

Ministry of Education Review of financial management processes

Report prepared as part of the ESSP mid-term review

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1 Executive summary

This report forms part of the Mid-Term Review (MTR) for the Education Sector Support Program (ESSP). It is intended to support the main review reports by documenting the Ministry of Education's financial management related obstacles to service delivery and identifying issues that can inform current and future donor programming.

The review took place in the context of the National Education Strategic Plan 2011-2030 which aims to achieve better outcomes at all levels of the education system. The plan, while recognising systemic financial management weaknesses, is ambitious. It aims to capture increased school enrolment resulting from a growing school-age population and increased school attendance levels. These are major cost drivers and coupled with reforms to education delivery systems, will necessitate a significant increase in budget. For example, based on provisional estimates included in the Strategic Plan, the budget for the sector is expected to increase almost four fold to \$258m by 2015.

The review examined a number of processes broadly falling into five areas of public financial management. These were budgeting and finance, procurement, logistics, information management and monitoring and evaluation. A number of themes were identified across these areas and are indicative of both organisational capacity and cultural constraints. From a cultural perspective there are currently opportunities to improve vertical and horizontal communication and to increase transparency, particularly within the procurement and logistics areas which are viewed with mistrust and suspicion at sub-national and program delivery levels. The removal of these blockages is a prerequisite to the successful implementation of the envisaged performance management process which underpins much of the Strategic Plan.

Technical Assistance provided to financial management processes appears to have been most successful at the regional and school levels. Assistance rendered through the Regional Directorate and Inspector General's office is introducing and supporting improved record keeping and accountability processes. This is an important achievement which will be required to support the Escola Basica concept and the overall deconcentration process. However, continued strengthening will be required.

The provision of assistance to improve the integrity of EMIS has also been successful although further assistance will be required to integrate this system with other sources and repositories of information. The principle blockage in this area is not the integrity of the information but the apparent reluctance of some directorates, including the Directorate of School Accreditation, to use it.

Within the finance division there are some significant capacity challenges that have effectively resulted in assistance being of a capacity substitution nature rather than capacity building. The current TA is performing a vital role which has resulted improvements to service delivery. He has some good ideas about improving the resolution of the ledgers and reporting framework but these may not be feasible and/or sustainable unless basic financial skills are more widely distributed. Additional TA within the ministry that focuses exclusively on capacity building may be a prerequisite for this to happen – for example numeracy and literacy programs, along with basic accounting modules for those at a more advanced level.

Many of the challenges at school level relate to the delivery of educational materials, furniture, and food and school grants. At regional level the challenges relate to fuel availability, motor vehicle maintenance and receipt of minor capital items. These issues are

largely beyond the control of sub-national structures because the budgets for these items are executed at the national level resulting in high dependence on centralised procurement and logistics functions.

Within the Ministry there are two procurement units, one is situated within the Infrastructure Facilities Unit (IFU) and is primarily responsible for capital procurement and the other is situated within the Directorate of Administration and Finance and is responsible for most other procurement. The difference between the two units could hardly be greater. The former is the result of a successful capacity building project and is considered a centre of procurement strength within government. The latter has been dogged by high staff turnover, low capacity and allegations of corruption. Its current level of operation is a threat to successful educational outcomes. Immediate technical intervention is required in this area, possibly by subsumption into IFU, which may in turn require additional resources to meet the workload.

The logistics function suffers from differing perceptions about its responsibilities. For example, should it deliver goods to regional warehouses or directly to schools? If it delivers only to regional warehouses, what arrangements, if any, should it make for subsequent on-delivery to districts and schools? In instances where funds are provided to arrange additional transport, how should these funds be recorded and controlled, and is this the best way of doing things? The answers to these important questions should be communicated to all logistics stakeholders.

Pressure on the logistics function will increase as the Escola Basica system is implemented. In addition, the possibility of it assuming responsibility for all components of the School Feeding Program may stress it considerably. Although TA is being provided to help identify future needs, this division would benefit significantly from seeking advice and mentoring from WFP which has extensive logistics experience and which is currently providing logistical services to the Ministry. In addition, the option of outsourcing this non-core activity in line with contemporary practice in other jurisdictions should be investigated.

Each of the areas identified above would benefit from continued or increased TA. However this form of assistance has yielded variable results in Timor-Leste with most 'advisors' instead filling operational roles. A suite of alternative and/or complementary modalities may work more effectively. Performance Based Financing is one such modality where, for example, direct budget support could be used to incentivise improvements in financial management processes. There is some congruency between such a mechanism and the Ministry's own efforts to develop greater financial autonomy through the Escola Basica system and to develop a performance management system across all activities. Combined with greater use of national 'contractors' and/ or outsourcing to firms, there is the possibility of bringing about system reform while lifting overall performance.

The use of national consultants has already proven successful within the Ministry. The IFU is a semi autonomous unit staffed by national consultants who are appointed on the basis of performance contracts and paid by the World Bank. Although it required initially high levels of investment in TA, those investments have yielded positive results and the unit will eventually become completely financed by the government. Such a modality might work well in logistics.

In conclusion, there are some significant constraints across the sector's PFM systems that are likely to impair the successful implementation of the sector's strategy. Their resolution will require a realistic appreciation of human capital constraints on the part of development

partners and a complete commitment to cultural change by the Ministry. Both parties should accept that PFM reform should be "slow but steady" and should be prepared to experiment with alternative assistance modalities. It is therefore recommended that:

1. A PFM reform working group be set up to develop a roadmap for PFM reform. It should be supported at the highest level and aim to achieve control over inputs and data classification before moving towards developing performance management processes. Milestones that must be achieved before performance management can be properly introduced include:
 - Revising the budget classification system to incorporate program level resolution and disaggregation of expenditure lines ,
 - Establishing responsibility centres (eg Escola Basica) that align execution authority with managerial responsibility and accountability
 - Developing simple standardised reports that enable managers to monitor all expenditure for which they are responsible
 - Requiring greater transparency in the way national directorates service and respond to request from the schools and regions.

Some of these initiatives are already planned for 2011 but their successful implementation may require additional technical support.

2. EMIS continues to be developed as a single source of truth for education performance management. In addition to ensuring accuracy and enlarging information content, this means that the use of "parallel" information systems should be discontinued.
3. Inter/intranet connectivity at sub national level is attained in a structured manner. For example, first district then regional then Escola Basica level connectivity to FreeBalance and EMIS is achieved.
4. Introduction of performance management metrics only after basic input processes are confirmed to be robust and reliable. If the integrity of input data is questionable, a performance based management system is unlikely to succeed.
5. Alternative assistance modalities be considered by Development partners, in particular the introduction of incentives for achieving benchmarks in the PFM reform process.

In conclusion, while there is an immediate need for continued and additional TA across the financial management disciplines, it is important that other modalities be considered. By supplementing TA with complementary initiatives the potential for more successful development outcomes may be increased. This and other MTR reports should therefore be used to develop a proposal for directing a proportion of funding towards alternative assistance modalities.

2 Background

2.1 Purpose of the review

Over the last 18 months, and as part of broader government reforms, significant expenditure authority has devolved to the MoE. It is now responsible for managing many aspects of the PFM system that were, until a short time ago, fully centralised in MoF. In particular line ministries are now responsible for committing and obligating all funds, have procurement delegation up to \$1 million, and ministers have wide discretion and full accountability for all expenditure.

A recent analysis of PFM systems in line ministries found that many have insufficient capacity to manage these new accountabilities, and internal control systems remain weak. There is also some evidence that, despite increasing budgets, service delivery is hampered by weak systems for getting cash and other resources to service delivery units. The objectives of this report are therefore to

- document the MoE PFM related obstacles to service delivery; and
- Identify issues in PFM that will inform current and future donor programming.

The report encompasses financial management and material supply systems, with an emphasis on effective flow of funds and operational materials to regional offices and schools.

The report does not consider delivery of education services and materials outside of the school system, eg non-formal and tertiary education, nor does it consider the Ministry's obligations under its responsibilities for maintaining and developing the culture of Timor-Leste.

2.2 The National Education Strategic Plan 2010-2030

A significant achievement of the Ministry of Education is the completion and endorsement of the National Education Strategic Plan 2011-2030. This plan provides a comprehensive vision of how the sector will develop to achieve better outcomes at all levels of the education system and is divided into two broad areas: the reform of the education system and the reform of education management processes. In addition, the plan clearly states that its implementation will be based on performance criteria and evaluation, thus mainstreaming an important contemporary management technique into the culture of the ministry.

The plan is ambitious in that it targets a wide range of educational outcomes from pre-primary to tertiary level and identifies an urgent need to address weaknesses in the management of the sector in order to deliver specified outcomes by 2015. An important attribute of the plan is that it identifies many of these weaknesses, and this should serve as a useful reference point from which to benchmark future achievements.

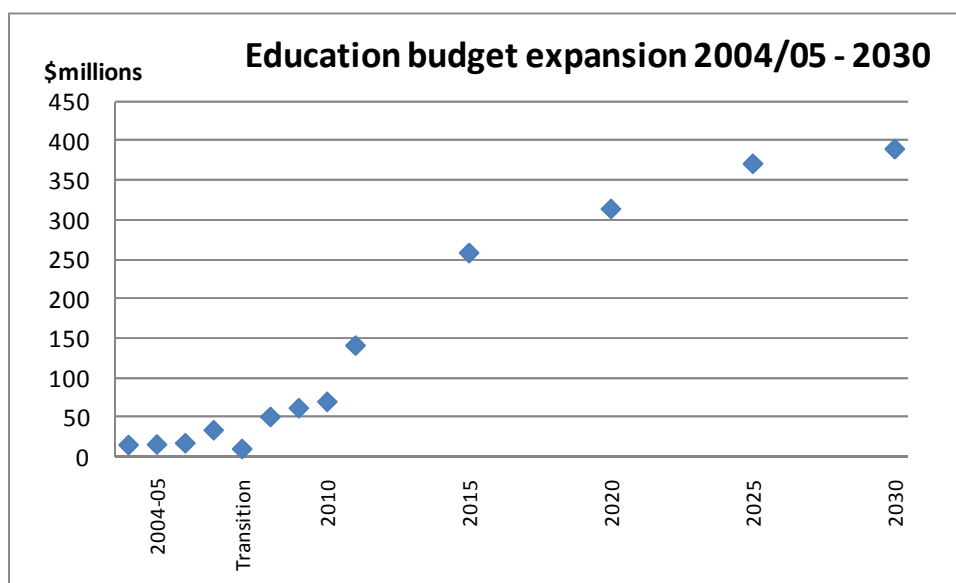
The plan clearly articulates the need for strengthening management processes when it states that "(in order) to achieve education results in 2015, we must first achieve management results in 2012".

A common theme throughout the parts of the plan that address the reform of education management is the challenge of strengthening financial management processes in the context of significantly increased student enrolment and delegation of greater responsibilities to sub-national structures. The plan states that "A substantial part of the management

challenges within the Ministry have their origin in the Directorate of Administration and Finance which, in addition to demonstrating weak budgeting processes, is also subject to weak control systems across its various processes.”

From a financial management perspective, a major cost driver is the number of enrolled students, which in turn drives the number of teachers. The Plan envisages increasing total school enrolment from 337,000 in 2011 to 601,000 in 2015 to 784,000 in 2030. According to the plan this increase will require an increase in teacher numbers from 14,169 in 2011 to 17,612 in 2015 to 26,179 in 2030.

The plan recognises that weak systems and controls have to be strengthened to the extent that they can address a significantly greater transactional volume than that which presently exists in the Ministry. Provisional estimates of the annual budget required to fund the strategy are depicted in the graph below and suggest that the budget will increase more than five-fold from \$70m in 2010 to \$371.4m in 2030. Perhaps the greatest challenge however is that the twenty year strategy is “front loaded” and will require over 60% of this growth to have been achieved by 2015.



The next section of this report provides details of some of the financial management blockages that exist within current processes and structures and which will need to be addressed as a matter of priority in order to ensure that educational reform objectives can be achieved.

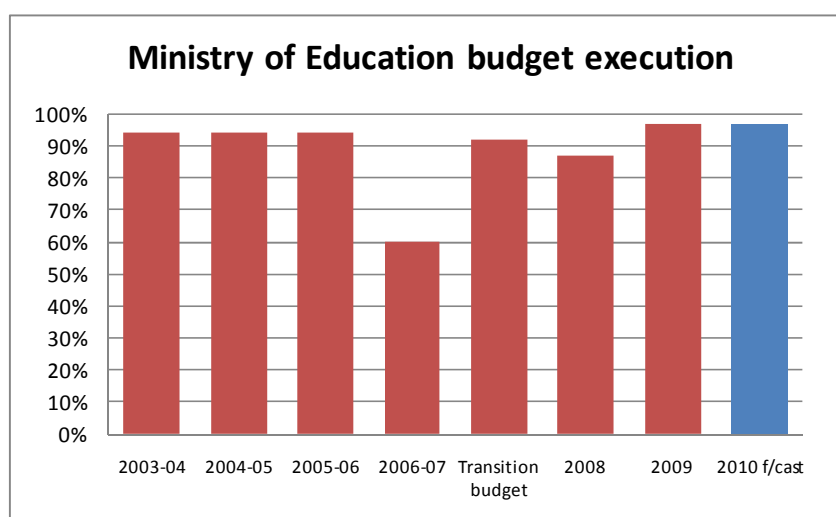
3 Identified PFM bottlenecks

3.1 Budget and accounting system

3.1.1 National level

An important tool in classifying and tracking financial information is the general ledger system. The FreeBalance general ledger used across government is capable of generating a chart of accounts that can report information at many different levels eg administrative, economic, functional and program levels. However, GoTL budgets are currently only formulated at divisional (administrative) level across different economic classifications such as salaries, operational expenses, minor capital, capital and transfers.

Although poor budget execution is identified in the strategic plan as a PFM weakness, execution has generally been higher than in other ministries. Of perhaps more importance is the quality of the execution. The integrity of the payroll system, particularly for teachers, is not certain and the capacity to perform good value for money procurement activities is low. Both of these challenges are discussed later in this report. Budget execution rates since 2003/04 are shown in the graph below.



A summary of the 2010 budget is presented in the table below. The fact that expenditure analysis below these levels is currently not possible presents significant constraints on the introduction of a performance management process as envisaged by the strategic plan. For example, the strategic plan addresses reform of school level education in terms of three priority programs equating to the three broad cycles of school education. However, the budget and finance system is not structured to provide this level of resolution so can currently not be used to track expenditure at the program level.

In addition, the strategic plan envisages that reform of the education management system will be achieved, inter alia, by decentralising the education services and the creation of regional inspectorate services. The Escola Basica system is envisaged as being the principal vehicle through which management of education at school level will be achieved. However, in 2010, when the Escola Basica system was expected to be piloted, no provision was made for

budgeting and accounting at this level and it is uncertain as to whether this level of detail will be available in FreeBalance for the 2011 budget.

2010 Ministry of Education budget cost centres (\$000s in descending order by value)

| Directorate/budgetary unit | Salaries & wages | Goods & services | Minor capital | Capital and devt | Transfers | Total |
|-----------------------------|------------------|------------------|---------------|------------------|--------------|---------------|
| Accreditation & Admin | 29,880 | 4,975 | 368 | - | - | 35,223 |
| Infrastructure Unit | - | - | - | 7,535 | - | 7,535 |
| Tech/ Higher learning | 98 | 491 | - | - | 5,847 | 6,436 |
| Adult & non formal educ. | 187 | 4,038 | 608 | - | - | 4,833 |
| National University | 2,103 | 1,035 | 776 | - | - | 3,914 |
| Admin & Finance | 332 | 1,030 | 2,005 | - | - | 3,367 |
| Curricula, mats & eval | 48 | 1,879 | - | - | - | 1,927 |
| DI Prof Training | 78 | 1,532 | 70 | - | - | 1,680 |
| Baucau region | 375 | 553 | 11 | - | - | 939 |
| NI Prof Training | 132 | 605 | 130 | - | - | 867 |
| Bobonaro region | 328 | 386 | 3 | - | - | 717 |
| Maubisse region | 283 | 375 | 24 | - | - | 682 |
| Dili region | 291 | 339 | 11 | - | - | 641 |
| Directorate State Culture | 126 | 396 | 11 | - | - | 533 |
| Oecussi region | 143 | 184 | 33 | - | - | 360 |
| Protocol & Press | 59 | 177 | 2 | - | - | 238 |
| Policy, Plan & Development | 134 | 42 | 33 | - | - | 209 |
| Director General | 81 | 73 | - | - | - | 154 |
| Office of the Minister | 62 | 46 | - | - | - | 108 |
| Office of the Vice Minister | 53 | 36 | - | - | - | 89 |
| Inspector General | 41 | 28 | 7 | - | - | 76 |
| Office Sec State Culture | 46 | 18 | - | - | - | 64 |
| Human Resources | 23 | - | - | - | - | 23 |
| National Library | 5 | - | - | - | - | 5 |
| Legal Office | 2 | - | - | - | - | 2 |
| Total | 34,910 | 18,238 | 4,092 | 7,535 | 5,847 | 70,622 |

3.1.2 Regional level

Regional budgets reflected in the 2010 chart of accounts are limited to salaries (paid centrally) minor capital (procured centrally if items cost more than \$1,000) and goods and services, only some of which are under the control of Regional offices.

2010 Ministry of Education Budgets for Regional Offices

| | Baucau | Dili | Maubisse | Bobonaro | Oecussi | Total |
|-------------------------|------------|------------|------------|------------|------------|--------------|
| Salaries & wages | 375 | 291 | 283 | 328 | 143 | 1,420 |
| Goods and services | 553 | 339 | 375 | 386 | 184 | 1,837 |
| Capital/Minor capital | 11 | 11 | 24 | 3 | 33 | 82 |
| Capital and development | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - |
| Total | 939 | 641 | 682 | 717 | 360 | 3,339 |

Most of the funding allocated for goods and services is provided to the regions in three tranches and is managed through the regional imprest system. Operational manuals for the imprest system have been developed and describe what expenditure is considered eligible and what is not. Within FreeBalance the cash advances are allocated across eligible budgeted expenditure lines when paid and each Regional Office is required to maintain a cashbook which is acquitted by the Regional Inspectorate. During this review anecdotal information suggested that expenditure is not always spent in accordance with the Imprest manual requirements, and, although it appears that the advances are acquitted, it is unclear what processes are followed in the event that funds are not disbursed as intended.

As at mid October 2010 all Regional Imprest monies for the year had been disbursed to the regions. The amounts and their budgeted allocation in the ledger were as follows:

| Region | Amount |
|---------------|----------------|
| Baucau | 92,000 |
| Dili | 75,000 |
| Maubisse | 45,000 |
| Bobonaro | 40,000 |
| Oecusse | 51,000 |
| Total | 303,000 |

At the end of the year any unexpended amounts remaining in the regional imprest accounts are required to be returned to the ministry

3.1.3 School level

At school level junior and senior schools are provided with small grants based on the number of children present at each school. This process is managed by the Directorate of School Accreditation which does not accept that the school enrolment figures contained in EMIS are accurate and therefore calculates its own figures based on information obtained from other sources. This issue is an unsatisfactory situation which is discussed in part 3.2 of this report.

Unlike regional grants which are allocated across a number of FreeBalance expenditure lines when disbursed, school grants are paid from a single budgeted expenditure line. In 2010 they were initially budgeted under each of the regional directorates but were subsequently transferred to the Directorate of School Accreditation where they have been combined with the budget for the School Feeding Program under operational expenses. Such aggregation means that it is not possible to track expenditure at school level and this needs to be addressed to achieve successful introduction of performance management principles and the Escola Basica concept.

School grants are funded via three tranches paid throughout the year. However, in 2010 the first tranche, which was payable in January, was actually paid in April due to a reallocation of the budget in which the ministry was not consulted. The April tranche was paid in July and the July tranche was paid shortly thereafter. The July tranche apparently did not follow the agreed funding guidelines (\$1.0 per primary school student and \$0.5 per secondary school student) and as a result more funds have been allocated to schools than originally budgeted. This review did not ascertain the basis on which these funds were allocated but was informed that the amount disbursed under the School Grant Scheme as at mid October 2010 was \$2.4million.

Like the regional imprest system, there are expenditure and management guidelines available for school grants. Similarly, although expenditure is written up into a cash book and acquitted by the Inspectorate, this information is maintained on paper and is not consolidated at subdistrict, district, regional or national level and is not therefore analysed. As with regional Grants, unexpended funds are required to be returned to the ministry at the end of each year.

3.1.4 Quantum of expenditure controlled at sub-national level

From the above it is apparent that very little expenditure is currently controlled at sub-national level. Funds that flow to these levels are essentially non-discretionary and expenditure is prescribed through the imprest and school grant manuals. In 2010 the value of these funds is approximately \$2.7million (\$2.4m school grants + 0.3m regional grants) of which a portion is referred to national procurement for execution.

In addition to this, responsibility for selecting contractors for all capital works of less than \$250,000 was delegated to District Administrators in April 2010. As a result, \$2.9m of the Ministry's capital works budget was transferred from the Infrastructure Facilities Unit to the Ministry of State Administration. This is discussed further in part 3.8 of this report.

At the time of preparing this report future delegation of responsibilities and expenditure control at sub-national level had not been finalised and was contingent upon a number of decisions including the phasing of the Escola Basica program, the quantum of funding available under the School Grants Program and modalities supporting the School Feeding Program. According to the Budget and Finance TA, it is possible that 2011 expenditure controlled through sub-national delegations may approximate \$13,0m, excluding school infrastructure projects costing less than \$250,000.

Over the past two years it is clear that good progress has been made in developing financial management capacity at sub-national levels within the Ministry. However, a sudden increase in delegated expenditure control to these levels may stress existing regional and school level financial management capacities. In particular the phasing of the Escola Basicas may present difficulties in sourcing and training sufficient financial management competencies to cover (eventually) 250 school nodes.

An even greater challenge may be the development of capacity at national level to support the increase in school activity envisaged by the strategic plan. During this review it became apparent that financial management challenges at school level were often the consequence of events that took place at national level. The remainder of this report identifies other issues that suggest that focusing primarily on end-point (school level) activities may have only limited effect unless they are supported by strengthening activities at the start of the logistics/supply chain.

Finally any consideration of additional financial management capacity building within the sector must include an assessment of financial competencies at Ministry level. These are reportedly very low and neither the Director nor his senior staff have undergone formal financial training. As a result, the only TA in this area is engaged almost fully in performing line responsibilities and has little time available for capacity building. This is a high risk situation for a ministry that has ambitious growth plans.

3.2 Education Management Information System (EMIS)

The development of EMIS is recognised in the strategic plan as an important component of the proposed education planning and performance management framework. The amount of information available on EMIS is currently restricted to basic student numbers, enrolments and history and teacher numbers. In the past this information has been inaccurate but recent TA has helped to improve this considerably. Data on EMIS has now been successfully used to plan a number of HSSP programs including teacher training and distribution of learning materials. Both the WFP which manages most of the School Feeding Program and Care International which is responsible for producing school learning material rely on statistics provided by EMIS and report that there are no major inaccuracies. It is envisaged that data accuracy will be further increased upon completion of an ongoing school census and a second phase of TA.

Confidence in EMIS does not however run throughout the Ministry and, for example, the Directorate of Accreditation which is responsible for managing the School Grants Program collates and uses its own enrolment statistics. While the number of teachers recorded on EMIS is reportedly less than that recorded on the Ministry of Finance payroll (which is in turn is different to the employment records maintained by the Ministry of State Administration) it is also possible that none of these records, including those of the Directorate of School Accreditation, are accurate.

Confirmation of acceptable accuracy of EMIS from several different sources suggests that the time is appropriate for it be used as the single source of all student and teacher planning information. Increasing the use of this information is likely to further increase its reliability through a process of natural quality control and improvement and will ensure that all planning is performed using consistent data. It will also increase the transparency of planning processes which currently use parallel information systems that have not received the same level of formal support or independent scrutiny as EMIS.

The Strategic Plan acknowledges that further strengthening of EMIS and development of an integrated Financial Management Information System (IFMIS) is desirable and it is likely to play an important role in the future performance management framework. There are opportunities to broaden its information content and to link it to FreeBalance, BMIS and the HRMS. Additional TA is planned to support the further development of EMIS.

3.3 Payroll

Information relating to teacher numbers varies depending upon the source from which it is extracted. According to a review performed in February 2010¹, the Ministry currently employs 11,227 teachers which represents approximately half of the government payroll. However, the number of teachers on EMIS (from which this number was extracted) was less than that on the payroll. The Strategic plan indicates that 14,169 teachers will be required in 2011 and a process is currently underway to reconcile EMIS to the payroll after which the situation may be clarified.

This (current) review received reports of occasional late payments of teacher salaries but there was no suggestion that non-payment is a systemic problem. However, without

¹ Expenditure Review, Education Sector, Timor Leste. Expenditure Review Unit, Ministry of Finance, February 2010.

undertaking a full payroll audit it is not possible to say whether payroll accuracy is a problem or whether there are ghost teachers on the payroll.

Finally, it is worth noting that the majority of teachers do not have formal teaching qualifications and that this issue is addressed in the strategic plan. The strengthening of the teaching qualifications framework coupled with a better graded pay structure and possible decentralisation of the payroll system will place additional pressure on financial management processes.

3.4 Cash disbursements

There are two major cash disbursement systems operating at sub national level. These are the Regional Grants and the School Grants Program. In addition, other funds are disbursed to the regions to cover contingency expenditure, the major example being transport monies to fund distribution of goods to schools from district warehouses.

A description of the Regional and School Grants Programs is provided in part 3.1.2 and 3.1.3 of this report and a flowchart depicting each of these processes and their blockages is presented in part 3.4.1 below.

3.4.1 Regional Grants

Regional Grants are delivered through an imprest system which commenced in July 2009 and in 2010 each of the regions completed their first three month imprest reports. Regional Advisors funded by NZAid have spent a significant amount of time assisting with the implementation of this system and recently their counterparts compiled a report summarising some of the challenges encountered in administering the process. The report concluded that the imprest system is not completely understood by finance staff within the regions. It identified a number of operational weaknesses and proposed some solutions. Identified weaknesses included:

- Payment summary sheets (cashbook) not filled in correctly;
- Payment vouchers do not describe what the payment is for
- Some regions do not write up payment vouchers at the end of acquittal period
- Payment vouchers combined
- Payment vouchers not signed for
- Some regions have not been obtaining quotations.
- Receipt of goods not verified/confirmed.
- Vehicle maintenance receipts not properly controlled and monitored.

The report identified weaknesses that need to be resolved including Regional Treasurer expectations conflicting with guidelines, the need for quotations on small items, requirements for using Ministry approved shops and rules regarding motor vehicle maintenance.

The issue regarding motor vehicle repairs is discussed in part 3.7.3.7.3 of this report and relates to dissatisfaction with delegations and costs as well as lack of transparency regarding payments. Similar complaints were received about the general level of transparency within Procurement and the difficulties in obtaining copies of invoices for purchases. Such a situation creates mistrust between the regions and the national directorates and is discussed further in part 4.1.3 of this report.

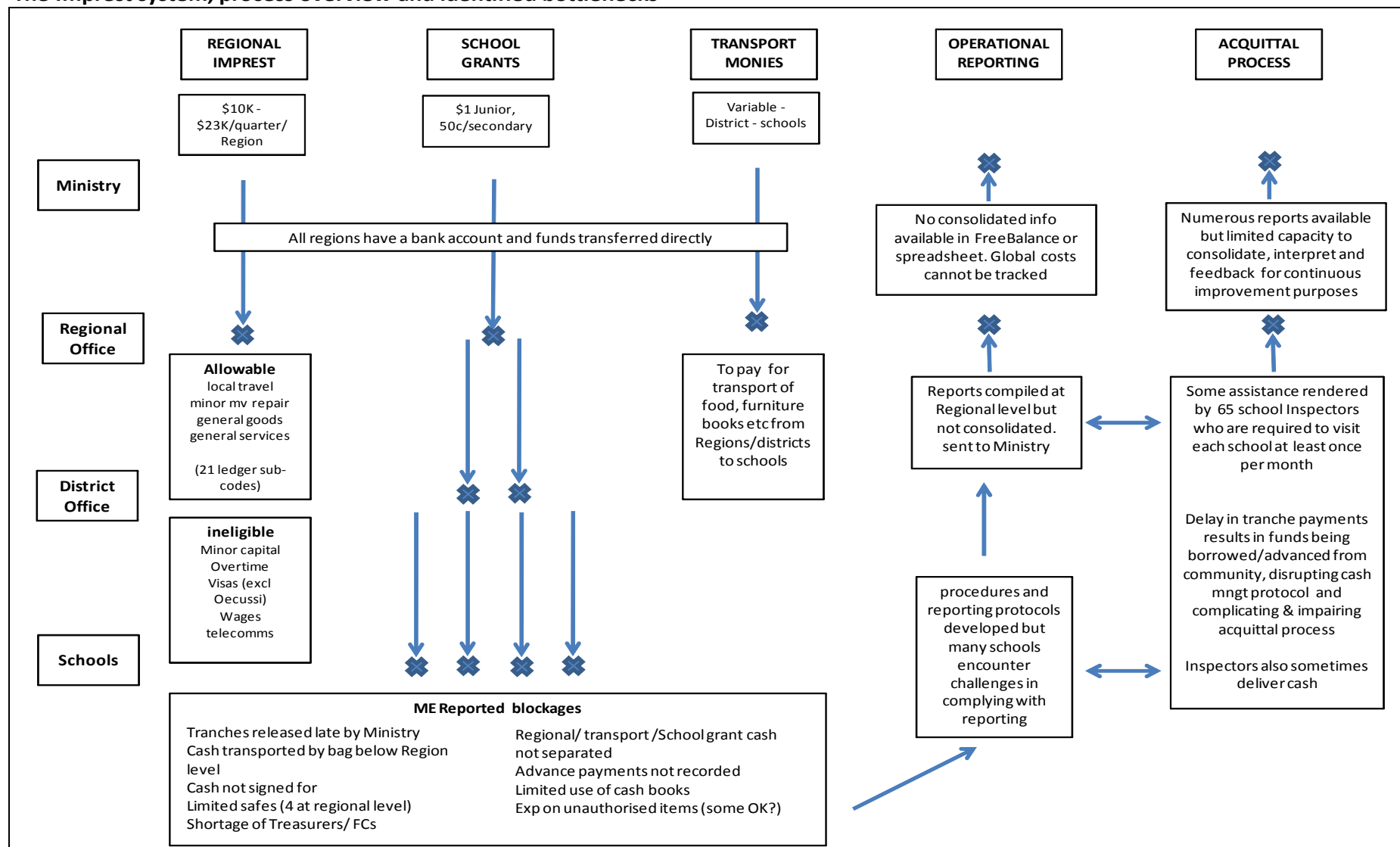
Expenditure lines to which school grant expenditure can be allocated through the imprest reports are shown below (note this level of detail is not posted to FreeBalance which shows only tranche payments allocated across pre-defined budget lines).

| Item | Description | Sub-item | Description |
|------|------------------------------|----------|----------------------------------|
| 620 | Local travels | 6200 | Local travels |
| 651 | Vehicles maintenance | 6510 | Vehicles Maintenance |
| 660 | Stationary | 6600 | Stationary |
| 670 | Goods consumables | 6700 | Goods consumables |
| | | 6704 | School material |
| | | 6799 | Other supplies |
| 700 | Other expenditures | 7000 | Official receptions |
| | | 7003 | Rents and transport |
| | | 7004 | School equipemtn rent |
| | | 7005 | Mailing services |
| | | 7006 | Subscriptions |
| | | 7010 | Generators maintenance |
| | | 7012 | Other operational costs |
| 710 | Other miscellaneous services | 7100 | Advertisement |
| | | 7101 | Catering services |
| | | 7102 | Cleaning and sanitation services |
| | | 7103 | Informatics services |
| | | 7104 | Educational services |
| | | 7105 | Photocopying services |
| | | 7108 | Printing services |
| | | 7199 | Other miscellaneous services |

Overall the Regional Grants system appears to be developing well and, within the constraints of current guidelines, is likely to improve over time. However, its role under the new organic law, which focuses on regional offices, as oppose to district offices, may mean that it has to be restructured and additional imprest accounts set up. Should the regional structure continue into the future, vacancies for Treasurers and Financial Coordinators in the regions should be filled and safes provided for all locations that are required to look after large amounts of cash.

Finally, not all regions have received the same amount of TA and those that received less support are the ones where the greatest challenges remain. This has been identified and is intended to be addressed by reallocating TA effort more evenly.

The Imprest system, process overview and identified bottlenecks



3.4.2 School Grant Program

School grants are supposed to be funded in three tranches throughout the year. However, in 2010 the first tranche which was payable in January was actually paid in April due to a reallocation of the budget in which the ministry was not consulted. The April tranche was paid in July and the July tranche was paid shortly thereafter.

Funds for these grants are transferred electronically to Regional Office bank accounts where they are withdrawn and sub divided into districts. Thereafter physical cash is transported (usually in bags and suitcases) to the districts where it is again subdivided before being transported to school by Inspectors, teachers (who come to collect the money) or members of the community. While there are many reports that these funds are not consistently subject to normal custodial practices such as signature on receipt and proper safekeeping mechanisms, no persuasive information was received during this review to suggest that schools are not receiving their grants.

Like the regional imprest system, there are expenditure and management guidelines available for schools. Similarly, although expenditure is written up into a cash book and acquitted by the Inspectorate, this information is maintained on paper and is not consolidated at subdistrict, district, regional or national level and cannot therefore be analysed.

There is anecdotal information that school grant monies are spent on ineligible items. One of the major reasons cited for this is that the Ministry mainly delivers goods eg furniture, books and rice to regional warehouses and schools are often required to arrange for transport to schools. In order to achieve this, school grant money is sometimes spent on fuel or allowances to the people who undertake the transportation. School Grant expenditure categories permitted under the guidelines are as follows:

| Item | Description | Sub-item | Description |
|------|--------------------|----------|-------------------------|
| 700 | Other expenditures | 7000 | Official receptions |
| | | 7003 | Rents and transport |
| | | 7004 | School equipment rent |
| | | 7005 | Mailing services |
| | | 7006 | Subscriptions |
| | | 7010 | Generators maintenance |
| | | 7012 | Other operational costs |

Another challenge is that the late payment of school grants appears to have impaired the record keeping and acquittal process. Schools have had to borrow money from their local communities, including teachers, in order to pay for immediately necessary expenses and this is subsequently repaid upon receipt of the grants. However there are no procedures for such activities so there have been challenges in recording these transactions and the Inspectors have encountered difficulties in acquitting the expenditure due to the additional complexity.

In the future, the school grant system is envisaged as being an important element of the reform process in that it is an important conduit through which management accountability and expenditure authority can be decentralised. It is inherently suited to being incorporated into a school level performance management and incentive reward process and it is therefore important that the processes evolves into a robust and transparent feature of the PFM landscape.

3.4.3 Other funds transferred to the regions and districts

In addition to the Regional Grants and School Grants, other amounts of money are transferred to regions on a periodic basis, the main purpose of these transfers appears to be to fund transport of goods sent by the Ministry to Regional Warehouses. The Logistics Division of the Directorate of Administration and Finance does not usually arrange for transport to schools but usually does send funds to cover this cost.

Procedures over the control of these funds appear to be less formal than for the Grants system and the basis of funding was not determined during this review. There are however some reports that the funds are to some extent used to pay allowances to logistics and other staff who may be required to perform this process.

3.5 School Feeding Program

The School Feeding Program is an important initiative designed to promote school attendance and to ensure that students receive at least one balanced meal per day during term time. The program has been managed for a number of years by the World Food Program from its offices in Dili.

Prior to 2010 there was at least one unsuccessful attempt by the ministry to take over part of the program. In 2010 the Directorate of School Accreditation took over responsibility for the procurement and distribution of the rice component. This has met with some success and the Ministry intends to assume responsibility for the entire program from 2011. This will entail the delivery of beans, oil and salt in addition to the rice currently being procured.

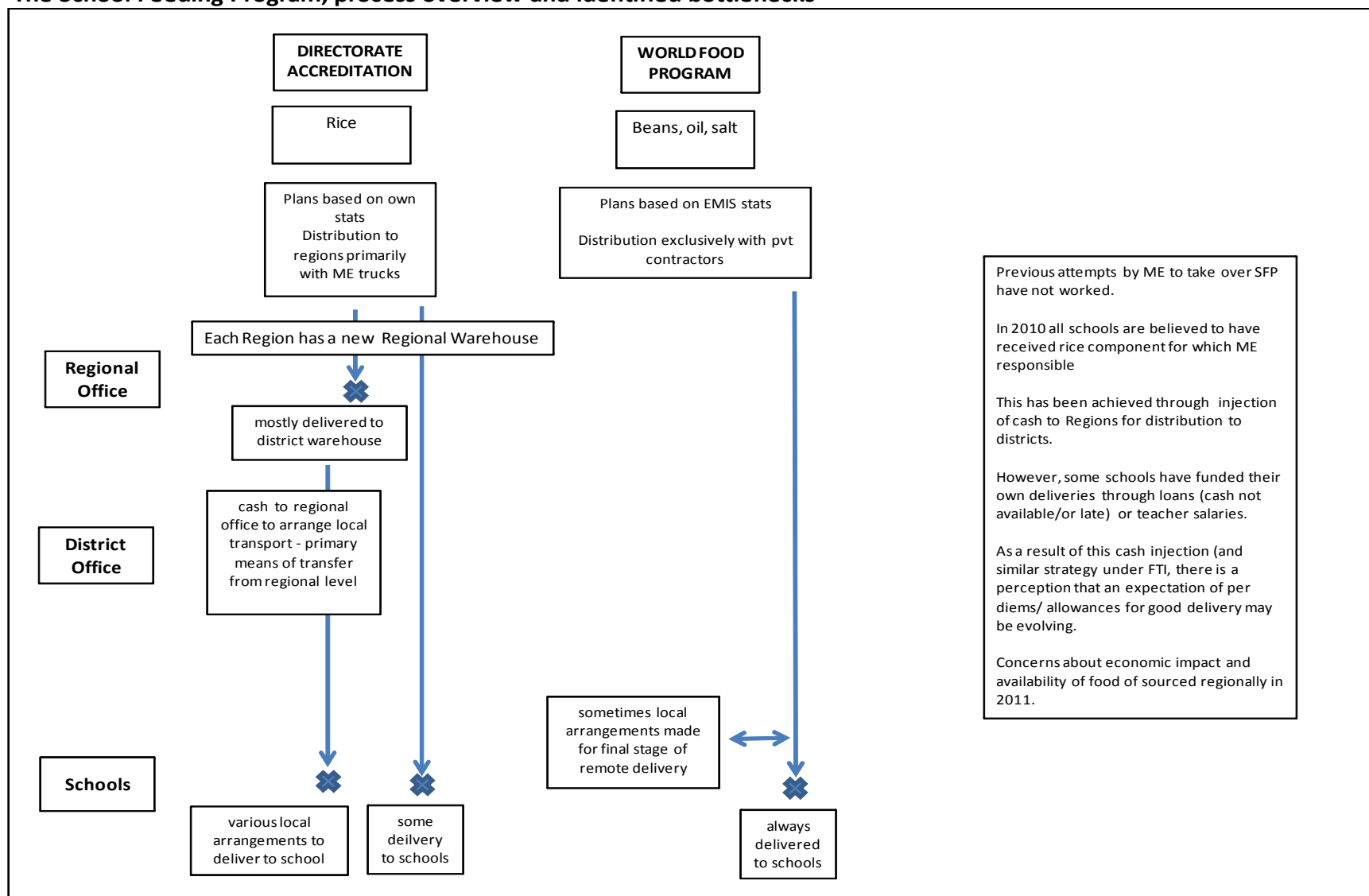
As a result of the partial assimilation of the School Feeding Program into ministry structures and processes, two different distribution systems were operating during 2010. The WFP component was distributed according to the traditional WFP distribution networks which entail the use of private transport contractors and the delivery of substantially all the food from Dili directly to the schools. In cases where food could not be delivered, (eg to remote schools during the wet season) third party arrangements were made to ensure delivery.

The Ministry component was primarily distributed to District warehouses from where further arrangements were made to distribute to the schools. Transport to the warehouses was mostly affected through Ministry trucks and thereafter by a variety of means funded through transport grants provided by the ministry to the regional offices.

During this review conflicting reports were received as to whether the full food allocation had been received by schools. In general these reports indicated that sufficient food was received by most schools but that there were some delays and difficulties in ensuring that the rice component reached its destination. A flowchart depicting the 2010 School Feeding Program and process blockages is presented below.

During 2011, the Ministry will be subject to significantly higher logistical demands to plan, procure and distribute all of the components of the School Feeding Program. This has been recognised by the DPs who, through NZAid, have commenced providing limited TA in this area. This TA recognises the expertise of the WFP and would like to call upon it for assistance but there appears to be some tension between the WFP and the Ministry which is hindering these organisations from working together.

The School Feeding Program, process overview and identified bottlenecks



The logistical complexities relating to the distribution of goods (including food) have been mapped by the WFP and are summarised in part 3.7 of this report. The capacity of the Ministry to manage these processes without proven logistical experience in distributing large quantities of food to remote areas should be carefully considered. Logistics is a discipline in which it is very easy to make mistakes which become evident only months after they have been caused and if the 2011 School feeding is to be successful, detailed planning and procurement commitments should already have taken place. This is an area which requires urgent attention to obtain assurance that all risks have been minimised.

An additional complexity relating to 2011 is that the procurement process underpinning the School Feeding Program may change. Although this has not yet been decided, consideration is being given to providing funds at District level to procure local produce for the program. This initiative may provide an opportunity for local economic stimulus but should be carefully considered in light of a number of potential risks, including, but not limited to:

- Capacity of regional ME structures to manage large amounts of cash through imprest processes
- Ability of regional centres to provide the required amounts of food
- The possible impact on local prices as a result of increased demand
- Food quality issues, including use of locally produced salt and the variable cooking time and nutritional value of different bean types

In the longer term pre-primary and secondary schools may be included under the program, thus increasing the cost and logistical complexity.

3.6 The procurement of goods, services and minor capital

The Ministry's procurement process takes place in the context of a national procurement regime which is overly complex and requires review. Some observations regarding this regime which have the potential to impact on the Ministry's procurement processes include:

- Lack of procurement oversight mechanisms
- Absence of national mechanisms to train and build capacity
- Complex bidding documentation
- Absence of guidance on use of different bidding methodologies
- Use of English as required bidding and contracting language
- Inappropriate match between procurement delegation and procurement capacity

Within the ministry there are effectively two procurement units. One is the ESSP funded Procurement Unit which is staffed by trained personnel employed on performance contracts funded by the World Bank (the IFU Procurement Unit). The other is the Ministry of Education Procurement Division which forms part of the National Directorate of Administration and Finance. This division has been dogged by high staff turnover, low capacity and allegations of corruption. During the current review it was staffed by two public servants, the most senior of which described herself as a logistics officer and who was in the process of being transferred to another unit following (unsubstantiated) accusations of corruption. The other employee is a clerk who apparently has no procurement knowledge but is now the sole representative of the Division.

Neither of the two staff discussed above can competently speak English (the language of GoTL procurement) or have undergone formal procurement training, including the "procurement accreditation training" provided by the Ministry of Finance prior to decentralisation of the procurement process in 2008 and 2009. Within the Procurement Division there are no procurement manuals or copies of the procurement decree laws. These challenges may be increased by the pending implementation of the FreeBalance procurement module and introduction of the e-procurement portal across government. In addition, more comprehensive implementation of purchase orders and commitment of CPVs within the Ministry are likely to further stress existing human resources.

Although the IFU Procurement Unit does render some assistance to the Ministry Procurement Division, this assistance is limited and is not always available (it is not part of their official remit). It is therefore not surprising that the Procurement Division is viewed with mistrust by other Units and Directorates within the Ministry and is perceived to be unresponsive to request for action of copies of documentation, such as paid invoices, that would assist in making the process more transparent.

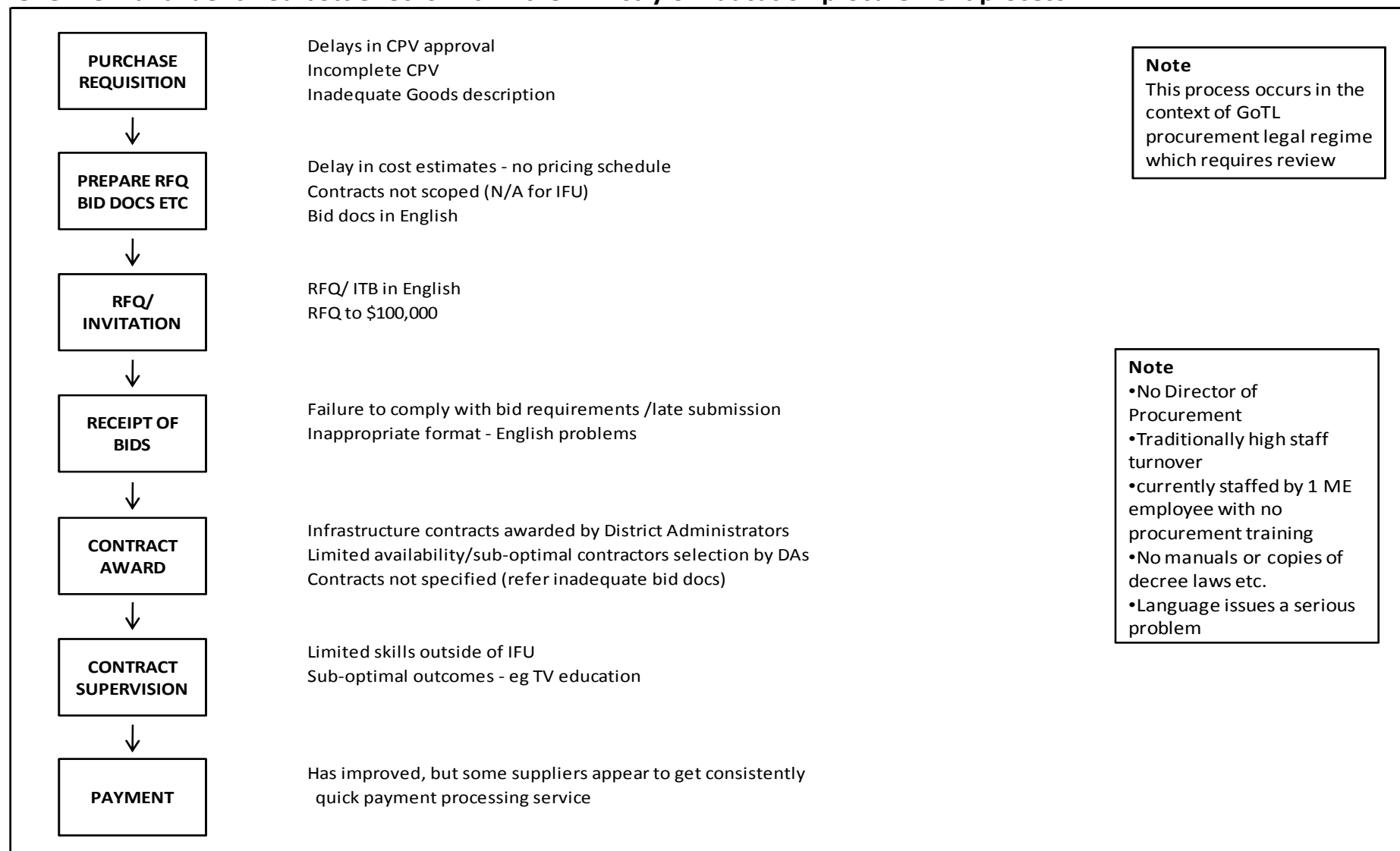
Under the Ministry's new Organic Law the Procurement Division will become an autonomous unit. This in itself will do little to improve its capacity to achieve good value for money outcomes and an extensive capacity building initiative will be required. Fortunately the Ministry has a proven model for developing procurement capacity through the development of the IFU. The IFU has previously been the focus of a number of reviews and is generally accepted to be a model of procurement excellence across government. However, the building of this capacity took several years and a significant investment in technical assistance.

In accordance with existing procurement decree laws the Ministry is delegated with authority to manage individual procurement up to the value of \$1.0million. Based on a simple review of the 2010 goods and services and minor capital budgets the estimated value of the ministry's 2010 procurement activities is approximately \$20m of which \$8.0m was uncommitted at 15 October 2010. There is therefore a potentially large proportion/value of procurement transactions still to be committed for 2010.

In the short term consideration could be given to transferring ministry procurement activities to the IFU Procurement Unit until a more permanent solution is identified and resourced. This permanent solution must seriously consider the provision of long term TA and a human resource management process that promotes continuity of tenure within the unit.

A flowchart depicting the basic steps of the procurement process is presented on the next page. It is annotated with comments regarding blockages that were identified from a short workshop held during this review and comprising members of the IFU and Ministry Procurement Unit.

Overview and identified bottlenecks within the Ministry of Education procurement process



The Logistics Division provides the important linkage between many important activities within the national directorates and the delivery of goods and services to individual schools. It is going to be placed under increasing pressure as school enrolment increases, responsibilities for program management are transferred to the Ministry (eg SFP) and additional programmes come on stream to promote the quality education outcomes envisaged in the strategic plan. The Division (and the programs which rely upon it) are likely to benefit significantly from TA designed to promote planning, communication, transparency and efficiency across the logistics chain.

3.7.1 School education materials

Various ESSP and Ministry programs have focused on the delivery of educational materials to schools. For the most part, materials funded through the ESSP have been delivered through parallel logistics processes but some have successfully used the ministry's distribution network.

One of the most important learning materials used to date has been the Lafaek magazine which is issued three times a year in three separate editions targeting different educational cycles. Until the end of 2009, the magazine was produced and distributed by Care International. In 2010 the magazine continued to be produced by Care but was distributed by the Logistics Division. During this review several reports were received to the effect that in 2010 many of these magazines had not been distributed, or were not delivered on time. The reports are similar to those relating to 2010 rice distribution and again suggest that TA in the area of logistics would be a valuable contribution to sectoral service delivery.

3.7.2 School furniture

School furniture has been delivered to schools through various programs and processes including FTI, IFU and routine ministry procurement practices. There are however still some schools that do not have furniture while at other schools furniture has been delivered in an unacceptable manner. For example, some schools have received:

- Partial deliveries of the full order
- Incompletely manufactured furniture (eg seats missing from chairs)
- Disassembled furniture that has not been designed to be disassembled
- "Flatpack" furniture that has missing components
- In addition there are reports that some furniture has not been delivered to schools but has remained in district warehouses/storerooms for some considerable time

During this review incompletely manufactured furniture was observed in the Ainaro District warehouse, with no apparent plans for its return or onward shipment.

These issues may be attributable to one or a combination of poor procurement practices and/or inadequate logistical arrangements. They demonstrate the need for these practices and processes to be strengthened.

3.7.3 Motor vehicle repairs

The Ministry's policy regarding motor vehicle repairs is that only minor repairs may be performed in the regions and that all other repairs should be performed in Dili. However the definition of "minor repair" is not clear and during the review was variously described as

"anything more than an oil change", "anything more than a minor service" and "anything costing more than \$100".

The motor vehicle repair policy is a source of concern to the regional offices because considerable expenditure can be incurred in transporting a vehicle to Dili for repair, particularly from Oecusse. In addition the transportation process can result in the vehicle being out of commission for an extended period of time.

The Logistics Directorate is responsible for arranging motor vehicle repairs and for charging the costs to the regions. During this review it was asserted by a number of people that regions have complained about the cost of the repairs but have been unable to obtain copies of invoices supporting the charges to their cost centres.

A review of the motor vehicle repair policy might identify opportunities to improve value for money and may promote better communication and trust through the development of a more transparent invoicing and charging process.

3.7.4 Fuel

Fuel is procured at regional level through fuel vouchers which may be redeemed at approved fuel outlets. Fuel vouchers are allocated by the logistics department and provided on the basis of requisitions submitted by the regions. This review did not ascertain how this is done.

As with other financial management processes, it appears that record keeping practices and transparency mechanisms are not sufficiently robust to enable the allocation, distribution and accountability activities relating to these vouchers to be defended. It should be noted that the Logistics Division is not directly responsible for all of these activities however there appears to be a general lack of confidence in the overall process, particularly at sub-national levels.

During this review various people questioned the following attributes of the fuel voucher system:

- The equitability of the initial allocation process (eg recognition of the different travelling requirements of individual vehicles)
- The integrity of the voucher tracking system (eg early in 2010 a large quantity of unaccounted vouchers was located within the Ministry)
- The late delivery of vouchers to some regions
- The existence of a "secondary market" for vouchers
- Intermittent fuel supplies at accredited fuel shops

There is an opportunity to review the fuel voucher system and to identify opportunities to streamline the process and improve reporting and transparency. Such a review may be within the capacity of the Inspectorate to perform.

3.8 Capital works

The Infrastructure Facility Unit ("IFU") was established to design, plan, monitor and supervise the construction of schools in Timor Leste. It took over these responsibilities from Public Works in 2005 because a significant portion of schools under construction were not being completed.

The unit undertakes its own procurement, contracting and contract management activities and is staffed by people who are employed under performance contracts. In 2010 the unit no longer required international TA and from 2011 development funding, which pays only salaries, will be wound down.

The IFU maintains a Building Management Information System (BMIS) which contains records of public schools in Timor-Leste, including their physical condition. From these records an annual maintenance and construction plan is developed which, subject to budgetary constraints forms the operational plan for the following year.

All school buildings are constructed in accordance with IFU standard designs, including low cost community schools which were commenced in 2009 as a stop gap measure to provide schooling facilities in remote areas. These schools are constructed by local communities using mainly local materials. They are funded through a grant system through which an initial progress payment is made followed by a final payment after the building has been inspected by IFU staff (grants range between \$17,000 and \$20,000 and are paid in cash).

In April 2010 the Ministry's capital works budget was reduced from \$10.4m to \$7.5m following a directive that the award of all government capital works contracts priced at less than \$250,000 should be delegated to District Administrators.

As a result of this directive, contract advertising, adjudication and award activities for \$2.9m of school infrastructure projects were transferred out of the IFU, although it retains responsibility for contract monitoring and certification of these contracts.

According to the Director of the IFU, this decision has resulted in some contracts being awarded to contractors who do not meet IFU quality criteria. However, relationships with the District Administrators have remained cordial and have worked reasonably well and IFU staff have advised both District Administrators and contractors on good practice construction techniques.

The IFU has been subject to review on a number of occasions and is considered to be a centre of procurement and public works excellence within government. According to the Director, all scheduled 2010 infrastructure projects, including 50 community schools, will be completed by the end of the year.

3.9 Inspection activities

The Ministry has a significant investment in inspection activities. The Inspector General has two deputies and three investigators reporting to him. In addition there are 5 Regional Inspectors, 12 District Inspectors and 65 school inspectors.

At the school and District level the inspectors mainly perform compliance reviews. School inspectors have received ongoing training and work in accordance with an inspection manual which contains a number of standard templates to facilitate the conduct and reporting of their activities. This year their attention has focussed on classroom activities and school grant acquittals. As part of the acquittal process they provide advice and training if required.

During 2010 some inspectors had difficulty completing their acquittal responsibilities due to delays in the payment of school grants (refer part 3.4.2). However, TA is currently being provided through NZAid to help improve the inspectors skills. When the Escola Basica system is implemented it is possible that school level inspections may be performed on a self

assessment basis with school inspectors performing quality review procedures. The TA is concerned that capacity will not be in place to adopt these processes.

Information collected by school inspectors has the potential to provide useful feedback and to contribute towards a process of continuous improvement. However, there is currently no process in place to summarise inspection reports, identify trends, measure against benchmarks or to provide feedback.

At the national level inspections are less compliance based and generally take the form of investigations. These investigations are largely reactive and are performed in response to specific management requests and may have resulted in a perception that the Inspectorate is a policing function rather than a process improvement one.

There is an apparent imbalance in inspection activities between national and sub-national operations. In 2010 less than 10% of expenditure was controlled by sub national structures yet 90% of inspection activities took place in the regions, districts and sub-districts. Although not all of the sub-national inspection activities focused on finance, a strong argument could be made for their reallocation to national structures where it is apparent that there are some significant challenges with the potential to impact negatively at school level.

4 Development considerations

4.1 Current status and achievements

The ministry of Education Strategic Plan is an ambitious one and its success will be dependent on the ability of financial management processes to support the additional demands of increased enrolment and improved educational outcomes. At the moment these processes are at best barely coping with existing demand and at worst, mired in a culture of mistrust, inadequate communication, lack of transparency and poor accountability. One of the conclusions of the Phase 1 MTR review is that “despite pockets of much improved performance in the MoE, the overall Ministry is performing poorly”.

While details of specific financial management processes are provided in the previous section of this report, they can be broadly divided into five areas. These are finance (including budgeting), procurement, logistics, information management and monitoring. Their current status is summarised below.

4.1.1 Finance

General financial management capacity levels within the ministry are poor. For example, this review was advised on more than one occasion that basic numeracy levels are low, to the extent that some ministry staff do not fully appreciate the effect of the position of a decimal place on a number. There is also a view that the strongest bookkeeping, accounting and reporting skills are to be found at sub-national level where there have been intensive efforts to train Regional Treasurers and Financial Coordinators, Head Teachers and School Inspectors in basic bookkeeping and acquittal techniques. However sub-national financial accountabilities represent less than 10% of the Ministry's budget with most financial activity taking place at the national level.

Within the Ministry's Finance Division, there are reportedly no public servants who have financial qualifications and this may be the reason why the role of the sole Finance and Budget TA leans more towards capacity substitution than capacity building. Further, the majority of executives require the TA to informally sign off on cpvs (commitment payment vouchers) prior to their formal authorisation and processing. Existing TA within Finance and Budgeting is filling an essential role by ensuring that day to financial management activities at ministry level are performed. The TA has provided the ministry with some good insights and a vision of how processes might work within the context of increased decentralisation. However, because there has not been a significant focus on capacity building there is a risk that this situation will not be sustainable when this assistance ends.

TA rendered through the Regional Directorates and the Inspector General has been successful in transferring some skills to a large number of people operating within sub-national structures. This job is not finished but things are moving in the right direction.

4.1.2 Procurement

Procurement is another area where capacity is low and has the potential to significantly disrupt good value educational outcomes. For this process however, there are effectively two procurement units. One is managed by the IFU, is principally responsible for capital projects and forms part of the ESSP program while the other forms part of the formal ministry organisational structure. The former has undergone sustained and intensive capacity building and is considered a centre procurement expertise. The latter is understaffed, lacks

transparency and faces a perception that it cannot be trusted to provide value for money outcomes.

The fact that some reliance is being placed on IFU procurement capacity and that TA has not been inserted into ministry procurement processes may have been oversight. The ministry's own procurement capacity is extremely low and will be further challenged by the introduction of e-procurement into a low capacity environment and growing demand for goods, services and minor capital that will be driven by the strategic plan. However, there is a proven model to build such capacity and/or the opportunity to merge the two procurement units as DP funding for the IFU is wound down. Both options involve risks and require careful consideration. Urgent attention to this problem is required.

4.1.3 Logistics

Perceptions of the logistic function are similar in that there are opportunities to improve transparency and communication with client directorates, regions, districts and schools. The logistics network in Timor Leste is a complex one and is challenged by poor road infrastructure, seasonal weather and limited telecommunications in the remote areas. During 2010 the Logistics Division was able to arrange delivery of the rice component of the School Feeding Program, but their processes were not as streamlined as those of the WFP and there remain challenges in ensuring that all school receive their appropriate quota of books, learning materials and furniture etc. There is a risk that increased school enrolment, additional food distribution responsibilities and increased demand for school materials will further challenge existing capacity.

No TA has been previously allocated to Logistics. Many individual programs have required logistic services to transport material to schools but most have developed their own "parallel" systems because the ministry's Logistics Division was not able to assist. Recently, one advisor funded by NZAid has been asked to provide assistance to Logistics, particularly in relation to the School Feeding Program. Local NGOs have significant local logistical expertise and it would be beneficial to seek their expertise and advice.

4.1.4 Information management

Information permeates all of the activities of the ministry and a reliable source of information is a prerequisite for good planning and program execution. Much effort has been put into improving the accuracy and reliability of information contained on EMIS. Although the nature of this information is presently limited to basic enrolment and teacher data, several programs are now relying on this information for planning purposes and have reported that its integrity has reached acceptable levels. Unfortunately most of these programs have been managed by development partners or NGOs and within the ministry there remains a reluctance to rely on this data. EMIS is ripe for development but only limited benefits will accrue if the system is not used by the ministry. Now that the data has been confirmed to be reasonably accurate, a requirement for all directorates of the ministry to use it should promote a process of natural quality control and acceptance.

TA provided to EMIS has proved successful and additional TA is planned. Some "tweaking" of existing data will be required but the main focus should be on developing the system to provide a more comprehensive array of information capable of supporting all planning initiatives across the ministry. This will likely include assimilation of information from BMIS, HRMIS FreeBalance and other relevant databases and include the development into an Integrated Financial management Information System.

4.1.5 Monitoring and evaluation

The establishment of process through which 65 inspectors regularly visit schools in all of the sub-districts is a major achievement of the ministry. The insertion of two TAs into the Inspectorate has contributed to this achievement.

Some inspectors still require training in basic compliance monitoring and, in addition to addressing these requirements; the next phase of assistance should focus on assimilation and interpretation of results. The ministry would benefit from increasing inspection activities within the national directorates and increasing transparency by making inspection reports more widely available. Skill levels required for this type of work are higher than those required for basic school compliance so this may be a longer term objective.

4.2 The future

Two of the lessons learned from past DP involvement within the ministry are that:

- capacity building has taken longer than expected and
- good results are possible following sustained and intensive effort.

Future temptations to move too quickly should be avoided and this may mean that implementation of the strategic plan should be performed slowly. From a financial management perspective there are some important considerations for development partners. These are as follows:

4.2.1 Engender ownership of the strategic plan

The strategic plan was prepared following significant input by TAs and is written in English, a language that is not widely understood within the Ministry. It is a very long document and encompasses a broad array of complex issues. The plan will not be successful unless full ownership is taken by the Ministry. In order for this to happen the entire plan should be translated and sections of it reduced to terms that can be understood by relevant stakeholders. Socialisation of the plan will require significant effort and should form an important part of the strategic plan coordination unit envisaged by the plan.

Implementation of the plan will be challenging and an offer of long term TA (not capacity substitution) in the coordination unit may reap dividends from other DP and ministry investments.

4.2.2 Develop costings for the implementation of the plan

Increased school enrolment, improved education delivery processes and better management systems will entail significant costs. High level costing and feasibility to fund the plan should be developed and supported by scenario analysis if initial costings prove too costly. A more detailed expenditure framework for the medium term should then be developed.

Short term TA will be required to achieve this and costings should be re-evaluated at regular intervals.

4.2.3 Support the development of logistics

The ministry's logistics function is likely to be significantly challenged from 2011 onwards. In many successful governments there is an increasing trend towards outsourcing non-core activities such as logistics and there is certainly external capacity to provide this service in Timor-Leste.

Logistics is a complex discipline and if it is retained by the Ministry is likely to absorb considerable resources, even after effective capacity has been developed. Short term TA was recently allocated to provide assistance but the limited availability may mean that little more than a capacity scoping exercise coupled with some "stop gap" interventions will be achievable. It would be beneficial if the TA was requested to provide an options paper which, in addition to including a needs analysis, examines alternative logistics modalities. Regardless of which option is adopted, every effort should be made to draw upon the existing expertise of NGOs currently providing logistical services as part of their responsibilities to the Ministry.

4.2.4 Build procurement capacity

With few exceptions, low procurement capacity appears systemic across government. The development of an autonomous procurement unit under the new organic law provides an opportunity to start with a clean slate. In the meantime it appears logical for the IFU to assume responsibility for whole of Ministry procurement and eventually to merge with the new structure once necessary legislative, institutional design and budgeting issues have been clarified.

Regardless of how it is achieved, long term procurement TA is required. Care should be taken to ensure that this is not achieved by diluting the capacity of the IFU.

4.2.5 Develop basic financial/accounting competencies

The provision of dedicated training resources to build basic record keeping and acquittal skills at regional and school level is proving successful and should be continued for at least another year. A similar process could be commenced within the Finance Division.

A medium-long term transition plan for the current finance and budget TA should be developed to ensure that sustainable outcomes are achieved in this area. Additional resources should be considered but should be directed exclusively towards basic skills training through courses and supervised work placements. Identification of suitable candidates to undertake formal financial training should be considered.

4.2.6 Promote the use of EMIS

TA directed towards EMIS has been successful and a second phase is envisaged. Longer term TA is likely to be required to assist in transitioning the system to incorporate a broader range of data. In addition to building/growing the system, assistance should be directed towards ensuring that it is fully utilised by the Ministry.

4.2.7 Broaden the remit of the Inspectorate

TA rendered to the Inspectorate is developing basic compliance capacities that can be used to support monitoring and evaluation activities at the school level. This assistance should be

continued and consideration given towards developing a process through which inspection results can be aggregated, summarised, interpreted and fed back into a formal monitoring and improvement cycle.

4.2.8 Consolidate and align training programs

There are similar training requirements across different directorates. In some instances there has been an element of coordination between different programs for example between regional directorates, school teachers and the school inspectors. There are likely to be other instances where training resources could be shared to reduce costs and improve communication between different areas of the ministry.

There is a possibility that additional opportunities may exist to combine training with programs in other sectors, eg Health, and ultimately move towards the development of a national public sector competency and training program. This has been identified as an opportunity in the Strategic Plan. The Ministry of Finance is developing a proposal for a training function to be run centrally either through MoF or INAP. MoE should advocate for early inclusion in such a program if and when it is established.

Some of these recommendations have already been identified and are being implemented. A simple GANNT chart on the next page presents a summary of all of the above along with suggestions for their timing.

4.2.9 Consider alternative aid modalities

Traditional approaches to development assistance, which place a large number of TA in operational positions, have yielded disappointing results in Timor-Leste. Performance Based Financing (PBF) is an alternative delivery modality that might complement this approach. The ultimate goal of PBF is to move towards sector budget support with funding tranches based on meeting performance goals, but this can only be done where PFM systems are sufficiently robust to meet fiduciary standards. In the interim, donor funds can be used to finance specific line items in the budget, particularly where resources from the state budget are insufficient. In the education sector this could be text books, school grants, or school feeding.

There are a number of prerequisites that need to be achieved before true performance based financing can be implemented. These include:

- Financial autonomy of units where performance is being measured. It is impossible to hold managers to account if they do not have control of their budgets
- A basic performance monitoring system that has the functionality to link administrative performance data (i.e. EMIS) with funds received.
- High level support at the sector level to emphasise and enforce a focus on performance, and to drive through reforms necessary to build the appropriate systems and process.

The education sector in Timor-Leste is at the early stages of this process as evidenced by the Escola Basica concept. While this is a positive move, there remain major hurdles to implementing this approach effectively and, in particular there is limited performance culture in the education sector and outcomes at school level are intricately linked with the performance of national structures such as procurement and logistics. The difficulty of

making this transition should not be underestimated. However, PBF could be used as a tool to help the ministry make this change.

Another modality, which has proven successful within the Ministry, is the development of a semi autonomous unit staffed by national consultants who are appointed on the basis of performance contracts and paid by the World Bank. This was the model used within IFU and, although it required initially high levels of investment in TA, those investments have yielded positive results and the unit will eventually become completely financed by the government. Such a modality might work well in logistics.

When considering future TA, options to appoint national or regional consultants should be strongly considered. This may have cost benefits and would increase the likelihood that individual TAs are able to competently speak, read and write at least one of the commonly used languages in Timor-Leste. One weakness regarding current appointments is that most TAs cannot work confidently in any of these languages and a number of them rely on interpretive assistance – a situation which is not conducive to effective skills transfer, training or capacity substitution. Note that this comment does not in any way detract from the commitment and achievements of current and past TAs whose work was confirmed as having been positively received by their counterparts in the main MTR reports.

To summarise, there are some significant constraints across the sector's PFM systems that are likely to impair the successful implementation of the sector's strategy. Their resolution will require a realistic appreciation of human capital constraints on the part of development partners and a complete commitment to cultural change by the Ministry. Both parties should accept that PFM reform should be "slow but steady" and should be prepared to experiment with alternative assistance modalities. A summary of these and other recommendations contained in this report is presented in Appendix X and in reviewing these recommendations it is recommended that:

1. A PFM reform working group be set up to develop a roadmap for PFM reform. It should aim to achieve control over inputs and data classification before moving towards developing performance management processes. Milestones that must be achieved before performance management can be properly introduced should include:
 - Revising the budget classification system to incorporate program level resolution and disaggregation of expenditure lines ,
 - Establishing responsibility centre's (eg Escola Basica) that align execution authority with managerial responsibility and accountability
 - Developing simple standardised reports that enable managers to monitor all expenditure for which they are responsible
 - Requiring greater transparency in the way national directorates service and respond to request from the schools and regions.
2. EMIS continues to be developed as a single source of truth for education performance management. In addition to ensuring accuracy and enlarging information content, this means that the use of "parallel" information systems should be discouraged and stopped.

3. Inter/intranet connectivity at sub national level is attained in a structured manner. For example, first district then regional then Escola Basica level connectivity to FreeBalance and EMIS is achieved.
4. Introduction of performance management metrics only after basic input processes are confirmed to be robust and reliable. If the integrity of input data is questionable, little faith can be place in a performance management system.
5. Alternative assistance modalities be considered by Development partners, in particular the introduction of incentives for achieving benchmarks in the PFM reform process.

In conclusion, while there is an immediate need for continued and additional TA across the financial management disciplines, it is important that other modalities be considered. By supplementing TA with complementary initiatives, the potential for more successful development outcomes may be increased. This and other MTR reports should therefore be used to develop a proposal for directing a proportion of funding towards alternative assistance modalities.

Gantt chart - Summary of recommendations to strengthen financial management within the Ministry of Education

| | IMMEDIATE ACTION Now | SHORT TERM Before end 2010 | MEDIUM TERM Before mid 2011 | LONG TERM Up to end 2012 |
|--|---|------------------------------------|---|-----------------------------|
| Engender ownership of the strategic plan | | | | |
| | Translate and socialise SP | | | |
| | | Socialise by business unit | | |
| | | | TA to join Strategic Plan Coordination Unit | |
| Develop costings for implementation of the plan | | | | |
| | TA for high level costing | | | |
| | | | | |
| | TA - scenario assessments | | | |
| | | | Detailed costing MTEF | |
| Support the development of logistics | | | | |
| | Seek expertise of NGOs | | | |
| | | | | |
| | TA to continue scoping | | | |
| | | Appointment of long-term TA | | |
| Build procurement capacity | | | | |
| | IFU to take control of ME Unit | | | |
| | | Decision re future modality | | |
| | | | Appointment of long-term TA | |
| Development of financial/accounting competencies | | | | |
| | TA continue advising Regions | | | |
| | | | | |
| | Continue existing Budget and Finance TA | | | |
| | | | Additional Budget & Finance TA - capacity building | |
| Promote the use of EMIS | | | | |
| | | Existing TA to continue | | |
| | | | Ministry to use EMIS as "single source of truth" | |
| | | | Additional TA may be required to grow/develop EMIS | |
| Broaden the remit of the Inspectorate | | | | |
| | TA to continue training regional inspectors | | | |
| | | | Additional TA to help broaden inspections within Ministry | |
| Consolidate and align training programs | | | | |
| | | | TAs to review commonalities | |
| | | | Trial opportunities for joint training initiatives | |
| Review and assess alternative assistance modalities | | | | |
| | | To identify actions in near future | | |
| | | | | |

Appendix A: Terms of Reference

PFM study focus of Phase 2 Mid Term Review

Background

The Mid-Term Review of the ESSP and the NZ CBP has included two phases. In the second a focus is proposed on public financial management in the Ministry of Education. A specific focus of review includes the current support provided by the ESSP to Finance and Budgeting, through the Finance and Budget advisor. This support includes budget development and the strengthening of financial management systems to support service delivery. The Mid Term Review is also seeking guidance on priorities for future sector support. (Please see overall MTR Terms of Reference, attached).

Over the last 18 months significant expenditure authority has been devolved to the MoE. It is now responsible for managing many aspects of the PFM system that were, until a short time ago, fully centralised in MoF. Recent changes to the PFM law make line ministers fully accountable for all expenditure and give them greater discretion in the allocation of funds within the budget year. Line ministries are also now responsible for committing and obligating all funds and have unlimited procurement delegation. A recent analysis of PFM systems in line ministries found that many have insufficient capacity to manage these new accountabilities, and internal control systems remain weak. There is also some evidence that, despite increasing budgets, service delivery is hampered by weak systems for getting cash and other resources to service delivery units.

Scope of Work:

The two objectives of the consultancy are to:

- work with MoE staff to understand the PFM related obstacles to service delivery; and
- Identify issues in PFM that will inform current and future donor programming.

As part of the Mid Term Review for the Education Sector Support Program the consultant will undertake an assessment of the Ministry of Education's financial management and material supply systems, with an emphasis on effective flow of funds and operational materials to regional offices and schools. To the extent possible within the given timeframe, the consultant should also identify how problems within the ministry's planning and budgeting system are creating flow on impacts for the downstream financial management and supply systems. The consultant will identify bottlenecks to funding/ resource flows and explore options for addressing these through the current or additional assistance of donor programs. The consultant will also prepare a set of simple and practical recommendations for the ministry on how the existing systems and processes could be restructured to achieve greater performance and/ or accountability in the use of funds. Where possible the consultant will coordinate with the World Bank health team, which will be conducting a similar review of MoH systems and processes.

Tasks

Within the context of the MoE strategic plan, undertake the following tasks:

- Review ESSP support to financial management and budgeting in the Ministry of Education, including financial management strengthening approaches employed
- Drawing on existing material and building on this where required, map salient features of the ministry's budgeting, financial management and supply systems and identify major bottlenecks and inefficiencies. Specific areas of attention could include:
 - o Procurement systems
 - o School Grants
 - o Payroll
 - o Distribution systems (noting this is subject to a proposed separate piece of work by the NZ CBP)
- Identify gaps in data and management information and suggest options for ongoing assessment/ analytical work to address these.
- Assess where, within the current national public finance legal framework, existing systems could be revised and restructured to enable better flow of funds/ resources to service delivery units
- Develop initial prioritised recommendations on key reforms to MoE systems
- Provide initial recommendations to guide the mode of future donor support to the Education system
- Provide recommendations for further analysis of the above points.

Stakeholders

The consultant will work with guidance by a PFM sub-working group of the MTR Reference Group.

Work with Ministry Finance & Budget advisor Pedro Figueireido will be specifically important, as both the Ministry contact point and communication channel for the review work, and the focus of the review of ESSP support to finance and budget.

Outputs:

To be provided within 1-2 days of in-country start:

- Initial Review/ Evaluation Plan identifying methodology and scope of the review

To be provided by 20 October, and to be included within the overall combined Phase 1 + Phase 2 MTR report coordinated by Sue Berrman and Mike Wort:

- 5 page report making recommendations to guide the mode of future donor support to the Education system (including summary recommendations)

- Up to 5 page report reviewing current donor support to Finance and Budgeting systems in the Ministry of Education (including summary recommendations) To be provided by 20 November:
 - 15 page summary report mapping the current system – i.e. bottlenecks and key issues in the system that hamper service delivery performance
 - 10 page report on possible reforms to the current structures; with prioritised and sequenced set of recommendations for reform.
 - 5 page summary document highlighting the major issues and recommendations – this paper should be prepared as a policy document to facilitate discussion with MoE and other counterparts

Appendix B: Summary of recommendations

The following list a summary of recommendations made in this report. They do not consider the current resource envelope and some are mutually exclusive options. They should be discussed jointly by the Ministry and the development partners.

PFM process recommendations

1. Revise the structure of the budget and ledger system so that it can report on achievement of the strategic plan at program level, as a minimum the three broad cycles of school education should be identifiable in the budget summarized in FreeBalance.
2. Develop processes to entering actual school and regional expenditure into FreeBalance rather than the budgeted amounts under the current imprest system.
3. Disaggregate school grants from the School Feeding Program and split into regions initially then districts/sub districts and ultimately schools.
4. Pay school grant and regional imprest tranches on time. Failure to achieve this will undermine performance management initiatives.
5. Review the regional imprest policies and school grant policies to allow greater discretion in use of funds, choice of shops, and rules regarding motor vehicle maintenance
6. Develop procedures to communicate processes to ensure that all funds distributed to regions and schools are accounted for with an appropriate level of diligence - including transport monies and any other funds that may be distributed outside of the Regional Imprest and School Grant System.
7. Urgently clarify the quantum of sub-regional funding for 2011. The allocation of this funding should be based on an assessment of the ability of all aspects of the financial management system to cater for higher transactional volume and values.
8. Before localising procurement processes for the School Feeding Program , consider the following:
 - Capacity of regional ME structures to manage large amounts of cash through imprest processes
 - Ability of regional centres to provide the required amounts of food
 - The possible impact on local prices as a result of increased demand
 - Food quality issues, including use of locally produced salt and the variable cooking time and nutritional value of different bean types
9. Complete the school census, update EMIS and reconcile to the payroll.
10. Broaden the information content of EMIS and link it to FreeBalance, BMIS and the HRMS.

11. Discontinue the use of information systems that run "parallel" to EMIS.
12. Introduce Inter/intranet connectivity at sub national level in a structured manner. For example, first district then regional then Escola Basica level connectivity to FreeBalance and EMIS is achieved. This is a prerequisite for successful performance management under the Escola Basica system
13. Clarify, communicate to schools and document/clarify extent of distribution services provided by Logistics. For example when should goods be delivered directly to regional warehouses and when should they be delivered to schools? If Logistics delivers only to regional warehouses, what arrangements, if any, should it make for subsequent on-delivery to districts and schools, and how should this be budgeted and funded? In instances where funds are provided to arrange additional transport, how should these funds be recorded and controlled, and is this the best way of doing things?
14. Investigate options for outsourcing logistics/distribution services on the basis that this is a non-core activity and might be more efficiently and cost effectively performed by an external service provider such as WFP or Care.
15. Evaluate the cost/benefits of using private sector transport v ministry transport for distribution of goods.
16. Encourage greater transparency within Procurement and Logistics, for example, requiring them to provide invoice copies when requested by requisitioning directorates.
17. As a short term measure, incorporate the ministry procurement Unit into the IFU procurement unit to alleviate the severe capacity shortage in the former.
18. Advocate for procurement reform in Timor-Leste including, at an operational level, simplification of procedures and use of an alternative/additional language to English in bidding documents, tender responses and contracts.
19. Review the motor vehicle repair policy in order to expedite the repair process at lower overall cost to government, i.e. consider local/regional repair options.
20. Review the fuel voucher system to identify opportunities to ensure fuel is allocated equitably and in a timely, transparent and controlled manner.
21. Consider reallocating inspection activities to cover a greater portion of financial processes that take place at the national level.
22. Explore opportunities to consolidate the reporting of Regional Imprest and School Grant acquittals as a continuous improvement tool and integral part of the performance management system.

23. Introduce performance management metrics only after basic input processes are confirmed to be robust and reliable. If the integrity of input data is questionable, a performance based management system is unlikely to succeed.
24. If necessary, postpone implementation of aspects of the strategic plan until appropriate education management systems have been introduced. This may mean the introduction of aspects of performance management

Technical Assistance

25. Provide additional TA to support current TA in Budget and Finance. Additional resource(s) to focus exclusively on capacity building may be a prerequisite for this to happen
26. In addition to ongoing assessments of financial competencies at sub national level, commence ongoing assessments of financial competencies at Ministry level. This should entail commencing with a Training Needs Analysis and should include basic numeracy and literacy requirements
27. Provide long term TA to the Ministry procurement unit. Consider using the IFU capacity building model to provide this assistance. As a short term measure, consider incorporating into IFU – this may require additional resources to meet the workload.
28. Continue with TA to regional offices as planned
29. Continue with TA to Inspectorate as planned. Consider additional training requirements and competencies.
30. Short term TA offered to Logistics should contribute to identification and evaluation of alternative logistics delivery models.
31. Continue to provide TA to develop EMIS as a single source of truth for education performance management.

Alternative assistance modalities

32. Evaluate opportunities to incorporate greater use of national 'contractors' and/ or outsourcing to firms with a view to reducing overall TA cost and reducing communication blockages caused through language difficulties.
33. Consider options for replicating the successful IFU TA model. This may be particularly useful for Logistics and Ministry procurement processes.

34. Consider potential benefits, targets and mechanisms for introducing Performance based Financing

Coordination and communication

34. Initiate a PFM reform working group to develop a roadmap for PFM reform. It should aim to achieve control over inputs and data classification before moving towards developing performance management processes.
35. Consider introducing TA into the envisaged Strategic Plan Implementation Unit. The Education reform aspects of this plan are ambitious and their success will be dependent upon a solid foundation of organisational reform, including the strengthening of public financial management processes within the Ministry.
36. Develop detailed costings of the strategic plan and, if necessary, develop some alternative scenarios which can be implemented in the event that the original plan cannot be funded.
37. Be prepared to re-phase aspects of the plan to ensure that capacity is built before new initiatives are implemented.

Appendix C: Persons consulted during this review

| | |
|-------------------|--|
| Bas Boonstoppel | TA Regional Directorate, Ministry of Education |
| Rachael Carter | TA Regional Directorate, Ministry of Education |
| Pedro Figuerdo | TA Budget and Finance, Ministry of Education |
| Bronwyn McNamee | TA Curriculum Development, Ministry of Education |
| Cameron Nobbs | TA Escola Basica, Ministry of Education |
| Lilly | Procurement Officer, Ministry of Education |
| Lotte Renault | Manager Care International |
| Craig Tarbotton | TA IFU procurement, Ministry of Education |
| Jorge Saldanaha | Finance Manager IFU |
| Augusto Sarmento | Procurement Officer, IFU |
| Almerio Soares | Director IFU |
| Regional Manager | Maubisse Region |
| Rui | Procurement officer, IFU |
| Head Teacher | E.P. Maun Casa, Aileu District |
| Maarten van Driel | Logistics Officer, World Food Program |