC) in July 2011.



## C. Institution building

The Ministry of Finance has been constantly reforming, improving and restructuring, as an institution since late 2007. In the process, the Ministry aligned common services into four (4) Directorates. Likewise, the Ministry established that it has a dual client/customer: the line Ministries on one hand and the general public on the other.

### Improved Corporate Services

Corporate Services was introduced in MoF as a new concept to manage the administrative requirements of the Ministry. This serves as the central administration department. While there are still satellite administration units in the different Directorates within MoF, these are linked closely with Corporate Services.

All spending authority in MoF was shifted to Corporate Services. Additionally, assets and logistics management, including building maintenance, and other general administration functions, as well as human resources management, procurement and financial management are being managed by Corporate Services using internal guidelines produced since 2008. Likewise, information and communication technology support to all working units are being provided through Corporate Services. The reform towards a single corporate authority within MoF facilitated a more coordinated approach to the distribution and use of material, financial and human resources available to MoF, which in turn produced better results within the Ministry as well as fairer results between Directorates.

Likewise, another significant achievement was in media relation services, which was placed under the coordination of the General Directorate of Corporate Services. Since its inception in early 2009, the unit has been providing regular media releases on activities undertaken by MoF, both at the national and international levels, including the provision of news on the Government website.

### Institutionalised management bodies

#### *Consultative Council of Financial Management (CCFM)*

The Ministry instituted the Consultative Council of Financial Management (CCFM) in 2008, a body composed of General Directors and their counterpart Senior Management Advisors, and chaired by the Minister or the Vice-Minister in her absence. The CCFM held its first meeting on 28 June 2008. The body serves as the venue where issues and decisions affecting the Ministry's work and operations are discussed and arrived at. Likewise, this body ensured faster and more efficient communication links between policy and the people doing policy, thus improving the flow of communication among the units of the Ministry. The CCFM also serves as a venue for communication between Directorates following the CCFM meetings when directors meet with their staff to disseminate the information produced from the CCFM meetings.

### *Office of the Minister*

The Office of the Minister provides support to the executive and ministerial functions of the Minister of Finance. The Office serves as the central body in the Ministry which:

- harmonises assigned duties
- streamlines communications between directorates
- disseminates information to and from the Minister, and
- help oversee the functions of the Ministry, in conjunction with the Consultative Council for Financial Management: the collective body of consultation and coordination which periodically assesses the activities of Ministry.

A core function is to help ensure all stakeholders of the Ministry are responded to efficiently and effectively. The aim is to develop and build quality relationships in the process while addressing the urgent issues of the day. In doing this, the Office harnesses the support of all structures within the Ministry to deliver outcome-based and timely solutions to issues raised.

In 2009, the Office served as the central body which harmonised assigned duties, streamlined internal communications, as well as ensured the efficient dissemination of ministerial instructions to and from the Minister and Vice-Minister. This kind of coordinated work was most obvious during the annual State Budget presentations by MoF to the National Parliament, in close coordination with the Office of the Prime Minister. The systematic coordination of information flow to the Minister and Vice-Minister ensured all issues and concerns raised in the plenary by the Parliamentarians during the annual budget debates, in relation to MoF in particular, and the whole Government in general, were properly addressed.

The Office also ably supported the requirements of the Minister and the Vice-Minister, in the Minister's absence, during the weekly regular and extra-ordinary meetings of the Council of Ministers. It also provided support to the regular convening of the Consultative Council for Financial Management (CCFM). The Office also managed the requirements and preparatory work of the Minister during her official overseas travels and representations. It also supports other units of the Ministry during Ministry-wide events such as meetings and conferences held in the country.

### *Office of the Vice-Minister of Finance*

The Office of the Vice-Minister is responsible for the supervision of the operations of the General Directorate of Revenue and Customs.

In 2009, the Office of the Vice-Minister of Finance led a team to negotiate the construction of two patrol boats with the People's Republic of China. The Office also negotiated with the Japanese Government for the provision of x-ray technology and facilities to the current Customs Building in Batugade and in the Dili Port.

In 2011, the Vice-Minister of Finance initiated negotiations with KfW, a German Development Bank, for the Maritime Transport Connection to the South Coast. The second ferry connection from Dili to Suai will require a feasibility study to elaborate the proposed project for a maritime transport connection between the north and the south coast of Timor-Leste. The feasibility will be paid for via a grant and will provide details on the specification

and operation of a proposed vessel as well as the corresponding landing facilities along the operating route of the vessel.

The Office of the Vice-Minister of Finance was also designated to lead negotiations with Puri Akraya Engineering for the acquisition of generators required to provide permanent electrical power to households in the country.

In collaboration with the Secretary of State for Sanitation, Water and Electricity, the Office of the Vice-Minister was also designated to represent the Government in the negotiations for the water supply facility in Dili and subsequently signed the agreement with Japan International Cooperation Agency (JICA) and the company responsible for the construction of the water supply.

Since 2009, the Vice-Minister has held the post of Deputy NAO, participating and leading several meetings regarding the activities and projects under the financing of European Union and European Development Fund. The Vice-Minister is also a member of the Steering Committee for the implementation of rural development activities and is currently involved in several negotiations to ensure the successful implementation of rural development in Timor-Leste.

### **Enhanced legal support**

The Legal Support Unit (LSU) was established by Decree-Law 13/2009, 25 February, and Ministerial Diploma 2/2009, 30 April. Although at that time there was an international advisor working in the embryonic Legal Unit, only in middle 2009 did this Unit start to take shape and to perform its work in accordance with a legal mandate.

The LSU received an international Legal Advisor in July 2009 funded by Planning and Financial Management Capacity Building Program (PFMCBP) and a national advisor in October 2009. Since then, the LSU started to perform its competencies of providing legal and policy advice to the Minister, Vice-Minister and senior officials of the Ministry; drafting legislation; providing legal advice about all legislation before approval by the Council of Ministers, revision of public contracts and other legal tasks. Several key legislative reforms and pieces of legislation were produced and approved: Annual Budget Bills; Public Financial Management Law; Tax Law; Petroleum Fund Law Alterations; Public Debt Law; several Procurement Laws, Infrastructure and Human Capital Development Fund Laws among other laws that allowed the Government to implement the public finance reforms in accordance with its program and the political decisions of the Council of Ministers.

Under an umbrella agreement with DLA Phillip Fox - Australia, one of the world's largest law firms, a lawyer was integrated into the LSU in August 2010. With this lawyer, the LSU was able to improve its work at the level of policy advice, procurement and public contracts negotiation and revision. With three individuals, the LSU is now able to respond to all legal needs of the Ministry, including drafting of all finance-related legislation, legal advice on the financial impact of legislation proposed to the Council of Ministers, negotiation and revision of public contracts, grant agreements, technical cooperation agreements and other legal documents.

The Ministry's legal team is able to understand the foundation and operation of both the civil and common law systems and this allowed the Ministry to develop legal and legislative

solutions in the context of an emerging country dealing with the influences of conflicting systems of laws.

## **Aligned donor-funded program management**

### *The Planning and Financial Management Capacity Building Program (PFMCBP)*

Funded by a grant from the International Development Association and a World Bank administered multi-donor trust fund (with contributions from AusAID, EC, Irish Aid, New Zealand and Norway), the PFMCBP is a coordinated program of targeted capacity building in planning and financial management. The Program, started in late 2006, provides technical assistance to sustainably strengthen planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency. Advisors recruited for all four General Directorates of the Ministry have played a key role in helping the Ministry move its reform agenda forward. After a successful five years of operation, the program has been extended to 30 November 2012.

#### *Program management*

The Ministry of Finance is responsible for the strategic management of PFMCBP, through the Consultative Council for Financial Management (CCFM) chaired by the Minister of Finance. There is a dedicated Program Implementation Unit (PIU) that is responsible for day-to-day program management and implementation. The PIU has been integrated into the General Directorate of Corporate Services and the General Director of Corporate Services is also the Program Implementation Officer (PIO) of the PFMCBP. The Senior Program Manager (SPM) provides advice to the Program Implementation Officer, who has delegated authority from the Minister of Finance to execute the legal agreements between the Government of Timor-Leste and the World Bank.

A Supervisory Committee of donors to PFMCBP, chaired by the Minister of Finance, provides regular oversight of program implementation and achievements. The World Bank is responsible for program supervision, to ensure it is aligned with agreed objectives and financing agreements.

#### *Program delivery*

The total amount under the PFMCBP Grant Agreement is USD \$31 million. The Program has received USD \$7 million from International Development Association (IDA) and USD \$24 million from AusAID, the European Union, Irish Aid, New Zealand and Norway. From 2007 to the end of 2011, the PFMCBP incurred expenditure of USD \$21.6 million to meet remuneration of advisors, to support the Ministry's ambitious training program and workshops within the Professional Development Program (PDP) and to cover the PFMCBP's operating expenses. The remaining balance of USD \$9.4 million has been allocated to support the PFMCBP's Procurement Plan to 30 November 2012.

The Program has recruited a total of 85 Advisors (19 national and 66 international) to provide technical assistance to the Ministry of Finance. At the end of 2011, there were 32 PFMCBP Advisors (10 national and 22 international), together with 8 program support staff working in the Ministry. The number of Advisors is expected to reach a maximum of 48 by the end of the Program in November 2012.

*Future challenges and technical assistance requirements*

There are important challenges ahead as the Ministry of Finance continues to implement a strong reform program in a capacity constrained environment. The Ministry's responsibilities have been more clearly defined by the national Strategic Development Plan (SDP) and the Ministry's own Strategic Plan, both of which will require continued technical assistance support to implement.

Donor support to the Ministry has faced considerable challenges to build capacity and enable an increased transfer of responsibility to Timorese public servants. However, over time both systems and capacity have increased so much so that the Ministry is moving away from focused technical assistance programs like PFMCBP and more towards development focussed programs that use general budget support as the means to deliver and utilise Government systems. It is envisaged that such a program will be designed in 2012 to follow the PFMCBP.

It is critical that the PFMCBP successor program be agreed on early in 2012, to ensure continuity of support to the Ministry and to avoid the loss of substantial gains made under the reforms of the past few years.

*Support to the National Authorising Office (NAO)*

Timor-Leste started its cooperation with the European Union in 1999. At the beginning this cooperation was channelled through the Asian Division of the Europe Aid (ALA). In 2005 Timor-Leste joined the Cotonou Agreement, a Partnership Agreement between the members of the African, Caribbean and Pacific (ACP) group of states of the one part, and the European Community and its member states, of the other part<sup>6</sup>. The Cotonou Agreement is based on five interdependent pillars:

- reinforcement of the political dimension of relations between the ACP States and the EU
- promotion of participatory approaches, involvement of civil society, the private sector and other non-State actors;
- development strategies and priority for the objective of poverty reduction;
- the establishment of a new framework for economic and trade cooperation;
- reform of financial cooperation.

The Cotonou Agreement has a duration of 20 years and financing phases of five years. The European Development Fund (EDF) is the main instrument for providing community aid for development cooperation in the ACP States. The EDF does not come under the community's general budget. It is funded by the Member States, is subject to its own financial rules and is managed by a specific committee. Timor-Leste benefited from the 9<sup>th</sup> EDF since 2007 for a total of 18 million € and 81 million € for the period between 2008 and 2013. In Timor-Leste the EC undertakes the financial implementation of operations carried out with EDF resources by decentralised management. The Government of Timor-Leste has appointed the Minister of Finance to be the National Authorising Officer, to represent it in all operations financed from

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<sup>6</sup> This agreement is known as the Georgetown Agreement, established in 1981.

Fund resources. The NAO has created specific services to assist in the management of the EDF. The NAO Services operate under the National Directorate for Aid Effectiveness.

In 2011, the activities of the NAO have been focused on four main activities: 1) the implementation of the Rural Development Phase III, which belongs to the 9<sup>th</sup> EDF 2) the integration of Timor-Leste into the 10<sup>th</sup> EDF Pacific ACP Regional Programme, 3) the provision of technical assistance and general development activities under the Technical Cooperation Facility I and II for a total of 3 million € 4) the Institutional Capacity Building Programme of the NAO system, which started in June 2010 for a total of 3.5 million € 5) the Rural Development Programme Phase IV, which started in October 2011 for a total of 23 million €, and 6) the Strengthening Institutional Capacity of the National Parliament in Timor-Leste, which started in July 2011, for a total of 4 million €.

In 2012, Ministry of Finance is expected to sign four new Financing Agreements:

- 1) Support to Non State Actors, for a total of 4 million €
- 2) Support to the health sector, for a total of €10 million and channelled through a multi donor Trust Fund
- 3) District Roads Rehabilitation and Maintenance, for a total of €20.5 million and,
- 4) Support to reduce under five year old malnutrition, through the EC MDG Initiative for a total of €10.2 million This last project has been rated among the best of all ACP countries and will represent an important contribution to future generations of Timorese.

The NAO also coordinates the *Países Africanos de Língua Oficial Portuguesa* (PALOP) programme, assistance given by the EC to African Lusophone Speaking Countries. Timor-Leste was included in this group in 2007 and has already benefitted from PALOP/Timor-Leste programmes of the 9<sup>th</sup> EDF. The 10<sup>th</sup> National Indicative Programme of the EDF for Timor-Leste included a sum of €2.5 million for different projects in the areas of electoral assistance, rule of law, good economic governance, public services and economic and financial management.

In the field of electoral assistance, the PRO-PALOP/TL project has given a significant contribution to reinforce the capacities of CNE and STAE by providing BRIDGE certification to around 40 trainers who will be able to train others in the future. The total envelope of the 10<sup>th</sup> EDF of their programme is €33 million.

Finally, the NAO has supported the integration of Timor-Leste within the Pacific region through the Pacific ACP Programme. Between 2010 and 2011, many Timorese officials have participated in different workshops and conferences in the Pacific and different Government institutions are now members of Pacific organisations, namely the Oceania Customs Organisation (OCO), PFTAC, Pacific Islands Tax Administrators Association (PITAA) and the Secretariat of the Pacific Community (SPC). The visit of H.E. Prime Minister Xanana Gusmao to the last Pacific Island Forum meeting in New Zealand also gave an important momentum to this integration. In 2012, the efforts and work of the NAO will maintain this trend.

### **Improved monitoring of the MDG's progress**

The Millennium Development Goals (MDGs) Secretariat was established on 29 October 2009 by the Council of Ministers. The Secretariat is a sub-set of the General Director of Policy Analysis and Research under the leadership of the MDG Steering Committee. The



Steering Committee is chaired by Minister of Finance and its members consist of Ministers of Health, Education, Infrastructure, Agriculture, Social Solidarity, State Administration and the Secretary of State for the Promotion of Equality and the Secretary of State for Vocational Training and Employment. The MDG Secretariat is led by a coordinator and assisted by a national advisor and has a support team including the MDG Focal Points from these key Ministries.

The primary role of the MDG Secretariat is: (a) to sensitise the Council of Ministers and, in particular, the key Ministries, on what each Ministry can do to contribute to achieving a particular Goal/Target/Indicator pertaining to its jurisdiction; (b) to revise the current MDG Targets taking into consideration the context of Timor-Leste; (c) identify Goals that can potentially be achieved and how; (d) to identify the bottlenecks for achieving the MDGs in Timor-Leste by 2015.

In 2010, the Secretariat produced the MDG booklet as part of the annual monitoring reports on the progress of the MDG indicators. The report included some recommendations and necessary actions to be taken to improve performance and responsibilities by all parties. This report was presented by his Excellency President of Republic, Dr. Jose Ramos in the MDG Summit in New York on 20-22 September 2010. Around 500 copies of the reports were also distributed to other state members through Timor-Leste's embassies in New York. Another 500 copies was circulated in country to different organisations including to civil society, development partners and academia.

The MDG report in 2010 cited a 9% decrease in poverty, taking the poverty level in Timor-Leste to 41% in 2009 (from 49.9% in 2007). Timor-Leste also has surpassed the MDG target for 2015 for both under-five mortality and infant mortality based on targets set in 2004 and also the detection and cure of tuberculosis. As a result, new targets are now being set. In 2009, the National Tuberculosis program achieved the two key global targets for Tuberculosis control namely, a new smear-positive (NSP) case detection rate of 70% (global target 70%) and treatment success rate of 85% among NSP cases registered in the previous year (global target is 85%). Other notable successes include school enrolment which has increased from 65% in 2007 to 83% in 2009/2010.

The MDG indicators that remain a major challenge for the country are child nutrition and maternal mortality.

In 2011, the MDG report was deferred to August 2012 due to the involvement and leadership of the MDG Secretariat in *Sensus Fo Fila Fali*, a program to disseminate Census results through a suco report for each of the 442 sucos in Timor-Leste. The dissemination program was completed in December 2011 and received very positive feedback from suco chiefs and the community.

### **Strengthened aid coordination and harmonisation**

The Government's initiatives toward increasing aid effectiveness included establishing the National Directorate of Aid Effectiveness (NDAE) with the approval of the Organic Law for the Ministry of Finance in November 2008 at the Council of Ministers (Decree-Law 13/2009, 25 February). The work of the NDAE, which is situated within the Finance Minister's Executive Office, consists of three areas:

1. Monitoring compliance with the Paris Declaration Principles on Aid Effectiveness

2. Tracking aid resources and reporting on results, and
3. External assistance coordination. The responsibilities of NDAE include ensuring the optimal utilisation of aid from development partners, ensuring that aid is harmonised to avoid duplication of inputs and aligned according to the stated national priorities of the Government.

### *Vision*

By 2015, the National Directorate for Aid Effectiveness (NDAE) will provide results focused data covering the utilisation of official development assistance (ODA) from development partners based upon the Paris Declaration, Accra Agenda for Action, Dili Declaration, Busan Outcome Document, New Deal and g7+ Statement and other relevant documents to effectively promote the alignment of ODA in accordance with Timor-Leste's Strategic Development Plan 2011 – 2030.

### *Achievements*

Recent notable NDAE achievements can be seen in the organising, together with the Ministry of Foreign Affairs, of the Annual Timor-Leste and Development Partners' Meeting (TLDPM), the continued meetings of the g7+ and participation in the 4th High Level Forum in Busan, the drafting of the Organisation for Economic Co-operation and Development (OECD)'s 2011 Monitoring of Implementation of the Fragile States Principles and the first International Dialogue on Peace Building and State Building.

#### *The Dili Development Pact (DDP)*

The Dili Development Pact, endorsed by Donors at the 2011 TLDPM, serves as a complimentary document to the SDP and the overall goals of the Paris Declaration. Timor-Leste is determined to take ownership of their development path and an understanding of how aid is used is essential. The Dili Development Pact asks that development partners commit to, among other things, the use of country systems, shared responsibility and investing in the future of Timor-Leste. This will require a strengthening of the relationship with the NDAE, in order to produce accurate data and meaningful analysis.

The NDAE also worked closely with Government Ministries mainly by providing them with development partner program and project data to assist Ministries and to support effective resource allocation. This program and project level information provided by development partners is crucial to Government Ministries to formulate their Combined Sources Budget.

Furthermore, the NDAE coordinates closely with the National Priorities Secretariat by providing data concerning development partner projects to the Secretariat. Various Ministries are supported in decision making and budgeting processes regarding the efficient use of external aid.

#### *The Aid Management Information System (AIMS)*

2011 represented an especially important year in terms of the NDAE's efforts to scale up its ability to gather and analyse aid, as it has contracted Development Gateway to implement the Aid Management Platform Software (AMP). This software increased NDAE's capabilities in gathering data on aid disbursements from partners and disseminating the data into more meaningful reports. Furthermore, the AMP is a tool that will not only be utilised by the



NDAE, but all Government ministries and development partners in creating reports relating to ODA. The Aid Transparency Portal presents this data and makes it available to other donors and the public.

### *The National Priorities Process*

The release of the SDP represents a milestone in the development of Timor-Leste. Because of issues relating to political instability, poverty and Internally Displaced Persons (IDPs), the National Priorities Process has served since 2008 as a short-term mechanism to guide the Government of Timor-Leste in pursuing development. As these issues have been resolved, the Government, in 2011, adopted a long-term macroeconomic strategy to be achieved by 2030. The SDP focuses on six sectors, which serve as the country's strategic pillars to guide the country's development in achieving a peaceful and prosperous nation. At the same time, the National Priorities will continue to act as monitoring mechanism that will help to track the progress of the SDP pillars, as it transitions to a multi-year strategy.

The National Priorities Secretariat is a body created under the direct supervision of the Minister of Finance, and is tasked with managing the annual design and implementation of the National Priorities process. The National Priorities process is a single-year framework where responsible Government Ministries and development partners form thematic working groups to monitor progress toward quarterly targets. This process has proven to be an effective framework toward the principle of 'managing for results' as stated in the Paris Declaration on Aid Effectiveness. As the Strategic Development Plan is implemented, the National Priorities Process will continue as a multi-year mechanism to track progress.

In 2011, the seven National Priorities of Government were:

1. Basic infrastructure
2. Rural development
3. Accelerated human resources development
4. Access to justice
5. Service delivery to the public
6. Good governance
7. Public security and stability

These priorities were identified in April 2011 in advance of the 2012 State Budget formulation process, and so Government Ministries were able to take the National Priorities into account in formulating their 2012 budgets. The five National Priorities for 2012 include:

1. Basic infrastructure (roads and water)
2. Enhanced local production
3. Services to the people
4. Human resources development
5. 2012 special year programme

### *Implementing Aid Effectiveness principles in Timor-Leste*

In 2005, Timor-Leste became a signatory to the Paris Declaration on Aid Effectiveness, and, in 2008 became a signatory to the subsequent Accra Agenda for Action (AAA). The 4th

Constitutional Government of Timor-Leste is committed to the high-level goals contained in both these documents.

To support these commitments, the NDAE has been tasked with collating information on the actual spending of development partners along with each development partner's disbursement rates. These figures were presented at the TLDPM. Sharing actual disbursement data with stakeholders contributed to increased levels of transparency regarding development partner assistance extended to Timor-Leste and was a solid and positive step forward in achieving the principles contained in the Paris Declaration, most notably that of mutual accountability.

### *Fragile States Principles*

As part of the Accra Agenda for Action, Timor-Leste has volunteered to be one of seven pilot countries in which the success of the Principles for Good International Engagement in Fragile States and Situations will be monitored. Timor-Leste's first Consultative Meeting was successfully held from 2-3 March 2009 with a second meeting being held from 17-18 September 2010. Both meetings were well attended by the leadership of the country, high-level representatives from other fragile states and regions, international partners and civil society representatives.

The NDAE has continued to support the Ministry of Finance in its leadership role as Secretariat of the g7+. Through partnership with fellow fragile states, the g7+ is providing essential knowledge to the International Dialogue on Peace Building, which will dictate in the future how donors engage in fragile states. Furthermore, the leadership role of Timor-Leste has highlighted to the international community the transparent nature of the Government and its commitment to the Paris Declaration and Accra Agenda.

Co-chairing with the Netherlands (formerly with the United Kingdom) under the auspices of the International Dialogue on Peacebuilding and Statebuilding, Timor-Leste has participated in the International Dialogue in Monrovia, which produced the Monrovia Roadmap for Peacebuilding and Statebuilding as a pre-condition to working towards achieving the MDGs in 2015.

A series of high level commitments were being prepared and announced at the Fourth High Level Forum (HLF-4) in Busan in December 2011. These commitments will highlight the way aid is delivered and seek ways to improve the behavioural changes of development partners in fragile states.

### *The g7+ of Post-Conflict and Fragile States*

While many states are underdeveloped or plagued by social unrest, fragility poses particular problems that combine underdevelopment and conflict. Fragile nations and regions are among those furthest from reaching the MDGs.

Despite international engagement through donor aid and assistance, little progress has been made in alleviating the suffering of people in these countries and regions, with 54% higher prevalence of malnutrition, 20% higher child mortality rate and 18% lower primary education completion rate compared to other developing countries and regions. It was clear that urgent action was required.

The g7+ is a group of 19 of these fragile states. These states have come together in order to share experiences and actively advocate international actors and the development community to engage more effectively in fragile and conflict-affected countries and regions. In doing so, the g7+ seeks to provide a fragile state perspective on fragility in order to work with donors to improve the effectiveness of their assistance and help the membership to transition out of fragility – to say ‘*goodbye to conflict and welcome development*’.

Established in April 2010 in Dili, Timor-Leste, the group has grown from its original membership of 7 states to include countries across Asia, Africa and the Pacific, representing 350 million people globally. The overall aim of the g7+ is to support state-led transitions from fragility to agility while at the same time encouraging improved aid and aid mechanisms.

Since its inception, the g7+ has developed an increasingly coherent agenda that provides an understanding of fragility from the perspective of fragile states themselves. The g7+ believes that a deeper understanding of the social, economic, political, historical, linguistic, geographic and cultural landscapes of these countries is crucial in assisting transition out of fragility.

The g7+ held its inaugural meeting at the first International Dialogue on Peacebuilding and Statebuilding (IDPS) in Dili, Timor-Leste in April 2010. The meeting consisted of a closed-door session among representatives of fragile and conflict-affected countries and regions to share experiences, draft a vision statement and adopt a future vision of the g7+ forum. The Dili Declaration developed out of this meeting now acts as the Charter for the g7+.

Alongside the Dili Declaration, the g7+ Statement was also agreed upon. In the document, participants declared their willingness to reduce poverty, end existing conflicts and provide better conditions for their people. The g7+ Statement set forth a series of common priorities and challenges member countries experience, and expressed the determination to continue working together to achieve a rapid transition to sustainable peace and development.

Timor-Leste was nominated as the first Chair of the g7+ and has overseen the infancy of the forum. 2010 was a year of consolidation, involving establishing a Secretariat in Dili and developing links with the g7+ membership globally.

### **Improved coordination with autonomous public authorities**

The MoF appointed its representative for the Utility Board of Timor-Leste in consideration of concession agreement for the National Electricity System that is in force for a period of five years. Its function is to provide direction to management of Electricidade de Timor-Leste (EDTL) business and operations.

MoF has also appointed its representative to the Autonomous Service of Drugs and Medical Equipment (SAMES) Fiscal Board while the appointment of a MoF representative to the Board of Directors for Radio and Television of Timor-Leste (RTTL) is pending as of this writing.

In 2011, the PFMCBP-MoF has recruited a Finance Advisor for the National Directorate for Autonomous Public Authorities. This is the first technical assistance that was put in place since ND-APA was established in 2009. The role of the Finance Advisor is to assist ND-APA

to develop a sustainable and transparent system for managing autonomous public agencies through effective monitoring of the financial management of each autonomous public agency and reporting its findings to the MoF. Recently, a proposal has been submitted to PFMCBP-MoF to fund a Legal Advisor for two months to review and draft amendments to the Decree-Law on Public Companies to fit into the Timor-Leste context.

Staff in the National Directorate for Autonomous Public Authorities were trained to use the Budget Transparency Portal in order to enable them to monitor expenditures and receipts of autonomous public authorities.

Preliminary reports were submitted by various autonomous public authorities to National Directorate for Autonomous Public Authorities. These reports have provided information on the level of intervention needed by these authorities from MoF. One of the areas identified was the establishment of the official bank account for depositing revenue collections for some autonomous public authorities. This action was coordinated with the National Directorate of Treasury for further action.

### **Improved economic forecasting and analysis**

After being in office for one year, the Macroeconomic and Tax Policy Unit split into two separate National Directorates: 1) National Directorate of Macroeconomy; and 2) National Directorate of Petroleum Fund. As the result, there has been a significant improvement in policy analysis and economic forecasting in DGPAR. The following are some of the major achievements:

- For the first time, the Government reformed the tax law in 2008 with the fundamental objective to facilitate investment by the private sector. National Directorate of Macroeconomy contributed significantly to the economic analysis of the law.
- Economic analysis and forecasting required appropriate models. In cooperation with IMF, National Directorate of Macroeconomy established a macroeconomic framework as a tool to compute and forecast fundamental macroeconomic indicators, such as Gross Domestic Product (GDP), GDP per-capita, inflation, short and medium term fiscal sustainability, and Balance of Payments (BoP). With the macroeconomic framework Timor-Leste, for the first time, was able to compute non-oil real GDP (growth rate and the GDP level) from 2008 to the present. The National Accounts will be launched in early 2012 and computation of actual GDP will then be done using the National Accounts. However, macroeconomic framework will continue be used for the projection of GDP and other fundamental macroeconomic indicators.
- Produced in-depth analyses on fundamental macroeconomic indicators, such as inflation, fiscal sustainability, sectoral analysis, Value Added Tax, and economic productivity, and provided policy advice to senior Government officials.
- Conducted domestic revenue projections on a regular basis to help the Government in adopting prudent fiscal policies. Along with the projection, the domestic revenue analysis also included collection of data and information from relevant line ministries, autonomous agencies, and other entities.
- Took the lead on the economic analysis of Timor-Leste joining the Association of the Southeast Asian Nations (ASEAN). As part of consultation efforts, an international conference on ‘Timor-Leste joining ASEAN from an Economic Perspective’ was held

in Dili in May 2011. In addition, an analysis on the economic benefits and costs of Timor-Leste joining ASEAN is underway.

- Participated and contributed in the discussion and analysis of the establishment of a commercial bank and central bank of Timor-Leste. As the result, for the first time, Timor-Leste established the Central Bank (Banco Central Timor-Leste) and a Commercial Bank (Banco Comercio de Timor-Leste) in 2011.
- Facilitated IMF Article IV yearly mission to conduct an impartial evaluation and examination of economic development in Timor-Leste.
- Established cooperation with academics in Timor-Leste. The fundamental objective of this cooperation was to involve academics in policy analysis and to share expertise with them.
- Built the capacity of local technical staff through cooperation with the Overseas Development Institute (ODI) of England, Columbia University of USA, ADB and IMF. As a result, seven young economists are now helping DGPAR and local staff are gradually taking over technical jobs from their international advisor counterparts.

### **Enhanced statistical data collection and publications**

National Directorate for Statistics' (NDS) mission is to collect, process, analyse and disseminate data and information, coordinate and support Government Ministries, departments and other agencies within the system of official statistics in Timor-Leste and take an active part in international statistical cooperation. It is also mandated to provide good quality, timely and reliable data about the country.

NDS finalised its Statistical Work Plan 2010 – 2019 in March 2009. Regarding the work plan, NDS has already implemented the 'Demographic and Health Survey 2009/10' and the 2010 Census.

NDS is now working on the thematic report for the 2010 Census. Other priority actions for 2012 include:

- Launch the results of the Household Income Expenditure Survey 2011
- Do an annual Business Activity Survey. The first survey of this type was done in 2010
- Finalise the Draft Statistics Law, and
- Finalise and compile the publication National Account 2004 – 2010, used System National Account (SNA) 2008.

NDS staff regularly participated in training courses provided by international donors such as UNSD, UNESCAP, UNSIAP, ADB, UNFPA, IMF and SCP.

NDS produces regular statistical products like:

- Timor-Leste in Numbers (annual)
- Trade Statistics monthly and annually, and
- Consumer Price Index (CPI) monthly for Dili and Quarterly by district and country.

### **Implemented Sensus Fo Fila Fali**

*Sensus Fo Fila Fali* – Giving Back the Census – was an ambitious project to share the key results of the 2010 Census with every suco – village area - in the country. It was implemented during the last quarter of 2010 by the National Directorate for Statistics under the Ministry of Finance. One of the main ideas behind the project was to give back to local communities the feedback they deserve for having made generous efforts to make the collection of Census information successful.

A special 24-page Suco Report was produced for every one of the Timor-Leste's 442 sucos. Each Report contained statistical information, graphs, maps and illustrations showing how the suco is performing and compares the suco with the district and country. The reports also provide detailed indicators and targets for a variety of topics, including education, health, water and sanitation, electricity, and mortality levels.

Five main activities were conducted during the preparation and implementation of *Sensus Fo Fila Fali* a project:

1. meetings with district administrators
2. meetings with suco chiefs
3. regional training
4. launching of the project and
5. dissemination to 442 sucos.

Meetings with district administrators and suco chiefs was part of the sharing of information about the project implementation while the regional training was more targeted towards the District Development Officer (DDO) and Community Development Officers CDO / Local Government Officers (LGO) and facilitators from DGPAR on how to present the suco report to the local community at the suco level.

Over one-and-a-half months, starting on 7 November 2011 and finishing on 21 December, 18 dissemination teams visited every suco, where the Suco Reports were presented at a full-day workshop with community leaders.

At the *Sensus Fo Fila Fali* workshops, participants were taught how to interpret the social indicators presented in the Suco Reports. They also learnt how these indicators are related to the Millennium Development Goals (MDGs) and how they can be used as benchmarks to monitor the socioeconomic progress of their villages. The workshops gave community leaders a clear idea of the real situation in their respective sucos, as well as the statistical picture on the district and national level.

Another important objective of the project was to serve as inspiration for Suco Chiefs and to get local communities involved in the process of improving the living conditions of everyone living in Timor-Leste. Workshop facilitators were also able to give community leaders some concrete advice on how to achieve local progress, thus speeding up the development process.

Dissemination directly involved 8840 participants from 442 sucos, 18 District Development Officers, 65 Community Development Officers or LGOs as the facilitators, 18 facilitators and 18 NDS units from General Directorate of Policy Analysis and Research (DGPAR).

Suco reports were made available on the Ministry of Finance website and on USBs to Government Departments, NGOs and other organisations involved in development, as well as hard copy sets to key agencies.



Some of the major achievements from the Sensus Fo Fila Fali project were

- some Suco Chief started to use the suco report as a reference for their meeting of the suco council;
- developed good collaborative working relationships with local authorities ranging from district administrator to suco chiefs; and
- assisted local authorities to make more informed decisions based on evidence.

Besides these achievements, there were also some challenges faced during the implementation of this project such as:

- rainy season which caused the worse road condition
- administrative data from the suco versus Census results on population and household that are very different, and
- some households provided false information during the Census.

Some recommendations were presented to improve the future implementation of Census activity and also the dissemination of the results such: (1) the dissemination should be conducted in the dry season; (2) Census activity to use border of the suco instead of enumeration areas and (3) the need for civic education on the importance of the Census.

The report on the *Sensus Fo Fila Fali* program report is currently under revision within DGPAP. It is planned to print the report in early 2012. The report will be available in 2 languages; Tetum and English.

### **Other undertakings**

A reform of the debt management area was undertaken in 2011. The main features were the targeting of significant new debt and to isolate resources that were being diverted for other purposes. NDDR issued the first two garnishee orders in 2011. These orders were issued against taxpayers who had won contracts with the Government but also had an outstanding tax debt. The issuance of garnishee orders is acknowledged as a substantial step in the growth and power of a tax department. An additional garnishee was issued to Treasury for an outstanding tax debt and realised a \$246,000 payment. A leverage exercise was undertaken against a large importer who owed tax resulting in an outstanding tax debt of \$500,000 being paid.

Auditing work has since been regularised through the engagement of an external auditor, Deloitte. While previously the auditor had audited each year, based on the Ministry's request, the auditors now zero in on particular areas like Customs, PNTL, performance of the budget and expenditure, specialised agencies and the line ministries. In December 2011, Deloitte completed an independent review of financial systems which identified ways to further strengthen management and operations. This review supported the plan of the Ministry to establish a new National Directorate of Information Systems and Technology.

The Revenue Collections group was reorganised and resulted in a more efficient use of staff and training resources and allow the prioritising of debts to ensure timely recoveries. Within its Audit section, 60 audits were undertaken in 2011, significantly higher than the 33 completed the previous year. These audits assessed \$300,000, an increase of \$100,000 on the same period in the previous year. Domestic Revenue continued to work with procurement



and customs import data to income match taxpayers against their tax returns to identify shortfalls in tax payments.

The establishment of the \$200 million dollar taskforce in January 2010 and the report containing recommendations by the taskforce on attaining non-oil revenues of \$200 million in the near future, provided a firm basis for tax reform and an array of ways to raise revenue collections. The taskforce's main finding was that the \$200 million goal is achievable in the medium term but some immediate changes could increase revenue receipts in the short term. This can occur with further improvements in domestic tax administration and coverage and a modifying policy, mainly through raising excise duties and beginning the analytical work required to implement a Value Added Tax. These measures should augment collections and help achieve the \$200 million goal.

With the assistance of the Pacific Financial Technical Assistance Centre (PFTAC), Timor-Leste joined PITAA in 2011. This provided Timor-Leste with access to European Union funding for technical assistance. Likewise, and with the assistance of PFTAC, Timor-Leste Customs joined the OCO in 2011. This organisation provided Customs with an opportunity to work with other customs organisations of similar size and complexity. It also provided Customs with the opportunity to access technical assistance provided by the EU through the OCO.

The new Ministry of Finance website went online in 2011 with a section on Customs introduced for the first time. The website answers frequently asked questions providing both legislation and information for both importers and brokers. Anecdotal evidence indicates that this information has greatly assisted the local importing business community.

Similarly, a new MoF logo was adopted in 2009. The new Logo of the Ministry of Finance has the shape of a pentagon which portrays a sense of power. The five angles represent the five major reform programs that MoF is pursuing to improve the Public Financial Management system of the country. They are policy and legislations reform, systems and procedures reform, institution building, human resources development program and physical infrastructure program. The golden circle in the centre is called *Belak Osan Mean*, worn usually by men representing the family's wealth. The necklace called *Mortein* is its equivalent but worn by women. It recognises the role of women in building the country and creating wealth. The *tais* in the background represents the Timorese culture within which the MoF reforms are taking place to achieve a more culturally appropriated Public Financial Management system for Timor-Leste thus contributing to the MoF motto, *Making the Timorese Dream Come True*, a truly financial independent nation.

## D. Human resource development

### Increasing the functionality of the Human Resources Department

There was a critical need to transform the Human Resources Department in Corporate Services to support those human resource functions needed to advance the attraction, hiring, training and retention of national staff required to meet the Ministry's current and future needs. Ultimately, the Human Resources Department should be a key player in how the Ministry executes its overall strategic plan. If the Ministry needs to grow, move into new areas, revamp its customer service or its image, the Human Resources Department must be

there to help provide workforce plans that support employee growth, skills assessments, competency profiles and to apply effective recruiting and selection methods.

As part of the change management regime, the Ministry of Finance developed a merit-based selection process and developed proper selection criteria for filling vacant positions in the course of reforming the Ministry. Under the supervision of the Public Service Commission (PSC), four cycles of merit-based recruitment for all grades were conducted between 2007 and 2012. A number of civil servants in Grade A, B and C were selected in 2009, 2010 and 2011, allowing the Minister to propose to the Public Service Commission (PSC) the appointment or renewal of four General Directors, 10 National Directors and 39 Heads of Departments.

### **Staff Mapping Project**

To support individual and organisational capacity development for the Ministry, a staff-mapping project has begun for the entire Ministry workforce. The purpose of this project is to:

1. Conduct comprehensive and detailed job and organisational analyses of current tasks being performed in order to define written duties and responsibilities together with expected performance standards
2. Recommend organisational strengthening for improving current and anticipated capacity objectives, and
3. Recommend other capacity enhancements for human resources and training and development functions.

### **New job descriptions / person specifications**

A revised *job description/person specification* format has been developed to fit the specific needs of the Ministry of Finance. A number of special features have been incorporated to assist in the development and progression of individual staff capabilities. The new job descriptions will become an integral part of the management of each Directorate.

### **Specific training identified**

With the development of individual development plans for each staff member, specific training objectives are being identified to improve staff effectiveness and productivity. The following four programs are proposed as ‘core training’ required for all staff with ‘in-house’ training capacity being strongly recommended:

- Management development training
- Customer service training
- Language speaking and writing training, and
- Various levels of computer and database training.

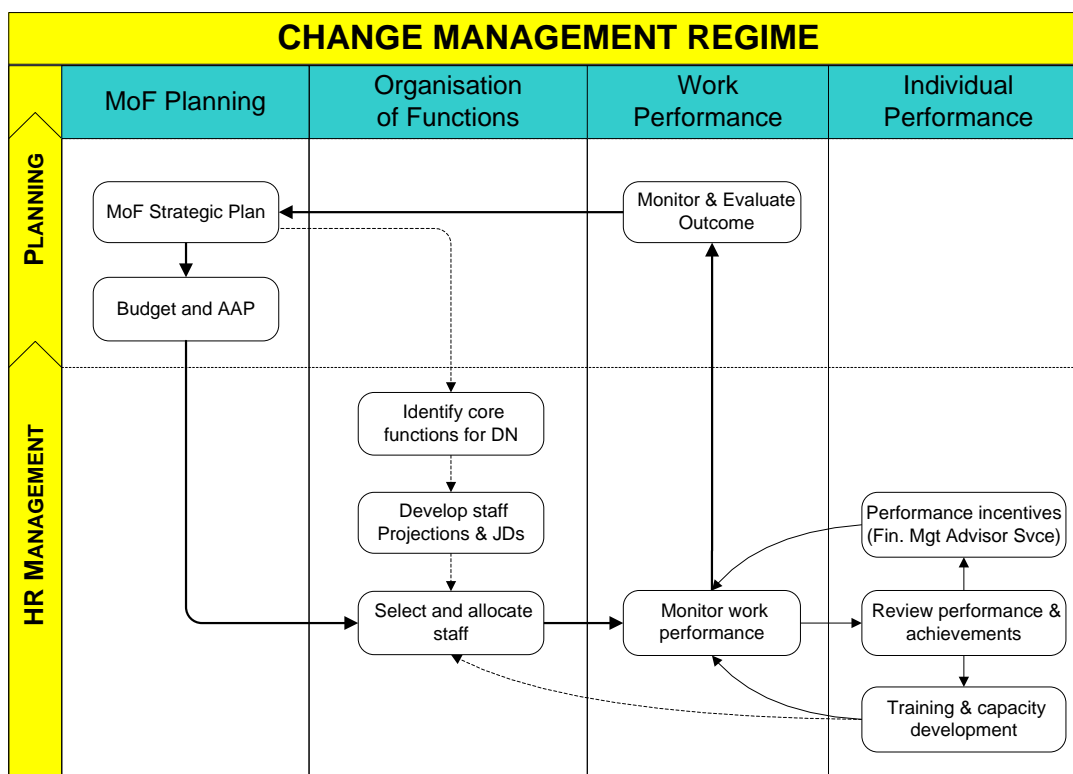
Broad training priorities have been identified for each National Directorate and are currently being implemented under the Ministry’s Annual Training Program. Individual training plans are to be developed following the completion of the Staff Mapping Project later in 2012 and the commissioning of the Professional Development Centre.

Customised training to develop specific skills for each Directorate is being strongly encouraged and supported. A number of these training programs have already started:

- In 2011, the Ministry of Finance signed a contract with the CCES from the University of Canberra to deliver a full range of training programs for Customs. Part of the program involved a train-the-trainer course to enable subject experts within Customs to deliver training in the future.
- An audit training program was undertaken for Audit and Appeals staff in 2011. Revenue collections, registration and taxpayer awareness staff were given significant on-the-job training and will continue to receive this in 2012.
- Soft skills development programs for managers are part of the 2012 Domestic Tax work plans.

## Change management

In order to establish a clear link between the reform program and human resource management in the Ministry, a change management regime was introduced as part of the Ministry's strategic plan.



The change management regime established a clear relationship between the planning functions in the Ministry and the strategic human resource management functions.

Specifically:

1. Selection and allocating staff
2. Reviewing performance and achievements of staff
3. Reward and performance incentives for staff, and
4. Training and capacity development of staff.

## Professional Development Centre

A Professional Development Centre is currently being constructed that will

- Provide support to National Directorates in developing and managing competency profiles for all positions, based on the outcome of the Staff Mapping Project
- Assist National Directorates to identify training needs such as:
  - enabling skills, like numeracy, literacy and language
  - technical skills, specific to National Directorates
  - management skills, like planning, organising, leading and controlling
- Develop training programs for both Ministry staff and for financial management staff in line ministries.
- Prepare and run an annual training calendar.
- Support development of staff in Ministry of Finance, including
  - finalising policy on training, study leave, staff development and evaluation of staff development
  - publishing staff development manual and procedures
  - strengthening capacity of National Directorate staff to manage the staff development process
- Manage the training operations like contracting training providers, logistics, and evaluating training activities.
- Identify priorities for scholarship programs that support Ministry of Finance's long-term professional development requirements and manage the selection and award of scholarships.

In 2008, the Ministry commenced a scholarship program for Ministry staff and Timorese citizens for university education both within and outside Timor-Leste in priority areas identified by the Ministry. This initiative started in 2008 with the support of the PFMCBP and since 2011 has received support from the State Budget through Human Development Capital Fund Program.

To date the following scholarships have been awarded:

- Full scholarship to 79 people who are studying in Darwin and Adelaide, Australia, Jakarta, Indonesia, and Bangalore, India. Students are also studying at UNTL in Dili. Areas of study include finance, accounting, IT and statistics. There are 69 students studying for their Bachelor degree and 10 Masters degree candidates.
- Supplementary scholarship have been given to 100 Ministry staff who have gone to university in Timor-Leste or Indonesia at their own expense. Supplementary scholarships are additional and partial support to help Ministry of Finance staff complete their studies.

Also in 2011, the Office of the Vice-Minister provided Portuguese classes for employees in the office and in the General Directorate of Revenues and Customs to help improve their linguistic skills in one of the official languages of Timor-Leste.

### **Support to other Government bodies**

As decentralised procurement thresholds were established to facilitate budget execution by line ministries, MoF trained line ministries in procurement, monitoring, budgeting and entering of CPVs.

Capacity building was given specific attention in support of the decentralisation program. Four Procurement Cycle Training Programs were delivered throughout 2010. The Program was conducted over 20 days and included modules on: procurement planning, specification writing, tender process, bid evaluation, post tender negotiations, establishing contracts, managing contracts, decentralisation and accreditation, annual procurement reports, and supplier registry.

Additional modules were delivered on Tax, Customs, Treasury and Budget by the respective Directorates, and the issues common to both were explained in detail. There were between 30 and 45 participants from most line ministries in each program. Evaluation reports of participants rated the programs highly.

## **E. Infrastructure development**

In mid-August 2007, the Ministry of Finance had the following infrastructure in the capital Dili:

- Main Offices at Building V: located at the Government Palace Compound
- Planning Building: currently refurbished and used as Office of the Vice-Minister and Central Office for Customs
- Statistics Office Building at Caicoli
- Assets Office at Balide
- a warehouse at Fomento and a couple of ‘Kobe Houses’ attached to each of these facilities.

Likewise, in the districts, MoF had the following infrastructure:

- Revenue office in Baucau and Maliana
- Office and sleeping quarters for Customs in Suai
- office space in the form of UN donated Kobe Houses in Salele, Tunubibi, Batugade, and Sakato.

In addition to the limited quantity and deteriorating conditions of these infrastructure, there was hardly a work-friendly environment in terms workstation arrangements, as well as clear division between ‘front’ and ‘back ‘ office particularly in the working units which provided services to other line ministries or to the public. Even files were scattered around without any



proper filing system, making it difficult to track any institutional or corporate recorder from the previous Government.

The work spaces of the Ministry were overcrowded and disorganised. Moreover, some of the infrastructure allocated for this Ministry were either destroyed during the 2006 crisis, such as the Customs Office next to Hotel Timor or, as in the case of the former Indonesia Finance Building compound in Caicoli, was handed over to the private sector by the Ministry of Tourism, Commerce and Industry (MTCI). In other instances, premises clearly allocated to this Ministry were transferred to other users such as the GNR compound in Caicoli, which was formerly the Customs Training Centre as well as the former Customs Building which was given the Brazilian Embassy.

Against these infrastructure constraints, new offices, fixtures and equipment were acquired by the Ministry throughout the term, including new workspaces and refurbished workstations being provided to all Directorates, as well as additional temporary spaces arranged through construction of one storey ‘Kobe Houses’ for National Directorate of Statistics, Assets, Domestic and Petroleum Revenue, Customs, and filing ‘compactors’ to all National Directorates operating from Building 5 and the Planning Building. In addition to that, a new training centre is being built to accommodate all in-service trainings provided to both MoF staff and staff from other line ministries.

A new 10-storey office building is being developed with the goal to provide a workable office environment for all MoF staff by 2015. Similarly a new residence for the Minister is under construction which is expected to be completed by the end of 2012.

Likewise, significant improvements to the overall infrastructure of the National Directorate of Customs have been achieved in 2011 in the following areas:

- The building of the Integrated Border Posts at Batugade, Salele and Sakato will allow all Government agencies to operate in a modern environment with minimum disruption to the movement of people and cargo through the border. The Government has invested heavily in these new buildings as a reflection of the country’s aspiration to move into ASEAN in 2012. Towards the end of 2010, the Vice-Minister of Finance led a task team to supervise the building of the Integrated Border Posts of Batugade, Sakato and Salele, which were complemented with the construction of access roads, adjacent buildings and accommodations for those working at the sites.
- Improvements to the office, accommodation and mess arrangements at Maliana, Bacau and Oecusse took place in 2011. These renovations have significantly improved the working environment of those posts.
- A new training centre was developed in the DGRC compound in Dili. The centre was both built and is in full use this year.
- In 2011, the Customs Marine Unit took possession of a new patrol boat built by Osprey Marine in New Zealand. The patrol boat and accompanying vehicle will be used throughout Timor-Leste to enforce marine compliance and to gather intelligence for the risk management unit of Customs.

With the building of the Integrated Border Posts, the Government has now provided technology improvements to Customs by way of hand luggage and small parcel x-ray machines, hand held security devices and security cameras. The management model of the



Integrated Border Posts is based on a rotation system involving different representatives from several line ministries. Consequently, various meetings were held in order to transfer knowledge to the line ministries and discuss ideas.

### List of Ministry of Finance' Fixed Assets

NO.	NAME AND CODES	GROSS AREA	LOCATION
<b>A MAIN BUILDING</b>			
1	MoF Building (Main)	10,800.08 (M <sup>2</sup> )	Building No. 5
2	DGRC Building (including Office of Vice-Minister of Finance)	3,832 M <sup>2</sup>	Colmera
3	Assets Building	5,172M <sup>2</sup>	Balide
4	Statistics Building	3120 M2	Caicoli
5	Customs Airport Building	448 M <sup>2</sup>	Comoro
6	Customs Building Maliana	961.25 M <sup>2</sup>	Maliana
7	Customs Building Batugade	1120 M <sup>2</sup>	Batugade
8	Customs Building Oecusse	961.25 M <sup>2</sup>	Oecusse
9	Imposto/Customs Building Baucau	961.25 M <sup>2</sup>	Baucau
10	Statistics Baucau		Baucau
11	Statistics Maliana	615 M <sup>2</sup>	Maliana
12	Statistics Suai	988 M <sup>2</sup>	Suai
13	Assets Suai		Suai
14	Customs Suai	1,898,10 M <sup>2</sup>	Suai
15	Imposto Building Maliana		Maliana
16	Mess Custom Oecusse		Oecusse
17	Assets Oecusse		Oecusse
18	New MoF Building	20,516 M <sup>2</sup>	Aitarak Laran
19	Assets Mini-Workshop	750M2	Balide
20	MoF Warehouse	2450M2	Fomento
<b>B KOBE HOUSE</b>			
1	Kobe House MoF Building ( - NAO, DEAE, DENAPA and PB System Kobe house )	3552 M <sup>2</sup>	MoF Building
2	Kobe House Customs	1212 M <sup>2</sup>	Colmera
3	Kobe House Imposto	240 M <sup>2</sup>	Colmera
4	Kobe House Asset Building	1676 M <sup>2</sup>	Balide
5	Kobe House Customs Batugade	448 M <sup>2</sup>	Batugade
6	Kobe House Customs Portu Dili	448 M <sup>2</sup>	Portu Dili
7	Kobe House Statistics Building	1,017.45 M <sup>2</sup>	Caicoli
<b>C PARKING AREA</b>			
1	Area Parking MoF (Main)	1,178 M <sup>2</sup>	Building No.5
2	Area Parking DGRC Building (incl Office of Vice-Minister of Finance)	2,286.57 M <sup>2</sup>	Colmera
3	Area Parking Statistics	1,770.55 M <sup>2</sup>	Caicoli
4	Area Parking Assets Building	1,393 M <sup>2</sup>	Balide



5	Area Parking MESS Imposto – Customs Baucau	760 M <sup>2</sup>	Baucau
<b>D</b>		<b>GARDENS</b>	
1	MoF Building (Main)	2,450.33 M <sup>2</sup>	Building No.5
2	DGRC Building (incl. Office of the Vice-Minister of Finance)	76,05 M <sup>2</sup>	Colmera
3	Statistics Building	68 M <sup>2</sup>	Caicoli
4	Assets Building	45 M <sup>2</sup>	Balide
5	Imposto / Customs Baucau	35 M <sup>2</sup>	Baucau

### List of Ministry of Finance's Movable Assets

No.	Item	Gab-Ministra	Gab-Vice-Min	DGSC	DGFE	DNT	DNO	DNGPE	DNAPA	DNA/Apro	DGAP	DNE	DNME	DNP	DGRA	DNID	DNALF	DNRP	DNEAE	MPS	PFMCBP	Total
01.	Kareta	6	7	15	2	6	8	19	3	4	7	12	1	-	1	11	21	2	5	-	2	132 Units
02.	Motorizadas	2	-	19	1	32	16	12	1	16	3	19	3	-	1	7	28	-	-	-	-	160 Units
03.	Layar / Desktop	14	8	36	3	67	39	57	9	10	15	52	6	1	2	92	235	17	15	18	-	696 Units
04.	UPS	7	4	21	2	30	17	20	5	2	10	20	3	-	1	40	50	6	9	5	3	258 Units
05.	Printer	1	1	2	1	3	4	15	2	1	2	5	1	-	1	10	10	1	4	2	2	68 Units
06.	Printer / Color	1	2	1	1	2	1	3	1	-	1	1	-	-	-	1	-	1	-	1	1	17 Units
07.	Printer Scanner	1	-	1	-	-	-	-	-	-	1	-	-	-	-	1	1	-	-	-	-	6 Units
08.	Kamera Digital	1	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	5 Units
09.	Handycam Kamera Video	-	1	1	-	-	-	-	-	1	-	-	-	-	-	1	-	-	-	-	-	4 Units
10.	Telemovei Nokia	8	3	7	1	6	5	16	2	10	9	4	1	-	1	11	18	4	2	-	-	108 Units
11.	Telemovei Blackberry	-	-	4	-	-	-	-	-	1	-	-	-	-	-	-	1	-	-	-	-	6 Units
12.	Tape Sony Recaman	-	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5 Units
13.	Telefone Fax	1	1	1	1	1	1	-	-	-	1	1	1	-	-	-	1	-	-	-	-	10 Units
14.	TV 21 ins	1	1	3	1	8	2	1	1	2	2	1	1	-	1	1	1	-	-	-	-	27 Units
15.	Water Dispenser	1	2	-	1	3	3	3	2	2	2	2	-	-	-	4	2	1	2	-	-	30 Units
16.	Refrigerator/Jaleira	1	2	1	1	7	2	5	2	1	1	2	-	-	-	3	3	2	2	-	-	35 Units
17.	Vacuum Cleaner	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4 Units
18.	Tanki Bee	-	-	1	-	-	-	1	-	-	-	1	1	-	-	1	4	-	-	-	-	9 Units
19.	Sanyo Bomba Bee	-	-	2	-	-	-	1	-	-	-	1	-	-	-	-	7	-	-	-	-	11 Units
20.	Makina Esrei	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	2 Units
21.	Generator	-	-	1	-	-	-	1	-	-	-	1	-	-	1	2	13	-	-	-	-	19 Units
22.	Makina Crisbow	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4 Units
23.	Roh Patroli	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-	-	4 Units
24.	Forklift	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1 Unit
25.	Laptop	-	-	10	1	3	5	1	2	2	2	1	1	-	-	3	2	1	-	1	-	35 Units
26.	CCTV	-	-	Set (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Set (1)
27.	Makina Foto Copia	2	1	4	-	4	3	4	1	2	1	1	1	-	-	2	4	2	1	1	1	35 Units
28.	Telefone Fixo	3	3	3	2	5	3	5	2	3	2	4	1	-	1	6	5	1	2	-	1	52 Units
29.	Ekipamento Musika	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Set (1)	-	-	-	-	-	Set (1) Unit
30.	Ekipamento Tradusau	-	-	Set (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Set (1) Unit
31.	Ekipamento Sound Sisten	-	-	Set (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Set (1) Unit
32.	Projector	-	-	2	1	-	1	1	-	-	1	1	-	-	-	1	3	-	-	-	-	11 Units

### Status of the physical projects implemented by MoF

By the end of the mandate of the IV Constitutional Government, the following MoF physical projects will either be completed or expected to be completed soon:

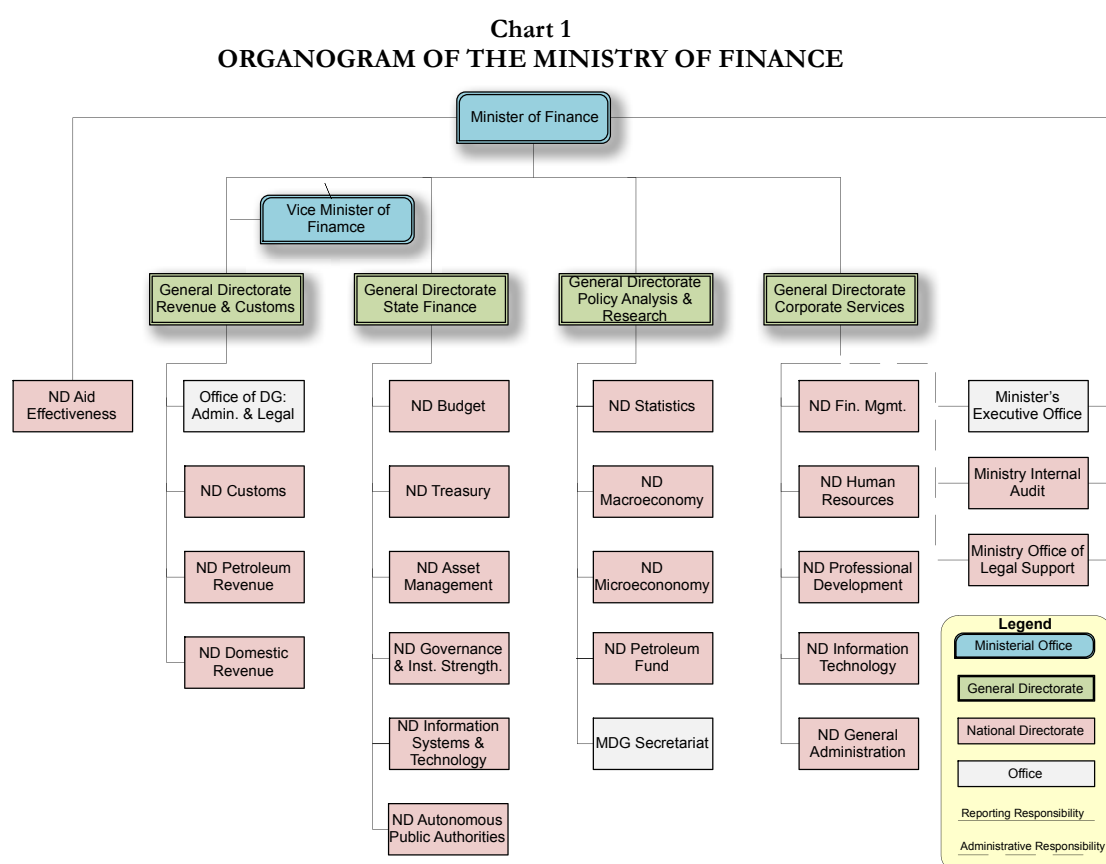
Name of physical project	Funding source	Commencing year	Status
Integrated Border Posts: Salele, Batugade, Sakato	Whole-of-Government Budget	2010	Inauguration in February 2012
Integrated Border Post: Passabe, Oesilo, Tunubibi	Whole-of-Government Budget	2012	Tendering process
Customs Building Baucau	MoF's Budget	2011	Completed
Assets Warehouse and Workshop, Balide, Dili	MoF's Budget	2011	Completed
Training Centre	MoF's Budget	2011	Completed
Ministry of Finance Building	Infrastructure Funds	2012	Expected to be completed in 2014
Minister's Residence	MoF's Budget	2011	Expected to be completed by the end of 2012

The Ministry expects to have completed all projects which were commenced before 2012. The major projects in the near term to be completed will be the new 10-storey building for the Ministry of Finance and further work on integrated border posts.

## II. Summary of the Current Financial, Organisational and Strategic Policy Position of the Ministry of Finance

### MoF's current organisational set up

The Ministry of Finance Decree-Law 13/2009 established the structure of the Ministry of Finance in terms of 'General Departments' otherwise known as General Directorates, under which are 'National Departments', known as National Directorates. There are four General Directorates namely, Revenue and Customs, State Finances, Policy Analysis and Research and Corporate Services. The Aid Effectiveness National Directorate also reports to the Minister of Finance. The organisational structure is shown in Chart 1 that follows:



The composition of each General Directorate is described below:

Directorates and Departments within Ministry of Finance	
Existing	Additional Units/Departments/Directorates
<b>General Directorate of Revenue and Customs (DGRC)</b>	
National Directorate of Customs	Revenue and Customs Appeal Section.
National Directorate of Petroleum Revenue	Revenue and Customs Legal Office
National Directorate of Domestic Revenue	Administration Office
<b>General Directorate of State Finances (DGSF)</b>	

Directorates and Departments within Ministry of Finance	
Existing	Additional Units/Departments/Directorates
National Directorate of Budget	National Directorate of Information Systems and Technology
National Directorate of Treasury	
National Directorate of Assets Management	
National Directorate of Procurement	National Directorate of Governance and Institutional Strengthening (Financial management and capacity building support to all organs of Government, including decentralised functions – incorporate roles of current National Directorate of Procurement)
National Directorate for Autonomous Public Authorities	Administration Office
<b>General Directorate of Policy Analysis and Research (DGPAR)</b>	
National Directorate of Statistics	Administration Office
National Directorate of Macroeconomics	Microeconomics Department
National Directorate of Petroleum Fund	Research Department
	Investment Advisory Board (IAB): an independent body reporting directly to the Minister
<b>General Directorate of Corporate Services (DGCS)</b>	
Department of General Administration	Ministry's Internal Audit
Department of Financial Support Services	General Legal Services
Department of Information and Technology	Support to Minister's Office and Media Relations
Department of Human Resources Management	Documentation and Records Management
(Note: the above Departments are to be upgraded to National Directorate Level)	Translation services
	National Directorate of Professional Development
<b>National Directorate for Aid Effectiveness</b>	

Currently the Ministry has a total of 696 people divided by grade as follows:

Grade A	=	3
Grade B	=	17
Grade C	=	57
Grade D	=	193
Grade E	=	188
Grade F	=	158
Grade G	=	80

In 2012, in consultation with the Public Service Commission (PSC), the Ministry is processing the recruitment of 236 staff based on established staffing vacancies, divided by grade level as follows:

Grade A	=	1
Grade B	=	19
Grade C	=	29
Grade D	=	88
Grade E	=	75
Grade F	=	23
Grade G	=	1

## MoF's Strategic Plan: 2012-2030

Ministry of Finance's services are essential to the delivery of the Government's Strategic Development Plan (SDP), so it must build its capability ahead of the rising demands that will be made for its advice and its services. There are gaps in some existing capabilities with urgent requirements to lift the quality and volume of the services MoF provides.

The SDP is a technically complex development plan and Ministry of Finance must provide services at standards that meet these technical demands as soon as possible, in order to support the Government in making and implementing sound decisions about fiscal policy and development. Ministry of Finance's Strategic Plan 2012 -2030 outlines how these improvements will be achieved.

The Ministry has prepared a strategic plan, which describes its current situation and long term intentions, the capacity challenges it must meet to lift its performance and how it will support the SDP. The strategic plan contains detailed material on the National Directorates, identifying their roles, objectives, operational plans, staff and other resources together with capacity building plans over a five-year horizon. Presented in a series of annexes this material was derived from a facilitated process of strategic planning in the directorates and, together with Annual Action Plans and related materials, constitutes a suite of management documents that will support the evolution of management capabilities, systems and a more performance-oriented organisational culture in the Ministry.

The overarching requirements of the Ministry's strategic plan are to:

- Link the Public Financial Management system and the Ministry's activities strongly to the SDP
- Strengthen the transactions processing and general operations of the Ministry
- Inculcate higher standards of client service and responsiveness, and
- Add intellectual capability to the technical functions of the ministry, so that it can provide sound advice to the Government of Timor-Leste on fiscal and economic issues.

The Ministry of Finance must also be successful in playing its part in institutional reforms especially around the SDP, decentralisation to future municipal governments, regional cooperation and integration, fiscal and financial aspects of State financial institutions and other autonomous commercial organisations.

## Vision of the Ministry of Finance

**‘HELP YOU ACHIEVE YOUR DREAMS’** is a pioneering motto adopted by the Minister of Finance to guide the actions of the Ministry. In addition, at the 10<sup>th</sup> Anniversary of the Timor-Leste’s vote for independence, the Government promoted the slogan: **‘GOODBYE CONFLICT, WELCOME DEVELOPMENT’**.

These, and the following Vision of the Government’s SDP: *“Given Timor-Leste’s attributes, the country will ultimately take its place amongst its regional neighbours to become an advanced economy.”* informed the development of the vision for the Ministry of Finance in the following terms:

***‘Improving the quality of life of the people of Timor-Leste through peace, stability and sustainable development by playing the role of a competent professional ministry in the formulation and conduct of pro-poor fiscal policies and in administering the State Budget in a prudent and effective manner, while preserving high standards of integrity, transparency, accountability and ‘client-orientation’***

## Strategic goals

In its quest to realise the vision, and meet the challenges posed by the SDP, the Ministry of Finance embraced the following strategic goals for the next 20 years:

- Attain high quality and responsive PFM services.
- Be proactive in the identification of issues, challenges, risks and opportunities and advising on beneficial changes.
- Be able to recruit and retain staff from among the top graduates in economics, finance, and other relevant disciplines.
- Establish adequate systems as well as effective and efficient processes.
- Adopt appropriate organisational structures and working conditions.

### GOAL ONE - Attain high quality and responsive PFM services

The Ministry of Finance should be able to provide high quality and responsive PFM services to support the Minister for Finance’s role (within the collective responsibilities of the Council of Ministers) in order to:

- Promote economic and fiscal policy to support the development of Timor-Leste
- Ensure that the Government’s development plans are fully consistent with fiscal sustainability and transparency requirements
- Manage the fiscal performance and position of the Government as a whole
- Facilitate adherence to fiscal sustainability and transparency requirements
- Set standards for the financial management systems, and
- Monitor the performance of such systems.

A sound framework for fiscal management is needed, including legal requirements regarding fiscal sustainability and transparency. This should build on the current requirements for sustainability of income from petroleum resources to become a comprehensive multi-year fiscal framework (see Attachment 3).

The SDP prescribes investment in human capital, infrastructure and sector development, with a strong role envisaged in the economy for the private sector, especially small and medium

sized enterprises and foreign direct investment. To play its part in implementing the SDP the Ministry of Finance must be geared up to provide high quality policy advice and services including a well-developed multi-year fiscal strategy to frame the annual budgets.

The Ministry of Finance also has to provide the information and the management processes so that the Minister for Finance can fulfil the role of directing the Ministry with regards to all its functions. The Ministry of Finance's role in relation to the planning functions located under the Prime Minister will be defined in the future. Regardless of the scope of services in the planning functions, the Ministry of Finance must provide high quality economic and fiscal policy advice, extending beyond macroeconomic and fiscal policy, to providing advice on how to link the budget with the achievement of SDP goals and to strengthen the performance incentives for ministries and the implementing agencies. It should provide second opinion advice on policy and spending proposals from budget using organisations.

In summary, well before 2030, the Ministry of Finance has to be a provider of high quality economic and fiscal policy advice that extends from economy wide analysis to advice on possible regulatory, service, institutional, financing or other interventions in particular sectors.

### **GOAL TWO - Be active in the identification of issues, challenges, risks and opportunities and advising on beneficial changes**

The Ministry of Finance should be proactively identifying issues, challenges, risks and opportunities and advising on beneficial changes. This should be part of a continuous search for ways of doing things better within the Ministry and a continuous search for how the Ministry can encourage improvements in the wider public sector. It should include a search for ways to reduce barriers to business and to carry out regulatory functions in an effective and efficient way. Within the next five years, the Ministry of Finance's working culture should be consistent with the following expectations:

- All managers work with their staff to make continuous improvements in the performance of their units and the ministry as whole.
- Frank and fearless advice is provided to the Minister and this is based in thorough consideration of evidence, the application of professional skills and sound processes.
- Planning, review and control systems are in place to ensure that all work across the Ministry of Finance is of high quality.
- A clear and firmly applied policy of zero tolerance for corruption within the Ministry of Finance, and in relation to its dealings with external parties.
- Cooperative and efficient working practices are actively encouraged within the Ministry of Finance, and behaviours that detract from this should be actively discouraged, with consequences in staff performance management systems.
- The Ministry of Finance is professional and polite in its dealings with external parties, and cooperative without compromising its role and position on issues.
- The Ministry of Finance engages interested and affected parties in policy development and other work to ensure that the Ministry of Finance understands the possible options and the consequences of proposals.

### **GOAL THREE - Be able to recruit and retain staff from among the top graduates in economics, finance, and other relevant disciplines**



The Ministry of Finance should define personnel requirements matched to the directions of development for the Ministry of Finance, and how the staff and contractors with the required skills will be acquired and developed. This should be regularly updated to reflect the changing requirements of the Ministry of Finance, and the market for staff. While it is premature to state what precise human resource mix might be needed by 2030 some preliminary specification of this goal includes that the Ministry of Finance:

- Is a highly sought after employer by skilled workers and graduates seeking positions in Timor-Leste, and is the number one choice for the top graduates in economics, finance, and other relevant disciplines.
- Has staff producing high quality forward thinking economic, fiscal and regulatory policy advice, with staff members who are at the leading edge of policy making and analysis in these areas in relation to Timor-Leste.
- Efficiently runs the 'business as usual functions' with staff continually achieving better performance.
- Has officials in management positions, who create an environment that is conducive to high performance.
- Is innovative in using external advisors, managing them in a professional way with the use of suitably designed contracts to encourage performance.
- Operates a performance management system for staff that reflects the demands on the Ministry, and that rewards performers and effectively and fairly deals with non-performers.
- Has a moderate staff turnover once it has established a suitable staff mix.
- Has recruitment and training policies that ensure that the staff skills and mix are matched to the vision for the Ministry and the demands in it over the medium term.
- Reinforces support for training and development at a local level by reserving overseas training, internships and work placements for staff who have demonstrated capacity to successfully participate in and perform well on training and development initiatives conducted in Timor-Leste.

#### **GOAL FOUR - Establish adequate systems as well as effective and efficient processes**

Well before 2030 the Ministry of Finance should have adequate systems to support its work that are kept under review to ensure they are able to meet core business requirements as well as the emerging priorities in the Ministry's work.

Moreover, at a general level, expectations for all the major Ministry of Finance's processes by 2030 would be that they produce the results required, are efficient and effective, are well maintained, and there are plans in place to maintain or upgrade them to reflect changing demands.

The key processes that will need continual attention are:

- Macroeconomic and fiscal forecasting, planning and policy including revenue (oil funds and other revenue), debt, deficit, expenditure and risk management. Considerable upgrades in the data, analysis and policy-making aspects will be required. Expect to have a full fiscal framework that includes a credible annual fiscal strategy that forms a powerful guide for the annual budget.
- Budget process operating within the fiscal policies (includes the Medium Term Expenditure Framework; budget analysis on spending proposals. Expect to have an

orderly, timely, complete, and efficient budget process that results in a credible budget reflecting the fiscal strategy. Credibility of the budget should be reflected in: full coverage of Government in the budget with low or no extra budgetary expenditure; clear basis for budget transfers; appropriate budget classifications; use of international accounting standards; linking of annual budget to fiscal strategy including a Medium Term Expenditure Framework with effective prioritisation and investment planning and budgeting; moderate to low level of in-year changes; low variance of expenditure when compared to what was budgeted; low variance of revenue out-turns compared to forecasts; low level or no arrears.

- Spending reviews, program evaluation, and machinery of Government advice that contributes to incentives to upgrade performance and improvements in public sector productivity.
- Cash management process that supports good management of cash with robust and up to date cash forecasting, expenditure commitment and disbursement controls.
- Monitoring all the budgetary bodies including ministries, Secretary of States, agencies, local government, others within the Ministry of Finance's mandate including monitoring of regular financial and non financial performance reports with appropriate follow up actions.
- Debt management with good records, up to date debt sustainability analysis, and controls on the creation of liabilities.
- Reporting financial position and related non financial performance reporting at the whole-of-government level in a timely and comprehensive way; easy access for the public to reports, audits and other information on performance
- Revenue services include clear and comprehensive legislation and procedures for taxation; easy access to information for taxpayers; a well-functioning appeals procedure; effective taxpayer registration procedures; and effective management of non-compliance.
- Procurement process with cost effective, fair and transparent procurement activities that are open to scrutiny; information available on the call of expression of interests and awards of contracts; a well-functioning complaints procedure.
- Internal audit processes that meet professional standards (depending on Ministry of Finance role in relation to other budgetary bodies this may extend to oversight of internal audit in other bodies).
- Internal Ministry of Finance recruitment and performance management processes that support attracting, developing and retaining high quality staff.
- Internal quality control processes to support the production of high quality advisory and other services.

## **GOAL FIVE - Adopt appropriate organisational structures and working conditions**

As soon as feasible the Ministry of Finance's staff should have working conditions and facilities that support their work including adequate equipment and supplies, and a productive physical working environment, such as working space and suitable air temperature. The working conditions should be reviewed and improved as appropriate to meet changing working requirements.

Additionally, the structure of the Ministry of Finance is expected to evolve to support changes in functions and improvements in productivity. It should be reviewed in the context of implementing and updating this Strategic Plan.

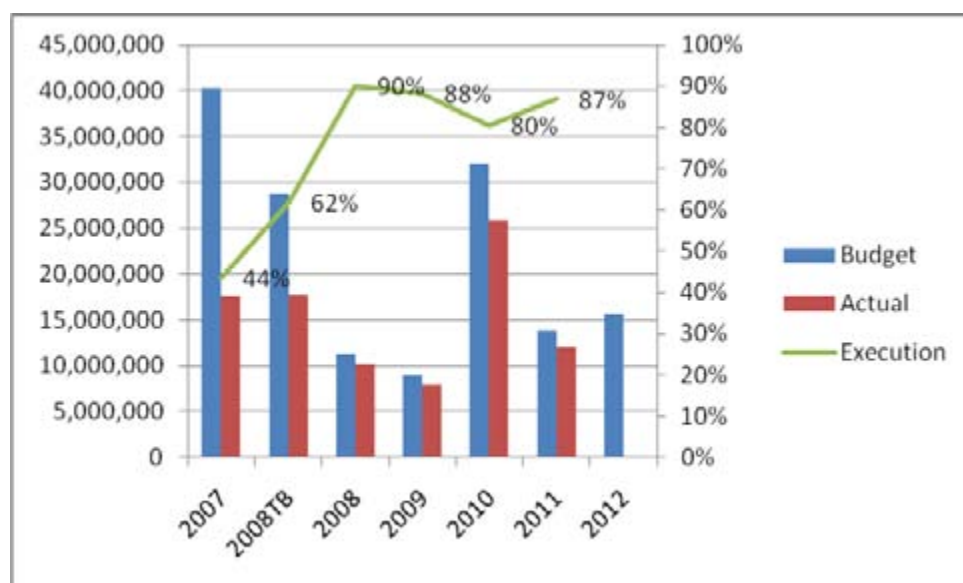
### III. Description and assessment of the status of projects implemented as well as their financial and physical execution, including ongoing projects that will carry over to the new Government

#### MoF's Expenditure Review: 2007-2011

##### Expenditure and execution

Graph 1 shows budgeted and actual expenditure in the Ministry of Finance from 2007 to 2011 by fiscal year for the CFTL Fund. It also shows execution as a percentage on the right hand axis. The 2007 Transition Budget (TB)<sup>7</sup> fiscal year only includes six months of expenditures and is therefore not strictly comparable to the others years. The accounts are still being finalised for the 2011 fiscal year; meaning expenditure and execution in 2011 may further increase over the coming weeks.

Graph 1: Total Budget, Actual Spending and Execution in the Ministry of Finance (CFTL Fund)



The main points that can be noted with reference to graph 1 are:

- The Ministry of Finance has increased execution from 62% in 2007 to 87% in 2011.
- The Ministry of Finance's budget was substantially cut in 2011 compared to 2010. However, this was mainly because the Financial Management Information Systems (FMIS) project was moved to the Infrastructure Fund.

<sup>7</sup> The 2007 fiscal year operated from July 2006 to June 2007. The 2007TB fiscal year operated from July 2007 to December 2007 and therefore only included 6 months. From 2008 the fiscal year equates to the calendar year. The 2007TB fiscal year, therefore, includes fewer months than other fiscal years and this explains its low level of expenditure.

The Ministry of Finance's share of the recurrent budget has declined. In 2010, the Ministry of Finance's share of the recurrent budget was over 3%, but this fell to less than 1.9% in 2012. The Ministry of Finance has thus had to manage the finances of a sharply increasing total budget with comparatively less ongoing funding.

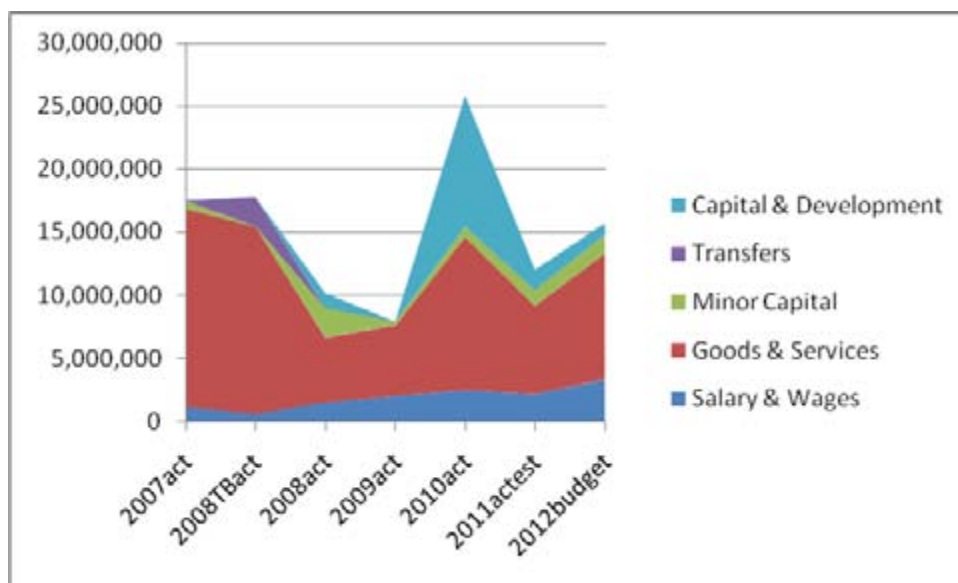
Graph 2 shows actual spending (apart from 2012 which is budgeted) by appropriation category in the Ministry of Finance. We can note the following points with reference to this graph:

- Capital and Development spending sharply increased in 2010 due to payments on the FMIS project. In the 2011 budget spending on this project was moved to the Infrastructure Fund with a budget of \$7.7 million and \$6.1 million in 2011 and 2012 respectively. The classification of this project under the Infrastructure Fund explains much of the sharp decrease in Capital and Development spending seen in graph 2 in 2011.
- There has been no budget or spending on Transfers in the Ministry of Finance since 2007 Transition Budget.
- Spending on Minor Capital has consistently been small as a percentage of the Ministry of Finance's budget. It was relatively large in 2008 due to the refitting of the Ministry of Finance with new communication equipment, furniture and fittings, office equipment and generators in that year. There was also significant spending on new vehicles in 2008.
- Salary and Wages expenditure have steadily increased over time due to increases in pay and employment.

With regards to Goods and Services:

- Expenditure sharply declined in 2008 compared to 2007 Transition Budget. This was mainly because in 2007 Transition Budget some of the fuel purchased for generators throughout Timor-Leste was classified as Ministry of Finance expenditure. In 2008 and afterwards, this expenditure was no longer classified under the Ministry of Finance's budget.
- Expenditure increased in 2010 due mainly to increased spending on professional services, maintenance of equipment and building and operational expenses.
- Expenditure fell in 2011 mainly due to a decrease in spending on professional services, maintenance of equipment and buildings and operational expenses.
- The 2012 Goods and Services budget shows an increase in 2012 compared to 2011 due to increases in salaries, local and overseas travel, operational materials and supplies, fuel for generators and maintenance of equipment and buildings. The professional services budget in 2012 is the same as in 2011 and less than half the size it was in 2010.

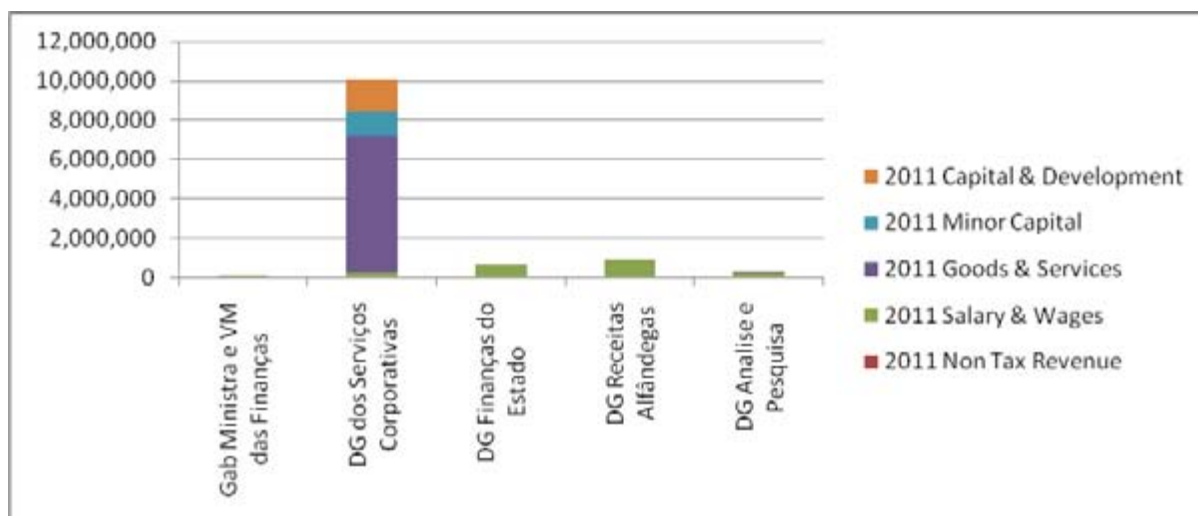
Graph 2: Actual Spending by Appropriation Category in the Ministry of Finance (CFTL Fund)



Graph 3 shows spending by General Directorate and Appropriation Category in the Ministry of Finance CFTL fund. The main points to be noted with regards to this graph are:

- The majority of spending is in the General Directorate of Corporate Services. This is because spending on Goods and Services items such as training, vehicle maintenance, professional services and office stationery and supplies which are essential for all General Directorates to undertake their work, is recorded under the General Directorate of Corporate Services.
- The General Directorate of Revenues and Customs has the second largest budget. This is because many of the activities of this General Directorate such as reviewing tax returns are labour intensive. This General Directorate thus has the largest spending on Salaries and Wages.
- The General Directorate of State Finances has the third largest budget. This is because some activities in State Finance such as processing invoices and making virements are labour intensive and contribute to a high Salaries and Wages budget.
- The General Directorate of Policy Analysis and Research has a fairly small budget. This is to be expected as analysis and research requires a smaller but also very well-educated workforce.

Graph 3: Actual Spending in 2011 by General Directorate in the Ministry of Finance (CFTL Fund)



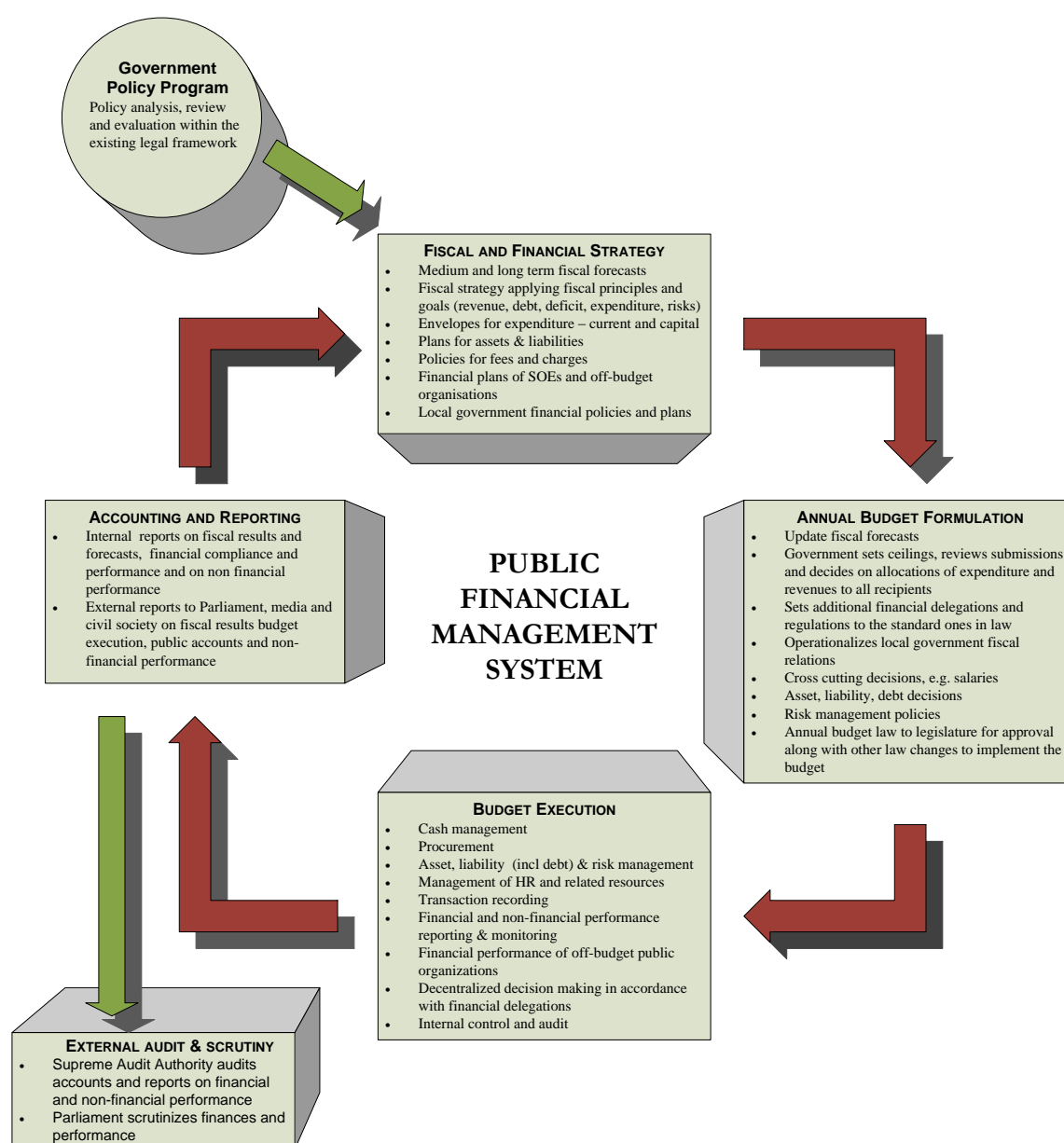
## Conclusion

The Ministry of Finance has improved the management of the Government's finances even as its share of the total state recurrent budget has fallen to less than 1.9%.

## IV. Difficulties and challenges faced by the Ministry in achieving its objectives

### Public Finance Management (PFM) in Timor-Leste

Within the comprehensive role of stewardship of fiscal policy, Ministries of Finance are conventionally tasked to guide an integrated public finance management cycle within the Government or within the State. Nevertheless, each country has its own institutional arrangements, reflecting individual history, capability, and other unique factors. While institutional arrangements differ, some basic elements are commonly found in many countries, as illustrated in the diagram below.





These elements of the system closely interact to produce the results expected from a proper PFM system, which in turn will influence the overall economic and social development of a country.

In the case of Timor-Leste, much has been achieved in setting the foundations of a robust PFM system, but substantial qualitative improvements remain to be addressed, and a list of weaknesses of the PFM system in Timor-Leste are provided below:

### **Weaknesses identified in the PFM system in Timor-Leste**

- Ambitious work plans alongside human resource gaps results in extraordinary pressure on staff.
- Language barriers, such as use of Portuguese and English, have created bottlenecks in communication and comprehension of documents, especially in the dissemination of new laws.
- A lack of confidence of staff to undertake work independently.
- A lack of a proper recognition and rewards system for qualified and successful staff.
- Tendency to bypass decisions and general non-compliance with rules which may lead to maladministration of funds.
- A lack of space and infrastructure for a safe and comfortable environment for staff;
- Lack of proper asset control
- While ensuring merit in employment, centralised recruitment by the Public Service Commission (PSC) can inhibit speedy recruitment of staff.
- Frequent changes in laws and regulations create difficulties for implementing units.

### **Weaknesses identified by the 'Public Expenditure and Financial Accountability' diagnostic study**

In 2010, the IMF sponsored an evaluation of the financial management system using the Public Expenditure and Financial Accountability methodology (PEFA). The PEFA methodology this has been used throughout the world as a systematic examination of the effectiveness of the entire standard parts of a PFM system and as a guide to ministries of finance in particular for deciding on capacity building strategies. The areas requiring attention were revealed to be:

- The budget is a poor predictor of aggregate expenditure.
- The areas of state financial activity that are encompassed by the budget is narrow and could be expanded. While autonomous agencies and public enterprises are relatively few in number, oversight of these entities is weak and the fiscal risk they represent is not monitored.
- The link between policy objectives and the budget is weak and sector investment programs are no longer developed.
- The process for preparing the budget could be more predictable and stable from year to year and more time could be allowed for line ministries to prepare investment proposals.
- The Ministry of Finance lacks the time and capacity for adequate review of the rationale, costing and impact of public investment.
- Fiscal and budget policy lacks a solid medium-term perspective.
- Transparency of taxpayer obligations has improved, but other aspects of tax collection remain weak or have even deteriorated.

- Audit processes both, internal and external, are seriously underdeveloped.
- Legislative scrutiny of the budget is slowly improving, but the discussion of the Government Audit report is relatively ineffective.

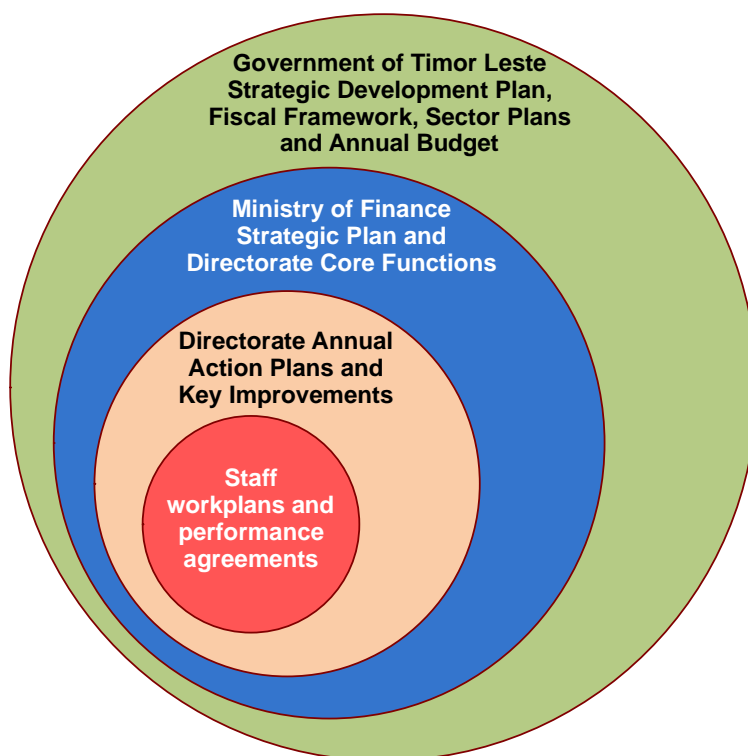
## **Weaknesses identified by the Report on the Observance of Standards and Codes**

In 2010, the International Monetary Fund conducted an evaluation of the fiscal transparency of the PFM system using its standard methodology known as the Report on the Observance of Standards and Codes (ROSC). Its key conclusions were as follows:

- An independent High Administrative, Tax and Audit Court, while required by the constitution, is yet to be established and internal audit is very weak. Basic state processes such as tax administration and procurement suffer from a lack of transparency, integrity, process control and appeal options.
- Planning and budgeting are largely unconnected, and a medium-term perspective has only just started to be taken.
- Strategic planning is largely absent. Budget preparation is input-based and incremental and it is split between a current and capital side with disregard for their linkages.
- The budget review function in the Ministry of Finance is new and as such needs to develop greater in-house assessment capacity.
- Despite recent improvements planning and implementation capacity in line ministries is weak.
- Payroll integrity is a concern, and arrears, while minimal, are not monitored.
- Budget reporting should be extended to cover fiscal risks, quasi-fiscal expenditures (which occur in the petroleum sector), and tax expenditures.

The weaknesses identified above are not uncommon among developing nations. Typically there is a concentration of effort on planning and budget preparation at the beginning of the financial management cycle and too little attention to the delivery of services, financial controls, reporting, monitoring, review and audit functions.

The PFM reforms outlined in the Strategic Plan for the Ministry of Finance should result in strong incentives on ministers and officials to continually lift the performance of ministries and other agencies. A key part of this approach is to have a well-functioning integrated management cycle that involves specifying the performance requirements for the ministries and other state organisations at the start of an annual or multi-year management cycle, reporting on the results subsequently and linking the results to the assessment of the performance of the ministries and other organisations and the responsible officials. Strategic plans and performance expectations should be linked to the annual budget to match performance requirements with the resources needed for their achievement. The environment for setting individual performance expectations as illustrated in figure below on the relationship of plans and performance expectations.



## Implications of the SDP on the mandate and performance of the Ministry of Finance

The recently released Government's Strategic Development Plan (SDP) relies heavily on the Ministry of Finance's systems to assist line agencies to deliver the services set out in the plan.

The following paragraphs note the areas where the Ministry of Finance will be challenged.

*The SDP targets 11.3% annual average real economic growth over the next 10 years, which implies similar growth rates in Government expenditure and public investment.* Budget and Treasury staff, as well as systems in the State Finances General Directorate, will have to cope with these increases in activity. The Financial Management Information Systems (FMIS), including the procurement system, will need to be scaled up and work effectively. Line ministries will have to be supported and trained to use FMIS systems effectively and Ministry of Finance procedures streamlined and efficient.

*The efficiency of public and private sector spending will improve, reflected in Incremental Capital Output Ratios for both sectors (SDP p203).* This means capital projects must have high returns, which requires strong feasibility analysis and advice to Government and ministers about the choice of projects, including advice to reject projects with low returns. Specifically, the regulation and management of the two special funds (the Infrastructure Fund and the Human Capital Development Fund) will need to ensure high rates of return on

investments this result through careful – but expeditious – project analysis and effective monitoring and implementation so that projects achieve their intended results.

*Non-oil private sector growth rate of 11% for 20 years, with export emphasis (this offsets declining rate of growth in public investment in second 10 years of the plan).* The Ministry of Finance will have to be clear in its advice about the policies needed to create an internationally competitive location for private investment. This advice must be evidence based, informative and comprehensive on matters that include:

- Taxation and charges
- Legal system
- Regulations
- Infrastructure
- Inflation and macroeconomic circumstances
- Transparency, credibility and sustainability of economic policy

*Non-oil domestic revenue collections are projected to grow at an average annual rate of 12% (SDP p204) to allow withdrawals from the Petroleum Fund to return to conformity with the ESI limit later in planning horizon.* As the economy develops, the SDP anticipates that the tax base will move away from its weighting towards revenue from customs and trade and towards taxes on income and capital gains. This will allow comprehensive tax reform to be undertaken to widen the tax base and increase State revenue.

The Ministry of Finance through the General Directorate of Policy Analysis and Research will be required to provide advice on tax policy that ensures that the Government is properly advised on the basis of international standards of tax policy and technical analysis.

The SDP also proposes a competitive tax regime and free economic zones to attract private business. Hence, increased domestic revenue must come from broadening the tax base, closing loop holes and strengthening administration of tax collection. Achieving these revenue targets will be challenging for the Ministry of Finance given the current policy settings and capacity levels.

Increased revenues will also come from putting autonomous agencies on a commercial footing so that profits are available to fund Government spending. The role of the Ministry of Finance in monitoring the commercial performance of these commercial organisations has not been tied down at this time. Using the profits of these organisations to provide essential revenues to support the SDP implies that the Ministry of Finance should have a significant role in the financial oversight of these organisations. This should include the monitoring of any contingent liabilities that they raise, as discussed elsewhere in this plan.

*Successful implementation of borrowing strategies, and increased aid effectiveness.* The SDP envisages borrowing in international markets and on concessional terms from various official sources. This will greatly increase the level of complexity in the work of the Treasury in borrowing, debt management and relations with official sources of finance.

*Public-Private Partnerships (PPPs) and dealing with commercial issues.* Public-Private Partnerships of all kinds are envisaged by the SDP. International experience, however, shows that whether PPPs help or hinder development depends primarily on how effectively they are designed and implemented. The details determine the outcome. Private parties interested in PPPs will bring extensive and experienced teams of international advisors to negotiate and it

is therefore necessary for the Ministry of Finance to match this level of expertise in order to achieve the results from PPPs that the SDP seeks. PPPs as described in the SDP are projected to require public funding, although there are many kinds of PPP that do not call on public funds. In fact the more common kind of PPP is designed to avoid calling on the Government budget. Some countries, for example Chile, have experienced problems with PPPs creating contingent liabilities usually in the form of guarantees. Also PPPs sometimes involve essential public infrastructure which cannot be allowed to close down if the private partner walks away. For all these reasons it will be an important role for the Ministry of Finance to protect the public finances in the way PPPs are designed and conducted.

*Integrating the work between the Economic Planning and Investment Agency (EPIA), line ministries, and others (SOEs TLIC etc.)* The SDP assumes a high degree of coordination and cooperative behaviours between the planning authorities, Ministry of Finance, line ministries, local authorities, development partners and other stakeholders. This will require the development of integrated systems across the Government for planning, budgeting and execution. The Ministry of Finance will be responsible for the design and operation of the systems that support tight integration between planning, budget formulation and implementation and performance monitoring.

The SDP states (p190) that “*the Economic Policy and Investment Agency will also coordinate with the Ministry of Finance during the budget process and collaborate on determining the funding levels required to pursue economic development-related strategies and projects.*”

Systems, protocols and procedures will be needed to ensure that this works efficiently. However, the determination of funding will be decided finally by ministers not the EPIA and the Ministry of Finance. The National Development Agency and later the EPIA is accountable to its high level Ministerial Steering Committee. As the Minister of Finance is a member of this committee, the Ministry of Finance must have the capability to provide its minister with advice to support his/her role in its deliberations.

*Management and control of special funds.* The proposed process for approving and authorising spending from the two special funds involves many steps to ensure effectiveness and probity. The Ministry of Finance will have to be skilled and prompt in executing these processes in order to keep SDP proposed spending on target.

*Decentralisation to local communities.* The SDP (p112) notes that decentralisation to local Government will “... take time as we will need to develop and build our administration and management capability to introduce systems, processes and procedures in public management and local democratic governance. There will also be a critical need to develop human resources to effectively operate treasury and financial functions as well as develop, plan and monitor programs and service delivery at this level of Government.”

Details of the decentralisation policy are yet to be determined, but the general objective of empowering local communities to be more involved in the decision over spending public money in their areas will require an effective system of local government finance to be developed. This will place heavy demands on the Ministry of Finance to contribute to the design of the systems of local government financial management and to regulate these and provide some of the systems that will be required.

*Transparency and reducing corruption.* The Ministry of Finance’s responsibilities for administering and reporting on the use of public money, procurement policy, tax

administration, PPPs, decentralisation and other matters are creating great demands on the ministry to ensure that its systems of transparency and accountability for public finance work to a high degree of effectiveness and probity.

*Major infrastructure projects and procurement.* Major infrastructure projects are initiated in line ministries, approved and verified by NDA, appraised by the Major Projects Secretariat, disbursed through the Treasury and monitored by line ministries and through the IFMIS. This system involves many people and organisations at different stages in the process and the smooth conduct of the infrastructure program will require good coordination, sound advice at each point and a robust information system. The different players have different lines of accountability, which will need to be well coordinated to be efficient. The Minister of Finance sits on the key ministerial committees and the Ministry of Finance provides some of the systems that will underpin the infrastructure investment programs. There are weaknesses in some of the information systems that currently in use and investments will be required to create robust information support for the major projects. The Major Project Secretariat has developed a proposal along these lines.

Major procurement is to be conducted through the National Procurement Commission, which intends to contract in expert services (SDP p189). Smaller procurements will be made in line ministries with delegations under regulations and good practice manuals. The role of the Ministry of Finance is intended to be through engagement with the development of policies and regulations that govern procurement practices. As the decentralisation to local government proceeds this work will be particularly important.

*Independent Bureau of Statistics.* The SDP notes (p186) that an independent Bureau of Statistics will be created by 2020. The General Directorate of Policy Analysis and Research incorporates the core of what will become the Bureau in the coming years. The Ministry of Finance will be called on to work with others to design and build the required statistical organisation ready to be separated off in time.

*Special economic zones.* The SDP states (p154) “A comprehensive review involving all interested parties will be conducted to assess the benefits and risks of applying a special set of business laws and regulations in Special Economic Zones. The aim will be to use tax incentives or customs and import duty exemptions (for example) to make Special Economic Zones attractive to foreign companies seeking to invest or establish a business in Timor-Leste.” And also states “The advantage for Timor-Leste is that Special Economic Zones can be established without requiring reform to the laws and regulations that cover our whole country. In this way, Timor-Leste could provide more streamlined and certain regulatory and lower tax environments than our international competitors.”

Ensuring that Special Economic Zones work in the interests of the economy as a whole will require careful attention to the details of this policy. As the SDP notes (p155) “There are risks in providing too many exemptions in Special Economic Zones, including the displacement of domestic investment, uneven domestic development, the avoidance of national economic reform and negative consequences if labour or environment laws are relaxed. We need to carefully assess and weigh these risks against the potential benefits before deciding on the nature of the incentives to be introduced in Special Economic Zones.”

The tax analysis group in the General Directorates of Policy Analysis and Research and Revenue and Customs will need to be engaged in this assessment in order to assess the



impact of the zones on tax revenues and on the impacts on the general design and operation of the tax systems.

*State financial institutions.* The SDP (p152) summarises the Government's intentions to create and develop several State financial institutions:

- National Development Bank to provide long term finance for the private sector
- Timor-Leste Investment Agency to make investments on commercial terms in the development of domestic industry
- Timor-Leste Microfinance Institute, which will evolve into a fully commercial bank providing financial services throughout the country

As these organisations will be accessing State funding through the budget and also potentially creating contingent liabilities, arrangements will be needed through which the funding, financial performance, dividends and risk profiles of these organisations will be monitored and advice provided to ministers. The Ministry of Finance will need to be involved in these processes to some extent, which is yet to be determined.

The weaknesses and challenges described above are not necessarily insurmountable. To overcome these, however, a lucid vision, implemented by unambiguous mandates and equipped with realistic goals is the essential galvanising ingredient for action, change and success.

## **Other operational difficulties and challenges faced by the Ministry in achieving its objectives**

### **Revenue and Customs**

- Language skills of national staff forced to work in a variety of languages including English, Portuguese and Bahasa Indonesian.
- Failure to find suitably qualified legal and audit staff remains an ongoing concern.
- Lack of compliance resources and capacity together with a lack of resources for debt collection.
- Logistical issues as Directorate staff located in two different locations. New Kobe Hut accommodation lacks satisfactory sanitation facilities and no back-up power is available.
- Ability of the national staff to introduce the ASYCUDA Phase Two Work Plan.
- Understanding of the various tax and customs laws hampers operations.
- Lack of resources and capacity to pursue legal action to collect unpaid debt.
- Missing tax forms from BNU. This is an on-going problem for processing staff and for reconciliation of receipts.
- Time lag in delivery of tax forms from districts. This is an on-going problem for processing staff and for reconciliation of receipts.
- Lack of travel per diem and availability/equipment continues to hamper activities, i.e. lack of transportation vehicles continues to hamper operations
- Collections staff find that taxpayer details recorded in SIGTAS are often out of date and contact or location of the taxpayer is difficult to establish.
- Legal system is not fully formed and its character is evolving. Advisors to DGRC are basing their advice on their legal traditions - frequently based on common law



approaches - but this can conflict with the civil law frameworks applied by other advisors, or other parts of the Government.

- The inspection area of the Dili port is poorly located because the x-ray machine is placed on the west part of the port almost a kilometre and half from the inspection area which sometimes could cause delays to release merchandise and impedes the adequate control over the goods.
- There is no connectivity between ASYCUDA with Dili Port, Airport and the Borders Posts due to lack of communication systems, namely: internet, fibre optics, among others.

## Treasury

- The Treasury has been facing a severe shortage of staff which has been hampering its efficiency. A large number of personnel have moved out of the Treasury on promotion and these vacancies have not been filled for a long time.
- The volume of transactions has increased significantly without a corresponding increase in staff numbers.
- Lack of long-term specialised training of existing staff in various accounting functions has resulted in continued dependence on international advisors.
- Lack of trained staff in Internal Audit has hampered internal audit functions severely.
- Increased pressure on the Treasury to clear requests for payments within extremely unreasonable time frames.
- Lack of capacity among staff in Ministries results in incomplete documentation, wrong codes and figures in payment requests sent to the Treasury which contributes to delays in the payment process.
- Unavailability of certain FreeBalance modules hampered the working of the Treasury.

## V. Recommendations for future actions to be taken

### Implementing the updated Organic Law

Some changes are needed in MoF to better support the financial management challenges identified in MoF's Strategic Plan and Timor-Leste's Strategic Development Plan 2011-2030. A good example is the changes happening in the structure of DGSF.

The existing DGSF structure, codified in MoF's Organic Decree-Law 13/2009 and Ministerial Diploma 1/2009, has been superseded as a result of the rapid progress of Public Financial Management. An ongoing comprehensive program of Public Financial Management reform has entailed comprehensive financial management legislation, processes and systems together with associated institutional strengthening through structured training. This has enabled many operational responsibilities to be decentralised to line ministries, which are now well advanced in developing the capacity to effectively and efficiently undertake those functions required to achieve organisational goals and objectives.

Over the last three years, the rapid progress in Public Financial Management has largely eliminated the former situation whereby MoF had primary carriage of numerous operational functions. This has allowed MoF to develop its more strategic role in financial management in support of the strategic plans. These changes have occurred to varying degrees across all National Directorates within DGSF, but have been most evident in areas like procurement where operational functions have been decentralised to line ministries.

The evolution of Public Financial Management has happened rapidly and the Organic Law now needs to be changed accordingly. A new structure has been proposed which aligns closely with the Ministry's aspirations and objectives over the next five years as articulated in the MoF Strategic Plan. This plan envisaged further movement towards strategic oversight of the whole-of-government's financial operations.

The determined move towards better long-term governance and management of public finances has been achieved primarily through new frameworks for legal governance, together with ongoing institutional strengthening across all Government bodies involving structured training programs and workshops, which has enabled decentralisation of key operations to line ministries. As emphasised in the recent review of the FMIS training program, the crucial next step is to entrench the comprehensive program of reforms in the institutions of state, establish the essential organic structures to facilitate and enable this, and ensure that progress already made maintains momentum and endures.

### Ongoing reforms in the General Directorate of Corporate Services

#### Elevate three Departments to Directorate level and create three new Director positions within DGCS

Corporate Services was created to centrally administer all spending activities involving managing assets and logistics including building maintenance, general administration, human resources, procurement and financial management as well as information and communication technology. Since its creation in 2008, Corporate Services has facilitated a more coordinated

approach to the distribution and use of materials, financial assets and human resource assets available throughout the Ministry. This successful reform towards a single corporate authority within the Ministry now requires additional modifications for improvements, which in turn will produce better results for the Ministry. Additional scope, functionalities and responsibilities are being proposed for the current Financial Support Services Department, the General Administration Department and the Human Resources Department, resulting in these three departments being given Directorate status and each being assigned a new Director position. These three departments would be renamed as:

1. Administration and Procurement Directorate
2. Planning and Financial Support Directorate
3. Human Resources Directorate

### **Create a new Unit called 'Partnerships Unit' within DGCS**

A centralised working mechanism to coordinate, manage and implement bilateral and multilateral projects and programs for Ministry of Finance is being recommended. This 'Partnerships Unit' would fall under the direct supervision of the General Directorate of Corporate Services with its principal function to manage the fiduciary and all administrative aspects of bilateral and multilateral projects and programs between Ministry of Finance and various partners.

Working in close cooperation with other work areas within the Ministry, the Partnerships Unit would contribute towards the development and execution of all bilateral and multilateral partnership framework strategies aiming to establish or strengthen relations with key bilateral and multilateral partners. This new unit would support the development of policy, strategy and operational mechanisms to improve the effectiveness and efficiency of the partnership environment.

Specifically, the Partnerships Unit would be responsible for contributing to excellent working relations with bilateral and multilateral partner organisations by liaising and supporting the work of a range of stakeholders. Responsibilities of this unit would include:

1. Contributing towards the development of a strategic framework for partnerships which includes inputs from key stakeholders within the Ministry of Finance and partners
2. Establishing, maintaining and developing a solid basis for dialogue, co-operation and regular communication with bilateral and multilateral partners
3. Working with all partner organisations to operationalise partnership agreements, such as memoranda of understandings
4. Contributing to the development, expansion and consolidation of partnerships between bilateral and multilateral partners
5. Working closely with other working areas within the Ministry of Finance to ensure consistency and enhanced coordination of internal policy
6. Coordinating technical assistance at the global and regional level with partners
7. Organising consultation meetings with partners to obtain feedback and strengthen the effectiveness and efficiency of partnerships, and
8. Supporting work related to knowledge management, documentation and best practices dissemination.

The Partnerships Unit should be given responsibility for the operational management of all bilateral and multilateral projects and programs, and should be given the authority to coordinate and to request other working areas within the Ministry to perform technical activities which are part of any bilateral and multilateral project or program.

### **Other ongoing reforms in Corporate Services**

- Strengthen compliance by all staff to internal guidelines and procedures on personnel management, procurement and financial management, vehicle use, etc.
- Refine the internal MoF planning and budgeting process in order to facilitate the resource mobilisation in support of priorities and programs of all Directorates.
- Continue the capacity building initiatives, particularly in areas of increasing the academic and professional skills of staff through continuous education and training, scholarships and fellowships.
- Increase the efforts to sustain the change management regime, with particular attention to merit-based selection and appointments, as well as performance-based evaluation of staff.
- Advocate better integration of bilateral and multilateral support into the systems and procedures used by the Government.

## **Ongoing reforms in the General Directorate of State Finances**

### **New National Directorate of Information Systems and Technology**

A new Information Systems National Directorate will be formed outside of National Directorate of Treasury, providing independent and equitable support to the diverse user base of the comprehensive array of financial systems now in operation. The use of these systems has proliferated across not only the DGSF, but across all areas of Government, both in Dili and in the districts.

The new integrated structure entails changing the existing National Directorate of Procurement to a new National Directorate of Governance and Institutional Strengthening with a broader mandate. This new National Directorate will have a wider range of competencies both in formulating and monitoring policy together with strengthening the capacity of Government bodies to implement policy by developing complete sets of financial governance and procedures documentation and delivering more formal training and capacity development programs.

This proposal aligns with and supports numerous improvements identified in the MoF Strategic Plan 2011-30, including:

- Strengthen the analysis of the fiscal position and construct fiscal envelopes
- Improve budget submissions to make them align better with Government priorities and new measures in order to do better analysis
- Establish cohesive legislative, regulatory and procedural framework;
- Improve accounting and fiscal reporting
- Change the Decree-Law with respect procurement commission and decentralisation of procurement to districts and sub-districts
- Upgrade and complete procedural manuals

- Clarify the organisational structure and legal basis for the procurement directorate under the organic law
- Improve monitoring, supervision and assistance to line ministries in the process of implementing decentralised asset management
- Provide training to the different ministries and institutions in the procedures and regulation for asset management, and
- Establish the policy, framework, laws and regulations for autonomous public authorities.

In consultation with all users in MoF, line ministries and the districts, and IT service providers:

- implement the MIS strategy developed by Deloitte
- develop and implement systems and strategies for interfacing and integrating various software solutions implemented in Ministry of Finance and other line ministries
- provide user support, a help desk function, answering MIS/IT related questions, troubleshooting problems and serving as a clearinghouse for user problems through effective liaison between end users and MIS/IT service providers
- in collaboration with the National Directorate of Governance and Institutional Strengthening and software developers, design, develop and ensure delivery of training linked to the development phase of Financial Management Information Systems (FMIS) modules, including train-the-trainer approaches
- ensure training in all applications systems is available to all end users
- implement standards, policies and procedures that cover all aspects of the National Directorate's activities. These will be based on international best practices
- using best practices for the information technology industry maintain a quality control framework and apply it to all projects
- provide support to systems and technologies, in relation to hardware and software, as well as to computer systems, networks, transaction processing systems and computer infrastructures
- provide network administration, including maintenance, support and security in relation to hardware and software, as well as controlling access by users and installing, configuring, managing and maintaining network applications
- provide disaster recovery services
- manage database administration including database management, security, backup and user access
- support the Ministry's internet and intranet operations including the monitoring traffic and linking web-based applications to existing information systems, and
- support and provide advice in relation to the purchase of computer equipment, purchase or construction of specific databases and their respective maintenance.

## **New National Directorate Governance and Institutional Strengthening**

The National Directorate of Governance and Institutional Strengthening will advise on whole-of-government issues relating to governance, institutional strengthening and public financial management, including in autonomous authorities and the districts:

- accelerate capacity development in policies, processes and systems related to public sector financial management at the national and sub-national levels
- design formal training curricula and develop training material and ensure its successful delivery

- review and document standard operating and good practice procedures, including the production of authoritative procedures manuals
- assess progress in overall capacity development in public financial management; monitor, assess and report on adherence to Government regulation and good practice
- review, develop and recommend improved financial policies and processes
- draft decree-laws and other financial regulations, and
- design, monitor and evaluate targets and compliance measures of progress and performance.

## Training and capacity building

- There is need for training of existing staff in specialised areas of accounting so that they can take over these functions from international advisors.
- A centre for training Government accountants is needed urgently so that institutional skills upgrade can be a constant process.

## Further strengthen the monitoring of Autonomous Public Authorities

- Review the legal framework for autonomous agencies adapting to the current Timor-Leste context. This will include incorporating the role of MoF/National Directorate for Autonomous Public Authorities in monitoring of the budget execution and revenue collection.

## Ongoing reforms in the General Directorate of Revenue and Customs

The main challenge in the medium term will be to prepare a new structure for the Revenue and Customs that will better support the various challenges of Timor-Leste's Strategic Development Plan 2011-2030 and MoF's Strategic Plan.

In particular there is a need to assess the impact of the current tax exemptions, possible free trade zones, special economic zones such as ASEAN, double tax agreements and possible excise and tax rate changes on the revenue of Timor-Leste and equally importantly to assess the organisational challenges this will present to Ministry of Finance.

## Domestic Revenue

- Develop a holistic training plan for NDDR Tax Policy and the procurement of a training provider to deliver the training.
- Move away in the medium term from the system of individual income taxation to a more comprehensive approach to taxation. Consider adopting the Dual Income Tax approach.
- Take steps to integrate service providers currently subject to final withholding into the regular income tax system.
- Repeal the direct tax incentives and service tax holidays contained in the private investment law.
- Introduce Value Added Tax as the main broad-based consumption tax, to replace sales tax and services tax and eventually customs duties.
- Amend the bank secrecy provisions to permit tax administration access to bank information.

- Realign the current organisational structure with stronger focus on large and medium taxpayers in a single unit.
- Amend the large taxpayer selection criteria to include taxes paid by Government and increase the turnover threshold to \$3 million.
- Recruit more staff with higher skill sets for tax audit and recruit staff with business analysis and intelligence skills.
- Implement a reform governance framework to manage the reform program.
- Maintain the existing installation of SIGTAS in the medium term.
- Implement a data warehouse solution to address reporting and information access and analysis gaps.
- Automate the *certidao dividas* process.
- Develop internal administrative guidelines for the imposition and remission of understatement of income additional tax penalties.
- Automate the imposition of the base understatement additional tax penalty.
- Establish the collection task force with clear performance targets.
- Implement an enterprise data warehouse.
- Leverage the data warehouse to commence automated audit, including income matching.
- Maintain the existing installation of SIGTAS in the medium term.
- Implement a data warehouse solution to address reporting and information access and analysis gaps.
- Undertake the necessary steps to enable passage of the Taxes and Duties Procedures Code and the Taxes and Duties Offences Code into law.

## Petroleum Revenue

- Ensure the rehiring of the Petroleum Revenue Legal Advisor.
- Tender for the procurement of an engineering firm to support the current and future comprehensive audits.
- Ensure the hiring of International and National Auditors to support the Audit Program of Petroleum Revenue.

## Customs

- Ensure the Dili Port area is refurbished to ensure improved working conditions for Customs.
- Ensure the building of three (3) new Integrated Border Posts in 2012.
- Produce and implement guidelines for the Industry Consultative Forum.
- Produce and implement a national Customs Procedure Manual to set out simplified Customs procedures.
- Produce and publish all Customs forms on the MoF website.
- Finalise and implement a single tariff coding introduced at eighth digit level.
- Encourage closer links with other border Agencies
- Finalise and implement a Post-Clearance Audit Plan and Manual in order to conduct audits in an effective and efficient manner.
- Implement the ASYCUDA Phase II Work Plan to support the clearance procedures, account for cargo, and reduce steps.
- Limit excisable goods to alcoholic beverages, tobacco products, fuels and motor vehicles; do not impose excise duty on consumer electronics.



- Increase excise duty on alcoholic beverages, tobacco products and fuels and adopt an automatic adjustment of specific rates for inflation (annual indexation).
- Align the tax burden imposed on alcoholic beverages with their alcohol content.
- Significantly lower excisable value of passenger vehicles and in the medium term consider introducing excise tax based on emissions level.
- Start collecting excise duty on domestic production.
- Develop necessary procedures, including a suspension mechanism for imported excisable goods used in the production of domestic excisables.
- Encourage improved international relations with Timor-Leste's major trading partners through the signing of cooperative agreements.
- Undertake the necessary steps to enable passage of the Customs Consolidate Code (CCC) into law.

## Petroleum Fund

- Develop a Professional Development Programme that aims to train current staff efficiently. This will involve tailor-made capacity building, preferably in Dili, making sure topics directly related to DNPF's every-day operations.
- Through a scholarship programme that aims at finding candidates with potential and preparing them for higher education. Realistically, this would first involve a substantial amount of English training for the candidate to have a chance of being qualified to enrol in a university abroad.
- Develop ESI calculation manual in order to facilitate improvement of in-house (MoF) capability and reduce reliance on external assistance (IMF). IMF assistance will be needed to safeguard the quality of the final product.

## Office of the General Director of Policy and Research

### Continue to develop and strengthen policy analysis and economic forecasting

The main focus in the DGPAR will be to consolidate and entrench the impressive results of the past few years. In particular the General Directorate will aim to constantly refine and improve its macroeconomic forecasting. In this light, the intention is to create a new Directorate of Revenue Forecasting to support the reforms being undertaken in the area of tax and customs.

Furthermore, in recent years there have been a number of important surveys undertaken in line with the Strategic Plan and it will be important to maintain the cycle of not only doing these surveys, but also undertaking analysis of the results. For example, the recent Household Income and Expenditure Survey combined with others will yield new insights into poverty.

The recent refinement of the methods used to calculate the National Accounts will need to be entrenched into the workflow of the organisation and the new data analysed in order to provide policy makers with the most up-to-date information.

## **Continue to work towards an independent National Directorate of Statistics**

In the medium term the General Directorate will be working toward making the National Directorate of Statistic increasingly more autonomous with the long term ambition of making it a separate entity. This is an ambitious aim and will take time but it will be important to lay the foundation for this change in the medium term.

MoF/4 April 2012