Planning and Financial Management Capacity Building Program (PFMCBP)

Annual Progress Report
1st July 2010 to 30th June 2011

(Final Version 21/10/11)

Program Information

Program Title	Planning and Financial Management Capacity Building Program
Program ID No.	P092484
Effectiveness Date	15th November 2006
Grant Agreement Date	18th May 2006
Program Duration	Five (5) years to 8th July 2011, now extended to 30th November 2012
Total Program Cost	USD31.M
Program Background Information	The PFMCBP aims to strengthen capacity in the Ministry of Finance for prudent, effective, and accountable planning and management of public finances to promote growth and poverty reduction. Funded by a grant from the International Development Association and a World Bank administered multi-donor trust fund (with contributions from AusAID, EC, Irish Aid, New Zealand and Norway), the PFMCBP is a coordinated program of targeted capacity building in planning and financial management. The Program started in late 2006 provides technical assistance to sustainably strengthen planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency. After a successful five years of operation, the program has been extended to 30th November 2012. PFMCBP has assisted the Government of Timor-Leste take forward an important reform agenda. Key achievements include implementation of a major reorganization of the Ministry of Finance; strengthening public expenditure management through simplification and strengthening of treasury systems and processes, and increased delegation of authority to line ministries; complete overhaul of budgeting systems, documentation and financial management legislation; improved revenue management, including increased transparency in tax administration and reinforcing Petroleum Tax administration; and a gradual improvement in macroeconomic planning. There are important challenges ahead as the Ministry of Finance implements a strong reform program in a capacity constrained environment. PFMCBP itself has a challenge to build capacity and enable an increased transfer of responsibility to Timorese public servants. The Ministry of Finance is responsible for the strategic management

	of PFMCBP, through its Senior Management Committee chaired by the Minister of Finance. There is a dedicated Program Implementation Unit (PIU) that is responsible for day-to-day program management and implementation. The PIU has been integrated into the Directorate General Corporate Services and the Director General Corporate services is also the Program Implementation Officer (PIO) of the PFMCBP. The Senior Program Manager (SPM) provides advice to the Program Implementation Officer, who has delegated authority from the Minister of Finance to execute the Legal Agreements between the Government of Timor-Leste and the World Bank. The Senior Program Manager manages the Program Implementation Unit, which comprises three other core positions – the Financial Management Advisers, National and International, and the Procurement Adviser –, as well as other positions and service contractors required to effectively administer the Program. Four (4) Senior Management Advisors are responsible for planning and monitoring the quality of performance of TA assigned to their respective branches and units. All Technical Advisers recruited to the PFMCBP are contracted by, and accountable to, the Minister of Finance. A Supervisory Committee of donors to PFMCBP, chaired by the Minister of Finance, provides regular oversight on program implementation and achievements. The World Bank is responsible for program supervision, to ensure it is aligned with agreed objectives and financing agreements.	
Program Funders	1. World Bank (WB) through the International Development Association (IDA) Grant No. TF H210-TP 2. Development Partners 2.1 Australian Agency for International Development (AusAID 2.2 European Commission (EC); 2.3 Ireland; 2.4 New Zealand; 2.5 Norway 2.6 The United Kingdom Department for International Development	USD7M USD24M
Program Holder Name **Contact Person/ Position Title** **Address** **Country** **Telephone Number** **Email address**	Ministry of Finance (MoF) Santina Viegas Cardoso, Program Implementation Officer (PIO) Palácio do Governo, Edíficio No. 5, 1º Andar, Sala Nº 12, MoF Díli, Timor-Leste +670 333 1210 pfmcbp@mof.gov.tl scardoso@mof.gov.tl	

Executive Summary

Fiscal policy remains the primary instrument for the management of the economy and for achieving growth and development in Timor-Leste. The Ministry of Finance (MOF) continues to play a pivotal role in the formulation and conduct of fiscal policy and thus the strengthening of the institutional capacity of the Ministry is key to improving the overall quality of governance in the country.

During the reporting period, 1st July 2010 to 30th June 2011, with the support of the PFMCBP, the Ministry of Finance continued to provide essential financial support services to the government, as was witnessed by the record levels of budget execution in 2009 and 2010. This was achieved whilst also continuing at pace with its internal reforms, which is a major achievement.

The PFMCBP also continued to support the work of the Consultative Council for Financial Management (CCFM) to improve the internal communications and internal policy consistency within the Ministry. In addition support to the operational effectiveness of the Minister's office continued with the assistance of two PFMCBP advisors; one to support management and the other to provide quality control assurance.

DG State Finances

During the period under review, of the full complement of nine State Finances advisers, five were engaged under the PFMCBP: Senior Management Adviser State Finances; Senior Budget Adviser and Expenditure Review Adviser; Treasury Adviser; and FMIS Training Adviser. The established trend towards increased capacity and self-reliance by the Directorate-General continued during 2010-11 so that ongoing operations can increasingly be handled confidently by Timorese.

The Senior Management Adviser's work during the reporting period involved oversight of the totality of technical assistance offered to the General Directorate; leadership and management of advisers; assisting the General Director in his leadership and management roles; high level briefing of the Minister and General Director on a variety of major issues; and as a member of the Consultative Council on Financial Management, the peak decision-making body of the Ministry of Finance. He was involved in an advisory capacity in the full range of infrastructure projects, including financing of major infrastructure projects, for example expenditure relating to electricity generation and transmission.

As the new Performance Budgeting modules which were implemented in 2009 were bedded in during 2010, Budget Directorate staff demonstrated their operational confidence and competence. This was publicly acknowledged at the highest levels: during the plenary parliamentary debate both the Minister of Finance and the President of the Parliament described the Budget 2011 as "completely prepared by Timorese".

Continuity of experienced staff and advisers over several years has been crucial to these achievements. Conversely, the gains made are vulnerable to staff turnover as there is currently little successor depth in the Directorate. Indeed, ongoing staff and adviser turnover has been a significant hindrance to the development of the fledgling Expenditure Review Unit, which at 30th June 2011 was awaiting its fifth departmental chief since its creation.

Government cash flow and bank reconciliations for all banks for the modified cash periods 2008 and 2009 and the cash period of 2009 were completed to the full satisfaction of audit. Based on the success of these efforts, the external auditors determined a closing balance for 2009 and opening balance for Government accounts for 2010, the first time that this has been achieved in Timor-Leste.

Accounting for advances given to the various ministries is another area that has shown considerable improvement since July 2010, with continuous monitoring of and interaction with different departments and Timor-Leste's overseas missions. Though there has been remarkable improvement in the capacity of the staff over 2010-11, staff turnover has left a capacity deficit to be bridged. This cannot be done in the short term as the work involved is of a highly technical nature and needs dedicated staff who would work in these areas at least in the medium term.

During 2010-11 the FMIS training adviser facilitated the development and roll out of a suite of new modules, including Transparency Portal, a user-friendly public website for interrogation and analysis of budget execution information (launched March 2011); e-Procurement portal so that the public can search for and analyze information related to goods, services or works that the Government is procuring (launched August 2011); and contract management enabling the government to track its contracts and their execution, tasks, documents, payment and closure.

DG Revenue and Customs

As the primary Government Department responsible for revenue collection, border security, trade facilitation and community protection, an efficient and professional Revenue & Customs Directorate is critical in achieving the long-term development plans of the Government. The PFMCBP, through the SMA Revenue and Customs and four (4) international advisers (Revenue Legal Adviser, Lead Domestic Revenue Adviser, Lead Customs Adviser and Revenue Collections Adviser) worked during the review period within the Directorate to build capacity and strengthen the institution in improving the efficiency and effectiveness of its services.

The focus continued on improving the level of compliance, through both taxpayer education and audit activity, and building the capacity of staff. In order to promote voluntary compliance, the Taxpayer Services Unit conducted workshops and information sessions for District Finance Officers and business communities in Dili and the Districts. The review period also saw the design and placement of billboard advertisements to encourage people to pay tax and also inform the public how the tax revenue is spent.

In addition to formal workshops, during the reporting period PFMCBP advisers have undertaken substantial capacity building activities by way of On-the-Job Training, mentoring and one-on-one assistance. Substantial PFMCBP support was also provided in assisting in the preparation of the NDDR Strategic Plan and in the day-to-day operations of the directorate.

Following the resolution of the problem associated with accessing taxpayers accounting records, NDPR commenced comprehensive petroleum tax audits in Timor-Leste against several Contractors and Subcontractors. There is now a functional tax audit team at NDPR constituted mostly by the national staff and assisted by international advisors. A mentoring system has been implemented at NDPR.

They were two (2) capital gains tax assessments issued totalling approximately $20 million of additional tax revenue during the period for transactions that were consummated during 2007-2009 tax years.

During this period under review, Double Taxation Agreement negotiations continued with Portugal and the Prime Minister is due to sign the agreement in Portugal in November 2011. Seven separate pieces of legislation are being consolidated into a new Customs Code, and plans are well in hand for the adoption of a Code of Conduct which will be of general application to all officers employed in the Directorate General of Revenue and Customs.

DG Policy Analysis and Research

During the review period, 5 PFMCBP advisers, including the SMA and 2 ODI Fellows worked within the Directorate to achieve the following major outcomes:

The Macroeconomic Directorate,

- Finalized the draft of the Strategic Development Plan (SDP) and assisted the Office of Prime Minister to finalize the SDP and forward it to the National Parliament for approval.
- Updated the Macroeconomic Framework to reflect 2010 fiscal data, inflation data, real sector inputs, donor data and balance of payments. 2010 GDP was measured via the production method alongside national staff.
- Used the Framework to file the report on Economic Overview of Budget 2011; this involves measuring GDP and forecasting GDP and reporting on growth trends in the private and public sector.
- Produced the first Economic Quarterly Report in the second quarter of 2011, with significant input from national staff following on-the-job training on economic reporting.

The Statistics Directorate,

- Prepared a comprehensive Draft publication of Government Expenditure and Public Sector Accounts for 2004-2010.
- Completed the Business Activity Survey (BAS): a comprehensive survey conducted within the framework of a technical assistance project with the Asian Development Bank (ADP).
- Published Timor-Leste in Figures 2010.

- Launched Census 2010 preliminary results and final report.
- Completed the Demographic Health Survey (DHS) and launched the Report.

The Petroleum Fund Directorate,

- facilitated the Petroleum Fund Law amendments which were approved by Parliament on 23rd August 2011, unchanged from the Government's proposal; and

The Research Department and MDG Secretariat,

- contributed to the Report of Doing Business 2012.

DG Corporate Servicers

During the reporting period the two departments of DGCS handling finance, administrative and logistic support to other directorates managed to perform their functions, despite limitations in their personnel. One indicator of satisfactory performance is, for example, the fact that by the end of the financial year 2010 the budget execution of MoF on a cash based rate reached 77.1%, out of a total budget of US$32,061,870. Satisfactory results were also achieved in the areas of logistics support to other directorates in terms of working-space provision, vehicle management, cleaning services as well as other minor maintenance and repair of fixed assets.

In addition to the routine handling of personnel management issues, and the recruitment of new civil servants, major progress in the area of human resources development, can be described as follows:

- Since the training centre was established in August of 2010, training programs have been undertaken, both in country and overseas.
- additionally, a strategic plan was drafted for the establishment of a professional development centre for the MoF.
- 56 full scholarship recipients for overseas study and 42 supplementary scholarship recipients for in-country and overseas study were selected.

Following finalization of the mid-term review of the PFMCBP, it was agreed that the ISCBP (Institutional Strengthening Capacity Building Program) should be incorporated into the strategic plan for the MoF, which will focus on operationalizing the reforms, and longer term objectives identified in the Draft Strategic Plan for the Ministry. Assistance was provided to management and staff of the Ministry to implement the ISCBP.

During the reporting period, among the major tasks which were executed by the Department of Information Technology were:

- Migration of the ministry network operating system from windows 2003 to window 2008 R2 native mode;
- Migration of the ministry communication system to windows messaging and collaboration system such as e-mail, calendars, live communication server, etc; and complete overhauling and redesign of Ministry's official website, see http://www.mof.gov.tl/

Contents Page No.

Annexure

Charts

Tables

Appendices

1. Introduction

This PFMCBP Annual Report July 2010 to July 2011 is like last year's report designed to update donors on important developments of the Program during the preceding 12 months. It is focused on the main accomplishments of the Program and the contribution of its national and international advisers to strengthening the capacity of the Ministry of Finance in performing its important duties in managing the revenue and expenditure of the Government of Timor-Leste. The PFMCBP's work took place in the context of continued institutional reform within the Ministry, development of a Strategic Plan for the Ministry and a National Strategic Development Plan (SDP).

Although it is evident that the Program continues to assist the Ministry and in particular its national staff to be more self reliant, the transfer of knowledge and skills continues to be a slow process. This results from the inherent human capacity limitations of a post-conflict country, failure to retain staff in place for sufficiently long to imbed the necessary knowledge and skills and the difficulties of advisers being required to play the roles of both trainers/mentors and implementers.

Encouraged by the success of the Program's first five years, donors have agreed to the extension of the PFMCBP for a further 17 months to the 30th November 2012. This early decision enabled the Program to continue with little interruption right through to the 30th June 2011 and to retain the majority of advisers for the period of the program extension. The new Procurement Plan provides for the number of advisers to rise to 47, which will be important as the Program continues to assist with the implementation of the Ministry's Strategic Plan and enabling of national staff.

The Revised PFMCBP Program Results Matrix updated to June 2011 is attached at the end of this Annual Report as Appendix 1. This Matrix summarises Progress to June 2011, against Intermediate Outcomes and Intermediate Outcome Indicators.

2. PFMCBP Financial Performance

Summarized below is the information on funds received and expenditures disbursed on an annual and cumulative basis as of June 2011.

Program Financing

During the reporting period (1ST July 2010 to 30th June 2011) the PFMCBP incurred expenditure of US$4.7 million to meet remuneration, training, workshops (including PDP) and related operating expenses. During the financial year a total of US$4.3 million was received from Donors to support the Program. On May 25, 2011 the request for extension of closing date was approved by the International Development Association. The 30th November 2012 has been established as the closing date of the extended Program.

At 30th June 2011, the PFMCBP has received an additional US$14.5 million from its donors, bringing the ceiling to US$ 24 million from the original US$9.5 million. (See Table 1).

Table 1: PFMCBP: Status of Multi-Donor Trust Fund as of June 2011 (In USD)

Sources of fund	Original Amount	Approved	Disbursed	Undisbursed
IDA H2100	7,000,000.00	7,000,000.00	6,871,714.21	128,285.79
TF 93959	9,500,000.00	24,000,000.00	12,184,369.15	10,923,204.87
Total	**16,500,000.00**	**31,000,000.00**	**19,056,083.36**	**11,943,916.64**

Overall the PFMCBP Trust Fund has US$12 million disbursed to meet its current funding commitments. An additional US$12 million is available in the Parent Trust Fund and this is earmarked to support a new Procurement Plan at a cost of US$12 million. Given the delays and related slippages associated with international recruitment the closing date has been extended to November 30, 2012. A Procurement Plan is proposed with a total of 47 advisory positions (including 14 extensions). The total budget for this initial phased Procurement Plan proposes to spend US$9.6 million on consultancy services, US$2 million on Capacity Building Program, and 0.4 million on goods and works procurement. This will need US$12 million to support an extended PFMCBP.

Annex 1: Sources and Uses of Funds

REPUBLICA DEMOCRATICA DE TIMOR-LESTE
MINISTERIO DAS FINANÇAS
Planning and Financial Management Capacity Building Project (PFMCBP)

Sources and Uses of Funds Statement For the period ending 30 June 2011

IDA - International Development Association MDTF - Multi-Donor Trust Fund

Item	Description	Notes	Previous Year	Jul. 10-Jun11	Cumulative
I.	Opening cash balance		-	680,297.38	-
1	Opening Balance			680,297.38	
II.	Add: Sources of Funds		14,987,638.03	4,363,147.77	19,350,785.80
1	IDA Trust Fund No. H210-TP		7,309,429.73		7,309,429.73
2	MDTF Trust Fund Grant No. 93959		7,677,357.89	4,363,124.16	12,040,482.05
3	Bank interest net of taxes		850.41	23.61	874.02
III	Total Cash Available (I+II)		14,987,638.03	5,043,445.15	19,350,785.80
IV.	Less: Uses of funds (A+B+C+D+E)		14,307,340.65	4,748,742.71	19,056,083.36
A	Strengthening the capacity in the General Directorate of State Finances		3,995,848.48	903,043.10	4,898,891.58
B	Strengthening the capacity in the General Directorate of Revenue and Customs		2,274,581.34	1,231,723.47	3,506,304.81
C	Strengthening the capacity in the General Directorate of Policy and Research		2,389,655.27	548,581.36	2,938,236.63
D	Strengthening the capacity in the General Directorate of Corporate Services		4,533,987.35	1,498,794.02	6,032,781.37
E	Program Implementation Unit		1,113,268.21	566,600.76	1,679,868.97
V.	Net Cash Available (III-IV)		680,297.38	294,702.44	294,702.44

Annex 2: Statement of Revenue and Expenses (by Item)

REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

MINISTÉRIO DAS FINANÇAS

Planning and Financial Management Capacity Building Project (PFMCBP)

Sources and Uses of Funds Statement For the period ending 30 June 2011

Revenue	
Grants and Contributions	$ 4,363,147.77
Other Non-Tax Revenue	
Total Revenue	**$ 4,363,147.77**
Expenditure	
Salary	3,916,050.37
Local Travel	907.33
Overseas Travel	87,023.25
Training and Workshops	648,402.98
Other Expenses	71,862.13
Office Stationery and Supplies	13,123.63
Other Miscellaneous Service	11,373.01
Total Expenditure	**$ 4,748,742.70**

Annex 3: Statement of Expenditure

REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

MINISTÉRIO DAS FINANÇAS

Planning and Financial Management Capacity Building Project (PFMCBP)

Sources and Uses of Funds Statement For the period ending 30 June 2011

Expenditure		
Salary	$	3,916,050.37
Local Travel		907.33
Overseas Travel		87,023.25
Training and Workshops		
Staff Training - Overseas		
Staff Training - Local		
Scholarships		648,402.98
Other Expenses		71,862.13
Office Stationery and Supplies		13,123.63
Other Miscellaneous Service		11,373.01
Total Expenditure	$	4,748,742.70

Annex 4: Sources and Uses of Funds by Directorate

REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE
MINISTÉRIO DAS FINANÇAS
Planning and Financial Management Capacity Building Project (PFMCBP)

Sources and Uses of Funds Statement for the period ending 30 June 2011 by Directorate

		Total Jul10-Jun11
A. Strengthening the capacity in the General Directorate of State Finances		**903,043.10**
B. Strengthening the capacity in the General Directorate of Revenue and Customs		**1,231,723.47**
C. Strengthening the capacity in the General Directorate of Policy and Research		**548,581.36**
D. Strengthening the capacity in the General Directorate of Corporate Services		**1,498,794.02**
E. Program Implementation Unit		**566,600.76**
Total Expenditures		**4,748,742.72**

3. Procurement

During the reporting period 10 advisers were recruited under the PFMCBP. Of these, nine were international advisers and one national Adviser. Table 1 provides a breakdown of the consultants hired, their respective Directorates/Units and the commencement date of their assignments.

Table 2: PFMCBP Consultants Hired, 1st July 2010 to 30th June 2011

PFMCBP Consultant Hired	General Directorate/Unit	Assignment Start Date
1. Senior Budget Adviser	Directorate General for State Finances/Budget	July 20,2010
2. Expenditure Review Adviser	Directorate General for State Finances/Budget	October 6,2010
3. Petroleum Desk Audit Adviser	Directorate General of Revenue and Customs	November 8, 2010
4. Professional Development Program (PDP) Implementation Officer	Directorate General for Corporate Services	January 6, 2011
5. Financial Management Adviser for the PIU	Directorate General for Corporate Services/Project Implementation Unit	January 20, 2011
6. Macroeconomic Adviser	Directorate General for Policy Analysis and Research	February 1, 2011
7. Lead Customs Adviser	Directorate General of Revenue and Customs/National Directorate of Customs	March 3,2011
8. Procurement Advisor (PIU)	Planning and Financial Management Capacity Building Program(PFMCBP),PIU	March 14,2011
9. Revenue Collections Advisor	Directorate General of Revenue and Customs/National Directorate of Customs	March 18, 2011
10. Senior Program Manager	Directorate General for Corporate Services/Project Implementation Unit	April 5, 2011

At 30th June 2011, the PFMCBP had 20 international and 5 national advisers working with the program. Apart from adviser positions which were to be re-advertised, it was agreed that non-core adviser's contracts would be extended for 12 months until 30th June 2012 and core adviser's contract extensions would be until 15th November 2012. The later date is to allow time for making all disbursements and the closing off of the Program by 30th November 2012.

Fourteen (14) "No Objection Letter" requests for international advisers were lodged with the World Bank for agreement to their contract extensions from 1st July 2011. Short (until October 2011) contract extension requests for two ODI fellows were also being pursued. Contract extensions for four (4) national advisers and six (6) PIU officers were also concluded by 30th June 2011.

Work on re-advertisement of four (4) vacant posts of international advisers (2 caused by resignations and 2 to re-test the market) and the filling of several new positions was in an advanced stage.

The revised Procurement Plan 1st July 2011 to 30th November 2012 has an allocation of US$12.0 million. This will fund 47 (34 international and 13 national) adviser positions to the 15th November 2012. In addition, a component for training under the Ministry's Professional Development Program (PDP) is included in the Plan with an estimated cost of US$2.3 million.

The TA requirement for the extended program has been identified and established primarily through a strategic planning process within the Ministry of Finance. Started in late 2009, this strategic planning initiative has evolved through the development of the strategic plans at the national directorate levels which have been fed into the comprehensive Ministry of Finance Strategic Plan. The latter is in turn in concert with the recently launched National Strategic Development Plan (SDP).

The identification of the MoF's TA requirements has also been informed by a Mid Term Review that was undertaken by the World Bank and Development Partners in mid 2010. The TA is also in keeping with the PFMCBP's Revised Program Results Matrix of the restructured program.

A significant Professional Development and Training component is also included in the PFMCBP Procurement Plan to December 2012. This includes a number of Skills and Management Development training initiatives as well as scholarships for undergraduate and post graduate studies in priority areas within the Ministry of finance.

The Status of TA Recruitment and Mobilization as of 30th June 2011 is presented in **Table 3.** below:

Table 3: INTERNATIONAL AND NATIONAL PFMCBP ADVISERS AT 30th JUNE 2011

	PIU-PFMCBP	
No	**Position**	**Category**
1	Senior Program Manager	
2	Procurement Adviser	
3	Financial Management Adviser	
4	Financial Management Adviser	National
	General Directorate of Corporate Services	
5	HRCD Adviser	
6	SMA For Minister	
7	Portuguese Legal Adviser	
8	IT Consultant	National
9	IT Consultant	National
10	PDP Officer	National
11	SMA For Corporative Service	National

General Directorate of State Finances		
12	SMA for State Finance	
13	Treasury Adviser	
14	Expenditure review Adviser	
15	Senior Budget Adviser	
General Directorate of Revenue and Custom		
16	SMA for Revenue & Customs	
17	Revenue Legal Adviser	
18	Lead Domestic Revenue Adviser	
19	Custom Advisor	
20	Lead Customs Adviser	
General Directorate of Policy Analysis & Research		
21	SMA for DGPAR	
22	Macroeconomic Adviser	
23	FMIS Trainer adviser	
24	Economist	
25	Economist	
26	National Accounts Adviser	

4. The Ministry of Finance

The Ministry of Finance has 4 General Directorates, 1 National Directorate and its Executive Office which includes the Office of the Minister and Office of the Vice-Minister. See further Chart 3 for the Organogram of the Ministry of Finance.

The Ministry of Finance's role and responsibilities include to:

- **Propose macroeconomic, monetary and exchange-rate policies**, together with the central bank
- **Put forward policies and draft laws and regulations** on revenues, budgetary framework, procurement, public accounting, public finance, auditing and control of the State treasury, issuing and management of the public debt
- **Administer the petroleum fund** of Timor-Leste
- Work, in cooperation with the Ministry of Foreign Affairs, to coordinate the relationship of Timor-Leste with the donors
- **Manage the external public debt**, the State's stakes in companies, and external assistance - coordinating and defining its financial and tax aspects
- **Manage the State's assets**
- Compile and **publish official statistics**
- Oversee implementation of the budget allocated from the State General Budget, and
- Look after the good management of the funds transferred from the State Budget to bodies that are indirectly administered by the State and by the local government bodies, through **audits and monitoring.**

General Directorate for State Finances

DGSF is responsible for ensuring the general guidance of the Ministries with competences in the areas of the General Budget of the State, Treasury, procurement policy and autonomous public authorities.

The DGSF has the following tasks, to:

a) Superintend the coordination and preparation of the Budget and corresponding annual Appropriation Law;
b) Facilitate the execution of the Government budget by amongst other measures applying regulations and directives for compliance;
c) Superintend public accounting, control over the legality and regularity of the financial administration of the state, as well as the management of the central treasury of the State;
d) Maintain a register of state assets and provide policy guidance on asset maintenance and disposition;
e) Superintend and control the process and procedure for the acquisition of goods, services and works meant for public administration, according to the Procurement Legal Regime and complementary legislation;

f) Superintend and control aspects related with Autonomous Public Authorities, in conformity with the law;
g) Any others attributed to it by law.

The Directorate General of State Finances currently comprises the following five national directorates:

1) The National Directorate of Budget;
2) The National Directorate of Treasury;
3) The National Directorate of Procurement Policy;
4) The National Directorate of Asset Management; and
5) The National Directorate of Autonomous Public Authorities.

General Directorate for Revenue and Customs

The Directorate General of Revenue and Customs guides and coordinates all Ministry services **in the area of Revenue and Customs**. These areas include:

- **the administration and collection of State revenue** from direct, patrimonial, service, capital and sales taxes according to the policies set by the Government regarding taxes
- **control over borders and national territory** regarding tax and to protect the economy and society ensuring environmental and public security and health
- the administration, supervision and **collection of customs duties**
- the administration and **collection of excise tax**, other indirect taxes and other revenues attributed to it by the Government policies and the applicable legislation, and
- the administration, supervision and collection of taxes related to all activities of petroleum exploration, industry and trade.

The goal of Revenue and Customs Services is to collect the revenues owing to government in a timely manner whilst promoting voluntary compliance, trade facilitation and community protection. The objective is to apply the various legislative codes and to adopt best practice models relative to the administration of Revenue and Customs and through this goal and objective to further the aims of the Government to alleviate poverty and to improve the health, education and welfare of the people of Timor-Leste. There are three National Directorates within the General Directorate for Revenue and Customs, namely:

1. Domestic Revenue;
2. Petroleum Revenue; and,
3. Customs.

General Directorate for Policy Analysis and Research

The Directorate General of Policy Analysis and Research guides and coordinates all Ministry services **in the fields of statistics, macro-economy and the Petroleum Fund**. Its role and responsibilities include:

- Design and coordination of the official statistics of Timor-Leste

- Provision of specialized technical advice in the fields of economic development, namely financial performance and tax justice, according to the law and the goals set by the Government, and
- Provision of specialized technical advice to the Administration of the Petroleum Fund.

The Directorate is expected to provide high quality data for decision-making in different areas of economic and social governance as well as provision of timely economic analysis and projections to inform government policy decisions and budget preparations. There are three National Directorates under the General Directorate for Policy Analysis and Research:

1. National Statistics;
2. Macro economy; and
3. The Petroleum Fund.

General Directorate for Corporate Services

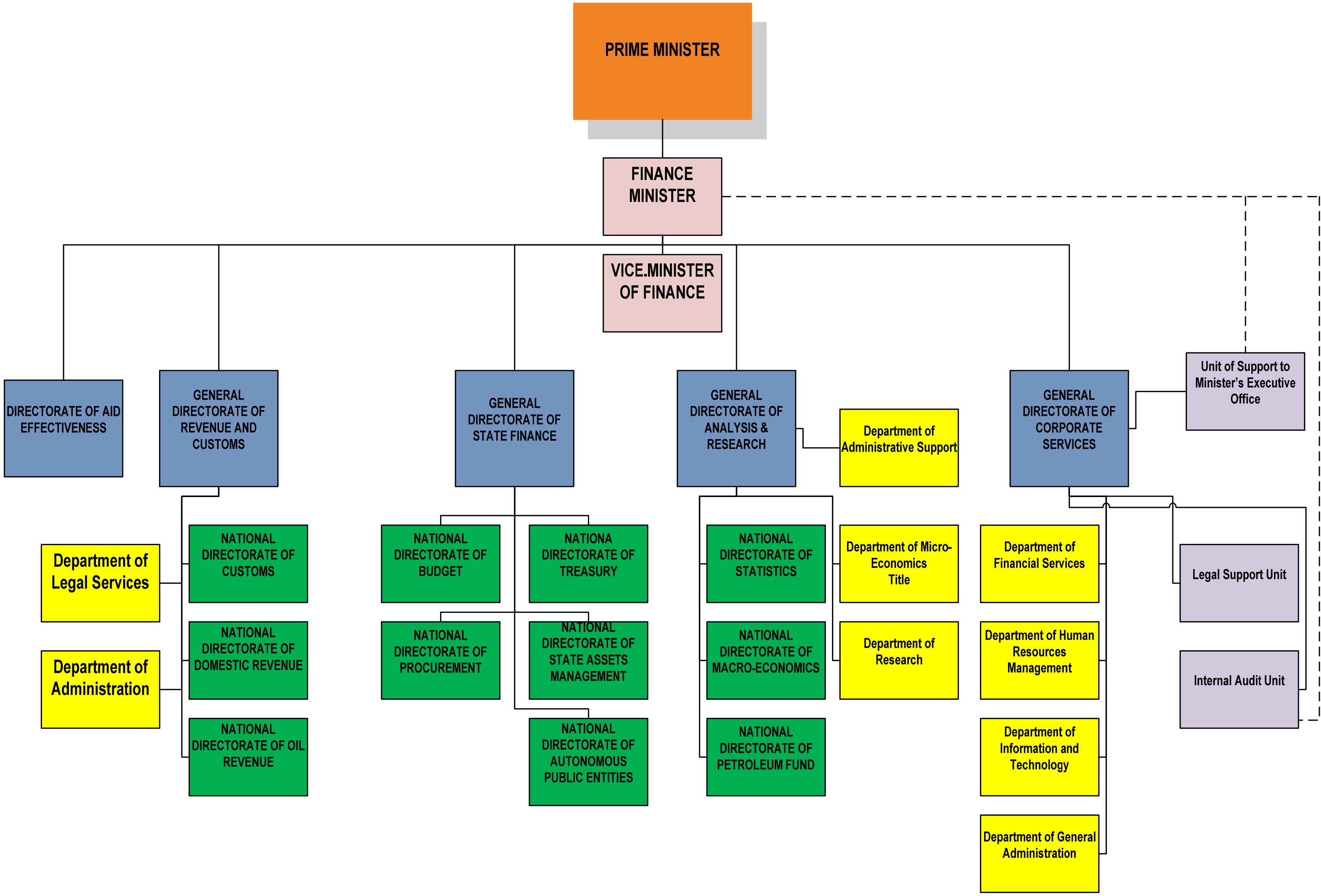
The Directorate General of Corporate Services **provides technical and administrative support** to the Minister, the Directorate-Generals and the services of the Ministry of Finance in the areas of:

- general administration, including budget and financial administration
- human resources
- legal advice
- communication, and
- documentation, filing and archives.

DGCS's responsibilities include:

- Coordination of the operation of the administrative and corporative services, as well as the management of financial resources
- **Management of human resources and implementing and coordinating the training program** of the Ministry
- Upholding Public Administration laws, regulations and procedures
- Managing material resources and general services
- **Managing technological, information and computer resources**
- **Ensuring expenditure procedures are in accord with respective requisitions or commitments** and correspond to the acquisition of goods, works or services for the Ministry
- **Ensuring Ministry equipment and vehicles are maintained** and repaired where necessary
- Enabling Ministry Directors and staff to participate in national and international conferences and events, including making travel arrangements
- Assessing and issuing opinions on the internal regulations of the Ministry services concerning human and material resources
- Coordinating, publicizing and divulging official information of interest to the Ministry, and
- Ensuring the **communication service, as well as the surveillance, security, cleaning and maintenance of the facilities of offices** belonging to Government members, Director-Generals and Ministry services and bodies.

Chart 1: Organogram of the Ministry of Finance as defined in the Decree Law No.13/2009 of 25 February 2009



5. General Directorate for State Finances

The Directorate-General of State Finance covers the broad range of public financial management. During the period under review, of the full complement of nine State Finances advisers, all working in coordination under the oversight of the Director-General and Senior Management Adviser, five were engaged under the PFMCBP: Senior Management Adviser State Finances; Senior Budget Adviser and Expenditure Review Adviser; Treasury Adviser; and FMIS Training Adviser.

Two PFMCBP advisers were recruited in DG State Finances during 2010-11 – the Senior Budget Adviser in July 2010 (a core position vacant for 19 months since December 2008) and the Expenditure Review Adviser in October 2010 (a position vacant for 6 months since April 2010). The Expenditure Review Unit (ERU) was established in 2009 as part of the National Directorate of Budget to provide value-added analysis and monitoring of budget expenditure, supplementing the statutory reporting of budget execution by Treasury.

The established trend towards increased capacity and self-reliance by the Directorate-General continued during 2010-11 so that ongoing operations can increasingly be handled confidently by Timorese.

Consistent with the Cairo Consensus (March 2011) calling for capacity development which is demand driven, results focused, country owned, and builds on existing capacity, **capacity development** leverages off technical assistance, despite challenging operational deadlines. Learning from experience, the most effective method of capacity building is on-the-job training learning-by-doing. For maximum impact this should be complemented by standard systems and procedures and underpinned by focused formal training, a major emphasis of the Directorate during the year 2010-11 under review.

Working collaboratively with their counterparts and collegiately with the numerous non-PFMCBP advisers in the Ministry, PFMCBP advisers in Directorate-General State Finances provided a range of assistance and capacity building during 2010-11 covering: policy and technical advice; support in more highly technical operations; representing the Ministry in high-level meetings; and capacity building / skills transfer.

Senior Management Adviser – Outputs and outcomes

The Senior Management Adviser's work during the reporting period involved oversight of the totality of technical assistance offered to the General Directorate; leadership and management of advisers; assisting the General Director in his leadership and management roles; high level briefing of the Minister and General Director on a variety of major issues; and as a member of the Consultative Council on Financial Management, the peak decision-making body of the Ministry of Finance.

Key policy matters dealt with during the year included

- Advisory involvement in the full range of infrastructure projects, including financing of major infrastructure projects, for example expenditure relating to electricity generation and transmission;
- Reviewing expenditure as an input into the formulation of the 2011 budget;
- Preparation of briefings to support the Minister in parliamentary commissions and at budget plenary debate;
- Strategic oversight of and advice to the Minister on the FMIS contract with FreeBalance;
- Advising on organizational design relevant to financial management; and

The Senior Management Adviser also regularly represents the Ministry at external meetings with international organizations and missions. He has taken the lead on recruitment and retention of all advisers working in the General Directorate. Instances of **representation** include:

- Supporting the Vice Minister in successfully defending to Parliamentary Commission C deferral of the submission of the General Budget of the State by one month to 15 November 2010;
- Meetings with Civil Service Commission, the World Bank, AusAID and GRM on special career regimes and salary budgets;
- Working with Ministry of Social Security on pension policy; and
- Working with numerous international organizations on infrastructure funding, including public private partnerships.

National Budget Directorate – Outputs and outcomes

Major deliverables during 2010-11 included:

- the preparation of the General Budget of the State for 2011; and the publication of it the budget documentation both in hard copy and on the Finance website following its consideration by National Parliament;
- a substantial Rectification Budget for 2010 which was debated in Parliament and promulgated in July 2010 and printed and posted to the web; and
- the timetable and initial planning for Budget 2012, including broad fiscal strategy and ceilings and the budget call circular.

As a result of past learning and experience, supported by ongoing PFMCBP support and coaching, the National Budget Office demonstrated a large measure of self-reliance in ongoing budget operations when producing the Budget 2011. This had been increasingly apparent in the preparation of Budget 2010 Rectification, but it was only as the new Performance Budgeting modules which were implemented in 2009 were bedded in during 2010 that Budget Directorate staff demonstrated their operational confidence and competence.

This has been publicly acknowledged at the highest levels: during the plenary parliamentary debate both the Minister of Finance and the President of the Parliament described the Budget 2011 as “completely prepared by Timorese”. Ongoing operational aspects of the Budget in which Budget Directorate demonstrated a significant measure of sustainability and self-reliance included:

- At the instance of the (then State funded) budget adviser, drafting and issuing the Budget call circular in Tetum for both Budget 2011 and 2012, contributing to increased ownership by Budget Directorate and better comprehension by line ministries;
- Descriptive summaries of Ministry budget submissions with recommendations;
- Complete participation in the extended series of Budget Retreats chaired by the Prime Minister to determine the budget;
- Managing budget data in a new budget structure, with two new funds – infrastructure and human capital – with technical assistance;
- Managing a complete overhaul of the budget law and support documentation which now consists of six budget books, with technical assistance;
- Improved accuracy of the documentation, partly due to improved document design;
- Assessment of virements and their input to the budget systems; and
- The responsibility of maintaining and administering Performance Budgeting modules was devolved to a civil servant database administrator, supported by advisers.

Continuity of experienced staff and advisers over several years has been crucial to these achievements. Conversely, the gains made are vulnerable to staff turnover as there is currently little successor depth in the Directorate. Indeed, ongoing staff and adviser turnover has been a significant hindrance to the development of the fledgling Expenditure Review Unit, which at 30th June 2011 was awaiting its fifth departmental chief since its creation.

Two of the three pillars have underpinned the achievements in ongoing operations – positive attitudes and behavior, coupled with the entrenching of sound processes and based on the development of an integrated system of public financial management.

There are a number of operational areas where the skills and knowledge in the Budget Directorate still do not fully match requirements for budget production. The areas include:

- Superior project and people management and leadership skills required to meet the challenges of Budget production including optimal deployment of advisers;
- Technical systems matters;
- Legal issues;
- Language and drafting issues related to documentation
- Development of adaptive or analytic capacity - staff are now well practiced in asking the questions “What”, “How” and “When”, but have little practice in asking “Why” or “Why not” - the fundamental questions of analytic and creative endeavor.

With ongoing budget operations moving to self-reliance and sustainability, advisers are free to turn their attention over the next two budgets to value adding analysis, quality assurance and building the foundation for practical analytical capacity. These developments would progress the key outcomes of the PFMCBP by:

- Strengthened budgetary, expenditure and fiscal analysis to inform macro-economic framework and policy options;
- Improved quality of budget processes through improved analysis of the many initiatives and capital projects envisaged by government; and
- Improved budget credibility by monitoring and monthly execution reports.

Treasury Adviser – Outputs and Outcomes

The Treasury currently has three advisers – Lead Treasury, Senior Treasury Adviser FMIS, and Treasury Adviser - of which only the last is funded by the PFMCPB. The Treasury adviser is has been entrusted with the responsibility of accounting for expenses and revenues of the government and played a key role in the finalization of the annual accounts and cash management.

- Cash flow and bank reconciliations for all banks for the modified cash periods 2008 and 2009 and the cash period of 2009 were completed to the full satisfaction of audit.
- Based on the success of these efforts, the external auditors determined a closing balance for 2009 and opening balance for Government accounts for 2010, the first time that this has been achieved in Timor-Leste.
- Regular monthly and annual bank reconciliations have resulted in accurate and reliable government accounts which in turn have improved transparency in government operations, a major obstacle for government accounts in many countries similar to Timor-Leste.
- As a result of the reliability of the regular bank reconciliations, the government responded effectively to various allegations about missing money.
- During 2010-11 the Treasury has also successfully identified and closed numerous idle accounts in commercial banks and transferred large balances to the consolidated fund account with the BPA.
- Accounting for advances given to the various ministries is another area that has shown considerable improvement since July 2010, with continuous monitoring of and interaction with different departments and Timor-Leste's overseas missions.
- Though there has been remarkable improvement in the capacity of the staff over 2010-11, staff turnover has left a capacity deficit to be bridged. This cannot be done in the short term as the work involved is of a highly technical nature and needs dedicated staff who would work in these areas at least in the medium term.

Financial Management Information Systems (FMIS) –Outputs and outcomes

A crucial enabler of the capacity and sustainability of State Finances has been the development and implementation of effective and integrated systems. In a path-breaking initiative, the Minister of Finance signed a $6.2 million contract with FreeBalance in July 2010. This contract covered the procurement and upgrade of a comprehensive suite of software, hardware and technical services, representing a significant enhancement to the current functionality of the Government's FMIS undertaken with PFMCBP adviser support.

To lead the implementation and oversight of this large and mission-critical contract, a Chief IFMIS officer was appointed, supported by the PFMCBP FMIS training adviser. In addition to developing the contract management skills of the IFMIS Chief, the FMIS training adviser who is part of a team supporting and advising the FMIS Chief and PB Database Administrator ensured:

- Strong technical support in finalizing and implementing the FreeBalance contract focusing on the priorities of connectivity, technical services and software and systems support and their delivery on time;
- Extensive support in undertaking user acceptance testing of the new modules;
- Ongoing training in the new modules as well as on financial processes for line ministries; and
- Assistance on technical matters relating to administering the Performance Budgeting system.

During 2010-11 the FMIS training adviser facilitated the development and roll out of a suite of new modules, including:

- Transparency Portal, a user-friendly public website for interrogation and analysis of budget execution information (launched March 2011);
- e-Procurement portal so that the public can search for and analyze information related to goods, services or works that the Government is procuring (launched August 2011);
- Contract management enabling the government to track its contracts and their execution, tasks, documents, payment and closure;
- Document management to assist the Minister's office to track documents, ensuring timely and proper response to correspondence; and
- Datamart query using an OLAP business intelligence tool to support analysis and decision making.

6. General Directorate for Revenue and Customs

Overview

As the primary Government Department responsible for revenue collection, border security, trade facilitation and community protection, an efficient and professional Revenue & Customs Directorate is critical in achieving the long-term development plans of the Government of Timor-Leste. As such the General Directorate for Revenue & Customs must fulfill all Government and community expectations in an efficient and professional manner. These expectations are yet to be fully met and the PFMCBP, through its SMA and four (4) international advisers (Revenue Legal Adviser, Lead Domestic Revenue Adviser, Lead Customs Adviser and Revenue Collections Adviser) worked during the review period with the Directorate to build capacity and strengthen the institution in improving the efficiency and effectiveness of its services.

During this period under review, Double Taxation Agreement negotiations continued with Portugal and significant progress was made to finalize the agreement. The Prime Minister is due to sign the agreement in Portugal in November 2011. Closer bi-lateral relations are being discussed with Indonesia and Papua New Guinea (PNG). Timor-Leste has joined through the support of PFTAC (Pacific Financial Technical Assistance Centre) the Oceania Customs organization and the Pacific Islands Administrations Association.

Capacity development of Directorate national staff remains a high priority objective. A lack of acceptable levels of competence in areas such as compliance, debt collection, basic management and supervisory skills, computer proficiency, language skills and legal advice remain a significant challenge for the Directorate. Technical understanding and adherence to Tax and Customs laws need urgent attention, as does the development of a client service culture that accepts and adheres to stated performance standards. English language training remains a high priority.

Domestic Tax:

The National Directorate of Domestic Revenue (NDDR) is responsible for administering the domestic tax laws of Timor-Leste. As the taxation regime is one of self-assessment there is a need to ensure a balance of taxpayer education and compliance activities so that there is compliance with the tax laws.

During the reporting period, the focus continued on improving the level of compliance, through both taxpayer education and audit activity, and building the capacity of staff. During the period a report was completed by the PFMCBP Revenue Collections Adviser and also drawing on a report by Rick Fischer, the NDDR has started implementing useful suggestions to improve the organization and efficiency of the Directorate.

Compliance

The concept of taxation compliance is not restricted to specific audit activity, but also involves taxpayer education and awareness, and the collections process. Within the Compliance Department there is a shortage of suitably qualified staff with the required skills to effectively carry out the range of compliance initiatives and activities required. Continued PFMCBP assistance in the development of the capacity of National Tax Directorate staff in promoting voluntary compliance through taxpayer education, further development and implementation of an effective taxation compliance strategy and a robust collections process is required, so that NDDR can build and maintain a robust domestic taxation regime

Taxpayer Services

During the reporting period the Taxpayer Services Unit conducted workshops and information sessions for District Finance Officers and business communities in Dili and the Districts. The aim of this proactive initiative was to promote voluntary compliance with the tax laws by educating taxpayers about their tax obligations and responsibilities. Substantial PFMCBP support was provided in the preparation of the material content for these building and construction workshop presentations and continued assistance is required in this crucial area of developing taxpayer awareness of the tax laws.

The review period also saw the design and placement of billboard advertisements to encourage people to pay tax and also inform the public how the tax revenue is spent.

Collections

The following table illustrates the collections made for the reporting period.

Table 4. Domestic Tax Collections July 2010 to June 2011

'000s of dollars

	Wage Income Tax	Services Tax	Income Tax	Withholding Tax	Total Collections
July 2010-June 2011	\$5.537	\$3.515	\$5.431	\$8.66	\$23.143

Audit

Continued PFMCBP support is required to capacity build staff in this critical area of tax administration. During the period 61 audits were completed which raised a total of \$0.845 million dollars. PFMCBP support continued in gathering intelligence from Customs (ASYCUDA) and Treasury (FreeBalance), as well as from within the Directorate (SIGTAS). Assistance was provided in analyzing the data and undertaking income matching exercises and risk assessments to identify potential non-compliant taxpayers, whose behavior potentially contributes to a significant leakage of revenue. Audits were conducted on those cases identified, and continues to be conducted.

SIGTAS
The new refund module was inserted during the period and a number of adjustments were made to the report generating module. During the period, advisers provided substantial support in the on-going reconciliation of SIGTAS (Standard Integrated Taxation Administration System) postings to BNU deposits and FreeBalance postings.

Following a November 2010 report of the World Bank advisor who was brought in to examine domestic revenue operations, it was agreed that further work would be carried out to develop terms of reference for a new data management system for domestic and petroleum revenue. The World Bank advisor in question has been unavailable and therefore unable to complete the TOR to date.

General
In addition to formal workshops, during the reporting period PFMCBP advisers have undertaken substantial capacity building activities by way of On-the-Job Training, mentoring and one-on-one assistance. Substantial PFMCBP support was also provided in assisting in the preparation of the NDDR Strategic Plan and in the day-to-day operations of the directorate.

On-going operational support and assistance has been provided to the National Director and Heads of Department in order to build the capacity of management and staff in their day-to-day core activities in administering the tax system effectively.

Petroleum Revenue:

The National Directorate of Petroleum Revenue (NDPR) is charged primarily with the statutory responsibility for all tax administration activities, including collection of taxes, in relation to Petroleum & Gas Revenue. The Directorate is responsible for approximately 97% of all taxation revenue raised in the State of Timor-Leste. Foundational but significant steps in a number of critical areas have been put in place at NDPR. The most important objective is to increase the capacity of the national officers and build an efficient petroleum tax administration system.

Petroleum Tax Audits
Following the resolution of the problem associated with accessing taxpayers accounting records, NDPR commenced comprehensive petroleum tax audits in Timor-Leste against several Contractors and Subcontractors. The 2005-2009 tax periods are under audit and it covers substantive issues like depreciation of capital assets, transfer pricing, headquarter expenses, Additional/Supplemental Petroleum Tax calculations etc. The objective of the tax audit is to increase taxpayers' compliance under the self assessment tax regime and raise additional taxes, where appropriate. The tax audit is on-going and NDPR has received over 100,000 pages of documents in response to information and document requests from NDPR.

There is now a functional tax audit team at NDPR constituted mostly by the national staff and assisted by international advisors. A mentoring system has been implemented at NDPR. PFMCBP's continued support is required to make the tax audit effective and successful. Two international advisers with expertise on petroleum tax audit and three national advisers are required for the tax audit and local capacity building on the subject of audit. In addition, a substantial part of the tax audit involves the interpretation of engineering drawings and other technical issues requiring the services of an engineering firm with petroleum tax audit experience. None of the engineering-related issues can be solved without the help of an engineering firm.

Resolution of the Decommissioning & Phoenix (Income Tax Audits)

The tax dispute between NDPR and the taxpayers associated concerning decommissioning and the Phoenix project provided an excellent learning opportunity to the national staff. The two projects involved complicated income tax law and contract interpretation issues and the national staff were involved in the research, analysis and the final issuance of the tax assessments.

Capital Gains Taxes

The transfer of participating interest in Production Sharing Contracts (PSC) amongst vendors and purchasers and the failure to pay the appropriate capital gains tax (if any) is another area of interest to NDPR. They were two (2) capital gains tax assessments issued totaling approximately $20 million of additional tax revenue during the period for transactions that were consummated during 2007-2009 tax years. The national staff is currently working on three (3) capital gains tax audit cases with minimal supervision from the international advisor.

Tax Collections

The sum of $1.2 billion was collected between July 2010 and June 2011, representing a 61% increase in collections over the same period in 2009/2010 ($723, 591.143). A substantial part of the increase is attributable to a more rigorous enforcement of the tax laws by NDPR and diminished depreciation deduction.

Public Rulings

Two (2) major public rulings were issued during the period and the most significant one was PR 2011/02 relating to the deductibility of exploration expenses at Kitan. The ruling settled a long outstanding dispute between the Kitan joint venture partners and NDPR. It is expected that the ruling will prevent the taxpayers from the benefits of approximately $800 million in deductions that they had planned to take during the life of Kitan. Discounting the SPT effect, the ruling means additional projected revenue of about $240 million to Timor-Leste during the life of the Kitan project.

National Directorate of Customs:

Revenue collections:

The table below illustrates the Customs revenue collections for the period under consideration.

Table 5. Customs Revenue Collections July 2010 to June 2011

	Excise Duty	Sales Tax	Import Duty
July 2010-June 2011	$19,431,760	$7,754,974	$6,938,581

Motor Vehicle Clearance

On March 19, 2011, a vital government consultation with the industry took place which focused on identifying specific areas of Customs Operations needing improvement and ranked those priorities for reform. Removal of bureaucratic delays in motor vehicle clearance was the high priority outcome of those industry negotiations.

As a result of those negotiations and consultations, on June 10, 2011 the Dispatch 12/EPM/V/2011 was published in the *"Journal da Republic"* which repealed the Dispatch 005/OPM/IV09 and authorized the clearance of 42 vehicles that had not been released as the vehicles were aged over five years from the date it was originally manufactured to the year it was imported.

International agreements/memberships

In 2010, a Memorandum of Understanding (MOU) with the New Zealand Customs Service was signed to continue the joint capacity building effort. This lead to a team of three New Zealand officers spending three months in Dili training staff. They returned in April 2011 for a month. The project was hugely successful however the support from New Zealand Aid is decreasing as they are concentrating on other Pacific Nations. The loss of this support is a concern for the development and capacity building of the Timor-Leste Customs Service.

Timor-Leste became a member of The Oceania Customs Organization (OCO) during the 13th OCO Conference which was held in Port Moresby, Papua New Guinea from the 2nd to 6th of May 2011.

An MOU with Indonesia was one of the considerations during the 5th Joint Ministerial Commission which met in Jakarta in early March and in Dili late in August. The Director General attended both meetings and there are hopes of signing the MOU in the near future. Furthermore, Timor-Leste is in negotiations with PNG and Australia regarding the signing of MOUs.

Training and Professional Development

A comprehensive Core Competency Framework has been produced for all National Directorate of Customs staff. This is the key element to successfully implement the capacity building framework for the National Directorate of Customs. This document provides the Customs Services with a guide or reference point for description and competencies for its future workforce. Furthermore, the strategic training plan for 2011-2012 was approved by The Ministry of Finance. In June 2011 an MOU was signed between the University of Canberra and the DGRC. The University will provide a train the trainers programme and three modules of training to Customs officers. They are also designing modules for domestic tax employees.

ASYCUDA

The work plan for ASYCUDA Phase II of the project has been submitted. The plan focuses on piloting, targeting, and profiling trader manifest modules. Furthermore, the Terms of Reference (TOR) for the ASYCUDA Adviser was prepared, submitted and approved by the National Authorizing Office (NAO) and the Minister of Finance.

Marine unit

In 2011 the marine unit purchased a new 20 foot boat, and jeep to transport the vessel. It arrived from Darwin in July and staff were provided training on its use and maintenance. The marine unit now has two vessels in operation to facilitate the patrolling of borders and prevention of smuggling. The new boat will mainly operate from Dili while the other is in use at Batugade to protect the border with Indonesia.

X-rays

In 2010, a CAB 2000 inspection X-Ray unit was donated by Japan International Cooperation Service (JICS) and is operating in Batugade Post Border. In 2011, two (2) X-Ray machines for inspection, two (2) cargo machines, and another one X-Ray for inspection of baggage and a Freight machine were procured. Those machines will be set up in Batugade, Suai Border Post and the "*Presidente Nicolao Lobato*" International Airport.

Department of Legal Counsel

A surge in the number and complexity of tax appeals has made the twelve month period to the 30th June 2011 a challenging one for the Office of Legal Counsel. Whilst numerically, nearly 83% of these originated from the National Directorate of Domestic Revenue, the amount of revenue involved was far outweighed by the remainder of the appeals which pertained to the petroleum sector. All petroleum appeals determined through the period were dismissed, and it is anticipated that a significant number of these matters will be taken to Court on appeal, pending the establishment of the Board of Taxes and Customs Appeals. Nearly all of the petroleum appeals arose in the last six months of the period, and involved substantial volumes of material, and complex questions of law.

The year has also seen the establishment and the development of sound co-operative working relationships with the Office of the Prosecutor General, the Anti-Corruption Commission, and the Civil Service Commission. A successful training course on Revenue Crimes in Timor-Leste was prepared and presented to a large audience which included prosecutors from the office of the Prosecutor-General, Police, and representatives of the Anti-Corruption Commission.

Substantial work has been carried out to finalise proposed new revenue laws. In particular it is hoped that the proposed Taxes and Duties Procedures Decree Law and the Taxes and Duties Offences law will greatly enhance tax compliance in Timor-Leste. With the assistance of the Better Business Initiative of the IMF, presentations have been made to various stakeholder groups including, the Chamber of Commerce, Professional bodies, and the Rotary Club. Several proposed public rulings have been prepared in anticipation of the adoption of the laws as drafted.

Seven separate pieces of legislation are being consolidated into a new Customs Code, and plans are well in hand for the adoption of a Code of Conduct which will be of general application to all officers employed in the Directorate General of Revenue and Customs. The Customs arrival declaration has also been revised to ensure consistency with current laws including import and export of currency. The issue of the ban of the importation of motor vehicles more than five year old has been reviewed in conjunction with a consultant engaged by the IMF.

A proposed Double Tax Agreement with Portugal is nearing completion, and is expected to be in force by the end of the calendar year.

7. General Directorate for Policy Analysis and Research

Introduction

This report summarizes main achievements of PFMCBP – DGPAR activities from July 2010 – June 2011. During this period, including the SMA there were five PFMCBP-funded advisers working in the Directorate: National Accounts Adviser, Macroeconomics Adviser and 2 ODI Economists.

Progress has been made in all three directorates and two departments of DGPAR in terms of work delivered, capacity building and or national staff learning more on technical issues. These achievements are detailed below by each directorate.

Macroeconomic Directorate

- Finalized the draft of Strategic Development Plan (SDP) and assisted the Office of Prime Minister to finalize the SDP and forward it to the National Parliament for approval.
- Updated the Macroeconomic Framework to reflect 2010 fiscal data, inflation data, real sector inputs, donor data and balance of payments. 2010 GDP was measured via the production method alongside national staff.
- Refined the Macroeconomic Framework to make it more user friendly – this is an ongoing process undertaken at a digestible pace and followed by training sessions with national staff on the changes. Changes also included extending the Framework from 2025 through 2050, with the support of IMF.
- National staff engaged in updating the Framework after gathering information from relevant ministries.
- Used the Framework to file the report on Economic Overview of Budget 2011; this involves measuring GDP and forecasting GDP and reporting on growth trends in the private and public sector.
- The Economic Overview for the Budget Book 2011 also involved collecting data from various sources and reporting on the international and regional economy and developments that may impact Timor-Leste, Government expenditures and revenues, domestic inflation, employment, exchange rate trends, poverty and national progress towards the MDGs.

- Production of the first Economic Quarterly Report in the second quarter of 2011, with significant input from national staff following on-the-job training on economic reporting.

Not directly related to the PFMCBP:

- Five young economists were recruited to be trained to fill in the gap of analysts with the support of ADB.
- Two permanent staffs joined the Directorate after completing their examination.
- Working with ADB initiated structured training for staffs, especially young staffs.
- Jointly organized ASEAN Workshop with the Ministry of Foreign Affairs, ADB, and ADBI (Tokyo).

Statistics Directorate

- Completed the first draft of National Accounts from Expenditure (GDP – E). Including the development of the compilation framework and the production of the first draft estimates 2004-2010 disseminated internally within the MOF on June 27, 2011.
- Prepared a comprehensive Draft publication of Government Expenditure and Public Sector Accounts for 2004-2010.
- Completion of Business Activity Survey (BAS): a comprehensive survey conducted within the framework of technical assistance project with the Asian Development Bank (ADP).
- Preliminary results of BAS was used to estimate ball park 2010 GDP Production (GDP – P).
- Launching 2011 Timor-Leste's Household Income and Expenditure survey with the field work started from January 2011.
- 2010 Timor-Leste in Figures – published.
- Census 2010, launching preliminary results, and final report.
- Completion of Demographic Health Survey (DHS) and launching the Report.

Petroleum Fund Directorate

- Preparation for an IMF Technical Assistance mission was conducted in Dili between 27 July and 11 August 2011. The overall purpose of the mission was to provide technical assistance and capacity in petroleum revenue forecasting, including preparing the 2012 Estimated Sustainable Income calculation and a revenue forecasting manual. The mission was also to review the macro-economic modeling and to assist in extending the current macro framework.

- The Petroleum Fund Law amendments were approved by Parliament 23 August 2011, unchanged from the Government's proposal. Importantly, the amended law includes a new investment policy that allows for a higher degree of diversification. The goal of the new investment policy is to maximize the risk-adjusted return. It is expected that allocating 40% of the Fund to equities (within the limit of 50%) will earn the Fund a real return of 3% over time.
- According to unofficial figures, the Petroleum Fund Balance was $8.8 billion as of 19 August 2011, see table below.

Table 6: Petroleum Fund Balance as of August 19, 2011

$ million	By 19 August 2011
A. Opening balance as of 1 January 2011	**6,904**
B. Revenues (as of August 19, 2011):	
- PF Law Article 6.1 (a) Tax Receipts	873
- PF Law Article 6.1 (b) Royalties	1,202
- PF Law Article 6.1 (c) Investment returns (net)	218
- PF Law Article 6.1 (e) Other receipts	8
Total Revenues	**2,302**
C. Expenditures	
- PF Law Article 7.1 Transfers to State Budget	(425)
Total Expenditures	**(425)**
Closing balance as of August 19, 2011 (A+B-C)	**8,780**

Source: Banking and Payments Authority

Research Department/MDG Secretariat

- Contributed to the Report of Doing Business 2012

Conclusion and recommendations

As the PFMCBP is nearing its end, it is important to highlight the above achievements. Challenges that the Program faces in the remaining months of the Program as well as improvements to be made in future programs should a further extension be granted or other programs agreed related to capacity building at the Ministry of Finance, include:

- Limited capacity of national staff in the areas that require technical skills, such as national accounts, ESI estimations, and Macroeconomic Modeling and Projections. Further recruitment in these areas is important to secure skilled staff to do basic works required by the Ministry.
- PFMCBP has addressed some of these issues but capacity building is still required to take it forward from where PFMCBP will leave it at the end of the current Program. In all the areas mentioned above Technical Assistance is still needed to guide more skilled staff once they are recruited.
- Therefore, it is recommended that there should be a further TA program once PFMCBP is finished. Whether or not this program is extended, or there is a new program, care must be taken to ensure that future technical assistance builds on the already achieved capacity of national staff.

8. General Directorate for Corporate Services

Introduction

Throughout the reporting period the General Directorate of Corporate Services (DGCS) continued to perform its functions as the support arm of the Ministry of Finance (MoF). Achievements, challenges and areas of additional strengthening are described in the following sections, in line with the core functions of the Directorate.

The Directorates activities were supported by an SMA and six (6) PFMCBP Advisers: Executive Adviser to the Minister, Human Resource and Capacity Building Adviser, Legal Adviser (Portuguese speaking), Professional Development Program (PDP) Adviser and two (2) IT Consultants.

Finance And Administrative Support

During the reporting period the two departments of DGCS handling finance, administrative and logistic support to other directorates managed to perform their functions, despite limitations in their personnel. One indicator of satisfactory performance is, for example, the fact that by the end of the financial year 2010 the budget execution of MoF on a cash based rate reached 77.1%, out of a total budget of US$32,061,870. Satisfactory results were also achieved in the areas of logistics support to other directorates in terms of working-space provision, vehicle management, cleaning services as well as other minor maintenance and repair of fixed assets. Nevertheless, there were still complaints from other directorates particularly claiming that the centralized model of financial and logistical support is jeopardizing the effectiveness of their functioning. Delays in responding to directorate needs were felt in some specific events of financial and logistic support services by DGCS which can be attributed to a) non-compliance of directorates to the established guidelines and b) limited number of staff within these two departments. Additional areas of improvements are being identified as part of the strategic planning process covering a) wider dissemination of the existing guidelines for financial, procurement, and vehicle management; b) reorganization of the working-stations in order to be more ‘client-friendly’; c) development of Standard Operational Procedures (SOPs) to better implement the guidelines.

Human Resources Management And Development

In addition to the routine handling of personnel management issues, and the recruitment of new civil servants, major progress in the area of human resources development, can be described as follows.

Training

Since the training centre was established in August of 2010, training programs have been undertaken, both in country and overseas.

The following list outlines some of the training undertaken in the reporting period:

- Procurement Cycle Training Program: 159 participants, consisting of 21 staff from the procurement department of Ministry of Finance, 113 staff from 9 districts, a combination of staff from various line ministries and district administration officers and the most recent course comprised 25 staff from the University of Timor-Leste.

- Free Balance Training: 173 participants consisting of 137 staff from various departments within the Ministry of Finance and 36 staff from other line ministries.

- English language course: 72 participants, from 450 listed.

- ETDA courses for basic computer, recording, management, and critical thinking: 200 participants, from 600 listed.

- Portuguese language course: 31 participants.

One overseas training program was held in July for Oracle 11g training which was attended by 4 people (IT and Domestic Taxes department).

Additionally, a strategic plan was drafted for the establishment of a professional development centre for the MoF. The key improvements such a centre would address include:

1. **Support to Directorates in Identifying training needs**:
   Ensure the availability of a systematic process for identifying and analyzing training needs for public sector staff with PFM responsibilities
2. **Establish professional standards for PFM:**
   Facilitate the establishment of an independent body to regulate PFM in Timor-Leste
3. **Development of training program**:
   ensure the availability an annual program of training and development activities which meet approved PFM training priorities
4. **Support for staff development in MoF**:
   establish an effective framework for coordination and delivery of staff development programs across all public sector agencies involved in PFM
5. **Training Operations**:
   establish an MoF Professional Development Centre to coordinate the delivery of training and professional development programs to all staff involved in PFM
6. **Scholarship and Graduate Development programs**:
   establish a professional development program which provides scholarships in accordance with MoF priorities and ensures effective management and development of alumni on their return to work.

Scholarships

Throughout the reporting period, 56 full scholarship recipients for overseas study and 42 supplementary scholarship recipients for in-country and overseas study were selected. Detailed information of the progress is provided below.

- Supplementary Scholarships were awarded to 42 Ministry of Finance staff to complete their under graduate or post-graduate studies in Timor-Leste and Indonesia, in areas relevant to Ministry of Finance's needs.
- 23 Scholarships (19 undergraduate and 4 post-graduate) were awarded to MoF staff for study in Accounting, Economics and Business at Flinders University, Australia in 2010. 18 out of 23 students, including the 4 post-graduates students, completed their language course and commenced their degree program at the University. The PDP Secretariat provided assistance to these students in their transition from English language courses to their university degree program.
- 13 students were selected and offered scholarships to go for undergraduate study in IT in Bangalore, India. After the completion of the matriculation in June 2011 (two months), they were integrated into APTHECH IT program course.
- 10 Students for undergraduate study in Statistics were selected, awarded scholarships and sent to STIS Jakarta for Matriculation in September last year. Another group of 9 students were also selected in April and May 2011, and given Scholarships to go for the same course. These 19 students will conclude their matriculation in October 2011 and initiate their university degree in November the same year.
- 10 statistics scholarship holders (2010 group) in Jakarta were visited and monitored in January, late June and early July 2011. Monitoring visit reports were submitted to DGCS.
- Successful involvement in Scholarship and training planning and budgeting for FY 2011 and 2012 including administrative work mainly in the processing of the scholarship payments.
- MoF's scholarships for post graduate study (UNTL) in accounting were awarded to 8 of the Ministry's staff including the General Director of State Budget.
- A Call was issued for scholarship application from civil servants and public in general to study accounting (Master and Bachelor degree) in Australia (CDU).

Institutional Strengthening Capacity Building Plan – ISCBP And Directorates Strategic Plans

Following finalization of the mid-term review of the PFMCBP, it was agreed that the ISCBP should be incorporated into the strategic plan for the MoF, which will focus on operationalizing the reforms, and longer term objectives identified in the Draft Strategic Plan for the Ministry. A summary of main achievements can be seen below:

- Assisted in adapting existing MoF development requirements to the challenges imposed on the MoF by the National Strategic Development Plan.
- Assisted in preparing the final draft of the MoF Strategic Plan
- Review of capacity building and institutional strengthening activities in the MoF
- Developed the ISCBP as a component of the MoF Strategic Plan which identified strategies to address:
  - Management and coordination of capacity building in the MoF
  - The implementation of a change management regime across the MoF
  - Stabilisation and clear understanding of standard operating systems in MoF
  - Provision of clear links between core functions, operating systems, organisation and allocation of work
  - Clarification of roles and responsibilities at all levels of MoF
  - Managing for results against agreed work priorities identified in the Ministry's plans
  - Integration of planning at strategic (20 year), operational (5 year) and annual planning levels
  - Proposed strategies for performance management at the work unit and individual staff levels

Assistance was provided to management and staff of the Ministry to implement the ISCBP. This included a number of initiatives including;

- Supported management of the MoF in identifying capacity building strategies and the development of the MoF Training Program 2011 - 2012
- Supported the development of 5 year operational plans for the National Directorates and Corporate Service Departments to support the objectives of the MoF Strategic Plan
- Provided guidance and support in preparing the Annual Action Plans to ensure integration with and support of the key improvements and core functions for each National Directorate identified in the MoF Strategic Plan.

Information And Technology

During the reporting period, there were major tasks which were executed by Department of Information Technology.

- Migration of the ministry network operating system from windows 2003 to window 2008 R2 native mode
- Migration of the ministry communication system to windows messaging and collaboration system such as e-mail, calendars, live communication server, etc
- Building of a formidable national IT team
- Complete overhauling and redesign of Ministry's official website, see http://www.mof.gov.tl/
- Drafted IT policy and re-enforce its implementation

- Formation procedural and technical IT manual, reference on MoF website, see http://www.mof.gov.tl/manual/
- Maintain and support Ministry's mission critical application with minimal downtime
- Extends Ministry's information system services via the new GRP System software
- Successfully employed additional hardware & software controls to help protect Ministry's information assets

Encountered challenges

- Daily co-ordination was required by MoF IT, MoI IT and Free Balance technical team to implement GRP project.
- Staff at MoF IT were very limited during the last six months as 2 female staff members were on maternity leave which severely increased work pressure.

Actions needed to be taken between now and December 2012

- GRP phase 2 is being implemented within year 2011, which is focusing on improved processes and optimization of GRP phase 1 which was implemented successfully in 2010.
- Team efforts will be required more this year as the implementation phase needs to be stabilized which will keep all IT staff and advisors occupied full time which providing day to day IT services.
- TA (national & international) currently on-board needs to be retained as without their presence the process can be severely hampered due to high level of skills required to work closely with Free Balance consultants.
- National staff need to be sent for training overseas in specific areas of IT to achieve the required high level skills.

Executive Office Of The Minister

The Executive Office served as the unit within the MoF that provided support to the executive functions and requirements of the Minister and/or the Vice-Minister of Finance. It served as the focal body which helps harmonize assigned duties, streamline internal communications, as well as ensure the efficient dissemination of ministerial instructions to MoF units and from the Minister and/or Vice-Minister.

As it evolved, the Executive Office was also partly responsible for harnessing the support of all relevant structures within the Ministry to deliver the outcome-based and timely solutions to issues raised within its (Ministry) competencies. It was in performing such functions that the Consultant had interactions with the rest of the units of the Ministry.

Acting as a “clearing house” on ministry matters that required the attention of the Minister and/or the Vice-Minister, the Executive Office also served to provide the needed quality control (to the Minister) and ensured adherence by the MoF units of observed operational systems and standards in the conduct of the day-to-day functions of the Ministry.

During the reporting period, and given the fast-paced transactions in the Ministry as a whole and within the Executive Office in particular, the Advisor often tended to perform critical in-line functions to ensure timely delivery of services/outputs required by the Minister and/or Vice-Minister (and even the Chief of Staff). Such kind of functioning resulted in a reduced effort and attention placed on the capacity-building component attached to this position. On several occasions, the Advisor was nominated to act as the Chief of Staff of the Minister at times when the Chief of Staff was on official travel overseas and when he went on his annual leave.

Legal Services

Throughout the reporting period, the Legal Unit under DGCS continued to provide legal services to other directorates as well as to the Council of Ministers. Major developments include

- Drafting legislation/participation in policy making in the areas of public financial management and national budget.
- Liaison with members of the National Parliament to coordinate the approval of key legislation related to public financial management;
- Preparation of legal documents for the Council of Ministers, the National Parliament.

Major challenges continue to be same as described for the first half of 2010, including (i) insufficient number of staff; (ii) limited skills and competencies among the existing staff to ensure the delivery of the legal work within the deadlines.

Internal Audit

There was no major development within this unit, during the reporting period. In July 2010 one Grade B officer was appointed as Head of Unit to start developing the organization structure and systems for the unit to function, but the appointee resigned some weeks after his appointment.

9. Going Forward

As indicated in last year's report, "given the long term challenges of building a trained and effective civil service, the Ministry of Finance will need to continue to explore the full range of options for accessing capacity from local and international markets. At the same time, Donors also need to remember that capacity deficits in post-conflict countries are a long-term problem. Even in rich resource States there is often a long-term reliance on donor funding to meet capacity constraints. In building capacity there are no quick fixes. Support needs to be for the long-haul. Long-term stabilization requires a more systemic process of state-building. Public financial management is at the very centre of state capacity. A prime objective of development support should therefore be to develop state's capacities to provide basic services to its citizens, including security, through improved access to resources and development of administrative capacities to manage these resources and effectively provide quality service. This support must be targeted in the most effective and least corrosive manner possible."

The coming year will bring new challenges, in part, related to increased discussion of issues and possibly heightened expectations encouraged by interest in the forthcoming Presidential and National elections. PFMCBP advisers will be required to play an even greater role in ensuring the effectiveness and transparency of the work of the Ministry. The implementation of provisions in the Ministry and National strategic plans will also make new demands.

Although the PFMCBP's extension into November 2012 offers a valuable further period of support to the Ministry, it will be important for consideration to be given soon to the TA needs of the Ministry after 2012 and therefore to the early development of a follow-up program. This will be critical to ensuring continuity and avoiding loss of gains already made.

APPENDIX 1

UPDATED PFMCBP RESULTS MATRIX

PDO	**Project Outcome Indicator**	**Progress to June 2010**	**Progress to June 2011**
Capacity in the MoF strengthened for prudent, effective and accountable planning and management of public finance to promote growth and poverty reduction	Institutional Development and Capacity Building Plan implemented and ongoing needs identified.	Institutional Development & Capacity Building Plan implemented in part. Agreed it will be finalized as part of Strategic Plan process to December 2010.	Following the mid-term review of the PFMCBP, it was agreed that the Institutional Strengthening Capacity Building Program should be incorporated into the strategic plan for the MoF, which focuses on operationalizing the reforms and longer term objectives identified in the Ministry's Strategic Plan. A Professional Development Program (PDP) was completed; a training centre was established and a strategic plan was drafted for the establishment of a professional development centre for the MoF. Courses were organized for several hundred participants and 56 full scholarships were awarded for overseas study.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Progress to June 2010**	**Progress to June 2011**
1. General Budget of the State is prepared in accordance with the budget timetable based on enhanced coordination, quality and realism of line ministry submissions, reflecting government priorities and medium-term fiscal sustainability	Budget: prepared with three-year fiscal forecasts, submitted to Parliament 45 days before the end of the current fiscal year, and approved before the start of the new fiscal year. Projected non-oil fiscal deficit < 90% of non-oil GDP for the	Quality of forward estimates needs to be strengthened. Budget submitted by 15 October as per Budget and Financial Management Law. Macro forecasts not yet finalized, but withdrawals from the PF have been rising. Revenue outturn is over	Budget for 2011submitted by 15 October 2010 as per Budget and Financial Management Law. Approval of 2011 Budget was delayed By Parliament to after the start of the new fiscal year.

	2010 central government budget and < 80% of non-oil GDP for the 2011 central government budget. Aggregate revenue and expenditure outturn ≥ 80% of budget in the last two years.	90% in 2009, compared to around 75% in 2008. Expenditure outturn in 2009 is close to 90%.	
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Progress to June 2010**	**Progress to June 2011**
2. Treasury and procurement functions managed efficiently and transparently with due regard to accountability and quality of expenditure.	Quarterly publication of budget execution reports within two months of the end of the quarter. Daily reconciliation of government bank accounts using FMIS. Publication of annual audited financial accounts within 30 days after its presentation to the Prime Minister (or within 30 days after the end of parliamentary recess, should it be closed on the date the report is delivered to the Prime Minister).	Reports have been submitted on time to Parliament. MoF has adopted modified cash accounting system. Quarterly reports submitted on time. Full reconciliation of accounts 2005-09 ($850mn in receipts and $800mn in payments). Annual Audited Accounts for 2008 are published as required though with some delay because of change in auditors.	Accounts for 2010 were fully reconciled and certified by the external auditors. Annual Audited accounts for 2010 were submitted to the Court of Appeals on time. Two quarterly reports were submitted by due dates. Two special funds were created and are Being accounted for in the FreeBalance. Bank Reconciliation completed up to 2010. Also for 2011 bank reconciliation complete up to June, 2011. Once the accounts are submitted to the parliament, the accounts would be published on the website of the Ministry. A major achievement was the

			inauguration of the transparency portal. Now members of public can know all expenditure numbers for the budget online. http://www.transparency.gov.tl/english.html
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Progress to June 2010**	**Progress to June 2011**
3. Government revenue functions administered efficiently and transparently, with improved revenue performance in line with economic developments and compliance.	Improving results from public perception surveys, for each Directorate, of efficiency, effectiveness, ethics and integrity. Increasing domestic tax collections as a % of non-oil GDP. Additional revenue collected from Petroleum Revenue compliance activities (difference between submission and collection). Improving average time taken to clear green line Customs declarations - from time of entry lodgement with Customs to the issue of a delivery advice by customs.	In 2010, first survey by Asia Foundation shows a poor public perception of Customs, slightly better for Revenue. In 2009, domestic tax was 9% of non-oil GDP, an increase from 8% in 2007. In 2010, Petroleum Revenue compliance still does not include field audits. In 2010, reported that average time taken for goods to clear green line Customs declarations has improved. No further data provided.	In 2011 the Asia Foundation conducted a further public perception survey, which showed the efficiency and effectiveness of customs in relation to the services they provide has improved. However in relation to ethics and integrity, no improvement was shown. Domestic taxation collections were 16% in the first six months of 2011 than in the same period in 2010. A sum of $96.9 million additional income was obtained from petroleum revenue compliance activities this period from field audit activities, compared to $ 0 in 2010. Anecdotal evidence suggests a clear improvement on processing times. Phase 2 ASYCUDA work plan will provide an electronic measurement of these indicators.

Intermediate Outcomes	Intermediate Outcome Indicators	Progress to June 2010	Progress to June 2011
4. Government policies and budget decisions are better informed by timely economic analysis and projections based on reliable data.	National accounts published by the Statistics Directorate and three staff trained as national accounts specialists by July 2011. Statistics Work Plan agreed by MoF and other stakeholders, with implementation plan agreed and funding secured by end-2010. Macroeconomic framework sets annual budget ceilings starting in 2009, with four staff able to update and interpret the framework by July 2011.	Source data for national accounts being established, and efforts under way to appoint staff. SD have set April 2011 to publish national accounts and GDP estimates. Key elements of SWP being implemented (HIES, BAS and APS). Additional funding secured from ADB. A macro framework has started to set the annual budget ceilings. The model is gradually being updated and refined. At this stage it seems unlikely that four staff will be able to update and interpret the framework by July 2011.	Draft of National Accounts produced, commented by the IMF, and being revised for publication and launched in early 2012. Two national staffs trained. This is an ongoing capacity building process given the complexity of the task. SWP further revised and commented by the IMF. Key elements of SWP being implemented and additional funding from ADB is also helping to rebase and rebasket inflation (CPI) of Timor-Leste. Macro framework was used to set economic growth and budget targets for Strategic Development Plan 20-11 -2030, the Medium-Term Fiscal Framework, and Fiscal Envelope of 2011 and 2012. One national staff and one national adviser can operate the Framework. By mid 2012 2 – 3 more people can operate the Framework.

Intermediate Outcomes	Intermediate Outcome Indicators	Progress to June 2010	Progress to June 2011
5. Strengthened accountability, integrity and service culture through improved performance of core corporate support functions, and enhanced sustainability of MoF operations.	□ 75% of leadership and management positions rated as sufficient and above in performance. □ 75% of Grade B and C positions rated as occupied with qualified staff. □ 75% of Grade D and E positions rated as occupied with qualified staff. □ 5 qualified staff appointed to the audit unit and at least 3 audit reports issued. □ 3 qualified staff appointed to the legal unit and at least 10 legal opinions issued. □ 80% of IT cases logged have been resolved.	□ Performance management review of leadership and management positions not yet conducted. □ No assessment yet of whether Grades B and C staff qualified. □ No assessment yet of whether Grades D and E staff qualified. □ **Nil** qualified staff appointed to the audit unit and **nil** audit reports issued. □ **Nil** qualified staff appointed to the legal unit and **nil** legal opinions issued. □ 39% of IT cases logged have been resolved.	□ 2010 performance evaluation of leadership and management positions undertaken with 91% rated sufficient and above. □ 45.3% of Grade B, and 66.2% of Grade C positions rated as occupied by qualified staff. □ 68.6% of Grade D, and 56.2 of Grade E positions rated as occupied by qualified staff. □ **Nil** qualified staff appointed to the audit unit and **nil** audit reports issued. □ One qualified staff appointed to the legal unit and more than 10 legal opinions issued, with the support from the Legal Advisor. □ 44% of IT cases logged have been resolved.
6. The Program is effectively implemented, through maintenance of operational standards, monitoring and evaluation, and regular reporting on results.	□ ≥ 80% of Procurement Plan target implemented at every six monthly review. □ Improved project supervision rating on implementation	□ 50% of Procurement Plan implemented (delays due to earlier funding shortfalls). □ Improvements in all aspects of program implementation though	□ Implementation is ongoing, with 20 international and 5 national advisers in place by 30th June 2011. (i.e. 53% of Procurement Plan target). This number is expected to rise to 47 (34 international and 13 national) advisers by 15th November 2012. □ Improvements continued, including work

	progress, procurement and financial management.	more work needed on FM, M&E, and reporting.	on revising the FM, ensuring completion of performance reports and plans to re-evaluate Quarterly Report and Action Plan formats.

PFMCBP ANNUAL REPORT 2010-2011