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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 4,830,950 MILLION

(US\$7.0 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

FOR A

PLANNING AND FINANCIAL MANAGEMENT CAPACITY BUILDING PROGRAM

February 17, 2006

Poverty and Reduction and Economic Management Unit
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

Currency Unit: U.S. Dollar

WEIGHTS AND MEASURES: Metric System

FISCAL YEAR: July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AAP	Annual Action Plan	MPFCBP	Ministry of Planning and Finance Capacity Building Program
ARJ	Annual Joint Review	MSA	Ministry of State Administration
ASYCUDA	Automated System for Customs Data	NDP	National Development Plan
AusAID	Australian Agency for International Development	MoPW	Ministry of Public Works
BPA	Banking and Payments Authority	OGPSIM	Office of Government Procurement, Supply and Inventory Management
CAS	Country Assistance Strategy	OIG	Office of the Inspector General
CDCU	Capacity Development Coordination Unit (Prime Minister's Office)	PEFA	Public Expenditure and Financial Accountability
CFET	Consolidated Fund for East Timor	PEM	Public Expenditure Management
CPV	Commitment and Payment Voucher	PER	Public Expenditure Review
CSP	Consolidation Support Program	PD	Procurement Division
DFID	Department for International Development (United Kingdom)	PFMCBP	Planning and Financial Management Capacity-Building Program
DFO	District Finance Officer	PRSP	Poverty-Reduction Strategy Paper
DO	District (Line Agency) Officer	PSM	Public Sector Management
ETRS	East Timor Revenue Service	PSM SWG	Public Sector Management Sector Working Group
FM	Financial Management	PRSTF	Poverty Reduction Strategy Trust Fund
FMIS	Financial Management Information System	QRM	Quarterly Reporting Matrix
FY	Fiscal Year	REA	Registry of External Assistance
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GoA	Government of Australia	SIGTAS	System Integrated Government Taxation Software for the Revenue Office
GoTL	Government of Timor-Leste	SIP	Sector Investment Program
GRIMS	Government Resources Information Management System	SoU	Statement of Understanding
HIPC	Heavily Indebted Poor Countries	SBD	Standard Bidding Document
HRCB	Human Resource and Capacity Building Unit (Ministry of Planning and Finance)		
HRM	Human Resource Management	SWG	Sector Working Group
HRMIS	Human Resource Management Information System	TFET	Trust Fund for East Timor
IDA	International Development Association	TLSLS	Timor-Leste Survey of Living Standards
IDF	Institutional Development Fund	TSP	Transition Support Program
IMF	International Monetary Fund	UN	United Nations
INAP	National Institute of Public Administration	UNDP	United Nations Development Program
IPSAS	International Public Sector Accounting Standards	UNMISSET	United Nations Mission of Support in East Timor
IT	Information Technology	UNOTIL	United Nations Office in Timor-Leste
JICA	Japanese International Cooperation Agency	UNTAET	United Nations Transitional Administration in East Timor
MAFF	Ministry of Agriculture, Fisheries, and Forestry	USD	United States Dollars
MNRMEP	Ministry of Natural Resources, Minerals and Energy Policy	WB	World Bank
MoEC	Ministry of Education and Culture	WCO	World Customs Organization
MoH	Ministry of Health	WTO	World Trade Organization
MoPF	Ministry of Planning and Finance		

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TIMOR-LESTE
PLANNING AND FINANCIAL MANAGEMENT CAPACITY BUILDING PROGRAM

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A. STRATEGIC CONTEXT AND RATIONALE

1. Country and Sector Issues

Country and Strategic Context

1. Occupying the mountainous eastern half of the island of Timor, Timor-Leste was a Portuguese colony for 450 years. Following a brief civil war, the country unilaterally declared independence on November 28, 1975. Within days it was invaded and illegally occupied by neighboring Indonesia, though for 24 years the population of Timor-Leste maintained a staunch resistance. Following the fall of President Suharto in 1998, a referendum on autonomy for the territory was held, but an overwhelming majority of the Timorese preferred independence. Tragically, the outcome of the referendum was accompanied by a well-planned campaign of violence, which left over 1,000 people dead, the majority of the population displaced, the country's private and public physical infrastructure in ruins, and key records destroyed. Most Indonesian citizens departed, resulting in a severe shortage of qualified and experienced professionals and leaving Timor-Leste with very thin human resource and institutional capacity.

2. Following the intervention of a multi-lateral peacekeeping force, the United Nations Transitional Administration in East Timor (UNTAET) was established with supreme executive, judicial, and legislative authority. At its height, UNTAET included almost 9,000 uniformed and civilian personnel. In 2001, elections were held for a Constituent Assembly, followed by the adoption of the Constitution and presidential elections in April 2002. The Democratic Republic of Timor-Leste fully restored its independence on May 20, 2002. The Constituent Assembly became the National Parliament, and the current Government of Timor-Leste (GoTL) was sworn in. A 900-person United Nations Mission of Support in East Timor (UNMISSET) was created, focused primarily on peace-keeping, training and support to the Timor-Leste police force, together with the deployment of advisers to the GoTL and other State institutions. On May 20, 2005 UNMISSET was succeeded by the United Nations Office in Timor-Leste (UNOTIL), now reduced to about 120 civilian and police advisers. Presidential and parliamentary elections to be held in 2006 or 2007 will be Timor-Leste's first in the absence of UN support, and will constitute a test of the country's ability to manage a political transition.

3. In 2002, building on extensive consultations throughout the country, the GoTL adopted a National Development Plan (NDP), which expresses the country's strategies for sustainable growth and poverty reduction. A related Stability Program was developed in early 2003 to help prioritize NDP objectives. Sector Investment Programs (SIPs), which set out the details of objectives and planned investments in key sectors (15 to start with), have also been developed, and joint GoTL-donor Sector Working Groups (SWGs) are to manage SIP implementation and regular updating. Recently, the NDP, Stability Program, and SIPs were presented to the Boards of the World Bank and International Monetary Fund (IMF) and endorsed as the country's Poverty Reduction Strategy Paper (PRSP).

4. The Bank's most recent Country Assistance Strategy (CAS) for Timor-Leste was discussed by the Board on July 19, 2005. The CAS was developed with the participation of a broad range of stakeholders, including all levels of government, development partners, private sector representatives, civil society organizations, communities, religious groups, and youth. The three CAS pillars—delivering sustainable services, creating productive employment, and strengthening governance—support NDP objectives and provide the strategic framework for the Planning and Financial Management Capacity Building Program (PFMCBP). The PFMCBP adheres to the CAS' four principles of engagement: building institutional capacity; deepening the results orientation; strengthening transparency and communication; and consolidating and extending strong partnerships established among development partners. The PFMCBP is particularly focused on the good governance pillar of the CAS and on the corresponding CAS outcomes. It will also contribute to the service delivery and job creation CAS pillars.

Sector Issues

5. Over the next three years, Timor-Leste faces a rapid expansion in petroleum sector revenues, putting tremendous pressure on its public financial management system. Following the launch of production in the Bayu Undan field in mid-2004, Parliament adopted, in July 2005, a strong legal framework for on- and off-shore petroleum production, taxation, and revenue management. Licensing for on- and near-shore exploration and production is being pursued, and petroleum sector activity is expected to increase considerably. Consistent with its petroleum fiscal regime, the GoTL will commit only the sustainable portion of its petroleum revenues to the budget, saving the balance in a Petroleum Fund. The Fund will be managed transparently with the help of an Investment Advisory Board assisting the MoPF and the Banking and Payments Authority (essentially the central bank), and a Consultative Council providing advice to Parliament. Under the savings policy the bulk of petroleum revenues will be deposited in the Petroleum Fund, but the policy will enable rapid growth in budgeted expenditures.

6. In FY06 budgeted expenditures almost doubled compared to FY05 and further budget growth is expected in the medium term, up to the level of the sustainable expenditures. These are welcome developments. Effective and efficient execution of a rapidly growing budget would boost the delivery of public services and will constitute the country's principal source of growth in the short term. Construction activities associated with the capital development budget, and which are outsourced to the private sector, could contribute substantially to job creation, which is of great significance since the country's urban unemployment rate is over 20 percent.

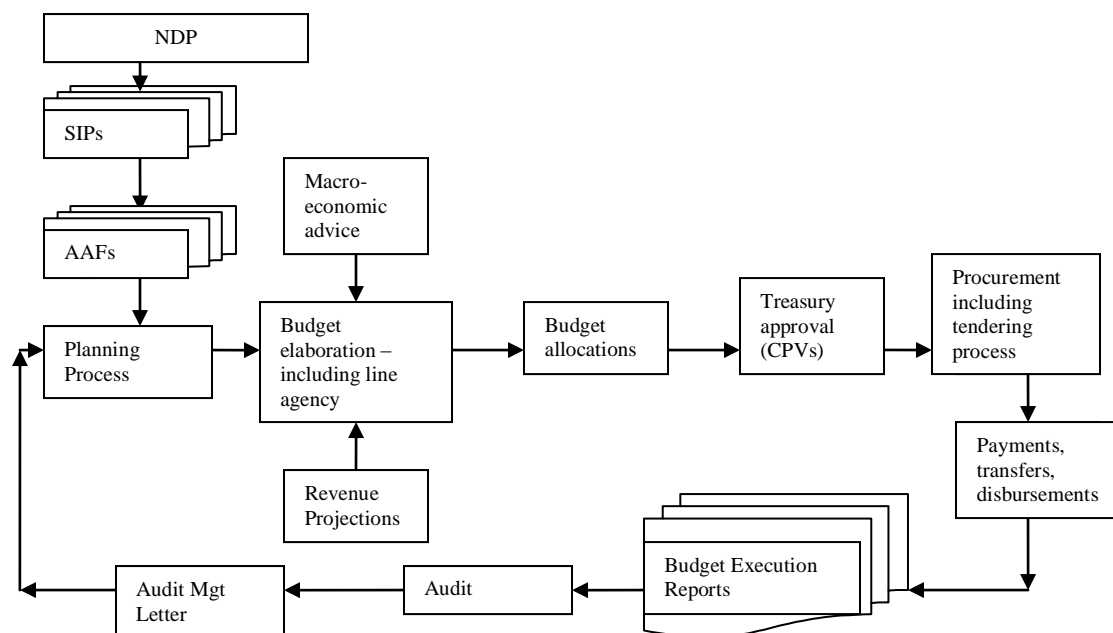
7. Yet rapidly expanding petroleum sector revenues and steep growth in budgeted expenditures will put a considerable strain on a still fragile public financial management system. This challenge arises at a time when the GoTL and the general public are deeply concerned over a perceived increase in the incidence of corruption. A 2003 nationwide survey revealed that 65% of respondents felt that corruption was the problem that had deteriorated most since independence¹. The Office of the Inspector-General² has documented cases in customs, procurement, contract management, and district treasury operations; the business sector is vocal on the subject. Most less-developed, natural resource-rich countries have a poor record of governance and poverty reduction and the GoTL is determined to avoid this fate.

8. Since the restoration of independence, the GoTL has made steady progress in building its public financial management system. Within the NDP and SIP framework, each Ministry prepares Annual Action Plans (AAPs) to feed into budget preparation, serving to link NDP objectives to the annual budget (see Figure 1). Progress against AAPs is recorded in Quarterly Reporting Matrices (QRM). The core expenditure management system performs well in budget preparation, coverage, quality, and timeliness of reporting. Budget execution is controlled through Expenditure Authorization Notices and transaction commitment approval by Treasury, with Treasury making payments to suppliers on confirmation of receipt of goods and services by the respective agency. A specialist Procurement Unit in the MoPF oversees government-wide procurement. Quarterly budget execution reports, disaggregated by all budget classifiers, are available within 15 days of each period, and spot reports can be generated from Treasury's computerized financial management systems. Within the MoPF, Treasury and Customs have active internal audit units. Internal audit is complemented by an Inspector General reporting directly to the Prime Minister. The Constitution allots the task of independent audit to a High Tax, Administrative and Audit Court (Tribunal das Contas). As this Tribunal does not yet exist, external audits are currently undertaken by a commercial auditor recruited by the MoPF, and the audited financial statements and management letter are presented to Parliament within six months of every year-end.

¹ A further 11% thought that it had stayed the same. Together, 76% thought that corruption was the same or worse (International Republican Institute: East Timor National Opinion Poll November 2003).

² Website: <http://www.inspeccaogeral.gov.tl/>.

Figure 1. Timor-Leste's Strategic Planning, Budgeting, and Budget Execution Process



9. On the revenue side, administration of non-petroleum taxes and customs has gradually improved, resulting in non-petroleum revenues increasing from 4 percent of non-petroleum GDP in FY01 to 10 percent in FY05. Customs revenues were boosted by the introduction of the first phase of the electronic system, ASYCUDA, in 2003. Revenue from the exploitation of Bayu Undan has resulted in a sharp increase in petroleum tax revenue, which currently represents more than 80 percent of total tax revenue.

10. Despite its strength as designed, the public financial management system is confronted with severe budget execution challenges in the face of the rapidly growing aggregate level of budget expenditure. While commitment levels are high across all expenditure categories, with total expenditure (cash plus commitments³) averaging 94 percent over FY03-05, budget execution on a cash basis averaged 75 percent over the same period, with some ministries performing markedly better than others. The Government has only recently started budgeting capital development projects, and capital development expenditures are fully budgeted in the initial year of a project, even when disbursements are scheduled over a number of years. As a consequence cash expenditure rates have been particularly low for capital development projects, growing from 9 percent in FY04 to 17 percent in FY05. Expenditures committed but not disbursed in a given FY are carried forward as obligations and the execution of these past liabilities has accelerated over time. All in all, budgeted expenditures have risen from about USD 56 million in FY02 to about USD 79 million in million in FY05 while cash expenditures, including carry-over expenditures, have risen from about USD 48 million in FY02 to about USD 72 million in FY05. This positive trend will need to be bolstered to ensure the effective implementation of an aggregate budget that is slated to increase to levels above USD 200 million per year in the short to medium term. Looking below the aggregate trends, fund flows to the districts are being executed with extreme caution. Moreover, poor interactions with private enterprise, including lengthy tax payment and cumbersome

³ The Government of Timor-Leste's Budget is on a "modified cash" (i.e. cash plus commitment) basis, an heirloom from the transitional period, as recommended by the IMF. Thus the budget of any project, program or item is provided in full for the entire period of its execution (which may be beyond the present fiscal year).

customs clearing procedures, lack of transparency in procurement, slow disbursement, and growing reported corruption affect private sector activity and Timor-Leste's attractiveness for trade and investment.

11. The GoTL is conscious of the key role of the public financial management system for growth, service delivery and poverty reduction, and of the current fragility of institutions responsible for management, planning, budgeting, budget execution, revenue collection, monitoring and audit in the face of the huge challenges arising from increased petroleum sector activity. UNTAET and early capacity building initiatives have understandably focused on getting the public financial management system up and running, and thus the system remains heavily reliant on the presence of international advisers who have largely focused on in-line performance and, to a limited extent, on the transfer of skills. The GoTL now wants to move beyond the transitional substitution of international for local expertise and focus on an integrated approach to institution building that relies on three pillars: skills and knowledge; systems and processes; and attitudes and behaviors. Through the Capacity Development Coordination Unit (CDCU) in the Office of the Prime Minister, the GoTL has adopted this three-pronged institution building approach government-wide, and has asked the Bank to support the coordination of a program for public financial management based on this integrative framework. Within this framework, it is useful to touch on some of the system's current weaknesses.

12. ***Lack of Skills and Knowledge.*** Given its history, Timor-Leste has an acute shortage of qualified technical expertise. This is reflected in the GoTL's difficulties in recruiting personnel, including for the MoPF. Out of 511 posts assigned to the MoPF, only 481 positions were filled in October 2005. While 90 percent of the Level 1-3 posts are occupied, only 86 percent of the Level 4-5 and just 25 percent of the Level 6-7 positions have been filled. Staff shortages are particularly acute in the Macro-economic, Structural Policy and Tax Policy area and in the East Timor Revenue Service (ETRS), with 2 out of 4 positions, and 56 out of 74 positions filled, respectively. The understaffing of both agencies is deeply worrying in the face of escalating petroleum sector activity. The Macro-economy and Tax Policy Unit, for example, is responsible for forecasting petroleum revenue and estimating the level of permanent income available from Timor-Leste's Petroleum Fund in the context of fluctuating petroleum prices and interest rates, a function that is essential to sound macroeconomic management and to safeguard against excessive and premature draw downs on the Petroleum Fund. The Unit also undertakes macroeconomic forecasting and provides advice on policies for growth and poverty reduction, including wages and employment, and tax and regulatory regimes. In addition to a shortage of technical skills, the GoTL lacks seasoned managers. Those higher-level staff with experience as civil servants under the Indonesian occupation would not have held management positions, and grew accustomed to a highly hierarchical and "top down" management style. In this context, GoTL realizes that it will need to continue to rely on some international staff in the short- to medium-term, while stepping up recruitment from the growing pool of Timorese with graduate degrees from international universities and providing on-the-job training for recruits in leadership and management, local legislation, regulation, and systems and processes. At the lower levels, basic skills, including literacy and numeracy, bookkeeping and accounting, basic administration and information technology (IT), are weak. While most staff are fluent in Tetun and Bahasa, recently adopted regulations and systems require a working knowledge of Portuguese and English, together with basic writing and presentation skills.

13. ***Cumbersome and Incomplete Systems and Processes.*** While the GoTL has established systems and processes that allow it to conduct daily business, in many cases they are incomplete, not fully functional, or have not adapted to evolving circumstances. With the exception of the Ministry of Health, line ministry planning is not yet framed by sector-wide indicators and targets connected to sector policy. The link between planning and budget preparation remains tenuous at all levels. While the GoTL is moving toward combined sources budgeting (i.e. bringing donor financing on to the government's budget), this does not yet provide for a close link between the NDP, SIPs, and AAPs on the one hand, and

expenditure of bilateral funds (much of which is still “off-budget”) on the other. As documented in the PER, slow budget execution is due to heavy centralization of expenditure management; excessively complicated ex-ante expenditure and procurement controls; reluctance to delegate and lack of an established system for delegation, monitoring, and reporting on results; and poor communication between the MoPF and line ministries and between line ministries and district services, although this situation will be eased somewhat by the \$10,000 delegation to line ministries under the new Procurement Law⁴. There is currently no effective disbursement system to send funds to the districts, resulting in districts holding only small imprest funds, which cannot cover implementation of national programs or local service delivery. One of the most severe bottlenecks in the public financial management system relates to Commitments and Payments Vouchers (CPVs), which initiate procurement. Following early abuses, CPVs above a certain (relatively low) limit must now be approved by the Minister of Finance, leaving little time for the Minister to focus on high-level ministerial priorities and severely slowing procurement government-wide. This degree of high-level control, while introduced with the best of intentions, slows budget execution and thus service delivery, and disempowers lower-level staff. The control it appears to offer is too distant from the locus of spending to prevent abuses effectively. At the same time, the Treasury, which reviews CPVs to authorize disbursements against them, tends to focus on errors in the line ministries’ applications, with little time to assist and coach them. On the revenue side, the recently adopted Petroleum Tax Law has not yet been translated into regulations and effective assessment, collection, and audit procedures. Tax payment and customs procedures are lengthy. The Customs Code, the Customs sanctions and the Excise duties decree laws are major achievements, reflecting (but not yet fully implementing) the requirements of the World Customs Organization (WCO), World Trade Organization (WTO) and the Kyoto Convention. Manifest control, valuation, risk assessment and other systems are still open to abuse and controls are manual, despite the launch of the ASYCUDA program more than three years ago. There is no automation in the Airport and Port of Dili. Customs valuation is transaction-based, as recommended by the WTO Valuation Agreement, but a valuation database has yet to be established. Internal audit should desirably be established across the whole Ministry, reporting to the Vice Minister of Planning and Finance.

14. In addition, limited information on the budget and on budget execution in the districts and among the general public stands in the way of more effective public services. Within the MoPF, line agencies, and districts, effectiveness is constrained by restricted access to financial management data, while the GoTL’s need for financial reporting, particularly to meet audit requirements, is growing. Timor-Leste’s current financial management information system (FMIS) configuration, inherited from UNTAET⁵, has serious limitations. Only Appropriations, the General Ledger, Procurement, and Assets modules are in use and available only to a limited number of agencies within the MoPF. The Asset module is not yet integrated with the Procurement module. The system is not interfaced with other software in use by other government agencies (e.g., SIGTAS by ETRS, ASYCUDA by Customs, GRIMS by the Planning Directorate, and CHRIS for payroll). This requires the same basic data to be entered several times, duplicating the use of staff time and increasing the risk of error in data entry. The current system precludes complete tracking of transactions and forces line agencies to maintain shadow ledgers, which

⁴ Approved by the Council of Ministers on October 5 2005 and promulgated on November 8 2005, the law is expected to be effective in February 2006.

⁵ Unlike other countries emerging from colonial rule, Timor-Leste did not inherit the system used during the previous (Indonesian) administration. As a result, civil servants who worked in the previous system could not use their expertise in their respective fields of work. In the Ministry of Planning and Finance, new computerized systems were established in planning, budget, treasury, procurement, revenue service, and customs, so that national capacity had to be built from scratch, while almost all functions were carried out by international advisors. Some national staff, benefiting from advisors through on-the-job and other training, can now handle regular and routine functions. While the Government wishes to enhance the functionality and transparency of the existing systems, it does not want to preclude the adoption of a new comprehensive system following the results of the diagnostic studies of functions and user needs to be carried out under the program.

are not reconciled by the agencies with data in the MoPF system. Integrating the MoPF FMIS modules that are already in use, possibly adding some critical modules, interfacing the system with other agencies' software, and extending the FMIS to line agencies and districts would enable system-wide reporting, elimination of duplicate data entry, comprehensive user access security, audit trails, significantly increased monitoring of expenditure and revenue performance, improved cash management, and control of error and fraud through the ability to analyze data for unusual trends, high value transactions, and reporting of general financial performance.

15. ***Unproductive Attitudes and Behaviors.*** Many of the problems faced by the public financial management system stem from an ineffective organizational culture. This is understandable in a government that has existed for only three years. The only administrative experience of many staff dates from the Indonesian occupation and relates to a highly hierarchical organizational culture, characterized by a lack of transparency and accountability, and by systemic corruption. Most high-level staff have no leadership and management experience, and the incentive framework is weak and uncertain: compressed pay and grading scales cannot adequately recognize qualifications, responsibilities and experience, and staff often have neither clear terms of reference nor a reporting and performance assessment structure. Communication is not systematic and as a result, the sharing of information is limited. The recently promulgated Civil Service Act and its associated Ethics and Disciplinary Codes are not yet widely known and implemented. As a result, a culture of limited trust and centralized decision-making has emerged. Managers are reluctant to delegate, further reducing the degree of responsibility felt by staff. There are problems of staff absenteeism, lack of motivation, initiative and follow-up. A culture of service to clients, both internally to government and externally, is absent. "Unblocking" the system will depend critically on leadership and management, and building trust within the MoPF and line ministries, and between these agencies, so that senior officials begin to feel able to delegate responsibilities, particularly expenditure approvals.

16. To tackle these issues, and consistent with the GoTL's three-pillar approach to capacity and institution building, the PFMCBP will support a program integrating professional skills and knowledge, systems and processes, and attitudes and behavior. In so doing, the PFMCBP draws on recent support, particularly that provided by the UN and Australia. UNTAET helped to establish the GoTL's institutions and began the process of institution and human resource capacity building, which continued under UNMISSET and continues now, to a reduced extent, under UNOTIL. The Government of Australia's (GoA) assistance focused initially on the provision of in-line advisers, but the approach has shifted progressively to longer-term assistance to help build the Budget Directorate and ETRS (mainly the domestic tax section) under a Ministry of Planning and Finance Capacity Building Program (MPFCBP) that started in July 2003. The first phase was designed to continue the provision of operational support to the two units while increasing the emphasis on capacity building. Through the MPFCBP, the GoA has provided training courses and developed experience in implementing the GoTL's three-pillar approach to capacity building. MPFCBP is also helping to develop a competency-based assessment system for basic office skills, which could become an input into the performance management of advisers (reflecting progress in capacity shown by their advisees). Under the second phase of the MPFCBP, starting in September 2005, emphasis on budget execution will be added through support to the line agencies. The GoA assistance under the MPFCBP will continue through a transition phase, overlapping briefly with the PFMCBP. The GoTL, GoA and World Bank are collaborating closely to ensure coherence between the programs and a smooth transition.

2. Rationale for Bank Involvement

17. World Bank involvement in the PFMCBP stems from the knowledge the Bank brings to bear in world-wide lessons of experience in public financial management. While World Bank financial commitments in Timor-Leste are relatively small, the Bank plays an important role in assisting the GoTL

with donor coordination and has supported the GoTL in facilitating multi-donor initiatives, including acting as administrator (with the Asian Development Bank) of the co-financing Trust Fund for East Timor (TFET) and as facilitator for the multi-donor Transition Support Program (TSP), which is now known as the Consolidation Support Program (CSP) reflecting Timor's progress.

18. The PFMCBP will be implemented in tandem with the CSP, a budget support operation coordinated by the World Bank and financed by eight development partners (Australia, Finland, Ireland, Norway, New Zealand, Portugal, UK, USAID) with several others as observers. Three consecutive CSP operations are planned over 2006-2008. The TSP/CSP forms the backbone of a "whole of government approach," which focuses on an annual, cross-government results matrix distilled from the NDP and AAPs that has been the main instrument for policy dialogue between the GoTL and its development partners since the restoration of independence. The achievement of CSP benchmarks in public expenditure, revenue management, and service delivery, together with sound progress in implementing the Petroleum Fund savings policy, will depend largely on the institutional and human resource capacity strengthening envisaged under the PFMCBP. At the same time, the CSP is promoting coordination between the MoPF and line ministries, and across line ministries, and is continuing the focus on enhancing the results-orientation of the MoPF, including financial management in line ministries.

19. Underpinning the design of the PFMCBP is a series of analytical products and background documentation. Analysis includes diagnostic work on governance, public expenditure management, financial management, and procurement, and reviews of capacity building needs and experience in Timor-Leste (see Box 1). The PFMCBP will also support the implementation of the Timor-Leste Survey of Living Standards (TLSLS), to update the 2001 survey and build on 2004 census data. This will guide policy and enable the measurement of reductions in poverty to which the program aims to contribute (paras 21, 24).

Box 1. Analytic Work Underpinning the PFMCBP

- MoPF Capacity Building Project: Phase 2 (Transition) Design Framework (Australia, June 2005).
- Consolidation of Capacity Building Needs Assessment in PFM (MoPF, April 2005).
- Internal Review of Capacity Building Experience in World Bank-administered projects in Timor-Leste (World Bank, revised and updated April 2005).
- Report of MoPF Capacity Building Planning Mission (Australia, November-December 2004).
- Public Expenditure Review (World Bank, July 2004).
- Strengthening the Institutions of Governance (World Bank, May 2004).
- Assessment of Institutional Effectiveness, Technical Assistance Requirements and Capacity Building Issues (MoPF, February 2004).
- National Capacity Development Map for Timor-Leste Public Sector, (UNDP, November 2003).
- Country Procurement Assessment Report (World Bank, May 2003).
- Public Expenditure and Accountability Note (World Bank, April 2002).

2. Higher Level Objectives to Which the Project Contributes

20. The PFMCBP would contribute to a number of the goals outlined in the NDP and the supporting CAS outcomes, particularly those related to public financial management (Table 1).

Table 1. Select NDP Goals and CAS Outcomes to which the PFMCBP is Expected to Contribute

NDP Goals	CAS Outcomes
<ul style="list-style-type: none"> • Ensure comprehensive, participatory planning with effective monitoring and evaluation and relevant, well-drafted, timely legislation. 	<ul style="list-style-type: none"> • Strengthened capacity to manage for and monitor results on the ground, with particular attention to women and youth.
<ul style="list-style-type: none"> • Ensure effective, transparent and corruption-free management of the economy and public finances. 	<ul style="list-style-type: none"> • Improved implementation of budget in a transparent manner, in line with savings policy and sustainable growth and poverty reduction goals • Enhanced revenue performance through streamlined procedures and mechanisms.
<ul style="list-style-type: none"> • Effectively manage oil and gas revenues and savings to benefit present and future generations. 	<ul style="list-style-type: none"> • Transparency and probity in managing petroleum revenues.
<ul style="list-style-type: none"> • Create a lean, effective, efficient, accountable, and transparent civil service. 	<ul style="list-style-type: none"> • Enhanced motivation and responsibility among civil servants, resulting in higher standards of probity and service delivery.
<ul style="list-style-type: none"> • Achieve growth in employment/decline in unemployment. 	<ul style="list-style-type: none"> • Jobs created directly through budget implementation⁶

21. As discussed above, and in line with the vision delineated in the Public Sector Management SIP which is, “To provide a framework for the delivery of the highest quality value-for-money services possible, within an environment of open, honest, structured and reliable government,” improvements in the GoTL’s capacity for public financial management are expected to lead to improvements in service delivery, which would contribute to the achievement of NDP goals and associated CAS outcomes in the areas of education, health, water supply and sanitation, and infrastructure. Such progress would, in turn, contribute to Timor-Leste’s efforts to meet the Millennium Development Goals.

B. PROJECT DESCRIPTION

1. Grant Instrument

22. The PFMCBP is designed as a five-year rolling program, with the associated results matrix presented in Annex 3, and indicative activities by agency for the first 18 months included in Annex 4. Activities will follow a “platform” approach whereby early steps will tackle key bottlenecks with a set of mutually supportive measures involving the three pillars, thus creating a sound foundation or platform for further developments. In outer years, activities will build on earlier achievements and lessons of implementation. Since capacity building of the nature and scope envisaged under the program will take years if not decades to achieve, the GoTL and development partners recognize that support—at least in terms of advice and guidance—is likely to be needed beyond the five-year term.

23. The PFMCBP builds on the excellent donor coordination established in Timor and is a joint government-donor program to which the IDA contribution will be in the form of an investment grant⁷. Other partners will participate either by providing earmarked budget support, by co-financing with IDA, or through parallel financing. The total amount expected to be contributed by all donors over five years is on the order of USD 37 million. Indicative commitments from the donors who will support the program through earmarked budget support or co-financing with IDA currently amount to around USD 27 million, in addition to USD 7 million from IDA and a Government contribution. Prospective development partners

⁶ Job creation is expected to take place through an expansion of services and infrastructure contracts.

⁷ The PFMCB is henceforth referred to as a program since it is a program of activities being supported by more than one grant or other sources of financing, reflecting the approach of both government and contributing development partners.

include Australia, Ireland, IMF, JICA, Norway, New Zealand, Portugal, Sweden, the United Kingdom, and the World Bank, of whom Australia, Ireland, JICA and the United Kingdom were actively involved with the Government and the World Bank during preparation. The IMF and JICA will participate by bringing bilateral support while other donors are contemplating earmarked budget support, bilateral support or co-financing with IDA. In addition, the GoTL will contribute at least USD 500.000 of its own funds to the program. A Statement of Understanding (SoU) between participating donors and the GoTL sets out agreed implementation arrangements, including the timing and content of joint reviews of progress, reinforcing the strong precedent of donor harmonization in Timor-Leste. The program is being coordinated with the CDCU. As the bulk of the program focuses on the MoPF, it will be managed by the Minister and Vice-Minister of Planning and Finance, and the implementing agency will be the MoPF Administration and IT Directorate, which includes a Human Resources and Capacity Building Division (HRCB).

2. Program Objectives and Key Indicators

24. In line with the MoPF goals of achieving sustainable national capacity for effective planning and financial management and improved service delivery, the program development objective is *sustainably strengthened planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency*. Sustainability in this context refers to the transfer of responsibility to Timorese nationals and the progressive elimination of dependence on internationally-recruited staff and advisers, while improved service culture refers to MoPF interactions internally and externally with line ministries and districts, which will feed into improved service delivery to the population, and with the private sector to improve the investment climate for growth. Both will help to reduce poverty.

25. Recognizing that the traditional approach to capacity building—training courses for national staff combined with technical assistance from international advisers—is not effective in institution building without a complementary focus on the systems and processes within which people operate and the integrity and sense of purpose that they bring to the job, the GoTL has adopted a three-pillar approach to capacity building around which the PFMCBP is designed. Based on weaknesses identified in each area, the PFMCBP will address the following:

- **Skills and Knowledge.** The focus is on providing international staff where necessary, recruiting national staff as needed and developing national staff skills and knowledge so that they are able to perform efficiently and effectively. Leadership and management training for national managers, including learning how to manage staff, how to mentor, coach, and build individual motivation and team spirit, how to reinforce on the job what staff have learned in training, how to model and reinforce integrity and ethical behavior, how to take decisions and be accountable, how and when to delegate, and how to implement and manage new or changed systems, will be key. Communications skills, including, for example, through regular unit/team meetings, will be emphasized. Agency-specific specialized training (e.g., macroeconomic modeling, tax law) will be provided for middle to higher-level specialized staff. Staff will also receive training in program management, report writing and presentational skills, basic training in office administration, accounting and bookkeeping, computer applications (e.g., spreadsheets, word processing), and languages (particularly Portuguese and English). International advisers will be expected to combine on-the-job training of national counterparts with local classroom training, mentoring and coaching, self-learning techniques, and overseas study tours and training, as appropriate, with the aim of gradually transferring in-line duties completely to national staff and eventually phasing out the need for advisory assistance.
- **Systems and Processes.** The focus is two-fold: (a) to improve the systems and processes governing work flows and interactions within each MoPF agency, between MoPF agencies, between the MoPF,

line ministries, and districts, and with the private sector; and (b) to improve the IT support provided to such systems and processes to make them more transparent, effective, relevant, streamlined, and efficient, in order to support staff in doing their jobs and enhance their performance. To address the first area, systems and processes establishing regular communication and interactions, promoting information flows, providing an overarching framework governing an agency's work program (e.g., agency-specific strategies and policies, organizational structures, generic and specific operating procedures), establishing a performance assessment system (including individual and agency work plans, and indicators and targets for monitoring and evaluating progress on them), and establishing an internal and government-wide audit function are envisaged. To address the second area, the PFMCBP will support the maintenance, modification, upgrading and integration of the MoPF's existing FMIS, its extension to line ministries, and its interface with other GoTL management information systems.

- ***Attitudes and Behavior.*** The focus is on change management, i.e. changing the culture, attitudes, and behaviors of MoPF agencies, the MoPF as a whole, and the line ministries and district entities involved in public financial management so that all are oriented toward service delivery. Strengthening professional integrity, civil service standards, work ethic, cooperation, and communication and information flows, and enhancing the GoTL's human resource functions, including a meritocratic approach to recruitment, performance assessment, promotion, and training opportunities, are key to developing the attitudes and behaviors necessary to make such a system work. Desired attitudes and behaviors—including professional work ethic, individual job motivation, accountability, transparency, integrity, and team spirit—are closely wrapped up in the above two pillars. Some of the desired attitudes and behaviors can be learned and reinforced through training and certain systems and processes, and will be reinforced in the performance assessment system to be developed under the program. Techniques for pursuing this objective include on-the-job training and coaching to build skills and a sense of accomplishment, which builds an individual's professionalism and commitment to the job; training in the Civil Service Code of Ethics, with reinforcement of its use in daily work; training of managers to lead by example; rewarding of desired attitudes and behaviors through non-financial recognition (e.g., merit certificates), and including desired attitudes and behaviors in recruitment and selection criteria and in the performance assessment system. The program would also incorporate incentives through pay and promotion structures (as they become available under the GoTL's civil service reform program, which is supported by UNDP and Australia) to encourage newly trained staff to remain in the public service.

26. Activities under the PFMCBP have been elaborated in a participatory and demand-driven manner. Program priorities and outputs were defined using the three-pillar framework at a series of workshops involving staff from the MoPF, line ministries, and districts. The program content and activity plans for MoPF agencies, program line ministries, and districts were then discussed and agreed at meetings with representatives of these agencies. The overall program framework, content, and sequencing were discussed and endorsed at the ministerial level. While the scope of the program (see Table 2) is ambitious, encompassing the entire MoPF, the public financial management capabilities of five key line ministries and two key district functions, it should be noted that Timor-Leste is a small state. Thus the total number of civil service staff involved is only about 700.

Table 2. Scope of the PFMCBP

MoPF Units and Directorates Supported by the PFMCBP	
1.	National Directorate for Planning and External Assistance Coordination (NDPEAC)
2.	National Budget Directorate
3.	National Statistics Directorate
4.	National Treasury Directorate
5.	Office of Government Procurement, Supply and Inventory Management (OGPSIM)
6.	East Timor Revenue Service, including the Petroleum Tax Division
7.	National Customs Directorate
8.	Macro-economy and Tax Policy Unit
9.	Directorate of Administration and Information Technology, including Human Resources and Capacity Building Unit (HRCB)
10.	Offices of the Minister and the Vice-Minister
Line Ministries and District Agencies Supported by the PFMCBP	
1.	Ministry of Agriculture, Forestry and Fisheries (MAFF)
2.	Ministry of Education and Culture (MoEC)
3.	Ministry of Health (MoH)
4.	Ministry of Public Works (MoPW)
5.	Ministry of Natural Resources, Minerals and Energy Policy (for water and sanitation)
6.	District Finance Officers (MoPF)
7.	District Line Agency Officers

27. In addition, there are several important aspects of capacity building that the PFMCBP aims to address that cut across all of the agencies and units listed above (see Box 2).

Box 2. Cross-cutting Aspects of the PFMCBP

- Strengthening and improving coordination and linkages between planning, budget formulation, and budget execution—including procurement and treasury functions—across the MoPF, line ministries, and districts.
- Enhancing leadership and management to improve budget execution, service delivery, and client service orientation.
- Delegating authority and responsibility and developing corresponding accountability mechanisms.
- Strengthening transparency, accountability, and reporting mechanisms around public financial management.
- Implementing the Government’s Civil Service Act, including the Code of Ethics, to instill an integrity-based, professional work ethic, a spirit of team work, and service delivery orientation.
- Training in a range of basic skills (accounting/book-keeping, administration, IT, languages), streamlining of agency, ministry, and cross-ministry systems and processes, and development of workplace attitudes and behaviors to promote better budget execution and service delivery.
- Expanding and integrating existing financial management information system modules to facilitate planning and budgeting processes, increase access to information to respond to reporting needs, and support transparency and accountability in public financial management; changes will have to be phased with appropriate training, allowing users to perform their jobs more efficiently and effectively.
- Strengthening units within the MoPF that deal with the petroleum sector (Macro-economy and Tax Policy Unit and the Petroleum Tax Division) and their links to relevant agencies inside and outside of the MoPF (Budget Directorate, National Directorate of Planning and External Assistance Coordination, the MoPF’s Investment Advisory Board, Parliament’s Consultative Council, the Ministry of Natural Resources, Minerals, and Energy Policy, and the Banking and Payments Authority).
- Developing a common framework for performance management of advisers.
- Introducing an overall and annual results framework to regularly gauge progress in program implementation.

28. Key to the success of the program will be the recruitment of international advisers, to be twinned with national staff, who embrace the three-pillar approach to capacity building. During the workshops in which the program was elaborated, government participants defined the desirable characteristics for the “ideal” adviser (Table 3). These characteristics will be included in the recruitment criteria and terms of reference for international advisers and will be incorporated into advisers’ performance assessment.

Table 3. Characteristics of the Ideal Adviser

Technical Skills and Ability (Skills and Knowledge)	
<p>The ideal adviser should:</p> <ul style="list-style-type: none"> • Have the capacity to assist and support the development of useful procedures within the unit 	<p>The ideal adviser should not:</p> <ul style="list-style-type: none"> • Be technically incompetent or lack the appropriate technical skills, credentials, and expertise for the job • Lack specific professional experience in the area in which they are advising
Methodology (Systems and Processes)	
<p>The ideal adviser should:</p> <ul style="list-style-type: none"> • Use a cooperative approach when working with Timorese counterparts and staff. • Try to transfer knowledge to staff. • Adapt appropriately to the working environment, including finding solutions to any language barriers that exist. • Have and follow a well-defined work plan that supports the work program of the unit/agency and counterpart staff. • Maintain good relationships with all members of the team. • Be flexible and responsive to the needs of the job and the situation. • Share information. 	<p>The ideal adviser should not:</p> <ul style="list-style-type: none"> • Intervene when it is not necessary for work objectives to be achieved. • Favor an individual approach over a cooperative approach. • Follow or complete their own work plan. • Participate in official meetings or represent the department/agency/ministry without previous approval from a senior Timorese manager. • Make decisions without consultation with counterparts.
Personal Attributes (Attitudes and Behaviors)	
<p>The ideal adviser should:</p> <ul style="list-style-type: none"> • Be transparent and foster a sense of trust. • Be honest and open. • Be disciplined. • Adapt appropriately to the working environment and the Timorese culture. • Be committed to supporting national staff to achieve outcomes/objectives of the department and ministry. 	<p>The ideal adviser should not:</p> <ul style="list-style-type: none"> • Be undisciplined or lazy. • Put private interests ahead of national interests. • Be egotistical. • Have a colonial or patronizing attitude. • Present an attitude that demonstrates a lack of trust. • Behave in an authoritarian manner.

29. Performance assessment of advisers and staff will be crucial to track progress under the program. The PFMCBP will support the development of a performance assessment system to measure increases in staff capacity and the sustainability of acquired capabilities and serve as an input into the performance measurement of advisers. Where basic skills are concerned, the measurement of improved capacity could be related to the results of competency-based training; where highly specialized skills are concerned, skill and job-specific measures will need to be developed. (Box 3 describes the competency-based training approach in more detail).

Box 3. Competency Based Training and Recognition of Prior Learning

Under the GoTL's existing program, supported by Australia's MPFCBP, a system known as Competency Based Training (CBT) assessment is being introduced. It relies on the definition of job-specific competencies at various levels (level one is the lowest). Staff in the Budget Directorate and ETRS were reviewed against nine Level 2 competencies (i.e. basic office functions). This required staff and immediate supervisors to fill in template questionnaires for each competency on the tasks and duties they performed. Relevant information (reports, emails, files and records) was collected as a basis for "Recognition of Prior Learning." The questionnaires and evidence were sent to an independent, offshore, CBT firm for validation. Successful candidates received certificates of Recognition of Prior Learning, which indicated their achievement of the Level 2 competency and the relevant training course work they had completed. While not all staff were judged against all nine criteria (the assessment is voluntary), the assessment serves as useful guidance on how staff have progressed in the building of key skills, and also in measuring attitudes and behaviors related to professional integrity and the Civil Service Code of Ethics (e.g. staff began to show up for work, and to notify absences in advance, when they had not previously done so). CBT assessment of staff could provide one measure of the success and progress of capacity building and skills transfer by advisers. Phase II of the MPFCBP aims to roll out CBT assessments/Recognition of Prior Learning for managers. The PFMCBP would build on these experiences, and, in a phased manner, roll out CBT assessments ministry and program-wide.

30. The speed with which individual activities progress within each agency will vary in accordance with the time it takes to define priorities and implement work plan activities versus immediate operational tasks. Advisers will have an important role to play in assisting national managers in this regard, and in helping to select staff for training, arranging backfill, and defining expected performance after training has been received. Training will be provided by Timorese universities and local training providers, and in the case of highly specialized skills, at universities abroad.

31. The results framework over five years is elaborated in Annex 3. Reflecting limited data availability and the nascent monitoring and evaluation systems in Timor-Leste, the program will focus on the measurement of output as well as outcome indicators to gauge whether program has met its objectives. As a rolling program under which annual activities will build on the preceding year, activity plans will be elaborated each year in collaboration with the agencies, and an annual results framework will be elaborated with interim indicators to monitor progress toward expected outputs/outcomes at the end of the program. In line with this approach, a results framework for the first 18 months of the program is also elaborated in Annex 3. Regular reporting based on a variety of sources (e.g., the FMIS, stakeholder consultations, Public Expenditure and Financial Accountability (PEFA) assessments and surveys) will be used to track achievements. Overall outcomes—at the very broadest level—expected by the end of the program include:

- The Annual Combined Sources Budget, including Medium Term Fiscal Framework, reflects petroleum savings policy and is consistent with sustainable growth and poverty reduction;
- Improved budget execution;
- Improved revenue performance;
- Strengthened accountability, integrity, and service culture;
- Improved transparency; and
- Improved sustainability.

3. Program components

32. The PFMCBP comprises five inter-related components: (a) Public Expenditure Management; (b) Revenue Administration and Macroeconomic Management; (c) Program-wide Activities; (d) Support for

Governance and Management; and (e) Program Implementation. Areas of focus under each component are described below, and more detailed information about specific activities by agency is provided in Annex 4, which includes a one-page summary of the program agreed for each agency along with a page of indicative activities by agency for the first 18 months. An overview of cross-program training activities over the five years and a list of long-term international advisers envisaged under the program are also included in Annex 4.

Component A. Public Expenditure Management

(Total Cost of Component: USD 15,462,000)

33. This component focuses on strengthening the expenditure side of public financial management, including planning, budget formulation, and budget execution. The objective is to support the relevant agencies in strengthening their capacity to perform these functions in an effective, accountable, and transparent manner. The first subcomponent focuses on the skills and knowledge, systems and processes, and attitudes and behaviors needed to make progress in these areas while the second subcomponent hones in on the FMIS needed to support this. Progress will be measured against indicators set out in Annex 3.

Subcomponent A.1. Planning, Budget Formulation, and Budget Execution (Total Cost: USD 9,192,000)

34. In line with the “platform” approach, the immediate focus will be on the mutually complementary skills, systems and behaviors needed to strengthen budget execution, particularly in regard to Treasury functions, the procurement cycle, and streamlining the CPV process in both the MoPF and line ministries. The subcomponent also supports the strengthening of statistics and planning, by ensuring that line ministries’ AAPs are developed on the basis of clear policy objectives, sound costings, and in collaboration with the districts (thus, in a “bottom-up” manner) so that budgets are realistic; and combined sources budget formulation, by improving the linkages between planning (i.e. SIPs and AAPs) and budget preparation including better coordination between the MoPF, line ministries, and districts to improve service delivery. Activities focus on five key MoPF agencies (Planning, Budget, Statistics, Treasury, Procurement/Assets/Supply), the program line ministries (MAFF, MoEC, MoH, MNRMEP (for water and sanitation), and MoPW), and district finance and line agency officers..

35. In regard to *skills and knowledge*, customized training in policy analysis, economics, statistics, program costing, expenditure and procurement planning, procurement regulations and procedures, and financial accounting, will be needed for a combination of staff in the relevant MoPF agencies, line ministries, and district finance/line offices. In regard to *systems and processes*, several improvements are envisaged, with progressive implementation over the life of the program. This includes the completion of the second TLSLS, development of sector-specific output/outcome indicators (building on the positive experience in the health sector), periodic sectoral public expenditure reviews, and assistance to develop statistics and cost estimation models to promote a bottom-up approach to planning and improved realism of costings. To promote better linkages between SIPs/AAPs and combined sources budget formulation, a timetable reflecting sequenced steps will be agreed; and AAP and budget templates provided by the MoPF to line ministries refined so that they are better aligned. In addition, integration of program-level performance information in the budget document will reinforce the link between expenditures and service delivery. As capital expenditures on the government’s budget increase, training for agencies in procurement regulations and procedures—including CPV and procurement plan preparation—will be accompanied by progressive decentralization of procurement functions on a “hurdle” basis in pace with demonstrated competence. Accreditation of procurement staff and the development of simple expenditure control mechanisms at the agency level to accompany agency-level authorization procedures for CPVs and clear delegation of authority (by Treasury) for commitments up to agreed limits are the first steps. District treasury functions will be improved through decentralized banking and IT systems. Budget

documents as well as budget execution reports and the annual audit accompanied by the management letter will be disseminated more widely within the government, including to districts, and to other stakeholders. Key *attitudes and behaviors* to effect the necessary changes in this area include enhancing trust and improving communication/information flows by regular meetings between MoPF planning and budgeting staff, between MoPF and line ministries, and between central agency and district staff.

Subcomponent A.2. Financial Management Information System (Total Cost: USD 6,270,000)

36. This subcomponent focuses on ensuring continuity of existing services and improving the use of existing IT systems. Continuity of services will require selected investment in hardware, supported by advisory inputs, while improvements will upgrade and integrate IT systems into one FMIS, extending this to line ministries and districts, and interfacing with other GoTL management information systems. This will facilitate planning and budgeting processes; increase access to and better capture information to respond to monitoring and reporting needs; and provide a mechanism to support transparency and accountability in public financial management. Two key reviews will provide the basis for any changes that would be introduced to the FMIS: (a) a review of user information needs; and (b) a review of existing processes and suggested process improvements. The two reviews would help to identify the scope, timing, and complexity of enhancements to existing IT systems containing financial information. Any changes would be phased in with associated training, so that users were able to take full advantage of the FMIS to perform their jobs more efficiently and effectively. The reviews will also assist the MoPF in ensuring that their needs are catered for any Government-wide e-government initiative.

Component B. Revenue Administration and Macroeconomic Management

(Total Cost: USD 9,608,000)

37. This component focuses on the revenue side of public financial management and the MoPF macroeconomic management functions. The objective is to strengthen the GoTL's ability to collect—with integrity—revenue, and its ability for sound macroeconomic management. Two subcomponents address skills and knowledge, systems and processes, and attitudes and behaviors in the MoPF institutions involved in revenue collection, i.e., ETRS, including the Petroleum Tax Division, and the Customs Service; the third component focuses on the MoPF Macro-economy and Tax Policy Unit, which is responsible for forecasting revenue and developing prudent fiscal and economic policies in line with the petroleum revenue savings policy.

Subcomponent B.1. Tax Administration and Petroleum Revenue Collection (Total Cost: USD 3,076,000)

38. This subcomponent supports the strengthening of ETRS's capacity to improve revenue collection through fair implementation and enforcement of tax laws, regulations, and procedures. Given the significance of petroleum tax revenues, the early focus will be on the specialized *skills and knowledge* to comprehend and accurately apply Timor-Leste's petroleum fiscal regime, and to carry out audits of petroleum companies. These tasks are likely to require a high-level of advisory support for some time to come given the complexity of the tasks involved and the sophistication of petroleum companies. Regulations will also be developed to guide the implementation of the new petroleum tax law. While differentiating in regard to specific legislation governing each area, the subcomponent further supports domestic and petroleum tax revenue administration, with a focus on common skills and knowledge, systems and processes, and attitudes and behaviors.. On the domestic side, building on support provided under the MPFCBP in regard to *skills and knowledge*, the sub-component will combine basic skills training and training on functional lines, e.g., taxpayer registration, accounting, tax law, auditing, arrears management, appeals processing. In both the petroleum and domestic tax divisions, recruitment of staff to fill the staffing plan is necessary, and their needs regarding *systems and processes* are great. In terms of

administration, given the severe understaffing, formalization of the agency's organizational structure, processes and procedures for strategic recruitment, development of job descriptions, development of individual training plans, and development of standard operating manuals/guidelines will be supported. On the domestic side, the program will support periodic review and rationalization of tax laws and regulations, review of procedures for registration and measures to control non-registration, improvements to the existing self-assessment tax system, strengthening of office processing, and improving collection methods (e.g., using banks), development of an audit strategy and annual audit plan, development of procedures, information gathering, and case selection methods for large (domestic) taxpayers and other groups of taxpayers, development of a strategy and implementation of policies for prioritization of collection. Regarding IT systems, SIGTAS functionality will be expanded to serve the increasingly demanding petroleum sector needs (at the moment, petroleum sector tax payments are extremely difficult to extract from the system) versus domestic needs, while for domestic use the system will be extended to regional tax offices. In regard to *attitudes and behaviors*, strategies for anti-corruption and internal investigation, assessment of staff integrity and fair treatment of taxpayers and modeling of ethical behaviors by managers with reinforcement through training are equally important for petroleum and domestic tax administration. Also important to gauge client service orientation will be a periodic public perception survey of ETRS. Outreach to petroleum companies will be pursued while on the domestic front the development of a taxpayer charter of rights and education of domestic taxpayers on the purpose and importance of ETRS will be promoted. Greater coordination with customs, including joint training activities, is also envisaged.

Subcomponent B.2. Customs (Total Cost: USD 2,805,000)

39. This subcomponent focuses on strengthening the Customs Service's capacity so that it can implement its strategic plan and associated three-year action program to establish a comprehensive, modern customs service, complementing government investment in country-wide border posts under the plan. In regard to *skills and knowledge*, recruitment, and training of new and existing staff, are key. The Customs Study Center training facility will be upgraded to serve much of the Customs Service training needs, including specialized training in customs legislation, customs classification, risk analysis, valuation control, investigation and information, exemptions and deferment regimes, verification of goods and luggage, the benefits of trade facilitation, communications and outreach, and some basic IT (including ASYCUDA) and language skills training. Study tours and exchanges with nearby countries' customs services would continue. In regard to *systems and processes*, the second phase of ASYCUDA implementation would introduce key functions such as automated manifest control, valuation, and risk assessment, and the system would be rolled out nationwide and interfaced with other government IT systems. Key departments for valuation and rules of origin, deferment and exemption regimes, and accounts (for daily reconciliation of revenue) are to be created. A comprehensive compliance and risk management strategy to improve risk analysis and fiscalisation, the rationalization of document requirements and imports, export, and transit procedures, the strengthening of audit functions, and the development of an intelligence service are to be developed. Legislation for the discipline and orientation of brokers was approved by the Council of Ministers on October, 20, 2005. Procedures and behaviors for information sharing with ETRS, the Police (Maritime, Border, and National), Port, Airport, and other key government departments will be established. In regard to *attitudes and behaviors*, the Customs Service will develop and implement a national integrity plan, including a Customs-specific Code of Conduct based on the principles and declarations of the WCO's Revised Arusha Declaration on Integrity, and development leadership and management talents. The establishment of a consultative group comprised of Customs, Chamber of Commerce, traders, and brokers is envisaged to facilitate client feedback and outreach activities, along with a periodic perception survey to gauge performance.

Subcomponent B.3. Macroeconomic Management (Total Cost: USD 3,727,000)

40. This subcomponent provides support to the MoPF Macro-economy and Tax Policy Unit to implement its long-term plan to become a fully functional Economic Directorate. In regard to *skills and knowledge*, recruitment of qualified staff is the most immediate challenge, with only two of four posts currently filled. Once the agency has hired additional permanent staff, highly specialized training will be required in public economics, economic modeling and forecasting, finance, tax policy, financial markets/portfolio management/investment strategies, knowledge of Timor-Leste's petroleum fiscal regime, accounting, statistics, and basic IT skills and language training, and arrangements to cover duties while staff attend university courses will also be necessary. In regard to *systems and processes*, based on its long-term plan, the agency will need to develop agreed processes and procedures to guide workflow in line with functional responsibilities; institutionalize relationships and delineate responsibilities between this agency and *inter alia* the Directorates of Planning and Budget, ETRS, the Ministry of Natural Resources, Minerals and Energy Policy, and the Banking and Payments Authority. A review of staff positions and software and hardware IT needs will also be in order as the agency develops.

Component C. Program-wide Activities

(Total Cost: USD 7,054,000)

41. This component focuses on the cross-cutting skills and knowledge, systems and processes, and attitudes and behaviors that underpin professional work ethic, integrity, civil service standards, communication and information flows, basic skills, and enhanced human resource functions that, together with procedures introducing internal control and compliance mechanisms allowing for the ability to safeguard public funds and track flows of money and services delivered, will ensure the development of a service culture in the MoPF, line ministries, and districts. The first subcomponent addresses the first set of issues related to professional integrity and skills. The second subcomponent discusses mechanisms for good governance in public financial management. The program implementing agency will be largely responsible for coordinating these activities.

Subcomponent C.1. Professional Leadership, Work Ethic, Basic Training, and Performance Assessment (Total Cost: USD 4,872,000)

42. The objective of this subcomponent is to strengthen professional leadership and (change) management, including building professional integrity, transparency, accountability, and work ethic to meet civil service standards, building trust and loyalty, improving communication and information flows, improving delegation and empowerment, and enhancing basic skills. In regard to *skills and knowledge*, leadership and management training for directors and managers will be rolled out, including awareness and application of the Civil Service Code of Ethics. Basic skills training for MoPF, line agency, and district staff will also be rolled out, including accounting/bookkeeping, administrative duties, basic IT applications (spreadsheets, word processing), and languages (Portuguese and English). In regard to *systems and processes*, the development of a mission statement by the MoPF and mission statements by respective agencies, development of "role" statements for individual civil servants which combine technical with ethical requirements for contributing to the agency's mission), and development of protocols for delegation based on roles will be supported. In regard to *attitudes and behaviors*, leadership and management training will incorporate instruction on reinforcement of the Code of Ethics on-the-job, staff training will include awareness of the Code of Ethics, and team building activities to promote collaboration and communication will be pursued. As reinforcement, non-financial rewards will recognize displays of professional work ethic and integrity.

Subcomponent C.2. Accountability and Transparency in Public Financial Management

(Total Cost: USD 2,182,000)

43. The objective of this subcomponent is to promote transparency and accountability in public financial management by strengthening internal control mechanisms, thereby encouraging service delivery. In regard to *skills and knowledge*, customized training on internal audit regulation and procedures, accountability, transparency, and integrity will be rolled out. In regard to *systems and processes*, short-term priorities include establishing a complaints response function in the MoPF; extending Treasury's internal audit to cover procurement; and strengthening the two existing internal audit units (one in Treasury and one in Customs). Medium-term priorities include the establishment of a MoPF-wide internal audit function, encompassing line agencies. The development of *attitudes and behaviors* related to trust and communications will be particularly important for internal audit functions to be implemented properly.

Component D. Support for Improvement in Governance and Management (SIGMA)

(Total Cost: USD 2,302,000)

44. This component focuses on making sure that MoPF and its resources are managed in a strategic, transparent and effective fashion, and on building increasing levels of national ownership and responsibility for results, by means of supplying training in leadership, management and specific technical, supervisory and regulatory skills for the Minister and Vice-Minister of Planning and Finance, together with technical, financial, administrative and legal support for their office. This component will contribute to accountability, transparency, predictability and participation, which are important instruments for sound management. Simultaneously the component will seek to ensure that organizational functions, management systems and staff roles as well as their responsibilities are clarified. This component will also be responsible for effective project management and systems based on partnering principles, thus promoting a greater managerial involvement in resource allocation decisions. It will assist MoPF decision makers in building institutions and setting up legal frameworks and procedures to meet world standards and good practice, and in leading dialogue and cooperation with development partners.

Component E. Program Implementation

(Total Cost: USD 2,841,000)

45. This component focuses on bolstering the MoPF capacity to administer the program by providing advisory support to the Administration and IT Directorate. This support will simultaneously help the Directorate to implement the program and build its capacity to perform its regular functions (e.g., coordination of MoPF recruitment and training, implementation of the Civil Service Act Code of Ethics in the MoPF). Under the program, the Administration and IT Directorate will be responsible for facilitating the recruitment of staff and advisers; ensuring implementation of program-wide activities, including the FMIS; reporting on outputs/outcomes; and liaising with the Public Sector Working Group, CDCU, and development partners. Coordination and performance assessment of international advisers will also fall to the Administration and IT Directorate through a specially recruited adviser. Given current understaffing and weak capacity of the agencies involved in the program, up to approximately 40-50 long-term international advisers will be supported under the PFMCBP at its peak in the first years of the program (with some support from short-term, targeted advisory assistance, for example during the budget preparation season). While this number is expected to diminish over the life of the program (dwindling to an estimated 8-10 by the end of the program), it is recognized that international advisers will be needed for some time to come to support the public financial management system in Timor-Leste, undertaking a combination of in-line functions and capacity building activities. The objective under the PFMCBP is the progressive reduction of international advisers through recruiting qualified Timorese staff and equipping them with the skills and knowledge necessary to do the job, the establishment of systems and processes

for a well-functioning public financial management system, and the development of attitudes and behaviors necessary to work in a service-oriented, professional government office.

46. To assist the Administration and IT Directorate in this work, four long-term international advisers, one short-term international adviser (initially, to be followed by a long-term implementation position once frameworks for attitudes and behaviors have been established) and one financial management officer will be associated with the Directorate. While each adviser has distinct responsibilities, their functions include shared areas and coordination (particularly in regard to implementing the performance assessment system since this will be a large undertaking) so that—together with Directorate counterparts—everyone functions as a cohesive group.

47. In addition to the FM Officer who will be responsible for regular financial reporting, a Procurement Adviser on External Assistance Projects will be maintained throughout the life of the Program, and the four international advisers supporting the Administration and IT Directorate will be as listed below. A review of the staffing functions and capacity of the Directorate will be launched within six months of program effectiveness and the management support arrangement could be strengthened in the light of that review.

- ***Adviser to the Program Implementation Officer.*** Working with the Director for Administration and IT, who will be the PFMCBP Program Implementation Officer and coordinator, this Adviser will support program implementation, including procurement, financial management, monitoring and evaluation, and reporting.
- ***Human Resources and Capacity Building Adviser.*** Working with the Head of HRCB in the Administration and IT Directorate, the Human Resources and Capacity Building Adviser will support and advise on all human resource issues under the program, including recruitment, development of terms of reference for staff and advisers, advertisement of posts, induction training, and implementation within the MoPF of the Civil Service Act more generally. The adviser will also help to ensure the development and implementation of program-wide basic skills training. S/he will have primary responsibility for helping the Directorate/HRCB develop and implement the competency-based assessment system.
- ***Adviser on Attitudes and Behaviors.*** Working with the Head of HRCB, the Adviser on Attitudes and Behaviors will help to design and deliver, or arrange for delivery of, support for elaboration of mission statements and job descriptions based on both technical and ethical work requirements; training in management and leadership; Human Resource Management (HRM); socialization of the Civil Service Codes of Discipline and Ethics, and development, as relevant, of unit-specific Codes of Conduct. S/he will play a key role in development of the adviser performance assessment system since progress in the building of ethical behaviors will largely be measured through this system. Once frameworks are in place, this adviser will be replaced by a longer-term position to support implementation.
- ***Adviser on Coordination and Performance Assessment of Advisers.*** Working with the Director for Administration and IT, and with the Attitudes and Behaviors Adviser, this Advisers will have the primary responsibility for assisting the Directorate to recruit international advisers; coordinate the activities of the international advisers across the program to ensure effective delivery of tasks; assist in liaising with CDCU on developing capacity building programs; and be responsible for developing a performance assessment system for advisers (for which one input will be progress measured by the competency based and behavioral assessments of staff with whom they work).

48. In addition, there will be an FMIS Adviser working with the IT Unit of the Administration and IT Directorate who will assist in oversight and implementation of the maintenance, updating and integration of MoPF IT systems, advising and guiding the process to ensure that the FMIS best serves the MoPF's and users' needs in establishing sound public financial management.

49. While donors have given strong indications that the program is fully financed (including the IDA grant), the Board needs to see what an IDA-only program would support in the absence of any complementary donor financing for the PFMCBP. In such a case, the IDA-only grant would support a three-year program oriented to helping the government put in place the three-pillar framework and management arrangements, and to develop management, leadership and other behavioral training based on the Civil Service Act Ethics and Disciplinary Codes. This would create a framework for the MoPF to use in defining, managing and coordinating any further support for capacity-building whether financed by the government or donors. In addition, IDA would selectively support critical areas drawn from the full program, i.e. petroleum revenue, macroeconomics and statistics, Customs, and the Ministry of Public Works. Replacement investment to assure the continuity of the FMIS would be carried out, together with user and system needs reviews to create a platform for government decisions on improvements needed, but follow-up action would require additional funding. Annex 10 shows the components, sub-components and corresponding costings for an hypothetical IDA-only program.

4. Lessons Learned and Reflected in the Program Design

50. The World Bank's experience with similar programs demonstrates the need for a high level of Government commitment to the program objectives and agreement with the design; well-defined program objectives consistent with country's absorptive capacity; effective donor coordination, including involvement in program design; and close monitoring of the design, procurement, and implementation challenges. Such lessons have been incorporated in the PFMCBP through extensive discussion with the GoTL to ensure alignment between the program's objectives and the GoTL's NDP, priorities, and needs; a phased approach to program design and implementation; assessment of needs through detailed consultation with stakeholders during intensive workshops, and drawing upon independent capacity-building needs assessments conducted by the GoTL and development partners; and coordination with development partners, including the pooling of resources to finance the program in a harmonized way.

51. Lessons learned from the implementation of the TSP/CSP in Timor-Leste, and from implementation of capacity building programs in Timor-Leste and other countries, have underscored the following, which have been incorporated in program design:

- ***TSP/CSP Implementation.*** TSP/CSP implementation has demonstrated the critical need to build public financial management capacity. The TSP/CSP succeeded in bringing development partners together in support of the NDP and fostering ownership through use of the GoTL's budget systems and processes. It promotes capacity building by emphasizing prioritization, monitoring, and results orientation, and it provides a forum for policy discussions. However, the difficulties faced by the GoTL, particularly in cash budget execution, point to a glaring need for a more direct, hands-on program in public financial management capacity building than the TSP/CSP can provide. The proposed PFMCBP aims to provide this, with the aim, inter alia, of improving budget execution and petroleum revenue management, needs highlighted under the TSP/CSP.
- ***Holistic Approach.*** Extensive experience with technical assistance has made clear that a narrow focus on skills and knowledge/training is not enough for sustained institution building. Performance is also determined by leadership and management, processes, procedures, and systems, and work ethic and other attitudes and behaviors that staff bring to the job. Each component of this program is thus designed to integrate improvements in skills and knowledge, systems and processes, and attitudes and

behaviors to support improvements in public financial management performance in a more effective and sustainable way. Capacity building through the placement of qualified international advisers has to be carefully monitored. In Timor-Leste and other countries, international advisory assistance has not had much success with sustainable skills transfer. Under the PFMCBP, recruitment of advisers will be based on the “ideal adviser” standard, with advisers expected to have a strong track record in client capacity building as well as technical competencies. Emphasis on all three pillars will be part of advisers’ terms of reference, and performance monitoring benchmarks for advisers will be developed against all three pillars.

- **Program design.** The experience of the Economic Institutions Capacity Building Project indicates that it is critical to assess existing skills, recognize prior learning and orient capacity-building accordingly; that on-the-job training and mentoring can be more valuable to staff than formal off-site training; and that it is important to build in enough flexibility to adjust the program in the light of experience. The PFMCBP incorporates these lessons through the use of competency-based, on-the-job training, and the ability to adjust action plans and expected results throughout the life of the program.
- **Training.** Past experience with short-term, off-site training programs unrelated to staff work programs and the systems and processes in which they work have not proved very effective in developing sustained capacity. The skills and knowledge development aspect of the program has been assessed in relation to the GoTL’s objectives, PFMCBP objectives, staff work programs, and incentive structures, to ensure an effective impact on staff abilities, attitudes and behavior in regard to public financial management. Much of the training under the program will be “on-the-job,” reinforcing the skills and knowledge, systems and processes, and attitudes and behaviors that are needed in the work place, and staff will be assessed based on their competencies in on-the-job duties. However, due to highly technical needs, some courses will be off-site. With a view to minimizing disruption in work programs, off-site training courses will be organized as much as possible outside office hours or on half-day schedules. All training will be coordinated between CDCU, the HRCB, INAP and the respective Directorates. Building up the currently limited capacity of the National Institute of Public Administration (INAP) to offer a consistent, more high-quality curriculum will have to be balanced with the focus on serving the immediate needs of the MoPF, line ministries, and districts. In addition, qualifications such as a university undergraduate degree or master’s degree are critical to specific functions in Timor-Leste. The PFMCBP recognizes this need for higher education and training and will aim to accommodate this according to strict criteria focusing on a small number of staff. At this level, partnerships with both local and overseas institutes will be sought.
- **MPFCBP.** On-the-job training, competency-based capacity-building assessments, and the three-pillar approach to institution-building have been pioneered under Australia’s MPFCBP. The PFMCBP draws on that experience, as well as that of the UN advisers, will develop the approach further.

5. Alternatives Considered and Reasons for Rejection

52. Alternative approaches considered included a much smaller program of Bank-only support, focused on a select few MoPF agencies, including Treasury, Procurement, Macro-economy and Tax Policy, and the Petroleum Tax Division. In this scenario, parallel support by other donors, such as Australia for the Budget Directorate and domestic tax policy functions and Portugal for the Customs Service, might have continued on a bilateral basis. Given that this disparate and ad hoc approach has led to mixed results in the past, and would not be able to create a core group of skilled civil servants who function well together within agreed systems and processes and share a common understanding of the attitudes and behaviors needed to get the job done, the more systemic and coordinated approach proposed under the PFMCBP was preferred.

53. Where off-site training is to be provided, use of INAP was considered. At present, however, INAP relies mainly on donor support to offer one-off courses, and its approach to civil service training may not yet reflect the new Act. INAP's capacity needs to be strengthened to support training in civil service conduct and standards; generic skills; and specialized financial management and related skills. The MoPF and line ministries, along with the Ministry of State Administration (which oversees INAP), will need to be involved with INAP in designing a permanent curriculum that would be offered at a consistent level of content and quality. As this will take time, other training suppliers will be used in the short- to medium-term and in cases where INAP does not provide the required curriculum.

C. IMPLEMENTATION

1. Partnership Arrangements

54. The program has been elaborated in a participatory and demand-driven manner involving close coordination between the GoTL and development partners⁸. Program priorities and outputs were defined at a series of workshops involving staff from the MoPF, line ministries, and districts, who also defined the characteristics of the ideal adviser. The program content and activity plans for each division (see Annex 4) were discussed and agreed at meetings of all MoPF Directors together with representatives of line ministries and districts. The overall program framework, content, and sequencing were then discussed and endorsed at Ministerial level and with development partners. Annex 6 sets out the SoU between the GoTL and participating development partners on the common approach to program management and oversight.

2. Institutional and Implementation Arrangements

55. In line with the SoU, the MoPF will be responsible for overall management and implementation of the program. The SIGMA will be the managing entity and the Vice-Minister will hold a monthly management meeting with Directors. The MoPF Directorate of Administration and IT will be the implementing agency, responsible for day-to-day program management. The Directorate will also be responsible for coordinating the development of annual action programs and an associated annual results matrix, which will be reviewed and endorsed by the Supervisory Committee. The Supervisory Committee will meet at quarterly intervals, providing a forum for continuing dialogue between the GoTL and development partners on the program; it will be chaired by the Vice Minister of the MoPF and will comprise representatives of CDCU (Prime Minister's Office), line agencies participating in the program, and contributing development partners, and will draw on other Government agencies as required.

56. The GoTL strongly requested that the program use country systems, and development partners have agreed to support this approach with the exception that all activities financed by IDA and development partners who will co-finance with IDA will be subject to World Bank procurement guidelines. Such activities will use government systems already in place for the management of development projects under the combined sources budget. Partners who support the program through parallel financing or earmarked budget support will do so in the context of the same results framework, action plans, and performance management system for international advisers and staff. While the use of government systems carries some risk, the alternative of operating through parallel systems has more serious disadvantages. Without the benefit of an overarching framework, parallel systems tend to undermine incentives to "own" the program and develop capacity to manage and monitor activities. Adviser-dependence is enshrined, which is antithetical to this program, and locks the GoTL into a low-

⁸ Development partners include Australia, Ireland, IMF, JICA, Norway, New Zealand, Portugal, Sweden, the United Kingdom, and the World Bank, of whom Australia, Ireland, JICA and the United Kingdom were actively involved with the World Bank in preparation.

level capacity equilibrium in which the prospect of developing and sustaining autonomous capacity to run the country's own public financial management systems would be indefinitely postponed.

57. Risks that could arise from the use of country systems for the management of development projects will be mitigated by reinforcing the implementing agency's financial management and procurement functions, as well as its capacity to oversee the program. The funds from IDA and development partners who will co-finance with IDA will be pooled in a Designated Account and reflected in the Combined Sources budget of Government. Government counterpart funds will be appropriated through existing mechanisms and reflected in the budget under their usual headings. Activities under the program will be reflected in the GoTL's AAPs. Implementation will not require changes in the existing budgeting procedures or treasury operations. The stand-alone FMIS for development projects is adequate for recording and accounting for expenditure at a detailed level. The Directorate of Administration and IT will establish a simple system to use the stand-alone FMIS to provide the necessary level of management information and reporting for the program (including consolidation of information from those parts of the program funded by donors as parallel financing or through earmarked budget support). As the annual accounts of Government do not disclose sufficient information, the financial statements contained in the annual report will be subject to a separate audit opinion. Procurement processing will flow through existing government systems, and be subject to scrutiny by evaluation and contract assessment committees as appropriate; payments will be made through the CPV process, subject to the same checks and balances as for the GoTL's budget. All IDA-financed and any co-financed procurement will conform with World Bank procurement guidelines that apply to IDA, and some procurement will be subject to prior review. The Supervisory Committee will also review and agree an annual procurement plan. As the Directorate of Administration and IT faces capacity constraints, the program will reinforce the Directorate with targeted advisory assistance—including a Financial Management Officer, together with advisory support for procurement assisting each agency.

3. Supervision, Monitoring and Evaluation of Results, and Progress Indicators

58. The SoU indicates that supervision of implementation will be undertaken through joint donor missions, coordinated to the extent possible with CSP missions, during which meetings of the Supervisory Committee will take place. Progress will be measured against the overall results matrix (Annex 3) and the annual results matrices. At the intermediate level, a Public Expenditure and Financial Accountability Assessment will be carried out in the early months of the program in order to provide a baseline against which future progress can be measured, and "snapshot" indicators will be developed for unit-specific activities to record progress at the detailed operational level. An annual Supervisory Committee consultation between the GoTL and development partners to agree on program activities for the coming year—and the annual results matrix against which to monitor and evaluate progress—will form part of the progress mission preceding the start of each new fiscal year.

59. The Directorate of Administration and IT will be responsible for coordinating the preparation and submission to the Supervisory Committee of quarterly reports and one annual report (replacing the fourth quarterly report) on progress against the annual action programs and on the overall and annual results matrices, and on the status of financial management, procurement, and disbursements. Quarterly reports on the performance of long-term advisers and on the capacity building of staff will also be tabled.

4. Sustainability

60. The GoTL has clearly demonstrated its commitment to building an effective public financial management system in the actions it has taken since the restoration of independence. Three important factors for the sustainability of program objectives include:

- ***Continued GoTL Ownership of and Support for the PFMCBP.*** The current design, proposed by the MoPF, which relies on the leadership of the Vice-Minister of the MoPF in the implementation and monitoring of PFMCBP, will ensure that the program is implemented and monitored according to the guidelines proposed in this document.
- ***Continued Support from the MoPF, Line Ministries, and Districts for the Capacity-building Agenda.*** The MoPF, line agencies and districts have demonstrated a keen sense of ownership and commitment to the activities proposed in this program through unwavering participation. Timely program implementation and regular reporting on progress against the overall annual results matrix is critical in sustaining this commitment.
- ***Public Dissemination of Progress under the Program.*** Effective dissemination of information on progress against results matrices and of the findings of user-surveys both within the government and to external stakeholders is planned, and will act as a monitor on the success and sustainability of actions.

61. The program's design—including its three-pillar approach—also addresses sustainability requirements. Annual action programs and results matrices will gradually introduce more demanding activities and enable adjustments to subsequent annual programs based on previous implementation experience. Advisers will be required to work with national counterparts—developing their skills and knowledge, the systems and processes within which they work, and the attitudes and behaviors they bring to the job—progressively transferring responsibilities to them. There will be regular competency-based training assessment of staff performance to gauge staff ability to perform a job up to expected standards and without advisory assistance (and thus the ability of advisers to successfully transfer skills). Results of these assessments will be an intermediate measure of sustainability. The ultimate measure will be the continuing ability of the MoPF and other agencies in the program to deliver effective policy and services with accountability, transparency and integrity, based on durable systems.

5. Critical Risks and Possible Controversial Aspects

62. Risks to the program development objective include: (a) limited capacity of the GoTL to implement a program of this scope and complexity; (b) inadequate progress to effectively and efficiently deliver a budget that has nearly doubled since last year and will almost double again in FY 07 and translate it into tangible results in poverty reduction and service delivery; (c) limited progress in the near-term to keep governance and corruption problems in check; and (d) departure of newly trained staff. These risks are mitigated by the strong GoTL commitment, at the highest levels, to the program; by the whole-of-government approach, including the participation of many of Timor-Leste's development partners; and by the GoTL's implementation of the CSP, which reinforces the principles of the PFMCBP. Risks (c) and (d) will be mitigated by increasing implementation of the new Civil Service Act, effective use of its Disciplinary and Ethics Codes, and UNDP and Australian support to HRM, together with the review of the pay structure and career development that will soon be undertaken by the Ministry of State Administration.

63. Risks to program components include: (a) inadequate transfer of skills and knowledge and inadequate coaching and mentoring by international advisers twinned with national staff; and (b) continued understaffing and associated reliance on international advisers. These risks are mitigated by the three-pillar approach to capacity building that the program will follow. In particular, the attitudes and behaviors pillar combined with skills and knowledge transfer will be key to mitigating the first risk. Program oversight will focus intently on the type of advisers recruited to ensure that they embrace the three-pillar approach and embody the ideal adviser as identified by the GoTL. Further mitigation measures include the program's integration of performance assessment and associated incentives.

Table 4. Risks and Mitigation Measures

Risk	Risk Mitigation Measures	Risk Rating w/Mitigation
Risk to Overall Program Development Objective		
Limited capacity of the GoTL to implement a program of this scope and complexity.	Support, in the form of qualified international advisers, to the Administration and IT Directorate (implementing agency) and extensive training for staff in the Directorate.	M
Inadequate progress in the near-term so that the GoTL can effectively and efficiently deliver the expected considerable budget growth (from petroleum revenues) and translate it into tangible results in poverty reduction and service delivery.	Early focus of the program on Treasury, procurement, line agency, and district activities within the expenditure component.	S
Limited progress in the near-term to keep governance and corruption problems in check.	Program-wide focus on integrity, transparency and accountability; CAS focus on broad governance with complementary activities listed in Annex 2.	H
Loss of developed capacity in the short to medium term due to leakage of trained staff to the private sector and abroad.	Focus on meritocratic hiring, performance assessment, training opportunities and non-financial incentives to mitigate brain-drain. GoTL program focused on government-wide HRM issues as listed in Annex 2.	S
Risk to Individual Components		
<i>Component (A) Public Expenditure Management and FMIS:</i> Weakness and delays in program financial management and procurement; decisions on the upgrading of IT systems delayed.	The program is taking a progressive approach to decentralization of procurement/ disbursement, but expects some measures to be taken in the first year, including delegation of CPV approval up to agreed threshold, use of district banks. Specific FMIS adviser will help keep FMIS upgrades and integration on track.	H
<i>Component (B) Revenue Administration and Macroeconomic Management:</i> limited government capacity to implement measures to ensure that petroleum tax regime in particular is applied correctly and collection keeps pace with growth in petroleum activity and limited capacity in the Macro-economy and Tax Policy Unit jeopardizes sound macroeconomic management.	Targeted assistance to Petroleum Tax Division aims to support the capacity of the agency to collect petroleum tax revenue in a timely and accurate manner; early recruitment of 2 key positions for the Macro-economy and Tax Policy Unit is a priority.	H
<i>Component (C) Program-wide Activities:</i> risk of corruption or lack of will to implement internal audit/public financial management control mechanisms hinders progress.	GoTL has indicated its strong preference to develop a comprehensive approach to internal audit.	S
<i>Component (D) Support for Support for Improvement of Governance and Management:</i> inadequate strategic direction; lack of timely management scrutiny.	Assistance targets legal, financial, administrative support and management training to strengthen leadership, strategic direction, timely management and monitoring, and office back-up,	M
<i>Component (E) Program Implementation:</i> Lack of capacity to coordinate program; lack of counterparts to work with advisers; lack of skills transfer/capacity building by advisers.	Advisory assistance provided to support the Administration and IT Directorate in program coordination; recruitment and hiring is a key priority in the first year to staff up units; recruitment of advisers and terms of reference will focus on ensuring recruitment of “ideal” advisers.	S

Risk rating: H (high); S (substantial); M (modest); N (negligible).

6. Credit Conditions

Effectiveness Conditions:

64. The Recipient has signed a contract with one Financial Management Officer and an Adviser to the Program Implementation Officer, as agreed by both parties, to work with the Directorate of Administration and Information Technology in the Ministry of Planning and Finance.

7. Covenants

Covenants applicable to Program Implementation:

65. The Recipient shall maintain the Administration and IT Directorate in the Ministry of Planning and Finance (a) with functions substantially the same to those in place at the signing of the Agreement for the duration of the Project, and (b) to be responsible for overall coordination, implementation, monitoring and evaluation of Project activities, including facilitating the recruitment of staff and advisers and the oversight of international advisers; ensuring implementation of project-wide activities; reporting on outputs/outcomes; and acting as secretariat to the supervisory committee.

66. The Recipient shall ensure that during the execution of the Project, the following advisers will work with the Administration and IT Directorate as needed. The Recipient shall hire advisers in accordance with the Procurement Plan, including four advisers to be part of the implementing team: one Adviser to the Program Implementation Officer, one Human Resources and Capacity Building Adviser, one short term Attitudes and Behavior Adviser (to be followed by a long term Attitudes and Behavior Implementation Officer), and an Advisor, Coordination and Performance Assessment of Advisers; and one Financial Management Officer.

67. The Recipient shall conduct an assessment of capacity in the Administration and IT Directorate and their associated Advisers in the first six (6) months of effectiveness of this Agreement, and the management support will be maintained or increased if necessary.

68. The Recipient shall ensure that during the execution of the Project, at least one Procurement Adviser on External Assistance Projects as agreed between both parties will work under the Project.

69. The Recipient shall, by June of each year starting on June 1, 2006 until completion of the Project, furnish to the Association for review, comment, and clearance a detailed draft of the action plan and proposed expenditure covering all Project components which will have been developed in collaboration with program agencies. The Recipient shall take into account the comments, if any, provided by the Association, and thereafter cause the approved action plan to be carried out in accordance with its provisions.

D. APPRAISAL SUMMARY

1. Economic and Financial Analyses

70. Major program benefits include improved planning and budgeting, with closer links between plans and budgets, and with plans based on better informed costings; improved budget execution; improved revenue collection; more accurate and timely procurement; more effective expenditure and cash planning to reduce the size and incidence of idle cash balances; timely quarterly reports, spot reports, annual financial statement, management letter.; and more effective management of the GoTL's financial

resources through the use of a more integrated FMIS. Other benefits include improved governance; more effective leadership and management; improved integrity and transparency of the public financial management system; improved skills base (language, accounting/bookkeeping, IT); and improved service delivery.

2. Technical

71. Preparation of the program benefited from technical diagnostic reports and assessments of experience with capacity building in Timor-Leste. These studies, and the GoTL's direct input based on its own assessment of its capacity constraints, provided the foundation for the design of the program.

3. Fiduciary

72. The executing agency is the MoPF and the implementing agency is MoPF Directorate of Administration and IT. Following the agreement to use country systems to the extent possible, the GoTL's stand-alone FMIS in place for development projects has been assessed as reliable and robust enough to serve the needs of the program. In addition, this stand-alone system will be supplemented by targeted advisory support to ensure that the requisite management information to monitor the program is reported in a timely and adequate manner. Procurement will be managed directly by the MoPF Procurement Division, which will be reinforced under the Program. The assessment of procurement risks for the proposed Program is "high", consistent with the CPAR. The main reasons for this rating are: (a) weak local procurement capacity within the Procurement Division, (b) reliance on an international consultant for externally-financed procurement functions, and (d) considerable number of complex contracts (particularly related to IT systems) anticipated under this Program.

4. Social

73. Not Applicable.

5. Environment

74. Not Applicable.

Table 5. Safeguard Policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment</u> (OP/BP/GP 4.01)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03, being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP/GP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP/GP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

6. Policy Exceptions and Readiness

75. The program complies with all applicable Bank policies. The program has met the following readiness for implementation criteria:

- Fiduciary arrangements have been agreed and will be in place by effectiveness.
- The provision of counterpart funds has been discussed.
- The SoU outlining implementation and supervision arrangements will be signed by the GoTL and contributing development partners.
- Disclosure requirements have been met.

Annex 1: Program Background

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Context

1. Timor-Leste became independent on May 20, 2002 following 400 years of Portuguese colonial administration, 25 years of armed resistance to Indonesian occupation, and a destructive transition, in 1999, to over two years of UN administration. In the light of this history, the country has made impressive strides in nation-building, but is facing critical challenges posed by limited human resources, weak institutions, reportedly growing corruption, and high levels of poverty and unemployment—all in the context of rapidly expanding revenue from the exploitation of petroleum sector resources.

2. The GoTL recognizes the need to strengthen significantly its institutional and human resource capacity to improve its public financial management system so that it is able to handle the expected growth in petroleum revenue, and to implement its petroleum revenue savings and investment policy for the benefit of present and future generations. At the same time, the GoTL recognizes the importance of a sound public financial management system, including quick and effective budget execution, for non-petroleum sector activities which will remain a key source of growth and employment.

3. Since the restoration of independence in 2002, the GoTL has made steady progress in building its public financial management system. Within the NDP and SIP framework, each Ministry prepares Annual Action Plans (AAPs) to feed into budget preparation, serving to link NDP objectives to the annual budget (see Figure 1). Progress against AAPs is recorded in Quarterly Reporting Matrices (QRM). The core expenditure management system performs well in budget preparation, coverage, quality, and timeliness of reporting. Budget execution is controlled through Expenditure Authorization Notices and transaction commitment approval by Treasury, with Treasury making payments to suppliers on confirmation of receipt of goods and services by the respective agency. A specialist Procurement Unit in the MoPF oversees government-wide procurement. Quarterly budget execution reports, disaggregated by all budget classifiers, are available within 15 days of each period, and spot reports can be generated from Treasury's computerized financial management systems. Within the MoPF, Treasury and Customs have active internal audit units. Internal audit is complemented by the Office of the Inspector General, reporting directly to the Prime Minister. The Constitution allots the task of independent audit to a High Tax, Administrative and Audit Court (Tribunal das Contas). As this Tribunal does not yet exist, external audits are currently undertaken by a commercial auditor recruited by the MoPF, and the audited financial statements and management letter are presented to Parliament within six months of every year-end.

4. Timor-Leste's ability to use petroleum revenue allotted under its savings policy to support growth, employment and poverty reduction depends critically on its capacity to execute the budget, especially the capital development budget. This is of particular concern in key sectors such as education where capital spending for school construction is crucial, and in regard to public works, such as road rehabilitation and maintenance, which are a key source of employment as well as critical to development of the economy. The Government has only recently started budgeting capital development projects, as these were previously implemented exclusively through TFET and bilateral projects. The GoTL's budget is on a "modified cash": (i.e. cash plus commitments) basis, and capital development expenditures are fully budgeted in the initial year of a project, although disbursements may be scheduled over a number of years. While totals carried over are recorded, it is not yet possible to disaggregate sufficiently to gauge whether expenditures are occurring at an appropriate rate in each year of the project. As a consequence of the full budgeting of capital expenditures in the first year, cash expenditure rates appear to be particularly low for capital development projects, though increasing with the overall size of the budget, growing from 9 percent in FY04 to 17 percent in FY05.

Expenditures committed but not disbursed in a given FY are carried forward as obligations, and the execution of these past liabilities has accelerated over time.

5. While commitment levels are high across all expenditure categories, with total expenditure (cash plus commitments) averaging 94 percent over FY03-05, budget execution on a cash basis averaged 75 percent over the same period, with some ministries performing markedly better than others. . All in all budgeted expenditures have risen from about USD 56 million in FY02 to about USD 79 million in million in FY05 while cash expenditures, including carry-over expenditures, have risen from about USD 48 million in FY02 to about USD 72 million in FY05 (Table 3). This positive trend will need to be bolstered to ensure the effective implementation of an aggregate budget that is slated to increase to levels above USD 200 million per year in the short to medium term. Fund flows to the districts, in particular, will need to be strengthened - while ensuring accountability - if the required services and infrastructure are to be provided and improved.

Table 2. Budget Execution by Expenditure Category (%)

Expenditure Category	FY2003		FY2004		FY2005	
	Total	Cash	Total	Cash	Total	Cash
Salaries and Wages	92	92	92	92	90	90
Goods and Services	97	90	93	75	96	82
Minor Capital Expenditure	97	35	91	53	96	46
Capital Development	--	--	94	9	98	17
Total Expenditure	95	75	93	73	94	76

Source: Ministry of Planning and Finance, Budget Execution Reports, June 2003, June 2004, and June 2005.

Note: Total = committed and cash. FY2005 annualized estimates based on figures through June.

Table 3

<i>(in US\$'000)</i>				
<u>Annual Cash Expenditure</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
FY Budget execution :	42,394	56,036	54,583	59,573
Past Liabilities execution :	<u>6,150</u>	<u>10,447</u>	<u>12,966</u>	<u>12,238</u>
Total Cash Execution :	48,544	66,483	67,549	71,811
Budget of the FY :	56,599	74,273	74,615	78,674
Percentage of the Budget :	85.8%	89.5%	90.5%	91.3%

6. While budget execution is one of the immediate challenges, there is also a need to forge closer links between planning and budgeting. The first steps are to harmonize the planning and budgeting cycles and enhance capacity to cost AAP activities. On the revenue side, there is a need to enhance capacity for tax administration and collection especially from the petroleum sector but also from domestic sources, and for customs administration, which will be an important factor in private sector development. Macroeconomic forecasting, including of petroleum revenues, is currently in the hands of a four-person unit. Overall, the shortage of staff with the requisite managerial and technical skills and knowledge is a severe constraint. Systems and processes for transparent internal control mechanisms that would allow for greater delegation and decentralization of expenditure management decisions and implementation have not yet been developed. Last, attitudes and behaviors to support the emergence of strong, professional leaders and managers, together with a qualified workforce with a professional attitude and commitment to service delivery, are lacking.

7. These issues get to the heart of the three-pillar approach to capacity and institution building adopted by the GoTL's CDCU. The three pillars are (i) individual skills and knowledge, integrated with (ii) the systems and processes in which people operate and (iii) the values and sense of purpose they bring to the job. Enhancing effectiveness, transparency, and accountability in public financial management will depend on the development of a cadre of national personnel with the understanding of the principles of financial management and managers who have the confidence to delegate and enforce controls. Capacity building through on-the-job training with the help of advisory support and through classroom training (in some cases overseas) will be key to ensuring that staff have both the public service ethic and the basic (administrative/bookkeeping, IT, languages) and specialized skills and knowledge they need to do the job for which they were (or are) hired.

8. To facilitate systemic improvements throughout the MoPF, line ministries, and districts, it will be important to improve information flows and horizontal communication and cooperation. There is currently a "silo" approach, in which each agency focuses on its own work without sufficiently exploiting synergies of closer collaboration. In addition, over time ad hoc adjustments have been made to information systems, undermining the potential for IT systems to support transparency and accountability in budget execution and service delivery. Maintenance and improvement of the FMIS, with a view to enhancing the functionality of existing systems, will underpin better governance, communication, and understanding and will increase access, including for line ministries and districts, most of which do not currently have the computer systems necessary to monitor their budget execution rates.

9. The need for good governance to frame and sustain technical improvements in public financial management argues for tackling the integrity aspects of capacity-building head-on. These aspects are to be fostered by explicit attention to strengthening leadership, and requiring leaders to model good workplace behavior. Managers will be expected to define their agency work plan in terms of the overall mission of the MoPF and its commitment to service delivery, and work through with staff what the Code of Ethics means in workplace-specific terms so that staff know not only what to do but how they should do it. Managers will also need to set standards for attendance and punctuality, promote teamwork and information-sharing, explain conflict of interest and help staff to avoid it, and develop among staff the ability to accept delegation while taking responsibility for results.

10. On a broader front beyond MoPF, the Government has made a strong commitment to building integrity and accountability in institutions. These include the establishment in 2005 of a Provedor (Ombudsman with independent powers relating to anti-corruption, human rights and administrative recourse) as mandated in the Constitution, and the existing Office of the Inspector-General, who investigates fraud and corruption complaints, conducts reviews of ministry practices, and reports to the Prime Minister. A staged process is envisaged to transfer management of the external audit contract (currently conducted by an external firm contracted by the MoPF) from the Treasury to an independent body, and eventually to build up national capacity to undertake independent audit.

11. Commitment to public service integrity is also revealed in the administrative and civil service reform led by the Minister of State Administration and her Ministry (MSA), which is developing in parallel with the efforts to strengthen public financial management. Work is under way to develop the legal and regulatory framework for the civil service, starting with a new Civil Service Act, promulgated on June 8, 2004, which inter alia creates a framework for integrity and financial probity, and includes a Code of Ethics and a Disciplinary Code. GoTL intends that these codes, supported by manuals, will be widely used in all ministries. Implementing regulations are now being developed for the new Act, supporting the NDP objective of creating a lean, effective and efficient civil service free of corruption and nepotism that will be oriented to service delivery.

12. Public sector pay structures are unduly compressed and lack sufficient grades and steps to recognize qualifications, skills, performance and high-level or complex responsibilities. To remedy this, MSA is undertaking a study of pay structures linked to a career development framework that will lead to revised structures. A review of the qualifications and positions of those already in the service is planned also, as a number of people were inappropriately recruited in the days of the UN administration. A regulation is currently being developed to require that the review criteria and process used be impartial. A further regulation on supervisory accountability is envisaged that will clarify procedures and enhance the ability of Ministers and senior officials to delegate to lower levels while retaining confidence in getting results and accountability.

13. At the same time, a Human Resource Management Information System (HRMIS) is being developed to support HRM and career development. Files containing basic data on all personnel have been cleaned and were up-to-date in January 2005, and consultants are being recruited to build the computerized system. In parallel, more detailed data will be collected and entered on staff qualifications and career experience. The next stage will call for a transparent and effective interface with the payroll system and thorough training in both MSA and line ministries of those responsible for operating the system and updating the personnel files.

14. Timor-Leste is divided into 13 administrative districts. While the Government is focusing first on creating effective and accountable service delivery within the existing deconcentrated system, MSA is at the same time developing options for eventual devolution of powers and resources to subnational entities.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

World Bank and other development partner support related to the PFMCBP has focused on institution and human resource capacity building and wider support to government functions related to public financial management. Projects and programs related to the PFMCBP are summarized in the table below.

Development Partner Support Related to the PFMCBP				
Sector Issue	Project/Program Focus	Development Partner	Latest Supervision Rating (World Bank only)	
			Implementation Progress	Development Objective
Budget Execution and Monitoring	CSP (budget support)	10 bilateral and multilateral partners, including World Bank	N/A	N/A
Institution and Human Resource Capacity Building	Advisory Support	UNOTIL		
	MPFCPB Phases I & II	AusAID		
	Support to Customs	UNDP and Portugal		
	Support to Planning Division	JICA		
	Support to MSA (CSR and HRM)	UNDP and AusAID		
Improved Governance, Transparency, and Accountability	Institution Building of the Ombudsman/Provedor (IDF)	World Bank	N/A	N/A
	Institution Building of the Inspector General (IDF)	World Bank	N/A	N/A
	Strengthening Public Expenditure Management (IDF)	World Bank	Moderately Satisfactory	Moderately Satisfactory
	Strengthening Public Expenditure Management and Procurement Capacity Building (IDF)	World Bank	Moderately Satisfactory	Moderately Satisfactory
	Support to Parliament	UNDP		
	Support to the Parliamentary Consultative Council for the Petroleum Fund	Norway		
	Second Petroleum Technical Assistance Project (TFET)	World Bank	S	HS
	Support to Petroleum Sector Activities – Energy and Mineral Resources Directorate of the Ministry of Natural Resources, Minerals and Energy Policy	Norway		
	Poverty Reduction Strategy Trust Fund (PRSTF)	World Bank	Moderately Satisfactory	Moderately Satisfactory
	Support to the Banking and Payments Authority for Petroleum Sector Revenue Management and Support to the Treasury	IMF		

Annex 3: Results Framework and Monitoring
TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Project Development Objective	Overall Outcome Indicators	Use of Outcome Information
<p>Sustainably strengthened planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency; effectiveness; accountability, integrity and service culture; and transparency.</p>	<ul style="list-style-type: none"> • Annual Combined Sources Budget, including Medium Term Fiscal Framework, reflects petroleum savings policy and is consistent with sustainable growth and poverty reduction; line ministry budgets framed by sector performance indicators. • Budget execution improved as indicated by: <ul style="list-style-type: none"> – cash spending > 80% of cash allocations by and beyond FY08⁹. • Revenue performance improved as indicated by: <ul style="list-style-type: none"> – periodic audits of petroleum companies; – reduced clearance time for customs. • Accountability, integrity, and service culture strengthened as indicated by: <ul style="list-style-type: none"> – adoption and implementation by MoPF of a mission statement and agency codes of conduct; – successful implementation of MoPF complaints response function as evidenced by annual report showing number and treatment of complaints; – expansion of internal audit function across MoPF and in all program line ministries; – improved integrity of tax and customs personnel as evidenced by adoption of agency codes of conduct and annual public perception survey; improved tax and customs service delivery; • Transparency improved as indicated by: <ul style="list-style-type: none"> – publication of annual combined sources budget, quarterly budget execution reports, annual audited accounts, and management letter, all in accessible form including at the district level and to Parliament. • Sustainability improved as indicated by: <ul style="list-style-type: none"> – recruitment of local staff, especially at levels 5-7; – implementation of performance assessment of staff and managers, with gradual reduction in international advisers and increase in responsibilities and duties performed by national managers and staff. 	<p>This subset of indicators provides an overarching framework for assessment of project management, implementation progress reporting, and semi-annual joint donor reviews.</p>

⁹ This figure may need to be adjusted to take account of the Government capital budgeting methodology.

Intermediate Results (One per Component)	Indicative Results Indicators for Each Component	Use of Results Monitoring
A. Public Expenditure Management		
<p>A.1. Planning, Budget Formulation, and Budget Execution</p> <ul style="list-style-type: none"> • Strengthened link between planning and budgeting and strengthened coordination between MoPF and line ministries; • improved expenditure and procurement planning; • more efficient and effective expenditure execution and procurement process including delivery of goods; • improved budget execution in all program line ministries 	<ul style="list-style-type: none"> • Annual combined sources budget based on Medium Term Fiscal Framework and consistent with petroleum savings policy (Budget Directorate). • Enhanced use of sector output/outcome indicators for planning and budgeting purposes – with specific attention to gender and youth where appropriate (Planning Directorate, Budget Directorate, and Program Line Ministries). • SIPs, AAPs updated annually (Planning Directorate). • Planning and budget formulation cycles coordinated and linkages between AAPs and combined sources budget formulation strengthened (Planning Directorate, Budget Directorate, Program Line Ministries, Districts). • Improved program planning and costing as reflected in AAPs (Program Line Ministries). • Annual Update of the National Accounts (Statistics Directorate) • Completion and analysis of TLSLS and publication of Poverty Assessment (Statistics Directorate). • Budget execution increased for all program line ministries and reaching at least 80% (on cash basis) by and beyond FY08, including for capital expenditures¹⁰ (Program Line Ministries, Budget Directorate). • Annual combined sources budget published in accessible form, including at district level (Budget Directorate). • Treasury approval arrangements streamlined with appropriate delegation and associated manuals in use following training for line ministries (Treasury). • Treasury service standards introduced, implemented, and measured (Treasury). • Increased number of district bank accounts and reduction in outstanding district balances (Treasury). • Suppliers paid on time (Treasury). • Procurement arrangements streamlined with appropriate delegation and associated manuals in use and associated training provided to line ministries (Procurement). • Effective mechanisms (e.g. website) for information disclosure of bid evaluation results • Bid protests addressed immediately with meaningful responses to aggrieved bidders • Increase in number of contracts reviewed and approved by the Contracts Award Committee (Procurement). • Procurement service delivery improved including order processing time, timeliness, and number of goods procured (Procurement). • Increase in number of procurement complaints properly investigated by the Inspector General (Procurement). • Preparation and regular update of assets registry and stock inventory (Procurement). 	<p>Indicators enable tracking of improvements in planning, budget formulation, and budget execution.</p>

¹⁰ This figure may need to be adjusted to take account of the Government capital budgeting methodology.

	<ul style="list-style-type: none"> • Annual procurement plans prepared in coordination with districts (Program Line Ministries). • Quality of CPV preparation improved as evidenced by fewer rejections (Program Line Ministries). • Enhanced job creation as evidenced by measurable increase in annualized jobs (MoPW and Budget Directorate). 	
A.2. Financial Management Information System <ul style="list-style-type: none"> • Strengthened financial management information system 	<ul style="list-style-type: none"> • FMIS modules integrated and major IT systems—FreeBalance, ASYCUDA, SIGTAS, GRIMS, payroll—interfaced; (Administration/IT) • FMIS extended to and in use by line ministries. • Systems refined according to user specifications to meet user needs as evidenced by improved reporting (Administration/IT) 	Indicators verify improved functionality, reliability, and use of FMIS.
B. Revenue Administration and Macroeconomic Management		
B.1. Tax Administration and Petroleum Revenue Management <ul style="list-style-type: none"> • Improved revenue collection and compliance • Fair implementation of tax laws • Enhanced professional integrity and skills 	<ul style="list-style-type: none"> • Audits of petroleum companies conducted periodically (ETRS). • SIGTAS fully functional in Dili and districts (ETRS). • Code of conduct for ETRS/ Petroleum Tax Division adopted and implemented (ETRS). • Taxpayer service improved as gauged by annual public perception survey (ETRS). 	Indicators verify the successful implementation of measures leading to improved tax revenue performance.
B.2. Customs <ul style="list-style-type: none"> • Improved revenue collection and compliance • Fair implementation of customs laws • Enhanced professional integrity and skills 	<ul style="list-style-type: none"> • Customs code and customs legislation should be fully implemented and automated by ASYCUDA (Customs). • Code of conduct for customs adopted and implemented (Customs). • ASYCUDA II fully functional in Dili and regions (Customs). • Reduced clearance time for customs (Customs). • Staff integrity and service improved as gauged by annual public perception survey of clients, e.g., traders, brokers, client government agencies (Customs). 	Indicators verify the successful implementation of measures leading to improved customs revenue performance.
B.3. Macroeconomic Management <ul style="list-style-type: none"> • Strengthened macroeconomic forecasting for sustainable use of Petroleum Fund revenue 	<ul style="list-style-type: none"> • Petroleum revenue forecasts produced at least annually for budget document and Petroleum Fund annual report (Macro-economy and Tax Policy Unit). • Macroeconomic forecasts produced at least annually for budget document and Petroleum Fund annual report (Macro-economy and Tax Policy Unit). 	Indicators verify the regular production of macro economic forecasts of satisfactory standard to be incorporated in budget planning

C. Program-wide Activities		
<p>C.1. Program-wide professional environment, conducive to high quality service delivery</p> <ul style="list-style-type: none"> • Strengthened leadership and management • Staff display integrity and work ethic • Staff enhance basic skills (language, accounting/ bookkeeping, administrative, IT) 	<ul style="list-style-type: none"> • Improved leadership and management as evidenced by competency-based assessments (Administration/IT, Program-wide Agencies). • Adoption and implementation of mission statement and agency codes of conduct within MoPF, socialization of code as gauged by competency-based training assessments (Administration/IT, MoPF agencies). • Improved awareness and application of Civil Service Code of Ethics as evidenced by staff and public perception survey (Administration/IT, Program-wide Agencies). • Skills enhancement as measured by competency-based training assessments (Administration/IT, Program-wide Agencies). 	<p>Indicators verify the impact of activities on creating a professional working environment oriented toward service delivery.</p>
<p>C.2. Transparency and Accountability in Public Financial Management</p> <ul style="list-style-type: none"> • Improved internal control functions 	<ul style="list-style-type: none"> • Complaint response function established and functional as indicated by annual report showing number and treatment of complaints. • Internal audit functions integrated across MoPF, established in all program line agencies and functional as evidenced by annual internal audit plan and report • Publication of quarterly budget execution reports, annual audited accounts, and management letter, all in accessible form including to Parliament and at the district level (Treasury). 	<p>Indicators verify that MoPF deals effectively with complaints to improve service delivery and is accountable for service standards; internal audit function is established/extended and functional.</p>
D. SIGMA (Support to Improved Governance and Management, Office of the Minister and Vice-Minister of Planning and Finance)		
<ul style="list-style-type: none"> • Effective leadership and management of MoPF staff and resources • Improved executive administrative efficiency • Increased national ownership 	<ul style="list-style-type: none"> • Credible budget out-turns with both aggregates and composition close to 2.5% of allocated budget; • Improvements in services and sustainable infrastructure at district level; • Efficient mechanisms established for supervision, delegation, monitoring and accountability together with significant reduction in number of external advisers; • Effective internal audit function across MoPF used as management tool. 	<p>Indicators verify the results of effective leadership and management across the Program as a whole.</p>
E. Program Implementation		
<ul style="list-style-type: none"> • Effective program management involving GoTL and Development Partners • Performance assessment of international advisers 	<ul style="list-style-type: none"> • Quarterly meetings of the Supervisory Committee: <ul style="list-style-type: none"> – review and agree annual activities plan and results framework; – review and agree annual procurement plan; – review progress against annual activities plan and overall and annual results framework; – financial management and procurement satisfactory; – consider performance of international staff and capacity building of local staff; 	<p>Indicators provide an overview of program monitoring and evaluation and coordination with funding partners; verify adequate project financial and procurement</p>

<ul style="list-style-type: none"> • Sustainability 	<ul style="list-style-type: none"> – consider project information including results from surveys; • Recruitment, selection and expected outputs for international staff (as delineated in TORs) geared to capacity building responsibilities (Administration/IT and Program-wide Agencies); • Annual performance review of international advisers based on results of staff competency-based training assessments (Administration/IT); • Annual performance reviews of national managers and staff verifies increased capacity to independently perform assigned responsibilities (Administration/IT); • Gradual reduction in the number of international advisers and increase in number of local staff and responsibilities and duties performed by national managers and staff (Administration/IT). 	<p>management; and verify capacity building achievements and sustainability.</p>
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Annex 3A: Results Matrix for the First 18 Months

Intermediate Results (One per Component)	Indicative Results Indicators for Each Component – First 18 months	Use of Results Monitoring
A. Public Expenditure Management		
<p>A.1. Planning, Budget Formulation, and Budget Execution</p> <ul style="list-style-type: none"> Strengthened link between planning and budgeting and strengthened coordination between MoPF and line ministries; improved expenditure and procurement planning; more efficient and effective expenditure execution and procurement process including delivery of goods; improved budget execution in all program line ministries 	<ul style="list-style-type: none"> FY07 and FY08 combined sources budget based on Medium Term Fiscal Framework and consistent with petroleum savings policy (Budget Directorate). Enhanced use of sector output/outcome indicators for planning and budgeting purposes – with specific attention to gender and youth where appropriate (Planning Directorate, Budget Directorate, and Program Line Ministries). SIPs updated in FY07 (Planning Directorate). Planning and budget formulation cycles coordinated and linkages between AAPs and combined sources budget formulation strengthened (Planning Directorate, Budget Directorate, Program Line Ministries, Districts). Improved program planning and costing as reflected in AAPs (Program Line Ministries). Completion of TLSLS (Statistics Directorate). Update of the National Accounts for 2005 (Statistics Directorate) FY07 Budget execution increased for all program line ministries, including for capital expenditures (Program Line Ministries, Budget Directorate). Annual combined sources budget published in accessible form, including to Parliament and at district level (Budget Directorate). Treasury approval arrangements streamlined with appropriate delegation and associated manuals in use following training for line ministries (Treasury). Treasury service standards introduced Increased number of district bank accounts (Treasury). Timeliness of supplier payments improved (Treasury). Procurement arrangements streamlined with appropriate delegation and associated manuals in use and associated training provided to line ministries (Procurement). Effective mechanisms (e.g. website) for information disclosure of bid evaluation results Bid protests addressed immediately with meaningful responses to aggrieved bidders Increase in number of contracts reviewed and approved by the Contracts Award Committee (Procurement). Procurement service delivery improved including order processing time, timeliness, and number of goods procured (Procurement). Increase in number of procurement complaints properly investigated by the Inspector General (Procurement). FY07 procurement plans prepared in coordination with districts (Program Line Ministries). Quality of CPV preparation improved as evidenced by fewer rejections (Program Line 	<p>Indicators enable tracking of improvements in planning, budget formulation, and budget execution.</p>

	Ministries). <ul style="list-style-type: none"> Enhanced job creation as evidenced by measurable increase in annualized jobs (MoPW and Budget Directorate). 	
A.2. Financial Management Information System <ul style="list-style-type: none"> Strengthened financial management information system 	<ul style="list-style-type: none"> FMIS review of information needs completed (Administration/IT) FMIS review of existing processes and suggested process improvements completed (Administration/IT) FMIS modules integrated and major IT systems—FreeBalance, ASYCUDA, SIGTAS, GRIMS, payroll—interfaced; (Administration/IT) 	Indicators verify improved functionality, reliability, and use of FMIS.
B. Revenue Administration and Macroeconomic Management		
B.1. Tax Administration and Petroleum Revenue Management <ul style="list-style-type: none"> Improved revenue collection and compliance Fair implementation of tax laws Enhanced professional integrity and skills 	<ul style="list-style-type: none"> Audits of petroleum companies conducted periodically (ETRS). SIGTAS fully functional in Dili (ETRS). Code of conduct for ETRS/ Petroleum Tax Division adopted (ETRS). First taxpayer perception survey conducted to establish baseline for future measurement of improvement in service and integrity. Key national staff recruited 	Indicators verify the successful implementation of measures leading to improved tax revenue performance.
B.2. Customs <ul style="list-style-type: none"> Improved revenue collection and compliance Fair implementation of customs laws Enhanced professional integrity and skills 	<ul style="list-style-type: none"> ASYCUDA II fully functional in Dili port and airport(Customs). Code of conduct for Customs adopted. First public perception survey of clients, e.g., traders, brokers, client government agencies (Customs) conducted to establish baseline for future measurement of improvements in service and integrity. 	Indicators verify the successful implementation of measures leading to improved customs revenue performance.
B.3. Macroeconomic Management <ul style="list-style-type: none"> Strengthened macroeconomic forecasting for sustainable use of Petroleum Fund revenue 	<ul style="list-style-type: none"> Petroleum revenue forecasts produced for FY07 and FY08 budget document and for FY06 and FY07 Petroleum Fund annual report (Macro-economy and Tax Policy Unit) Macroeconomic forecasts produced for FY07 and FY08 budget document and for FY06 and FY07 Petroleum Fund annual report (Macro-economy and Tax Policy Unit). Key national staff recruited 	Indicators verify the regular production of macro economic forecasts of satisfactory standard to be incorporated in budget planning

C. Program-wide Activities		
<p>C.1. Program-wide professional environment, conducive to high quality service delivery</p> <ul style="list-style-type: none"> • Strengthened leadership and management • Staff display integrity and work ethic • Staff enhance basic skills (language, accounting/ bookkeeping, administrative, IT) 	<ul style="list-style-type: none"> • Competency-based assessments of leadership and management introduced (Administration/IT, MoPF agencies). • Competency based assessment of staff continued in budget and ETRS offices and extended to other MoPF units (Administration/IT, MoPF agencies). • First staff and public perception survey conducted to establish baseline for future measurement of improvements in awareness and application of Civil Service Code of Ethics (Administration/IT, Program-wide Agencies). 	<p>Indicators verify the impact of activities on creating a professional working environment oriented toward service delivery.</p>
<p>C.2. Transparency and Accountability in Public Financial Management</p> <ul style="list-style-type: none"> • Improved internal control functions 	<ul style="list-style-type: none"> • Internal audit function extended to Procurement Unit (Treasury with Procurement) • Publication of quarterly budget execution reports (FY06 and 07), annual audited accounts (FY06), and management letter (FY06), all in accessible form including at the district level (Treasury). 	<p>Indicators verify that MoPF deals effectively with complaints to improve service delivery and is accountable for service standards; internal audit function is established/extended and functional.</p>
D. Support to Improved Governance and Management (SIGMA)		
<p>Office of the Minister and Office of the Vice-Minister</p> <ul style="list-style-type: none"> • Strengthened leadership and effective management of MoPF resources • Improved executive administrative efficiency • Increased national ownership 	<ul style="list-style-type: none"> • Increased awareness of organizational functions, roles, and responsibilities of staff. • Accountability, transparency, predictability, and participation • Increased awareness of executive management strategies and leadership 	<p>Indicators verify improvement in staff's understanding of roles and responsibilities and executive's management and leadership.</p>
E. Program Implementation		
<ul style="list-style-type: none"> • Effective program management involving GoTL and Development Partners 	<ul style="list-style-type: none"> • Quarterly meetings of the Supervisory Committee: <ul style="list-style-type: none"> – review and agree annual activities plan and results framework; – review and agree annual procurement plan; – review progress against annual activities plan and overall and annual results framework; 	<p>Indicators provide an overview of program monitoring and evaluation and coordination with</p>

<ul style="list-style-type: none"> • Performance assessment of international advisers • Ensure sustainability 	<ul style="list-style-type: none"> – financial management and procurement satisfactory; – consider performance of international staff and capacity building of local staff; – consider project information including results from surveys. • International and national staff (financial management) for Administration/IT Unit recruited by start of program. • Program financial management information system in place by start of program. • All international staff for PFMCBP recruited (Administration/IT and Program-wide Agencies). • FY07 Annual performance review of international advisers based on results of staff competency-based training assessments (Administration/IT). 	<p>funding partners; verify adequate project financial and procurement management; and verify capacity building achievements and sustainability.</p>
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Annex 4: Detailed Program Description

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

The PFMCBP is designed as a five-year, rolling program to be implemented from 2006 through 2011 at a cost of circa USD 37 million, of which USD 7 million will be financed by IDA. Annual action plans and an annual results matrix will be developed in collaboration with program agencies. Each subsequent annual program will draw on lessons of implementation, and will continue support to agencies to achieve overall program objectives and outcome/output indicators.

Details of the program are presented in the annex in four parts:

- **Annex 4A:** Summary Table of PAD Components and Associated Program Agencies
- **Annex 4B:** Summary of First 18 Months Activities
- **Annex 4C:** PFMCBP Program Summary by Agency and Indicative Activities for the First 18 Months by Agency
- **Annex 4D:** Overview of Five-year Training Activities
- **Annex 4E:** List of Long-term Advisers to be Supported Under the PFMCBP

Annex 4A: Summary Table of PAD Components and Associated Program Agencies/Activities

Component	Subcomponent	Agencies/Activities to be Linked to the Subcomponent
A. Public Expenditure Management	A.1. Planning, Budget Formulation, and Budget Execution	NDPEAC
		Budget Office
		Statistics Directorate
		Treasury
		Procurement Division
		MAFF
		MoEC
		MoH
		MNRMEP
		MoPW
		District Finance Officers
		District Line Agency Officers
B. Revenue Administration and Macroeconomic Management	A.2. Financial Management Information System	Upgrading, interfacing, and extending access to GoTL financial management IT systems pending review of IT needs
	B.1. Tax Administration and Petroleum Revenue Collection	ETRS, including Petroleum Tax Division
	B.2. Customs	Customs Directorate
	B.3. Macroeconomic Management	Macro-economy and Tax Policy Unit
C. Program-wide Activities	C.1. Program-wide professional leadership, work ethic, basic skills training, and performance assessment	Leadership by Minister and Vice Minister, program-wide integrity work plans, collaboration, and training, led by Administration and IT Directorate. MoPF, MoH, MoEC, MoPW, MAFF, MNRMEP
	C.2. Good Governance in Public Financial Management	Treasury. Preventative internal audit function combined with a complaints response function
D. Support to Improved Governance and Management (SIGMA)	Support for sound management of resources and effective decision for the Minister and Vice-Minister of Planning and Finance and their office	Training in leadership, management, technical, supervisory and regulatory skills for Minister and Vice-Minister of Planning and Finance, and technical, financial, administrative and legal support for their office.
E. Program Implementation	Coordination of Program and Advisers	Admin and IT Directorate. Coordination of program implementation, including advisers, oversight and monitoring arrangements.

Annex 4B: Summary of First 18 Months Activities

More detail on the First 18 Months Activities by Unit is included in Annex 4C

ACTIVITY	UNIT(S) INVOLVED
<i>Systems and processes, attitudes and behaviors, and skill training (largely on-the-job complemented by in-country classroom courses, and a limited number of courses abroad selected strategically for certain positions)</i>	
Leadership and management, including application of Civil Service Code of Ethics	All
Economics and statistics technical courses	Macroeconomy and Tax Policy Unit Budget Directorate, Statistics Directorate
Negotiation skills, data analysis	NDPEAC
Cash planning, audit plans	Treasury
Procurement professional accreditation; functional courses on procurement planning (procurement staff), supply and inventory control (supply staff)	OGPSIM
Specialized courses for tax and customs staff	ETRS; Customs
Courses on petroleum sector legislation; customs legislation	ETRS; Customs
Joint course for line agency finance officers and budget department staff on aligning planning (SIPs/AAPs) and combined sources budget submissions	Budget Directorate, MAFF, MEC, MOH, MoPW, MNRMEP
Financial management, costing, accounting, project management, expenditure planning	NDPEAC, Treasury, Budget Directorate, Statistics Directorate, Macroeconomy and Tax Policy Unit, MAFF, MEC, MOH, MoPW, MNRMEP, District Line Agencies
Policy analysis, economics, policy evaluation	MAFF, MEC, MOH, MoPW, MNRMEP
Accounting, bookkeeping, data entry/data processing, Excel, report writing, IT and office skills	Budget Directorate, Statistics Directorate, Customs, Macroeconomy and Tax Policy Unit MAFF, MEC, MOH, MoPW, MNRMEP, DFOs, District Line Agencies
Preparation of procurement plans, CPVs	MAFF, MEC, MOH, MoPW, MNRMEP
Specialized software applications (SIGTAS, ASYCUDA, FreeBalance)	ETRS on SIGTAS; Customs on ASYCUDA; OGPSIM, MAFF, MEC, MOH, MoPW, MNRMEP, DFOs, District Line Agencies on FreeBalance
Language (English, Portuguese)	NDPEAC, Budget Directorate, ETRS, Customs, Office of Minister and Vice-Minister
Training of trainers for continuous training of Customs officers	Customs
Training of trainers for continuous training of ETRS officers	ETRS
Specialized training on functional Tax and Customs Administration and IT	Tax and Customs Administration
Functional Activities	
PFMCBP administration and implementation (oversight of and support to: reporting/monitoring/evaluation; HR functions; ethics; implementation of IT component; and management of advisers)	IT and Administration Unit
Take steps to improve: coordination between planning and budgeting (through regular meetings between Budget Directorate, NDPEAC, DFOs, and District Line Agencies); (through regular meetings, etc.); coordination on capital budget planning (through regular meetings of Budget Directorate and OGPSIM); and synchronization of costing and budgeting process (by introducing a revised planning and budgeting schedule).	Budget Directorate, NDPEAC, OGPSIM, DFOs, District Line Agencies (with Budget Directorate and NDPEAC in the lead)
Take steps to improve: coordination with NDPEAC (through regular meetings, etc.); production of National Accounts (working with advisers on the job). Analyze results of Timor-Leste Survey of Living Standards.	Statistics Directorate
Take initial steps to decentralize banking (e.g., by establishing operational procedures to do so); improve CPV process (e.g., by upgrading system documentation and tracking timeliness of CPV processing). Undertake study of impact of Petroleum Fund transactions on commitment accounting	Treasury

ACTIVITY	UNIT(S) INVOLVED
policy. Develop user-friendly Abstract of Accounts.	
Create dedicated function in Procurement Department to oversee prioritization of work based on CPVs; work with staff to improve prior and post review skills; upgrade Asset Register database; implement Operational Manual on Asset Management Procedures.	OGPSIM
Begin review and streamlining of tax and auditing procedures; launch public perception baseline survey of tax administration	ETRS
Begin rationalization of procedures and regulations for Customs administration with advisory support; develop an action plan on integrity for Customs officials; Streamline Customs procedures and launch public perception baseline survey of Customs administration	Customs
Measurement and monitoring of job creation (including training)	MoPW
Monitoring of District imprest accounts; Monitoring of District-level capital development budget execution, workshop on capital development budget execution for District staff	DFOs; District Line Agencies
Analysis of IT needs and plan to fill them	Macroeconomy and Tax Policy Unit
Staffing/recruitment to fill vacancies and staff plans	Statistics Directorate, Macroeconomy and Tax Policy Unit, DFOs
Software upgrades	ETRS (SIGTAS), Treasury (FreeBalance)
Management of software upgrade (software funded by SIDA)	Customs (ASYCUDA),
Software Deployment	MAFF, MEC, MOH. MoPW, MNRMEP, DFOs (FreeBalance)

Annex 4C: PFMCBP Program Summary and Indicative Activities for First 18 Months by Agency

Office of the Minister and Vice-Minister: Summary of Proposed Program
Overall Objectives and Output Indicators over the Life of the Program
Objectives <ul style="list-style-type: none"> • Integrated financial and non-financial performance information, a sound approach to risk management, • Resources effectively managed with increasing levels of national ownership • Horizontal collaboration in the Ministry ; • Integrated agenda for management excellence; • Awareness and commitment of the Executive to establishing modern management environment.
Output Indicators <ul style="list-style-type: none"> • Management Framework aligned to Strategic outcomes; • Develop integrated management improvement plans; • Increased efficiency and a more responsive Ministry; • Improved management and staff performance as measured by workplace competency-based training assessments.
Indicative Activities for the First 18 Months
Skills and Knowledge The Offices of the Executive will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • For executive, leadership and management training; • For assistants and secretaries, training in finance, costing, budgeting, office administration, writing skills and language.
Systems and Processes The Offices of the Executive will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Processes and tools to improve business processes & options (including alternate service delivery options) and to share knowledge & best practices used within the Ministry. • Provide the Executive with an integrated, principles-based framework of appropriate internal control, in the place of a multiplicity of overly complex control policies. • Improving communication links between the Directors and senior staff of the Ministry;
Attitudes and Behaviors Offices of the Executive will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for staff on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
Proposed Advisers
<ul style="list-style-type: none"> • Legal Adviser • Technical and Financial Adviser • Baseline Indicator Survey Adviser • Public Expenditure and Financial Accountability Adviser (PEFA)

National Directorate for Planning and External Assistance Coordination: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
Objectives Improve NDPEAC's operations to facilitate transparency, accountability, and efficiency in public financial management through: <ul style="list-style-type: none"> • Improved coordination between the Budget and Statistics Directorates, line ministries, and districts in the planning and combined sources budget preparation process; • Timeliness and efficiency in the preparation of AAPs and QRM, to contribute to transparency and accountability in combines sources budget preparation; • A well-coordinated process of accessing external financial and technical assistance.
Output Indicators <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes, with specific attention to gender and youth as appropriate; • Planning and budget preparation cycles coordinated and linkages between AAPs and the budget process strengthened, including improvements in costing of AAPs; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
Skills and Knowledge NDPEAC will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • For managers, leadership and management training; • For planning staff, training in finance, costing, budgeting, planning management, spreadsheet modeling, and writing skills; • For external assistance staff, training in negotiation, data analysis for policy development, and language.
Systems and Processes NDPEAC will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Updating SIPs on an annual basis; • In conjunction with line ministries and districts, developing better informational bases to improve AAP costings; • Integrating and synchronizing budget and planning cycles to ensure that fully costed AAPs feed into budget preparation; • Enhancing capital budget planning to improve capital budget execution and ensure harmonization with other elements of the budget cycle; • Improving communication links between key government agencies and development partners for better identification and prioritization of needs; • Upgrading the Government Resources Information Management System (GRIMS) and Registry of External Assistance (REA) and integrating them with other key government IT systems.
Attitudes and Behaviors NDPEAC will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • Planning and Monitoring Adviser • External Assistance Mobilization Coordination Adviser (years 3-5 as Japanese funding is in place through 2007) • Data Management Adviser

National Directorate for Planning and External Assistance Coordination: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Improve coordination with Planning Directorate, line agencies, and districts	Long-term Planning and Monitoring Adviser working with national staff	AAPs quality and timeliness improved as evidenced by the report and its submission date
Implement synchronization with Budget Directorate to include costed plans as inputs to budget process	Long-term Data Management Adviser working with national staff	Synchronization of budget and planning cycles (AAPs fully costed)
Improve information gathering from Development Partners	Long-term External Assistance Mobilization Coordination Adviser working with national staff	Improved level of detail and information in reporting on development partner contributions
Leadership and management, including in application of the Civil Service Code of Ethics	Local course for 1-2 staff	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in finance, costing, and planning management, spreadsheet modeling, and writing skills	Local courses supplemented by overseas specialized courses for 10 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training in negotiation, data analysis for policy development	Local courses for 10 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 10 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Budget Directorate: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>Improve Directorate's operations to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Implementation of combined sources budgeting; • Improved timeliness and efficiency of the budget formulation processes; • Greater coordination between the Budget Directorate, Planning Directorate, line ministries, and districts in budget formulation, implementation, and monitoring; • Improved access to and understanding of budget matters by citizens.
Output Indicators	<ul style="list-style-type: none"> • Annual combined sources budget based on Medium Term Fiscal Framework and consistent with petroleum savings policy; • Planning and budget formulation cycles coordinated and linkages between AAPs and combined sources budget formulation strengthened; • Enhanced use of sector output/outcome indicators for planning and budgeting purposes – with specific attention to gender and youth where appropriate and with a sound measure for annualized jobs; • Budget execution increased and reaching at least 80 percent (on cash basis) by and beyond FY08, including for capital expenditures; • Annual combined sources budget published in accessible form, including geographically disaggregated information; • Publication of quarterly budget execution reports, annual audited accounts, and management letter, all in accessible form including geographically disaggregated information. • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>Building on training already received under the MPFCBP, the Budget Directorate will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • For managers, leadership and management training, with a high priority on staff performance and process management; • For senior staff, training in economics and statistics (including university courses/study tours); • Training in finance and analysis; • Training in use of spreadsheets; • Training in writing skills for ministerial briefings and budget document preparation, language training (English, Portuguese).
Systems and Processes	<p>Building on activities begun under the MPFCBP, the Budget Directorate will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Improving coordination on planning and budgeting between the Planning Directorate, Macroeconomic and Tax Policy Unit, ETRS, Treasury, line ministries, and district finance offices, leveraging “focal point” arrangements; • Streamlining annual budget processes, including during the planning phase (from November to promulgation in July), the Mid-year Budget Review (October/November), and the preparation of materials for the Timor-Leste Development Partners Meeting (April), so that budget staff time can be freed up for higher-value work; • Reviewing timetables and information flows guiding the SIP/AAP/budget preparation processes and linkages to ensure that the budget is fully costed and reflects SIPs/AAPs, including revision of budget templates provided to line ministries so that they are better aligned with AAPs; • Reviewing processes and procedures for planning and phasing of capital expenditure, and systems and processes for collaboration with Procurement, to improve budget execution, procurement, and asset management; • Conducting a client survey, particularly to gauge Parliament and development partners' needs for information on the GoTL's budget to improve the quality, timeliness, and responsiveness of budget information provided.
Attitudes and Behaviors	<p>Building on activities begun under the MPFCBP, the Budget Directorate will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service

<p>orientation, individual job motivation, and team spirit, to boost performance and service delivery;</p> <ul style="list-style-type: none"> • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises within the Budget Directorate and with other agencies involved in planning and budgeting (Planning Directorate, Macroeconomic and Tax Policy Unit, ETRS, Treasury, line ministries, and district finance offices), to help improve communication and information flows, and build loyalty and trust; • Regular meetings between managers in the Budget and Planning Directorates, and regular visits to line ministries by senior staff in Budget and Planning Directorates • Continuation of the use of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • 2 Budget Advisers • Short-term Advisers (3-6 months) during budget preparation process to support key line agencies • 2 Line Ministry Budget Execution Advisers

Budget Directorate: Indicative Activities for FY06-FY07		
Indicative Activities For the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Increase coordination with Planning Directorate, line agencies, and districts	Long-term advisers x 2, national officer input through focal points, team building exercises Regular briefing and discussion meetings with staff from planning, line agencies and districts	AAPs/Government priorities reflected in Budget and increased use of sector output/outcome indicators in Budget
Improve coordination with Procurement Division to develop better capital budget planning	Long-term advisers x 2, national officer input through focal points, team building exercises Regular briefing and discussion meetings with staff from planning, line agencies and districts	Improved capital budget planning as measured by increase in budget execution
Take forward synchronization with Planning to include costed plans as inputs to budget process	Long-term advisers x 2 and increased national officer input, revision of budget templates	All requests to fund new interventions are separately costed and justified in ministry budget submissions
Budget preparation support	4 x short-term advisers for 3 months during budget preparation (for key line agency iterations)	Budget formulation completed to time with line agency fully involved
For managers, leadership and management training covering staff performance management; time management; delegation; work planning especially management of the planning/budget process; recruitment; and negotiation	Short courses for 5 managers	Improved general management performance as measured by Recognition of Prior Learning assessments
For senior staff, training in economics and statistics (including university courses / study tours, preparatory in-country training at international institutions)	Specialized local courses and overseas study for 5 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training in finance and analysis	Short courses for 5 to 10 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training in use of spreadsheets (this can increasingly be passed on to the Timorese to run the basic training)	Self-paced workbook, with plenary sessions and individual coaching courses for 5 to 10 staff, depending on turnover/intake	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Report writing skills	Local courses for all staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (English, Portuguese)	Local courses for all staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Statistics Directorate: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
Objectives Improve Statistics Directorate operations to facilitate transparency, accountability, and efficiency in public financial management through: <ul style="list-style-type: none"> • Improved data sources for planning, and monitoring, and evaluation of programs and budgets and development of new data sources; • Provision of reliable economic, social, and demographic statistics; • Production and analysis of the Census and National Accounts.
Output Indicators <ul style="list-style-type: none"> • Improved/expanded statistical database; • Improved reporting based on better underlying statistical data and analysis of such data; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
Skills and Knowledge There are currently five vacant posts in the Statistics Directorate and thus recruitment of suitably qualified candidates is a priority. For existing and new recruits, the Statistics Directorate will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • For managers, leadership and management training; • For senior staff, training in poverty criterion and demographics; • Training in financial and data analysis; • Basic skills training in data entry, data processing, and report writing.
Systems and Processes The Statistics Directorate will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Improving coordination and collaboration between the Statistics Directorate and the MoPF and the line Ministries. • Enhancing of measures/indicators of poverty to underpin AAPs and respond to development partners; • Publishing and disseminating statistics to all stakeholders, including government, civil society, and development partners; • Supporting the planned 2010 Census, including data preparation, processing requirements; • Upgrading statistical computer packages (e.g., STATA, CISPRO, SPSS, DEVINFO, ASYCUDA) and integrating them with other government IT systems.
Attitudes and Behaviors The Statistics Directorate will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • Adviser to the Director • Adviser on Poverty Analysis • 3 Advisers on Census Preparation, Management and Analysis (short-term) • Adviser on National Accounts • Statistics Management Adviser

Statistics Directorate: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Recruitment and hiring to fill staffing plan	Drafting job descriptions/TORs, advertisement of posts, interviews, hiring	5 permanent staff hired
Increased coordination with Planning Directorate, line agencies and districts	Adviser to the Director working with national staff	Survey to assess improved in quality, accuracy and timeliness (including costing) of the NDP and AAPs
Support to National Accounts production and gradual capacity building	Adviser on National Accounts working with national staff	National Accounts produced consistent with previous years and increasing national staff involvement
Support to the analysis of the Timor-Leste Survey of Living Standards	Long-term Adviser on Poverty Analysis working with national staff on completion and poverty analysis of survey	Survey analysis completed as evidenced by final report
Leadership and management, including in application of the Civil Service Code of Ethics	Two 2-week courses	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in poverty criterion and demographics for senior staff	Local courses supplemented by overseas courses as needed for 10-15 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training in financial and data analysis	Local courses supplemented by overseas courses as needed for 10-15 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Basic skills training in data entry, data processing, report writing	Short courses provided locally	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Treasury: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
<p>Objectives</p> <p>Improve Treasury operations to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Effective Management of Treasury; • Improve the internal systems and redesign new administrative circuits on need basis • Reliable financial information; • Issuing instructions and memos to strengthen budget execution • Assure that the expenditure is done in the accordance of the Budget use the principle of value for money (economic , efficiency and effectiveness) • Liaise with all expend units and reconcile the information • Strengthened relationship with line ministries and districts; • Effective internal audit; • Client oriented • Have the adequate number of staff members in order to delivery the service in a timely manner (Key national staff recruited) • The issuance of TPO and checks done through informatics software (print checks instead of manual writing) • Train and disseminate the financial law, and procedures to all spending agency; • Account for the revenues and reconcile this information with the revenue collectors; • Improved external and internal reporting.
<p>Output Indicators</p> <ul style="list-style-type: none"> • Treasury approval arrangements streamlined with delegation to appropriate senior staff; associated manuals in use following training in MoPF and line ministries; • Treasury service standards introduced, implemented, and measured; • Suppliers paid on time; • Increased number of district bank accounts in use and reduction in outstanding district balances; • Audit Plan established; • Reduction in reports of missing documents; • Documentation of model to be used for government accounting of Petroleum Fund; • Abstract of Accounts published; • Increased accuracy in cash flow forecasts. • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
<p>Skills and Knowledge</p> <p>The program is likely to include an IMF adviser to support the Treasury Director and Deputy Director. The Treasury will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • For managers, leadership and management training; • Training in audit planning, computer audit, Crystal Reports writing, presentation of financial information, and interpretation of financial reports for civil society; • Basic IT skills, spreadsheet modeling, word processing.
<p>Systems and Processes</p> <p>The Treasury will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Decentralizing banking to the district Treasury level, including upgrading and extension of IT systems to the district Treasuries for recording and reporting; • Improving quality of services/CPV processing, including upgrading physical environment and extending FreeBalance/FMIS to respond to line ministry needs; • Making systems documentation more user friendly, including Abstract of Accounts, for dissemination to clients/external audiences (e.g., Parliament, civil society); • Extending internal audit to public procurement and improving Audit Planning and computer audit techniques; • Undertaking studies on (i) analysis of existing policy on accounting for and reporting on commitments and (ii) accounting for Petroleum Fund transactions; • Improving reporting, including on payroll information (complemented by increased access to FreeBalance/FMIS); • Safeguarding of Treasury documents through implementation of a records management strategy; • Establishing a library to promote knowledge sharing for Treasury staff.

Attitudes and Behaviors

The Treasury will pursue the following activities to improve attitudes and behaviors:

- Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery;
- Training for Directors on the application of the Civil Service Act Code of Ethics;
- Team-building exercises to help improve communication and information flows and build loyalty and trust;
- Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.

Proposed Advisers (Long Term)

- Adviser to the Director
- Adviser to Internal Audit
- Adviser for District Finance (short-term)
- STA FreeBalance Trainer
- Trainer on Accounting and Payments
- Trainer on Budget Execution
- Adviser on Assets and FMIS

Treasury: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Decentralized banking and improved district services, including more effective documentation and training for MoPF and line ministry staff	1 long-term Adviser for District Finance for 1 year, on-the job training and 4 workshops by Adviser	Operational procedures established for decentralized banking
Improve general quality of services/CPV processing, including simplification of steps, improvements to physical environment, more effective documentation, customer service training and minor upgrading of FMIS to provide more efficient communications and service within MoPF and across Government	1 short-term adviser for 3 months, 2 workshops and on-the-job training by adviser, formal training for 5 staff, renovation/ improvements to Treasury	Revised System Documentation CPVs processed in a timely manner Payment of Suppliers on time Maintain full operationality of transactions in Treasury Increase the understanding of the Financial system in place in Treasury by the Director of Finance and Administration in the Line Agencies
Development of and training in Audit Plans	1 long-term Adviser to Internal Audit for 1 year, on-the-job training by Adviser, short professional courses for 1-2 staff	Initial Audit Plans developed
Improved reporting to external clients (e.g., Parliament, civil society) including development of user-friendly Abstract of Accounts and training in presentation of financial information	1 short-term adviser for 3 months, on-the-job training and 2 workshops by adviser	Submission of timely and good quality Abstract of Accounts
Undertaking studies on (i) analysis of existing policy on accounting for and reporting on commitments and (ii) accounting for Petroleum Fund transactions	1 short-term consultant for 3 months	Study and recommendations submitted and policy formulated
Training in improved cash planning	Local course for 20 Treasury/line agency staff	Improved accuracy in cash planning as measured by actual cash balances against forecast
Training for Director and deputy Director in application of Civil Service Code of Ethics	Short-term course	Improved general management performance as measured by Recognition of Prior Learning assessment

Office of Government Procurement, Supply, and Inventory Management: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
Objectives Improve OGPSIM operations to facilitate transparency, accountability, and efficiency in public financial management through: <ul style="list-style-type: none"> • Effective, efficient, and ethical procurement processes; • Improved coordination between OGPSIM, line ministries, and districts; • Implementation of external complaints response function.
Output Indicators <ul style="list-style-type: none"> • Procurement arrangements streamlined with appropriate delegation and associated manuals in use and associated training provided to line ministries; • Increase in number of contracts reviewed and approved by the Contracts Assessment Committee; • Procurement service delivery improved including order processing time, timeliness, and number of goods procured; • Increase in number of complaints properly investigated by the Inspector General; • Preparation and regular update of assets registry and stock inventory; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
Skills and Knowledge: OGPSIM will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • For managers, leadership and management training; • Procurement accreditation through training modules and “hurdle approach” towards line agencies and districts; • Training for all line agencies in previously identified core procurement topics (e.g., Catapult software); • Specialized training for targeted agencies, study tours.
Systems and Processes OGPSIM will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Integrating procurement planning with the budget formulation process; • Formalizing and operationalizing relationships between the Procurement Division (PD), all MoPF divisions and line agencies, including support to line agencies in preparation of procurement plans; • Strengthening the oversight committee and oversight agencies, especially the Contracts Assessment Committee; • Ensuring meaningful bid protest procedures; • Implementing Supply and Inventory Control Manual; • Establishing regular stock availability reviews: weekly (quick) and monthly (thorough); • Implementing Operational Manual on Assets Management Procedures, including disposal procedures; • Delegating authority on identification of asset to line agencies; • Improving procurement strategies toward consumables; • Establishing segmentation of products and automatic approval for certain products; • Upgrading the asset register database, including physical inventory, and creating a data model and data dictionary to ensure consistency in coding; • Standardizing/cataloguing (in FMIS) commonly procured items to improve compliance in CPV preparation; • Establishing civil service regulations to recognize procurement as a profession, with established opportunities for career progression and recognition; • Designating a function inside the PD to improve efficiency in delivery and allocation of work, and reviewing the level of delegation on procurement decisions within the PD; • Strengthening the use of Catapult software and extending and upgrading FreeBalance/FMIS.
Attitudes and Behaviors OGPSIM will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Periodic declaration by civil servants of their assets; • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.

Proposed Advisers

- Procurement Adviser
- Procurement Adviser on External Assistance Projects
- Procurement Training Consultant
- Procurement Specialist
- Adviser on Property Disposal
- Supply Adviser
- Contracts Management Adviser (short-term periodic)
- Database Upgrade Adviser (short-term periodic)
- Performance Adviser (short-term periodic)

Office of Government Procurement, Supply, and Inventory Management: Indicative Activities for FY06-FY07		
Indicative Activities For the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Procurement		
Improve overall efficiency of the PD and relieve burden on Chief Procurement Officer	Procurement Specialist Adviser and Contract Management Specialist Adviser, working with national staff	Improved timeliness and number of procured items
Create a designated function inside procurement department to oversee and improve efficiency in delivery and allocation of work (e.g., by prioritization of CPV requests).	Procurement Specialist Adviser	Improved timeliness and number of procured items as measured by qualitative surveys of line agencies to indicate level satisfaction
Build/improve capacity in oversight agencies (e.g., Contracts Assessment Committee, Inspector General/Provedor)	Short-term learning/study tour (e.g., anti-corruption courses on the region)	Number of contracts prior and post reviewed, number of complaints
Procurement Professional Accreditation	Implement training modules already developed (INAP may deliver)	Improved timeliness and number of procured items, quality of documents produced
Build capacity and improve efficiency among selected line agencies and districts (pilots), especially on planning and requirements.	Implement training modules already developed (INAP may deliver)	Improvements in the quality of CPVs received, preparation and implementation by line ministries of good quality annual procurement plans
Assets		
Upgrade asset register database, including physical inventory and creation of data model and data dictionary to ensure coding consistency	Database Upgrade Adviser working with national staff	Preparation of a good quality Government Assets Registry
Implementation of Operational Manual on Assets Management Procedures, including property disposal procedures	Short-term courses/workshops—core topics already identified (INAP may deliver)	Usage of assets against expected life
Elaboration of regulations/approval procedures for property disposal, with associated training; training in legislation and regulations related to asset management	Short-term consultant, 6 months	Proper disposal of items
Training in the FreeBalance assets module	Training in modules already developed (INAP may deliver)	Preparation of a good quality Government Assets Registry
Supply		
Implementation of Supply and Inventory Control Manual	Short-term courses/workshops—core topics already identified (INAP may deliver)	Appropriate level of stockholding (as a ceiling, not a target), order processing time

East Timor Revenue Service: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>Improve ETRS operations to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Improved revenue collection; • Proper application of the petroleum tax regime; • Professional service delivery;
Output Indicators	<ul style="list-style-type: none"> • Tax revenue increased as evidenced by ratio of revenue to GDP both for petroleum and non-petroleum revenue and GDP; • Audits of petroleum companies conducted regularly; • Code of Ethics for ETRS adopted and implemented; • Taxpayer service improved as gauged by annual public perception survey; • SIGTAS fully functional in Dili and regions; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>ETRS is currently understaffed to perform its duties and thus recruitment will be a priority. Building on training already received under the MPFCBP, ETRS will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • For managers, leadership and management training; • Training in functional lines (e.g., taxpayer registration, assessment, auditing, and arrears management), comparative studies of tax administration, and university degrees for taxation, accounting, and auditing; • Specialized training for Petroleum Tax Division staff in Petroleum Tax Act and regulations; • Training in SIGTAS; • Training in report writing, presentation skills, language; • Basic skills/induction training for new recruits.
Systems and Processes	<p>Building on activities begun under MPFCBP, ETRS will develop and improve systems and processes in relation to:</p> <ul style="list-style-type: none"> • Periodically reviewing and rationalizing the system of tax laws and regulations (domestic and petroleum); • Simplifying tax registration; filing and payment; audit; enforcement; administrative and judicial appeals; • Reviewing and strengthening the existing administrative and judicial appeals system; • Ensuring strong internal audit practices; • Reviewing current practice in taxpayer service, and develop and implement taxpayer charter of rights; • Conducting periodic public perception survey of performance and client service orientation; • Improving consultations/outreach with foreign and domestic private sector clients; • Improving coordination and information exchange with Customs Service and other government agencies; • Upgrading SIGTAS to meet domestic and petroleum tax needs, expanding and integrating it with other GoTL IT systems; • Creating a library to ensure the availability of technical texts and language reference books; • Periodically reviewing and strengthening the strategic and operational planning process of ETRS.
Attitudes and Behavior	<p>Building on activities begun under the MFPCBP, ETRS will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Development and implementation of special Code of Ethics for ETRS; • Preparation and implementation of strategies for anti-corruption and internal investigation; • Conduct periodic public perception survey; • Team building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>	
<ul style="list-style-type: none"> • Revenue Adviser, Accounting (short-term) • Revenue Adviser, Tax Law • Petroleum Revenue Adviser, Collection (short-term) • Petroleum Revenue Adviser, Compliance (short-term) • Petroleum Tax Audit Adviser • Large Business Adviser • Short-Term Consultant, SIGTAS training including training in Oracle software 	

East Timor Revenue Service: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Review, streamline, and implement tax administration procedures	5 long-term Advisers assisting in both domestic and petroleum taxation	Increased revenue collection, improved “hit” rate for audit
Preparation for launching public perception baseline survey	1 short-term consultant for 2 months, 3 staff from a local institution (prospective survey conducting institution) to team up with consultant	Survey designed
Review and update procedures for taxpayer service	1 short-term consultant for 3 months	Improved taxpayer service as measured by public perception survey
Review and update auditing procedures	1 short-term consultant for 3 months	Number of audits completed and time to complete each audit by type of taxpayer and type of audit
Development of and training in specialized Code of Ethics	1 consultant for 6 months, 8 one-week training courses for 72 staff	Reduced incidence of corruption measured by public perception survey, number of cases referred for investigation
Leadership and management training	Two 2-week courses, short-term consultant to develop course materials and deliver to 16 managers on rotating basis	Improved general management performance as measured by Recognition of Prior Learning assessment
Functional training	4-week courses on skills in tax administration functions, 3 short-term consultants to deliver to 60 staff on rotating basis	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Specialized training for Petroleum Tax Division staff in petroleum fiscal regime	Two 2-week courses, consultant to deliver to 4 staff to attend	Improved skills proficiency as measured by Recognition of Prior Learning assessment
SIGTAS training, including training in Oracle software	Four 1-month courses on SIGTAS training, consultant to deliver to 40 staff in Dili and regional offices on rotating basis	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Investment in SIGTAS including MIS concept development and necessary physical infrastructure of IT	SIGTAS rollout to region, maintenance, and necessary investment in IT (computers, phone line etc).	Smooth implementation of SIGTAS. Concept of MIS developed.
Language training (English, Portuguese)	One 3-month basic course and one 3-month advanced course, overseas courses as appropriate	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Customs Service: Summary of Proposed Program
Overall Objectives and Output Indicators over the Life of the Program
<p>Objectives Improve Customs Service operations to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Increased revenue collection; • Trade facilitation; • Instillation of integrity in the Customs Service; • Safeguarding of national security and citizens.
<p>Output Indicators</p> <ul style="list-style-type: none"> • Customs revenue increased as evidenced by ratio of revenue to GDP; • Customs legislation and code implemented; • New customs posts and improvement of the existing ones; • Reduced clearance time for customs; • Staff integrity and service improved as gauged by annual public perception survey of clients (including government agencies); • ASYCUDA Phase II fully functional in Dili and regions; • Improved management and staff performance as measured by workplace competency-based training assessments.
Indicative Activities for the First 18 Months
<p>Skills and Knowledge Customs will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • For managers, leadership and management training; • Specialized training in customs legislation, customs classification, risk analysis, valuation control, investigation and information, exemptions and deferment regimes, verification of goods and luggage, and including study tours; • Training to raise staff awareness of need for and benefits of trade facilitation; • Training and formation specific for use and programming the ASYCUDA system • Training in communications and outreach, basic IT and language skills, ASYCUDA; • Upgrading of Customs Study Center to allow for better use of the facility for training.
<p>Systems and Processes Customs will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Periodic reviewing and strengthening of Strategic Plan for Customs; • Implement existing legal regime in accordance with available resources; • Developing a comprehensive compliance strategy and implementing risk management, in line with a strategy to improve risk analysis and fiscalisation; • Establishing a valuation database (by April 2006) and updating it quarterly; • Implementing electronic loads manifest to simplify the goods control procedures by July; • Reviewing and rationalizing document requirements and imports, export, and transit procedures; • Developing, intelligence, research, and analysis capacity to improve information services; • Creating new posts and improving physical structure of existing posts for various services for border control; • Strengthening the Internal Audit Unit to conduct regular audits; • Carrying out regular feedback surveys of clients; • Establishing and building capacity of a department for valuation and rules of origin, a department for deferment and exemption regimes, and a department of accounts/reconciliation • Implementing ASYCUDA II and interface with other key systems (e.g., SIGTAS, FreeBalance); • Implementing procedures and develop attitude for information sharing with ETRS, Police (Maritime, Border, and National Police force), Port, Airport, and other key government departments; • Streamline Customs procedures and launch public perception baseline survey of Customs administration
<p>Attitudes and Behaviors Customs will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Develop and implement a national integrity plan, including a Code of Conduct, based on the principles and declarations of the WCO's Revised Arusha Declaration on Integrity; • Set up a consultative group comprising Customs, Chamber of Commerce, traders, and brokers for regular feedback on performance, supplemented by periodic public perception survey; • Team building exercises to help improve communication and information flows and build loyalty and trust; <p>Development of non-financial incentives (merit certificates, etc.) to improve motivation and performance.</p>

<i>Proposed Advisers</i>
ASYCUDA Implementation Adviser ASYCUDA Maintenance Adviser Advisor to the Director - External Audit and Port Customs (Portugal) Advisor to the Director - Borders and Customs Posts (Portugal) Advisor on IT and databases, including petroleum (Portugal) Advisor to Ship Clearance and Control (Portugal)

Customs Service: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Rationalization of procedures and regulations for Customs Administration	Technical adviser for 1 year	Streamlined customs procedures as indicated by increased revenue collection, perception surveys
Implementation, revision and improvement of operational customs procedures	5 long-term technical advisers for assistance in the key custom areas	Improvements in specific custom matters, including valuation control, goods control and manifest, risk management, and post clearance audit (specific indicators for each area TBD)
Action plan on integrity for custom employees (preliminary version and Phase I in preparation) and implementation of the Code of Ethics	Short-term adviser for 6 months and 8 courses of 1 week on the Code of Ethics and socialization for the employees	Code of Ethics prepared with inputs from Arusha Declaration and professional integrity of staff enhanced as evidenced by perception surveys
Training of trainers (through Customs training department)	4 courses of 2 weeks, 1 technical adviser, to elaborate manuals and conduct training of 30 trainers	Training of Customs staff carried out in-house and on regular basis so that staff are performing duties in line with assigned responsibilities
Functional Courses on Customs	Course of 3 weeks on skills in tax administration and management for an initial group of 60 staff; 3 short-term technical advisers	Evaluation of trainees after the conclusion of the courses
Training on customs legislation	12 courses of 1 week; 1 technical adviser for 1 year to prepare and provide the respective material, aiming at 120 employees	Increased understanding of customs law as evidenced by evaluation of trainees and practical application resulting in increased revenue collection
Introduction to electronic processing and control of the loads manifest	Complete operation of ASYCUDA including the electronic processing of loads, piloted in Dili; training of employees and control of the loads manifest	Electronic processing and control of loads manifest operational in Dili, and extended and in use nationally
Implementation of ASYCUDA Phase II	1 long-term adviser, plus necessary hardware, software (namely understanding about Oracle, Unix and databases management), short-term advisers, training and workshop per detailed proposal put forth by Customs	Objectives of Phase II of ASYCUDA achieved – see detailed proposal put forth by Customs
Leadership and Management Training	Short courses for 10-20 staff	Improved general management performance as measured by Recognition of Prior Learning assessment
Basic training in ASYCUDA	4 courses of 1 week; 1 technical adviser for 12 months	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Basic IT skills training (Word processing, Excel)	short courses for an initial set of 30 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language Training (English, Portuguese)	Courses of 3 months at levels 1,2, and 3	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Macro-economy and Tax Policy Unit: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>Improve the Macro-economy and Tax Policy Unit's operations so that it becomes a fully functional Economic Directorate to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Proper management of Timor-Leste's Petroleum Fund, including helping to implement Timor-Leste's petroleum savings policy as a basis for macroeconomic stability; • Production of high-quality macroeconomic forecasts, including forecasts of revenue flows and economic indicators to feed into planning and budgeting; • Provision of good quality advice and analysis on policies for poverty reduction and growth, including wages and employment, tax regulatory regimes, and SIPs; and the management of government assets and liabilities.
Output Indicators	<ul style="list-style-type: none"> • Macroeconomic forecasts produced annually for budget document and Petroleum Fund annual report, and more frequently for planning and budgeting purposes as needed; • Macroeconomic advice provided to the Minister and as needed in accordance with the functioning of the Petroleum Fund Investment Advisory Board (as evidenced by reports); • Unit fully staffed and improved management and staff performance measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>Given that the unit currently has only one full-time staff member, priority will be given to recruitment of an initial 4 critical positions (overall recruitment target for the unit is 12 permanent staff). The Macro-economy and Tax Policy Unit will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • Leadership and management training; • Technical training in public finance, economic theory, economic modeling and forecasting, financial markets/portfolio management/investment strategies, tax policy, including knowledge of petroleum fiscal regime and economic policy, accounting and statistics; • Computer skills training, including word processing, spreadsheets/spreadsheet modeling, PowerPoint, and internet; • Basic office skills/induction training; • Language (Portuguese and English) and overall communications skills training, including report and speech writing, delivering presentations, and interpersonal skills.
Systems and Processes	<p>The Macro-economy and Tax Policy Unit will develop and improve systems and processes related to the following activities:</p> <ul style="list-style-type: none"> • Implementing tasks of the Petroleum Fund Team, including responsibilities for fiscal overview of the balance between revenue, expenditure, and savings, the Petroleum Fund, medium- and long-term fiscal analysis, and drafting of relevant sections of the budget document; • Implementing tasks of the Revenue Team, incl. responsibilities related to tax policy advice, revenue forecasting for petroleum and domestic tax revenue and fees, user charges, and interest, and drafting of relevant sections of the budget document; • Implementing tasks of the Economic Team, including responsibilities for forecasts and analysis of GDP, the CPI, and other economic indicators, analysis of economic policy issues and structural reforms such as wages, employment, investment, trade, economic regulation, industry structure, the role of the State in the economy, etc., and the promotion of policies to support economic development; • Institutionalizing relationships and delineating responsibilities between the unit and agencies with which it collaborates closely (Planning and Budget Directorates, ETRS, MNRMEP/Timor Sea Office/Timor Sea Designated Authority, and BPA).
Attitudes and Behaviors	<p>The Macro-economy and Tax Policy Unit will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of Director and managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Director on the application of the Civil Service Act Code of Ethics; • Team-building exercises both within the unit and between the unit and other agencies with which it interacts closely (Planning Directorate, Budget Directorate, ETRS, MNRMEP, TSO, TSDA, BPA) to help improve communication and information flows, and build loyalty and trust; • Introduction of the use of non-financial incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>	
<ul style="list-style-type: none"> • Fiscal and Petroleum Fund Team Adviser • Revenue Team Adviser • Economics Team Adviser • Macro Economic Adviser 	

Macro-economy and Tax Policy Unit: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Recruitment and hiring to fill staffing plan	Drafting job descriptions/TORs, advertisement of posts, interviews, hiring	An initial 4 permanent staff hired, with continued hiring until staffing plan met
Technical training in: (a) economic modeling and forecasting; (b) financial markets/investment strategy; (c) public finance, accounting, statistics. (overseas and on-the-job)	3 overseas placements, 2 weeks each, scholarship or course fees, travel costs for overseas courses, international advisers to conduct on-the-job training/skills transfer in these areas.	Good quality economic models and forecasts; good quality advice to the Minister on Petroleum Fund investment strategy; good quality inputs to budget document
Analyze IT and physical infrastructure needs, and develop plan to meet needs	International adviser(s) to help analyze systems needs based on work program, and to help develop implementation plan	Implementation plan developed (implementation in Year 2, unless ready earlier)
Leadership and management, including in application of the Civil Service Code of Ethics	1 Director, 1 month total over Year 1	Improved general management performance as measured by Recognition of Prior Learning assessment
Computer and office skills training	3 staff, 1 month over Year 1	Improved skills proficiency as measured by Recognition of Prior Learning assessment
English language and associated communications skills (report writing, presentations) training (local and overseas)	3 staff, 3 months over Year 1; course fee	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Directorate of Administration and IT: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>The Directorate of Administration and IT will be the implementing agency for the program. Directorate specific activities to improve its operations to facilitate transparency, accountability, and efficiency in public financial management include through:</p> <ul style="list-style-type: none"> • Provision of capacity building program management and coordination facility; • Establishment of ethics advice, training and management capability and deliver ethics and ethics focused training and coordination for MoPF and with Ethics Adviser; • Establishment of a Ministry-wide HRM and training and support centre; • Creation of a training record database to support management and monitoring of training delivery and outcomes for MoPF; • Provide IT support across MoPF for desktop, corporate applications systems, email/web services; • Creation of a document centre/library to service the staff requirements for technical and MoPF material; • Establishment of a training centre shared for IT and language training facilities for MoPF; • Liaison with CDCU on capacity building programs within MoPF; • Maintaining language translating and interpreting services for MoPF.
Output Indicators	<ul style="list-style-type: none"> • Improved workplace behavior and ethics; • Improved staff morale and corporate spirit through motivation and staff support services; • Increased usefulness of training by encouraging focus, relevance and success of training programs; • Provide stable IT services; • Improved management and staff performance as measured by workplace competency-based training assessments; • Making IT Division as the central point of IT services and consultation.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>The Directorate of Administration and IT will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • Training in HRM and support the capability and development of a motivated, focused and ethical workforce; • Training in ethics and the ability to train staff in ethics and workplace practices; • Training on ORACLE database structure and performance; • Training on Unix platform; • Improving IT staff profile and strengthening knowledge in IT area by attending diploma courses in the relevant area; • Information management course.
Systems and Processes	<p>The Directorate of Administration and IT will develop and improve systems and processes related to the following activities:</p> <ul style="list-style-type: none"> • Utilize Personnel Management Information System for human resource functions, when available; • Utilize project management systems; • Utilize library recording systems, databases to support ethics and related training; • Improved access to FreeBalance to enable better processing of budget execution.
Attitudes and Behaviors	<p>The Directorate of Administration and IT will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Provide the necessary management structures, reward incentives, training, and building of a strong work ethic, direction and motivation for staff across MoPF; • Develop HRM facility that cares for the well-being of staff; • Provide on-line response to the system user complaints.
<i>Proposed Advisers</i>	
	<ul style="list-style-type: none"> • Adviser to Program Implementation Officer • Attitudes and Behaviors Adviser • Human Resource and Capacity Building Adviser • Adviser, Coordination and Performance Assessment of Advisers • FMIS Adviser • Financial Management Officer • Network Management Adviser • Applications Management Adviser • 2 Administration and IT Assessment Advisers (short-term)

Directorate of Administration and IT: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
PFMCBP management: Set up project codes in FreeBalance, set up project management system	1 Adviser for 5 years on program management	Established and timely reporting to program steering committee
Ethical advice including conflict of interest. External course development and preparation. Establish ethics unit in HRCB. Devise policies and processes to support ethics. Course development and preparation	1 Adviser for 5 years to help with PFMCBP, provide training, coursework design and preparation	Surveys to measure the understanding and reporting on ethical standards and compliance
HR support for MoPF staff:. Commence establishment of human resource reference material. Identify and develop HR support services. Establish policies and procedures within Civil Service Act for human resource issues. Establish first aid services	1 Adviser for 5 years HRM	Surveys to measure staff services in human resource areas well regarded and accepted by staff, sense of increased wellbeing and belonging as part of the Ministry and Government
Document Centre	Short-term adviser for 2 months, storage facilities and management	Organized collection available for users with control over borrowings, Centre policy established and collection catalogue created
IT Support	FMIS adviser for 5 years	Stability in IT support across Ministry
Management of PFMCBP Advisers	1 Adviser for 5 years	Skills transfer to national staff as indicated by competency-based training assessments

Ministry of Agriculture, Forestry, and Fisheries: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
<p>Objectives Improve MAFF public financial management functions to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Preparation of realistic and sustainable plans and budgets; • Improved communication internally and externally by MAFF on budgeting and planning; • Better involvement of key ministry and districts officials in AAP formulation and budget decision-making; • Poverty reduction through execution of the combined sources budget efficiently according to plans; • Strengthened internal systems for monitoring and control to ensure proper use of funds.
<p>Output Indicators</p> <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes (with specific attention to gender and youth where appropriate); • Planning and budget preparation cycles coordinated and linkage between MAFF's AAP and the budget process strengthened, including linking district activities more clearly to resources; • Improved program planning and costing as reflected in AAP; • Annual procurement plans prepared; • Quality of CPV preparation improved; • MAFF's budget execution increased, reaching at least 80% (on cash basis) by and beyond FY08, including for capital expenditures; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
<p>Skills and Knowledge MAFF will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • University training for Directors and Department Heads in policy analysis, economics, and policy evaluation; • Training for Directors and Department Heads in costing, planning, and executing annual spending through QRM; • Formal and on-the-job training for finance staff on budget execution, using simplified manuals; • Training in preparation of procurement plans and CPVs; • Extend FreeBalance to MAFF and train staff in use of FreeBalance; • Basic skills and language training.
<p>Systems and Processes MAFF will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Improve coordination between MAFF and MoPF (NDPEAC and Budget Office) on the basis of improved templates for AAP and combined sources budget submissions; • Improve coordination between MAFF planning and finance units to prepare better AAP and combined sources budget submissions reflecting policy and SIP and focused on sector-wide outcome indicators; • Improve coordination between MAFF, district planning and budgeting, and national processes; • Prepare and regularly update annual procurement plans, and strengthen design/specification outputs in the procurement process; • Use FreeBalance and QRM to regularly monitor activity and budget execution.
<p>Attitudes and Behaviors MAFF will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial team incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • 1 Long-term (15 months) Finance and Administration Adviser • 1 Short-term (6 months) Procurement Adviser

Ministry of Agriculture, Forestry, and Fisheries: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Joint course for line agency finance officers(s) and budget department staff on aligning planning (AAP/SIP) and combined sources budget submission	4 x 2 day course over 12 weeks for 10 staff	Improved budget execution rates (FY06-07 over FY04-05)
On-the-job training for agency finance staff on preparation of procurement plans and CPVs	1 short-term adviser for 26 weeks	Increased completeness and accuracy of ministry-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
Strengthen capital budget execution (e.g., by improving design/specification of outputs)	No additional inputs required (to be reviewed in Dec 2005)	Tender specification documents attached to CPVs prepared according to procurement guidelines
Training for directors, department heads, district supervisors in costing, accounting, project management, and planning expenditure	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for directors and division heads in policy analysis, economics, and policy evaluation	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Leadership and management training for MAFF managers and training in the application of the Civil Service Code of Ethics	1 course for 10 managers	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in use of FreeBalance for budget execution, monitoring, reporting, etc.	1 short course plus on-the-job training for 25 finance staff and division heads GoTL to provide FreeBalance training	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for finance staff (L3-L5) basic accounting/bookkeeping, Excel, and IT skills	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Ministry of Education and Culture: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
Objectives Improve MoEC public financial management functions to facilitate transparency, accountability, and efficiency in public financial management through: <ul style="list-style-type: none"> • Preparation of realistic and sustainable plans and budgets; • Improved communication internally and externally by MAFF on budgeting and planning; • Better involvement of key ministry and districts officials in AAP formulation and budget decision-making; • Poverty reduction through execution of the combined sources budget efficiently according to plans; • Strengthened internal systems for monitoring and control to ensure proper use of funds.
Output Indicators <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes (with specific attention to gender and youth where appropriate); • Planning and budget preparation cycles coordinated and linkage between MoEC's AAP and the budget process strengthened, including linking district activities more clearly to resources; • Improved program planning and costing as reflected in AAP; • Annual procurement plans prepared; • Quality of CPV preparation improved; • MoEC's budget execution increased, reaching at least 80% (on cash basis) by and beyond FY08, including for capital expenditures; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
Skills and Knowledge MoEC will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • University training for Directors and Department Heads in policy analysis, economics, and policy evaluation; • Training for Directors and Department Heads in costing, planning, and executing annual spending through QRM; • Training of national trainers to train teachers on basic monitoring and evaluation of sector indicators/ outputs; • Formal and on-the-job training for finance staff on budget execution, using simplified manuals; • Training in preparation of procurement plans and CPVs; • Extend FreeBalance to MoEC and train staff in use of FreeBalance; • Basic skills and language training.
Systems and Processes MoEC will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Improve coordination between MoEC and MoPF (NDPEAC and Budget Office) on the basis of improved templates for AAP and combined sources budget submissions; • Improve coordination between MoEC planning and finance units to prepare better AAP and combined sources budget submissions reflecting policy and SIP and focused on sector-wide outcome indicators; • Improve coordination between MoEC, district planning and budgeting, and national processes; • Prepare and regularly update annual procurement plans, and strengthen design/specification outputs in the procurement process; • Use FreeBalance and QRM to regularly monitor activity and budget execution.
Attitudes and Behaviors MoEC will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial team incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • Finance and Administration Officer

Ministry of Education and Culture: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Joint course for line agency finance officers(s) and budget department staff on aligning planning (AAP/SIP) and combined sources budget submission	4 x 2 day course over 12 weeks for 10 staff	Improved budget execution rates (FY06-07 over FY04-05)
On-the-job training for agency finance staff on preparation of procurement plans and CPVs	1 short-term adviser for 26 weeks.	Increased completeness and accuracy of ministry-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
Strengthen capital budget execution (e.g., by improving design/specification of outputs)	No additional inputs required (to be reviewed in Dec 2005)	Tender specification documents attached to CPVs prepared according to procurement guidelines
Training for directors, department heads, district supervisors in costing, accounting, project management, and planning expenditure	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for directors and division heads in policy analysis, economics, and policy evaluation	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Leadership and management training for MoEC managers and training in the application of the Civil Service Code of Ethics	1 course for 10 managers	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in use of FreeBalance for budget execution, monitoring, reporting, etc.	1 short course plus on-the-job training for 25 finance staff and division heads GoTL to provide FreeBalance training	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for finance staff (L3-L5) basic accounting/bookkeeping, Excel, and IT skills	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Ministry of Health: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
Objectives Improve MoH public financial management functions to facilitate transparency, accountability, and efficiency in public financial management through: <ul style="list-style-type: none"> • Preparation of realistic and sustainable plans and budgets; • Improved communication internally and externally by MAFF on budgeting and planning; • Better involvement of key ministry and districts officials in AAP formulation and budget decision-making; • Poverty reduction through execution of the combined sources budget efficiently according to plans; • Strengthened internal systems for monitoring and control to ensure proper use of funds.
Output Indicators <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes (with specific attention to gender and youth where appropriate); • Planning and budget preparation cycles coordinated and linkage between MoH's AAP and the budget process strengthened, including better coordination with hospitals, districts and specialized services; • Improved program planning and costing as reflected in AAP; • Annual procurement plans prepared; • Quality of CPV preparation improved; • MoH's budget execution increased, reaching at least 80% (on cash basis) by and beyond FY08, including for capital expenditures; • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
Skills and Knowledge MoH will pursue the following activities to improve staff skills and knowledge: <ul style="list-style-type: none"> • University training for Directors and Department Heads in health economics, planning, and financial management; • Training in project management for district, hospital, and other supervisors; • Training in use of simplified budget, treasury, and procurement guidelines; • Technical support to district officers on budget planning process; • Training in preparation of procurement plans and CPVs; • Extend FreeBalance to MoH and train staff in use of FreeBalance; • Basic skills and language training.
Systems and Processes MoH will develop and improve systems and processes in relation to the following activities: <ul style="list-style-type: none"> • Improve coordination between MoH and MoPF (NDPEAC and Budget Office) on the basis of improved templates for AAP and combined sources budget submissions; • Improve coordination between MoH planning and finance units to prepare better AAP and combined sources budget submissions reflecting policy and SIP and focused on sector-wide outcome indicators; • Improve coordination between MoH, district planning and budgeting, and national processes; • Prepare and regularly update annual procurement plans, and strengthen design/specification outputs in the procurement process; • Review classification and selection of contractors (compliant with streamlined/simplified MoPF rules and guidelines); • Use FreeBalance and QRM to regularly monitor activity and budget execution.
Attitudes and Behaviors MoH will pursue the following activities to improve attitudes and behaviors: <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial team incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • 1 Finance and Administration Officer

Ministry of Health: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Joint course for line agency finance officers(s) and budget department staff on aligning planning (AAP/SIP) and combined sources budget submission	4 x 2 day course over 12 weeks for 10 staff	Improved budget execution rates (FY06-07 over FY04-05)
On-the-job training for agency finance staff on preparation of procurement plans and CPVs	1 short-term adviser for 26 weeks.	Increased completeness and accuracy of ministry-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
Strengthen capital budget execution (e.g., by improving design/specification of outputs)	No additional inputs required (to be reviewed in Dec 2005)	Tender specification documents attached to CPVs prepared according to procurement guidelines
Training for directors, department heads, district supervisors in costing, accounting, project management, and planning expenditure	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for directors and division heads in policy analysis, economics, and policy evaluation	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Leadership and management training for MoH managers and training in the application of the Civil Service Code of Ethics	1 course for 10 managers	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in use of FreeBalance for budget execution, monitoring, reporting, etc.	1 short course plus on-the-job training for 25 finance staff and division heads	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for finance staff (L3-L5) basic accounting/bookkeeping, Excel, and IT skills	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Ministry of Public Works: Summary of Proposed Program
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
<p>Objectives Improve MoPW public financial management functions to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Preparation of realistic and sustainable plans and budgets; • Improved communication internally and externally by MAFF on budgeting and planning; • Better involvement of key ministry and districts officials in AAP formulation and budget decision-making; • Poverty reduction through execution of the combined sources budget efficiently according to plans, including job creation through implementation of public works programs; • Strengthened internal systems for monitoring and control to ensure proper use of funds.
<p>Output Indicators</p> <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes (with specific attention to gender and youth where appropriate); • Planning and budget preparation cycles coordinated and linkage between MoPW's AAP and the budget process strengthened, with information exchange between regional engineers and officials to improve planning and budget execution; • Improved program planning and costing as reflected in AAP; • Annual procurement plans prepared; • Quality of CPV preparation improved; • MoPW's budget execution increased, reaching at least 80% (on cash basis) by & beyond FY08, including capital expenditures; • Enhanced job creation as witnessed by a measurable increase in annualized jobs and through public works programs (to be jointly measured and monitored by MoPW and MoPF); • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
<p>Skills and Knowledge MoPW will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • University training for Directors and Department Heads in policy analysis, economics, and policy evaluation; • Training for Directors and Department Heads in costing, planning, and executing annual spending through QRM; • Project management training for regional engineers (rotating between different regional centers and Dili); • Training for regional engineers on project and financial management and the undertaking of feasibility studies; • Formal and on-the-job training for finance staff on budget execution, using simplified manuals; • Training in preparation of procurement plans and CPVs; • Extend FreeBalance to MoPW and train staff in use of FreeBalance; • Basic skills and language training.
<p>Systems and Processes MoPW will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Improve coordination between MoPW and MoPF (NDPEAC and Budget Office) on the basis of improved templates for AAP and combined sources budget submissions; • Improve coordination between MoPW planning and finance units to prepare better AAP and combined sources budget submissions reflecting policy and SIP and focused on sector-wide outcome indicators; • Improve coordination between MoPW, district planning and budgeting, and national processes; • Prepare and regularly update annual procurement plans, and strengthen design/specification outputs in the procurement process; • Review classification and selection of contractors (compliant with streamlined/simplified MoPF rules and guidelines); • Use FreeBalance and QRM to regularly monitor activity and budget execution.
<p>Attitudes and Behaviors MoPW will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial team incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • 1 Finance and Administration Officer

Ministry of Public Works: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Joint course for line agency finance officers(s) and budget department staff on aligning planning (AAP/SIP) and combined sources budget submission	4 x 2 day course over 12 weeks for 10 staff	Improved budget execution rates (FY06-07 over FY04-05)
On-the-job training for agency finance staff on preparation of procurement plans and CPVs	1 short-term adviser for 26 weeks.	Increased completeness and accuracy of ministry-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
Strengthen capital budget execution (e.g., by improving design/specification of outputs)	No additional inputs required (to be reviewed in Dec 2005)	Tender specification documents attached to CPVs prepared according to procurement guidelines
Training on the measurement and monitoring of job creation activities	Adviser for on-the-job training to relevant national Directors, engineers, community-based staff	Numbers of annualized jobs created through public works programs
Training for directors, department heads, district supervisors in costing, accounting, project management, and planning expenditure	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for directors and division heads in policy analysis, economics, and policy evaluation	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Leadership and management training for MoPW managers and training in the application of the Civil Service Code of Ethics	1 course for 10 managers	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in use of FreeBalance for budget execution, monitoring, reporting, etc.	1 short course plus on-the-job training for 25 finance staff and division heads	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for finance staff (L3-L5) basic accounting/bookkeeping, Excel, and IT skills	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

Ministry of Natural Resources, Minerals and Energy Policy (Water and Sanitation)
<i>Overall Objectives and Output Indicators over the Life of the Program</i>
<p>Objectives Improve MNRMEP public financial management functions to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Preparation of realistic and sustainable plans and budgets; • Improved communication internally and externally by MAFF on budgeting and planning; • Better involvement of key ministry and districts officials in AAP formulation and budget decision-making; • Poverty reduction through execution of the combined sources budget efficiently according to plans, including job creation through implementation of public works programs; • Strengthened internal systems for monitoring and control to ensure proper use of funds.
<p>Output Indicators</p> <ul style="list-style-type: none"> • Enhanced use of sector output/outcome indicators for planning and budgeting purposes (with specific attention to gender and youth where appropriate); • Planning and budget preparation cycles coordinated and linkage between MNRMEP's AAP and the budget process strengthened, with information exchange between regional engineers and officials to improve planning and budget execution; • Improved program planning and costing as reflected in AAP; • Annual procurement plans prepared; • Quality of CPV preparation improved; • MNRMEP's budget execution increased, reaching at least 80% (on cash basis) by & beyond FY08, including capital expenditures; • Enhanced job creation as witnessed by a measurable increase in annualized jobs and through public works programs (to be jointly measured and monitored by MNRMEP and MoPF); • Improved management and staff performance as measured by workplace competency-based training assessments.
<i>Indicative Activities for the First 18 Months</i>
<p>Skills and Knowledge MNRMEP will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • University training for Directors and Department Heads in policy analysis, economics, and policy evaluation; • Training for Directors and Department Heads in costing, planning, and executing annual spending through QRM; • Project management training for regional engineers (rotating between different regional centers and Dili); • Training for regional engineers on project and financial management and the undertaking of feasibility studies; • Formal and on-the-job training for finance staff on budget execution, using simplified manuals; • Training in preparation of procurement plans and CPVs; • Extend FreeBalance to MNRMEP and train staff in use of FreeBalance; • Basic skills and language training.
<p>Systems and Processes MNRMEP will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Improve coordination between MNRMEP and MoPF (NDPEAC and Budget Office) on the basis of improved templates for AAP and combined sources budget submissions; • Improve coordination between MNRMEP planning and finance units to prepare better AAP and combined sources budget submissions reflecting policy and SIP and focused on sector-wide outcome indicators; • Improve coordination between MNRMEP, district planning and budgeting, and national processes; • Prepare and regularly update annual procurement plans, and strengthen design/specification outputs in the procurement process; • Review classification and selection of contractors (compliant with streamlined/simplified MoPF rules and guidelines); • Use FreeBalance and QRM to regularly monitor activity and budget execution.
<p>Attitudes and Behaviors MNRMEP will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Support to and training of managers in modeling and reinforcing professional work ethic, integrity, client service orientation, individual job motivation, and team spirit, to boost performance and service delivery; • Training for Directors on the application of the Civil Service Act Code of Ethics; • Team-building exercises to help improve communication and information flows and build loyalty and trust; • Development of non-financial team incentives (merit certificates, etc.) to improve motivation and performance.
<i>Proposed Advisers</i>
<ul style="list-style-type: none"> • 1 Long Term Adviser shared with MoPW plus 2 Short-Term advisers

MNRMEP: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Joint course for line agency finance officers(s) and budget department staff on aligning planning (AAP/SIP) and combined sources budget submission	4 x 2 day course over 12 weeks for 10 staff	Improved budget execution rates (FY06-07 over FY04-05)
On-the-job training for agency finance staff on preparation of procurement plans and CPVs	1 short-term adviser for 26 weeks.	Increased completeness and accuracy of ministry-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
Strengthen capital budget execution (e.g., by improving design/specification of outputs)	No additional inputs required (to be reviewed in Dec 2005)	Tender specification documents attached to CPVs prepared according to procurement guidelines
Training on the measurement and monitoring of job creation activities	Adviser for on-the-job training to relevant national Directors, engineers, community-based staff	Numbers of annualized jobs created through public works programs
Training for directors, department heads, district supervisors in costing, accounting, project management, and planning expenditure	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for directors and division heads in policy analysis, economics, and policy evaluation	50 directors, division heads and supervisors trained through 10 day course (spread over 10 weeks)	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Leadership and management training for MNRMEP managers and training in the application of the Civil Service Code of Ethics	1 course for 10 managers	Improved general management performance as measured by Recognition of Prior Learning assessment
Training in use of FreeBalance for budget execution, monitoring, reporting, etc.	1 short course plus on-the-job training for 25 finance staff and division heads	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Training for finance staff (L3-L5) basic accounting/bookkeeping, Excel, and IT skills	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment
Language training (Portuguese and English)	1 course for 20 staff	Improved skills proficiency as measured by Recognition of Prior Learning assessment

District Finance Officers: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>Improve District Finance Officers (DFOs) capacity to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Expenditure monitoring at the district level, • Improved reporting to central Treasury, line agencies, and the public through expenditure monitoring at the district level.
Output Indicators	<ul style="list-style-type: none"> • Increased completeness and accuracy of district-level expenditure records; • Improved availability of information on budgets and balances at district level; • Improved budget execution at district level; • Greater number of regional/district bank accounts in use; • Introduction of service standards, which are measured and improve; • Increased flexibility and empowerment of district-level staff.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>MoPW will pursue the following activities to improve staff skills and knowledge:</p> <ul style="list-style-type: none"> • On-the-job training in recording imprest account expenditures by line item; • Training in financial management, accounting, bookkeeping, including training Treasury staff to train DFOs; • Training in basic revenue management in relevant districts; • Training in basic IT skills, including Excel and Access, and language training (Portuguese and English); • Use of Dili Distance Learning Center for international public accounting workshop, w/ district participants.
Systems and Processes	<p>DFOs will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Fill district-level vacancies with suitably qualified staff; • Translate and disseminate guidelines and updates to DFOs in a timely and accessible format, reinforced by visits of central staff/advisers; • Improved process for DFO monitoring of line agency district and sub-district imprest accounts; • Systems in place and documented for use of district bank branches to facilitate regional access to Treasury funds; • Development of communications systems for information-sharing (logistics and district travel systems; telephones; internet where feasible).
Attitudes and Behaviors	<p>DFOs will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Embed customer service philosophy in mission statement, with a view to improving relations with center, line agencies, sub-districts, and the public; • Leadership and management training for managers; • Participatory workshop (District Administrators, DFOs, line agency District Officers, sub-district staff) on applying the Code of Ethics at district level; • Team building exercises with central, district, and sub-district staff, rotating among Dili and districts, to build understanding/trust; • Certificate program to recognize districts that perform well on budget execution.
<i>Proposed Advisers</i>	
<ul style="list-style-type: none"> • None 	

District Finance Officers: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Fill district-level vacancies with suitably qualified staff	Drafting job descriptions/TORs, advertisement of posts, interviews, hiring	District Finance Officer staff complement complete
Improved process for DFO monitoring of line agency district and sub-district imprest accounts, with targeted on-the-job training in recording imprest account expenditures by line item	1 short-term consultant for 9 weeks (3 x 3) Local travel costs for 2 people (1 ministry staff)	Increased completeness and accuracy of district-level expenditure records (measured by the number of CPVs returned to line agencies for additional information)
On-the-job training in basic financial management, accounting, and record-keeping, including training of trainers	1 short-term consultant for 12 weeks (3 x 4) Local travel costs for 2 people (1 ministry staff)	Faster processing of district-level expenditures Improved budget execution at district level
Participatory workshop with District Administrators, District Finance Officers, District Officers, and sub-district staff on applying the Code of Ethics at the district and sub-district levels	1 2-day workshop for 100 people	Code of Ethics for district staff prepared, disseminated, and posted in district and sub-district offices
Initial work on developing systems for decentralized banking and improved district services	District Finance Adviser in Treasury	Operational procedures established for decentralized banking

District Line Agency Officers: Summary of Proposed Program	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>Improve District Line Agency Officers (DO) capacity to facilitate transparency, accountability, and efficiency in public financial management through:</p> <ul style="list-style-type: none"> • Preparation of realistic plans and budgets that address district-level needs; • Production of timely and accurate reports on district-level spending to Treasury, central line agency staff, and the public; • Strengthened procurement/expenditure planning to improve budget execution, especially for capital development spending.
Output Indicators	<ul style="list-style-type: none"> • Improved availability of clear guidelines for planning, budget preparation, procurement processing and expenditure monitoring in district offices; • Increased completeness and accuracy of district-level procurement requests; • Improved budget execution rates; • Improved realism and implementation of AAPs; • Increased flexibility and empowerment of district-level staff.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<ul style="list-style-type: none"> • On-the-job training in managing district and sub-district level imprest accounts; • On-the-job training in financial management, accounting, and bookkeeping; • Periodic on-the-job training in project management, costing, analysis, and monitoring ; • On-the-job and workshop training in procurement planning from with technical expertise (i.e., engineer); • On-the-job and workshop training for district managers on general management and operational planning; • Workshop on capital development budget execution and role of district staff; • Regular workshops on preparing and refining plans and budgets, including district staff; • Inter-ministerial workshop on District Health Plans, run by MoH local staff to discuss district planning; • Course on data collection and analysis; • Training in basic IT skills, including Excel and Access, and language training (Portuguese and English); • Use of Dili Distance Learning Center for workshop with district-level officers abroad.
Systems and Processes	<p>DOs will develop and improve systems and processes in relation to the following activities:</p> <ul style="list-style-type: none"> • Translate and disseminate guidelines and updates to DOs in a timely and accessible format, reinforced by visits of central staff/advisers; • Improve the process for DO monitoring of line agency district and sub-district imprest accounts; • Develop mechanisms for regular flow of information (guidelines, budget envelopes, remaining balance to districts spending priorities and actual expenditures from districts) with a view to eventual FreeBalance integration; • Inclusion of district-level responsibilities in agency operational, procurement, and expenditure plans; • Improve process for district and sub-district imprest fund spending by line agencies, and ex-post monitoring by DFOs; • Develop system for district-level monitoring of capital development budget execution projects implemented; • Develop communications systems for information-sharing (logistics/ and district travel systems; telephones; internet where feasible).
Attitudes and Behaviors	<p>DOs will pursue the following activities to improve attitudes and behaviors:</p> <ul style="list-style-type: none"> • Embed customer service philosophy in mission statement, with a view to improving relations with center, line agencies, sub-districts, and the public; • Leadership and management training for managers; • Participatory workshop (District Administrators, DFOs, line agency District Officers, sub-district staff) on applying the Code of Ethics at district level; • Team building exercises with central, district, and sub-district staff, rotating among Dili and districts, to build understanding/trust; • Certificate program to recognize districts that perform well on budget execution.
<i>Proposed Advisers</i>	
<ul style="list-style-type: none"> • All short-term 	

District Line Agency Officers: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Workshop on capital development budget execution and role of district staff	1 1-day workshop for 100 people	Improved understanding of capital development budget execution process at district level
Process for district-level monitoring of capital development budget execution implemented and training on monitoring	1 short-term consultant for 12 weeks (3 x 4), local travel costs for 2 people (1 ministry staff)	Guidelines for regular district-level monitoring of capital development budget execution produced and disseminated
Inclusion and communication of district-level responsibilities in procurement/expenditure plans with associated training	1 short-term consultant for 9 weeks (3 x 3), local travel costs for 2 people (1 ministry staff)	Increased completeness and accuracy of district-level procurement requests (measured by the number of CPVs returned to line agencies for additional information)
On-the-job training in basic financial management, accounting, and record-keeping	1 short-term consultant for 12 weeks (3 x 4), local travel costs for 2 people (1 ministry staff)	Faster processing of district-level expenditures Improved budget execution at district level
On-the-job training in basic project management	1 short-term consultant for 6 weeks, local travel costs	Improved project management performance as measured by Recognition of Prior Learning assessments
On-the-job training in basic general management	1 short-term consultant for 6 weeks, local travel costs	Improved general management performance as measured by Recognition of Prior Learning assessment
Targeted on-the-job training in managing district and sub-district level imprest accounts	1 short-term consultant for 9 weeks (3 x 3), local travel costs for 2 people (1 ministry staff)	Increased completeness and accuracy of district-level expenditure records
Participatory workshop with District Administrators, District Finance Officers, District Officers, and sub-district staff on applying the Code of Ethics at the district level	1 2-day workshop in Dili or Baucau for 100 people (see DFO matrix)	Code of Ethics for district staff prepared, disseminated, and posted in district and sub-district offices

Building Ethics, Professionalism and a Service Culture: Summary of Proposed Program-wide Activities	
<i>Overall Objectives and Output Indicators over the Life of the Program</i>	
Objectives	<p>To build ethics, professionalism, and a service culture in the MoPF, line agencies, and districts through:</p> <ul style="list-style-type: none"> • Government-owned mission statements and Civil Service Code of Ethics; • Improved integrity of the finance ministry and to support high ethical standards through discussion, education and the provision of ethical advice; • Creation of a sense of mission and a service culture in the program agencies; • Improved standards of professionalism, communication, coordination, appropriate delegation, reporting and monitoring practices among managers and staff alike; • Benchmarking of integrity measures and linking agency and system wide integrity measures to increase agency effectiveness and reduce the risk of corruption; • Linking planning to mission.
Output Indicators	<ul style="list-style-type: none"> • Mission statements for program agencies and work units; • Role statements for individual civil servants (not just a job description, ‘what you do’, but how you contribute to the agency’s mission); • Delivery of ethics awareness training; • Civil Service Code of Ethics with aspirational and disciplinary elements; • Awareness and use of Code of Ethics; • Annual planning exercises outline the way the agency’s mission is promoted in that year; • Provision of non-financial rewards to ministry staff; • Promotion of staff takes into account ethical performance.
<i>Indicative Activities for the First 18 Months</i>	
Skills and Knowledge	<p>Through ethics and ethics awareness training as well as various forms of management/leadership training the program would build skills and knowledge of staff so that they are able to:</p> <ul style="list-style-type: none"> • Relate role of agency to national development and service to the people of Timor-Leste; • Lead and give guidance to others in public service ethic, technical competence, and service delivery (leaders); • Know behavior that will advance the mission of the agency; • Recognize an ethical issue and either deal with it or seek advice.
Systems and Processes	<p>The program would aim to carry out a benchmarking study of integrity staffing and help the agencies to develop specific mission and agency/departmental Codes of Conduct to:</p> <ul style="list-style-type: none"> • Use the mission statement in planning and management—including individual work plans, which are supported and assisted by international advisers; • Create systems of ethics advice and rewards and sanctions related to behavior; • Develop protocols for delegation of financial and other authority.
Attitudes and Behaviors	<p>The program aims to help staff recognize that:</p> <ul style="list-style-type: none"> • The only reason for agencies to exist is to serve the people of Timor-Leste and that public service is at the heart of a civil servants role (i.e., instill a greater sense of common purpose and common mission); • Ethical performance is a central part of individual performance; • Delegation of parts of the mission in a planned way is essential for achieving the mission.
<i>Proposed Advisers</i>	
<ul style="list-style-type: none"> • Adviser on Attitudes and Behavior 	

Building Ethics, Professionalism and a Service Culture: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
Development of Agency and Departmental Mission Statements that identify and emphasize the ways in which the ministry and departments serve the people of Timor-Leste	Principal consultant: 6 weeks Local researcher(s): 8 weeks Workshops of civil servants, consultant and local researcher	Agency and Departmental Mission Statements: month 4
Curriculum Development and Delivery of Pilot Ethics Awareness courses based on Civil Service Act	Principal consultant: 3 weeks in country 1 week out of country Research assistant 3 weeks out of country Pilot courses: 3 x 1 day Long term trainers: 2 weeks	Delivery of Pilot course: month 5 Delivery of completed materials: month 7
Development of Agency Specific and Departmental Specific Codes of Conduct – including ‘aspirational’ and ‘disciplinary’ elements	Principal consultant: 8 weeks Local researcher: 16 weeks Workshops of civil servants, consultant and local researcher(s)	Agency Specific Code: month 8 Department Specific Codes: month 10
Development of Ethics Training courses based on Agency Specific and Departmental Codes	Principal consultant: 6 weeks in country 3 weeks out of country Research assistant 4 weeks out of country Pilot courses: 3 x 1 day Long term trainers: 2 weeks Pilot courses: 3 x 2 days	Delivery of Pilot course: month 12 Delivery of completed materials: month 14

FMIS: Indicative Activities for FY06-FY07		
Indicative Activities for the First 18 Months	Estimated Inputs (to be reviewed)	Output/Outcome Indicators
FreeBalance upgrade process	Major business process review User needs analysis Systems review Module integration Extended agency access Improved reporting New modules enabled	Improved user access and functionality, better reporting, increased user acceptance
ASYCUDA upgrade process	Commence Phase 2 with increased functionality Roll out to remote offices/border posts	Increased functionality, greater user access and more timely information.
SIGTAS upgrade process	Develop large taxpayer functionality	Large taxpayer Unit separated from balance of database

Annex 4D: Indicative Overview

Five-Year Classroom-based Training Program under the PFMCBP

Type of Training Identified	Target Group, Est. Numbers over 5 yrs	Proposals for Training Delivery
Planning and budgeting cycle training Practical, job-focused training on developing AAPs, budget formulation, operationalizing budgets; focus on partnership (4 modules, 2 days each, over 12 week period)	Planning and finance officers in MoPF and line ministries	Initially adviser-provided then run jointly by staff from NDPEAC or Budget Office, combined with line ministry staff (to get both perspectives and emphasize customer service). Annual (refresher) training at key points of planning and budgeting cycle.
Financial management for managers Manage resources, develop plans and budgets, implement budgets, monitor results and interpret financial management information.	Managers and budget holders in all ministries and districts (500-1,000)	Training module to be developed and incorporated into: <ul style="list-style-type: none"> Leadership and management training Supervisory training.
Professional qualification in econ. and financial management Accounting, economics, audit, public finance, procurement, financial management, statistics.	Senior economists, finance managers in MoPF, L5 or 6 (maximum of 20)	Diploma, degree, or master's degree, initially overseas until local training capacity is developed. One or two each from ETRS, Statistics; one each from Macro-economy, Budget, Procurement, Treasury.
Core financial operations for finance officers Bookkeeping, payments processing, payroll operation, tax assessment, procurement, budget data collection, shipping.	Finance officers at L3-L5 in MoPF and line ministries (250-400)	First 1-2 years – could use advisers in individual units for on- and off-job training Medium-term, may need 2 years part time study (day or block release). Could use INAP (after support to develop and run courses) and/or other local institutions.
Technical training Operational skills and knowledge for specific functions (see individual units' training requirements for examples).	Staff in specific units of MoPF and line agencies	Staff and advisers to discuss cost-effective options for providing the training. May include structured on-job training, short courses developed by advisers, etc
Short-term visits / exchanges overseas	Various managers and staff in need of specialized skills	Treasury, 3 people; Macro-economy, 3 visits. Scope for more.
Common government functions – leadership and management	Staff, director and section heads L5 and L6	Government-wide training and development programs such as the proposed Leadership and Management Program or other initiatives in the PSM SIP.
Common government functions – specific skills Program management, teamwork, communication, problem-solving, policy analysis, analytical writing, and monitoring and evaluation skills (see individual units' training requirements for further examples).	Staff at L3 – L5	Staff and advisers to discuss cost-effective options for providing the training. May include structured on-job training, short courses developed by advisers, use of Government-wide training programs, local training providers, etc
Language training Portuguese, English; focus on report writing and public speaking.	All staff	Could be part of existing courses at INAP or provided by local training organizations.
Basic office systems Office administration, basic computer operation.	Clerical staff at L2 or L3 (up to 200)	Could be part of existing courses at INAP or provided by local training organizations.
Ethics training	All staff	Pilot by advisers, then INAP, local providers.

Source: Information drawn from matrices developed with MoPF and line agency staff and further analyzed by team.

Annex 4E: List of Long-term Advisers to be Supported by the PFMCBP¹¹

Agency	Position	Continuation of existing position?	Counterpart	Period to be covered by PFMCBP
NDPEAC (MoPF)	Adviser on Data Management	No	Director, NDPEAC	March 2006 through September 2008
	Planning and Monitoring Adviser	No	Director, NDPEAC	March 2006 through September 2008
	External Assistance Mobilization Coordination Adviser (JICA)	Yes	Director, NDPEAC	March 2006 through February 2011
Budget Office (MoPF)	Budget Adviser	Yes	Director, Budget Office	November 2006 through October 2010
	Budget Adviser	Yes	Director, Budget Office	November 2006 through October 2008
	2 Line Ministry Budget Execution Advisers	Yes	Director, Budget Office	November 2006 through October 2007
Treasury (MoPF)	Adviser to the Director of Treasury	Yes	Director/Deputy Directors in Treasury	May 2006 to November 2007
Procurement Division (MoPF)	Procurement Adviser	Yes	Chief Procurement Officer	October 2006 through September 2008
	Procurement Adviser on External Assistance Projects	Yes	Chief Procurement Officer, Program Implementation Officer	January 2006 through June 2007
	Procurement Training Consultant	No	Chief Procurement Officer	March 2006 through September

¹¹ This list represents the working agreement reached between the MoPF, participating line ministries and contributing donors during project preparation and will be revised as the program evolves.

Agency	Position	Continuation of existing position?	Counterpart	Period to be covered by PFMCBP
				2007
	Procurement Specialist (Procurement and Contract Administration Manuals)	No	Chief Procurement Officer	July 2006 through June 2007
	Adviser on Property Disposal (Asset)	No	Chief Procurement Officer	July 2006 through June 2007
	Supply Adviser	No	Chief Procurement Officer	July 2006 through December 2007
MAFF	Finance and Administration Officer	No	Chiefs of Finance and Procurement	March 2006 to October 2007 ¹²
MEC	Finance and Administration Officer	No	Chief of Finance and Administration	March 2006 to October 2007 ¹³
MoH	Finance and Administration Officer	No	Chiefs of Finance and Procurement	March 2006 to October 2007 ¹⁴
MoPW/MNRMEP	Finance and Administration Officer	No	Director of Planning, Finance, and Administration	March 2006 to October 2007 ¹⁵
B.1 East Timor Revenue Service/ Timor Sea Tax Division (MoPF)	Large Business Adviser	Yes	Commissioner, ETRS	November 2006 through December 2007
	Revenue Team Adviser	No	Commissioner, ETRS	November 2006 through December 2009
	Economics Team Adviser	No	Commissioner, ETRS	November 2006 through December 2009
	Petroleum Tax Audit Adviser (Norway)	Yes	Commissioner, ETRS	November 2006 through December

¹² TFET ARP III will finance Adviser until February 2006.

¹³ TFET FSQP will finance Adviser until June 2006

¹⁴ TFET HSRDP2 will finance Adviser through June 2007.

¹⁵ Currently ST Advisor advising on procurement (CPV) process linking to AusAID funded ministry-based advisers

Agency	Position	Continuation of existing position?	Counterpart	Period to be covered by PFMCBP
				2009
	Revenue Adviser – Tax Law	Yes	Commissioner, ETRS	November 2006 through December 2008
B.2 Customs (MoPF)	ASYCUDA Implementation Adviser	Yes	Director, Customs	February 2006 through July 2007
	ASYCUDA Maintenance Adviser	No	Director, Customs	July 2007 through January 2010
	Adviser for External Audit and Port Customs (Portugal)	Yes	Director, Customs	
	Adviser, Borders and Customs Posts (Portugal)	Yes	Director, Customs	
	Adviser, Ship Clearance and Control (Portugal)	Yes	Director, Customs	
	Adviser, IT and databases, including petroleum (Portugal)	Yes	Director, Customs	
B.3 Macro-economy and Tax Policy (MoPF)	Fiscal and Petroleum Fund Adviser (Norway)	Yes	Head, Macro Unit	October 2006 through December 2010
	Macro-Economic Adviser	Yes	Head, Macro Unit	November 2006 through December 2009
National Directorate of Statistics	Statistics Management Adviser	No	Director, National Statistics	July 2006 through May 2009
	Adviser to the Director	No	Director, National Statistics	March 2006 through December 2010
	Adviser on Poverty Analysis	No	Director, National Statistics	March 2006 through December 2010
	Adviser on National Accounts	Yes	Director, National Statistics	January 2006 through December

Agency	Position	Continuation of existing position?	Counterpart	Period to be covered by PFMCBP
				2010
Treasury (MoPF)	Trainer on Accounting and Payments	Yes	Director/deputy directors, Treasury	May 2006 through April 2008
	Trainer on Budget Execution	Yes	Director/deputy directors, Treasury	May 2006 through April 2010
	Adviser on Internal Audit	Yes	Director/deputy directors, Treasury	May 2006 through November 2007
	STA FreeBalance Trainer	No	Director./deputy directors, Treasury	September 2006 through August 2009
Offices of the Minister and Vice-Minister of Planning and Finance	Baseline Indicator Survey Officer	No	Minister and Vice-Minister of Planning and Finance	April 2006 through March 2008
	Public Expenditure and Financial Accountability (PEFA) Adviser	No	Minister and Vice-Minister of Planning and Finance	April 2006 through March 2008
	Legal Adviser	Yes	Minister and Vice-Minister of Planning and Finance	May 2006 through April 2010
	Technical and Financial Adviser	Yes	Minister and Vice-Minister of Planning and Finance	November 2006 through October 2010
Administration and IT (MoPF)	Adviser to the Program Implementation Officer	No	Program Implementation Officer	January 2006 through December 2011
	Training and Performance Adviser	No	Program Implementation Officer	November 2006 through May 2008
	FMIS Officer	No	Program Implementation Officer	January 2006 through December 2008
	Adviser on Attitudes and Behavior	No	Program Implementation Officer	February 2006 through January 2007
	HR & Capacity Building Adviser	Yes	Program Implementation Officer	November 2006 through October

Agency	Position	Continu ation of existing position?	Counterpart	Period to be covered by PFMCBP
				2009
	Network Management Adviser	Yes	Program Implementation Officer	May 2006 through April 2007
	Applications Management Adviser	Yes	Program Implementation Officer	May 2006 through April 2007
	Financial Management Officer	No	Program Implementation Officer	March 2006 through February 2011
Treasury (MoPF)	Adviser on Assets and FMIS	Yes	Program Implementation Officer, Director, Treasury, Chief, Procurement	May 2006 through April 2007

Annex 5: Program Costs
TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Program Cost By Component	Local (USD million)	Foreign (USD million)	Total (USD million)	Total Incl. Contingencies
Component A. Public Expenditure Management				
Subcomponent A.1. Planning, Budget Formulation, and Budget Execution	0.000	8.357	8.357	9.192
Subcomponent A.2. Financial Management Information System	0.000	5.700	5.700	6.270
Component B. Revenue Administration and Macroeconomic Management				
Subcomponent B.1. Tax Administration and Revenue Collection	0.050	2.746	2.796	3.076
Subcomponent B.2. Customs	0.011	2.539	2.550	2.805
Subcomponent B.3. Macroeconomic Management	0.000	3.388	3.388	3.727
Component C. Program-wide Activities				
Subcomponent C.1. Professional leadership, Work Ethic, Basic Training, and Performance Assessment	0.000	4.429	4.429	4.872
Subcomponent C.2. Accountability and Transparency in Public Financial Management	0.000	1.983	1.983	2.182
Component D. Support to Improve Governance and Management	0.000	2.093	2.093	2.302
Component E. Program Implementation	0.060	2.522	2.582	2.841
Total Baseline Cost	0.121	33.757	33.878	37.267
Price Contingencies	0.012	3.376	3.389	0.000
Total Financing Required	0.133	37.133	37.267	37.267

Program Cost By Input	Long Term Advisers		Short-Term Advisers		Other (incl. National)	Training		Goods		Total	
	Man Years	Cost (USD million)	Months	Cost (USD million)	Cost (USD million)	Overseas	Other	TLLSS	ICT	Other	
Component A. Public Expenditure Management											
Subcomponent A.1. Planning, Budget Formulation, and Budget Execution	26.9	3.866	109	2.868	0.683	0.270	0.000	0.000	0.300	0.370	8.357
Subcomponent A.2. Financial Management Information System	0.00	0.000	57	1.505	0.000	0.000	0.000	0.000	4.195	0.000	5.700
Component B. Revenue Administration and Macroeconomic Management											
Subcomponent B.1. Tax Administration and Revenue Collection	9	1.296	35	0.936	0.0500	0.090	0.000	0.000	0.424	0.000	2.796
Subcomponent B.2. Customs	9.9	1.417	20	0.540	0.011	0.090	0.000	0.000	0.492	0.000	2.550
Subcomponent B.3. Macroeconomic Management	9.5	1.368	13	0.330	0.000	0.270	0.000	1.400	0.020	0.000	3.388

Program Cost By Input	Long Term Advisers		Short-Term Advisers		Other (incl. National)	Training			Goods		Total
	Man Years	Cost (USD million)	Months	Cost (USD million)	Cost (USD million)	Overseas	Other	TLLSS	ICT	Other	
Component C. Program-wide Activities											
Subcomponent C.1. Professional leadership, Work Ethic, Basic Training, and Performance Assessment	2	0.288	53	1.404	2.237	0.5000	0.000	0.000	0.000	0.000	4.429
Subcomponent C.2. Accountability and Transparency in Public Financial Management	8	1.152	3	0.072	0.000	0.000	0.755	0.000	0.000	0.004	1.983
Component D. Support to Improve Governance and Management	10	1.447	0	0.000	0.196	0.450	0.000	0.000	0.000	0.000	2.093
Component E. Program Implementation	17.5	2.520	0	0.000	0.060	0.000	0.000	0.000	0.002	0.000	2.582
Total Baseline Cost											33.878
Price Contingencies											3.389
Total Program Costs By Input	92.8	13.354	290	7.655	3.237	1.67	0.755	1.4	5.433	0.374	37.267

Annex 6: Management and Supervision of the Program
TIMOR-LESTE: Planning and Financial Management Capacity Building Program

**STATEMENT OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF TIMOR-LESTE
AND
DEVELOPMENT PARTNERS
CONCERNING THE
PLANNING AND FINANCIAL MANAGEMENT CAPACITY BUILDING PROGRAM**

1. The purpose of this Statement of Understanding (SoU) is to support the implementation of GoTL's PFMCBP. The SoU sets out the understanding of the GoTL and participating Development Partners about the management and supervision of the program. This SoU complements the legal agreement/s, but is not a legally binding document.

General Statement on Management of the Program

2. The GoTL and participating Development Partners jointly agree on the objectives and strategic direction of the program as laid out in the Project Appraisal Document (PAD). Through the Supervisory Committee they will continue to oversee the strategic direction of the program to ensure the program progresses consistently with its development objectives. The Supervisory Committee will agree Annual Action Plans and associated Annual Results Frameworks under the program, and will provide recommendations for consideration by the chair of the Supervisory Committee. The Committee will provide a forum for continuous policy dialogue between the GoTL and Development Partners with a view to strengthening public financial management and ensuring the long-term sustainability of the program.

3. The program will be managed and implemented by the GoTL guided by the Annual Action Plans and Annual Results Frameworks endorsed by the Supervisory Committee. Day-to-day management of the program will be housed in the Directorate of Administration and IT of MoPF.

4. Development Partners will harmonize their participation and will bring their assistance through earmarked budget support, through parallel assistance, or through co-financing with IDA. Development partners agree that program implementation should use the GoTL's systems and procedures to the greatest extent possible, while simultaneously reinforcing them.

5. The GoTL will provide funding and resources to support the implementation of the program, including funding for those elements which can reasonably be expected to become recurrent costs. The GoTL will take action to fill relevant staff vacancies, and will release staff to undertake training as needed. The GoTL will use a performance assessment process to ensure high quality performance by Advisers, and will take prompt action to deal with poor performance.

Role of the Supervisory Committee for the PFMCBP

6. The Supervisory Committee will review and endorse Annual Action Plans and Results Frameworks; monitor the progress of implementation; and make recommendations on issues affecting the successful achievement of the program's objectives. The Supervisory Committee will be chaired by the Vice Minister of Planning and Finance; membership will comprise CDCU (Prime Minister's Office),

participating line ministries, and development partners contributing to the PFMCBP; and will draw on other Government agencies as required.

7. The Supervisory Committee will:

- Review, agree and approve the Annual Action Plans and Annual Results Frameworks
- Review, agree and approve the Annual Procurement Plan.
- Review quarterly reports and one annual report (replacing the fourth quarterly) on progress against Annual Action Plans, Overall and Annual Results Frameworks, Financial Management, Procurement and Disbursement.
- Review a quarterly report on the performance assessment for long-term advisers, including action taken to ensure high-quality performance.
- Review a quarterly report on capacity building (staff performance assessment, skills transfer strategies, lessons learned, effectiveness).
- Review other issues affecting the progress of the program and make recommendations to the GoTL, including on the adequacy of support for the use of government systems.

Role of the Directorate of Administration and IT

8. The **Directorate of Administration and IT** will prepare documentation for consideration by the Supervisory Committee.

9. The Directorate of Administration and IT will also be responsible for the day-to-day coordination and management of the program. Implementation of program components will be undertaken by appropriate units within the MoPF. For the purpose of program management the Directorate of Administration and IT will be supported by an Adviser to the **Program Implementation Officer**, an **Adviser for Coordination and Performance Assessment of Advisers**, a **Human Resources and Capacity Building Adviser**, an **Attitudes and Behaviors Adviser**, a **Financial Management Information System (FMIS) Adviser**, and a **Financial Management Officer**. The Adviser to the **Program Implementation Officer**, **Adviser for Coordination and Performance Assessment of Advisers**, **Human Resource and Capacity Building Adviser**, and the **Attitudes and Behaviors Adviser** will jointly assist the Directorate in ensuring best practice capacity building efforts throughout the program. To ensure coherence, their terms of reference will define their duties in relation to this shared task.

10. Program management and coordination will include: (a) monitoring implementation progress across the program and identifying issues affecting successful implementation; (b) developing and monitoring Annual Action Plans and Results Frameworks; (c) coordinating procurement proposals for required resources, including preparation of Terms of Reference for adviser contracts; (d) coordinating FMIS implementation; (e) consulting with CDCU to ensure coordination with other capacity building activities; (f) maintaining an interim stand-alone information and accounting system.

11. It is vital to the success of the program that long-term advisers perform to a high standard. Under the budget support and co-financing modalities, advisers will be employed by the GoTL, and will be accountable to it. Under parallel financing, the GoTL will seek agreement with the donor concerned that the adviser will operate within the program framework and performance assessment system. The performance of advisers will be monitored and assessed using a performance assessment system, to be developed under the program, that will be based on the CDCU's three-pillar approach to capacity-building and will take into account the impact of the adviser on capacity of local staff and their increasing ability to take full responsibility for tasks. Adviser performance will also include feedback from a range

of colleagues. Quarterly reports on the performance assessment process will be provided to the Supervisory Committee. The report will include summary performance information, and describe the outcomes and measures undertaken to ensure high quality performance. Action to terminate or amend Adviser contracts will also be reported. The performance of long-time advisers will be measured uniformly for all advisers under the program, irrespective of the modality through which they are financed.

Implementation modalities for earmarked budget support and co-financing with IDA

12. The implementation modalities for IDA co-financing are described below. Arrangements for parallel financing and earmarked budget support will be negotiated between Government and each concerned donor separately.

Financial Management (see also Annex 7 of the PAD)

13. The program will be implemented using a Designated Account reflected in the Combined Sources Budget and will be subject to the same checks and balances as the rest of government expenditure. The Annual Action Plans and resulting budgets will define eligible expenditures and the GoTL will report against these budgets. The stand-alone FMIS used by GoTL for development projects will provide the necessary level of management information and reporting on the program. For the duration of the program a Financial Management Officer will maintain these information systems and provide the necessary financial reports. As the annual accounts of Government do not disclose sufficient information, the financial statements contained in the annual report will be subject to a separate audit opinion..

Procurement (see also Annex 8 of the PAD)

14. Procurement will be undertaken by MoPF through the existing procurement division, supplemented by additional capacity. Procurement processing will flow through the existing government system, including the evaluation committee or contract assessment committee as applicable. Payments will be made through the existing CPV process and will be subject to the same checks and balances that exist for CFET, in accordance with the legislation in force. Additional capacity will be provided to reinforce the GoTL's systems to bring them into compliance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004. Recruitment of advisers will be undertaken by the Administration and IT Directorate, and will be consistent with "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004. Under these guidelines the Bank retains a prior review option which it will perform on behalf of, and share with, Development Partners. The recruitment for the group of advisers supporting the Directorate of Administration and IT will be subject to prior review. The GoTL may choose to use the services of an international recruitment agency to advertise positions and short-list candidates.

Consultations, Monitoring and Evaluation

15. Development Partners will undertake joint progress missions twice a year, harmonizing with other relevant missions (e.g., CSP) whenever possible. In addition, each year two lighter missions will be undertaken to consider implementation progress. Quarterly Supervisory Committee meetings will, when possible, coincide with these missions. At least one mission will be timed as part of the CFET budget preparation cycle to ensure that the GoTL's AAPs are eligible for financing under the PFMCBP. Monitoring and evaluation will focus on the Overall and Annual Results Framework under the program.

Annex 7: Financial Management and Disbursement Arrangements

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

1. The desired /result of program financial management (FM) arrangements is that program funds will be used for the purposes intended. Financial management risk is the risk that grant proceeds and co-financing proceeds will not be used for the purposes intended and is a combination of country, sector and program specific risk factors. Taking into account the risk mitigation measures proposed under the program, the FM risk rating for this program is moderate.
2. GoTL signaled early to development partners that they would like the program to make use of existing Government systems. The core FM arrangements for the program will make use of the stand-alone FMIS used by GoTL for development projects. The GoTL financial management and budget systems which apply to development projects have been assessed as reliable and robust enough to cater for the needs of the program. The stand-alone FMIS will need to be maintained and utilized to a high standard in order to provide the requisite management information to monitor the program at an activity level. The implementing agency will be MoPF with the Directorate of Administration and IT being responsible for the day to day management of the program. This division does not have suitably qualified financial management staff in place to provide the level of support to the program at the activity level which would be satisfactory. As part of the risk mitigating measures proposed it will be a condition of effectiveness that the division have in place a Financial Management Officer capable of servicing the needs of the program.
3. Proceeds from the IDA Grant, and co-financing grants administered by the Bank will be pooled in a Designated Account and accounted for as follows. Expenditure will be against the agreed annual budget to be financed by the IDA and co-financing grants administered by the IDA. The budget will form part of the combined sources budget for Government and not subject to appropriation. Expenditure authorization and accounting processes would follow the same procedures as for other development projects administered by GoTL which use a stand-alone FMIS. Advances to the designated account would be accounted for through the stand-alone FMIS. There is a risk that the accuracy of the information contained in the accounting systems will be undermined due to coding errors and measures have been proposed to guard against this risk, primarily the requirement for regular reconciliation of the financial monitoring reports.
4. A single disbursement category is proposed for the IDA Grant and each co-financing grant with expenditure eligibility being defined in terms of the agreed annual activity plan¹⁶ and the percentage of total expenditure each agreement will contribute to (with the sum of all agreements, including those made directly between the GoTL and other Development Partners, adding up to 100%). As the IDA grant is likely to be the first source of funding in operation the initial disbursement percentage for the IDA grant would be 100%. As other funding comes on stream the disbursement percentages for each funding source will adjust such that the funding for the total program will remain at 100%. Changes in disbursement percentage can be notified to the recipient without the need for an amendment to the legal agreement. Monitoring of expenditure against the activity plan will be required and will be performed by the stand-alone FMIS used by GoTL for development projects.. Disbursement for the program will be report-based once detailed report formats have been developed and agreed. In the interim period at the start of the program, disbursements will be on a transaction basis.

¹⁶ GoTL already uses a system of Annual Action Plans in the preparation of budgets and operational plans – this is not therefore a new obligation on Government.

5. A Statement of Understanding will be agreed between the GoTL and Development partners on the operation of the program and this will include the mechanism for agreement to the Annual Activity Plan and the procedures for agreeing changes to the plan during the year. Changes may be required both in terms of deletion/addition of activities and also the resources required to complete activities (e.g. new consultancy posts, adjustment in cost estimates etc.).

Summary Program Description

6. The program aims to strengthen capacity for planning, budgeting, public expenditure management and revenue administration. The program will provide for a mixture of Consultants' Services and investment in systems and has four components (a) Public Expenditure Management (PEM); (b) Revenue Administration; (c) Ministry of Planning and Finance-wide functions; (d) Support to Improve Governance and Management; and (e) Program Implementation.

Implementing Entity

7. The program will be implemented by the MoPF through the Directorate of Administration and IT. This would be the first experience for the Directorate in implementation of a large program as most of the support currently provided to the Ministry is implemented by Development Partners. The GoTL recognizes this as a significant risk to implementation and has agreed that the Directorate should be supported through the appointment of advisers. The volume of transactions and reporting will increase significantly for the Division and it is recommended that in order to provide the necessary financial management and program monitoring support to the program one Financial Management Officer be appointed for the duration of the program. It is agreed that the stand-alone FMIS in place for development projects is able to provide the following:

- Reporting against Annual Action Plans (including budgets)
- Multi year Reporting
- Preparation of Statements of Advances Outstanding
- Contract Monitoring
- Reconciliation against Government Accounting Systems (with a verifiable audit trail back to transactions)
- Listing of Payments against Prior Approval contracts
- Cash Forecasting (for use in Report Based Disbursement Withdrawal Applications)

8. Guidance has been developed on the minimum requirements to be satisfied for the purposes of report-based disbursement.

Risk Analysis

9. The table below summarizes the risk analysis. With the appropriate risk mitigation measures as outlined the overall risk assessment is moderate.

10. Core system integrity comes from the maturity of the MoPF hardware and demonstrated capability within the installed environment. The active engagement of development partners through the annual activity plan formulation and execution phases will address the country level concerns.

Risk	Risk Rating	Comment	ACTION PROPOSED		
			Action	Responsibility	Due Date
Inherent Risk					
▪ Country Level	Moderate	Although there are many positive signs, the CAS for Timor notes that there is fragile Government implementation capacity, increased dissatisfaction with Government performance, potential for worsening governance and entrenchment of corruption, and fragmentation of donor assistance.	Semi-annual Joint Progress missions together with Quarterly Meetings of the Supervisory Committee and regular monitoring of the program in achieving the objectives stated	MoPF Supervisory Committee Development Partners	Continuous
▪ Entity Level	Significant	MoPF has no experience in the implementation of a program as large and varied as the one proposed. In addition to program management resources, MoPF needs to ensure that the Admin and IT division has adequate FM resources	Recruit senior adviser to be responsible for program accounting and financial management reporting	MoPF	By Effectiveness
▪ Program Level	Significant	The program will be implemented by Government but Development Partners will play an important role in oversight. There is potential for misunderstanding of the respective roles and a need to elaborate these to avoid disagreement.	Agreed Statement of Understanding (operational Manual)	MoPF Development Partners	By Effectiveness (but not as a condition of effectiveness)
Control Risk					
▪ Budgeting	Moderate	Although Annual Action Plans are already prepared, to date these have not been in sufficient detail and not monitored financially. In part this has been due to the large proportion of off budget support that MoPF has been receiving. Against this it is recognized that MoPF is the lead agency for the preparation of AAPs and as such has a good	Annual Action Plans Agreed in a satisfactory form and detail.	MoPF Development Partners	Jan 06 – Jun06 by Dec05 Thereafter annually in accordance with GoTL budget preparation timetable

<i>Risk</i>	<i>Risk Rating</i>	<i>Comment</i>	<i>ACTION PROPOSED</i>		
			Action	Responsibility	Due Date
		understanding of their importance and expected content. A further issue is the monitoring of Government co-financing contributions – these will not be separately identified in the budget and a mechanism will need to be available for the development partners to monitor this.	Information provided at semi-annual Joint Progress Missions detailing GoTL contribution to overall program objectives		
▪ Accounting	Moderate	The stand-alone FMIS used for development projects provides robust reporting. The maintenance of the system to a high standard will be crucial to ensure timely and accurate reports.	Regular reconciliation and review of information	MoPF	Ongoing
▪ Internal Control	Low	The GoTL has well documented processes and procedures with adequate separation of duties.			
▪ Funds Flow	Low				
▪ Financial Reporting	Moderate	See Above comment on Accounting			
▪ Auditing	Low	The program will be separately disclosed in the Annual Accounts of Government, however this will not be in sufficient detail. A separate Audit Opinion on the program annual financial information will be required as part of the GoTL audit process.			

Budgeting

Fundamental to the successful implementation of the program will be the engagement of development partners with the Government in the formulation and execution of program activities. An indicative timetable is set out below for this annual process.

Activity	Responsibility	Submitted to	Date
Annual Joint Review (AJR) will set program priorities	MoPF and Sector Working Group/ Development partners	GoTL	Early December
The agreed levels of donor funding are communicated in the AJR and any necessary development partners financed adjustments are made to the program budget ceiling.	Admin and IT Division MoPF	MoPF	December
Submission of Budget Guidelines including broad ceilings	MoPF	Cabinet	November
Budget Guidelines and forms distributed	MoPF	All Ministries	November
Annual project/program work plans for the new financial year are submitted.	All Ministries	MoPF	Feb
Draft revenue and expenditure estimates submitted for 2005/06	All Ministries	MoPF	Feb
Consultation with Ministries on first Budget Submissions	MoPF	All Ministries	March
First (draft) Budget Estimates	MoPF	Cabinet	End March

11. Having the donor funded activities indicated in the Combined Sources budget and accounted for through a stand-alone FMIS and associated designated account serves a useful purpose in significantly reducing the risk of funds being utilized for ineligible purposes. However the disadvantage is that the Government contribution to the program cannot be readily identified within the rest of the budget and therefore monitoring of activities funded by Government as their contribution to the program will at best be ad hoc. It is expected that initially Government will contribute resources towards training, counterpart staff and recurrent costs of FMIS but that as the program progresses and the number of International Advisors reduces the Government contribution towards program objectives will increase.

Funds Flow and Disbursement Arrangements

12. Separate legal agreements will be established for the IDA Grant and co-financing grants. A single disbursement category will be used in each legal agreement and all expenses under the program will be eligible for financing. The table below summarizes the proposed arrangement:

Legal Agreement	Disbursement Category	Amount of the Grant in USD	Expenditures To Be Financed
IDA Grant	Goods, Works and Services under the Program for Fiscal Years 2005/06 through to 2010/2011	7 Million USD IDA	100% of eligible expenses in each fiscal year or any other percentage that the Association may establish from time to time ¹⁷
Co-financing grants	Goods, Works and Services under the Program for Fiscal Years 2005/06 through to 2010/2011	To Be Determined Co-financing grants	[XX]% of eligible expenses in each fiscal year or any other percentage that the Association may establish from time to time
Development Partner A	Goods, Works and Services under the Program for Fiscal Years 2005/06 through to 2010/2011	To Be Determined	[XX]% of eligible expenses in each fiscal year
Total		To Be Determined	100%

13. Eligible expenses would be defined in relation to the agreed annual plan of activities and disbursement will be report based.

14. **Reporting of Expenditure** –The stand-alone FMIS for development projects will provide the necessary information needed to prepare reports for GoTL (which will also satisfy the information needs of Development partners).

15. Monthly expenditure reports will be prepared and reconciled to the stand-alone FMIS. On a quarterly basis expenditure reports will be incorporated into a summary program progress report – this should be available to Government within 18 days of the quarter end and copied to Development partners so as to facilitate discussion on program progress within 21 days of the quarter end. The inclusion of the financial reports will satisfy the Bank's requirement for the provision of FMR's and should be in sufficient detail that the reports may be used by the Bank for the purpose of report based disbursement. As the format of the reports cannot be agreed before effectiveness the initial disbursement arrangements for the program will be on a transaction basis.

¹⁷ The disbursement percentage of 100 has been included to reflect the likelihood that the IDA grant will come on stream first.

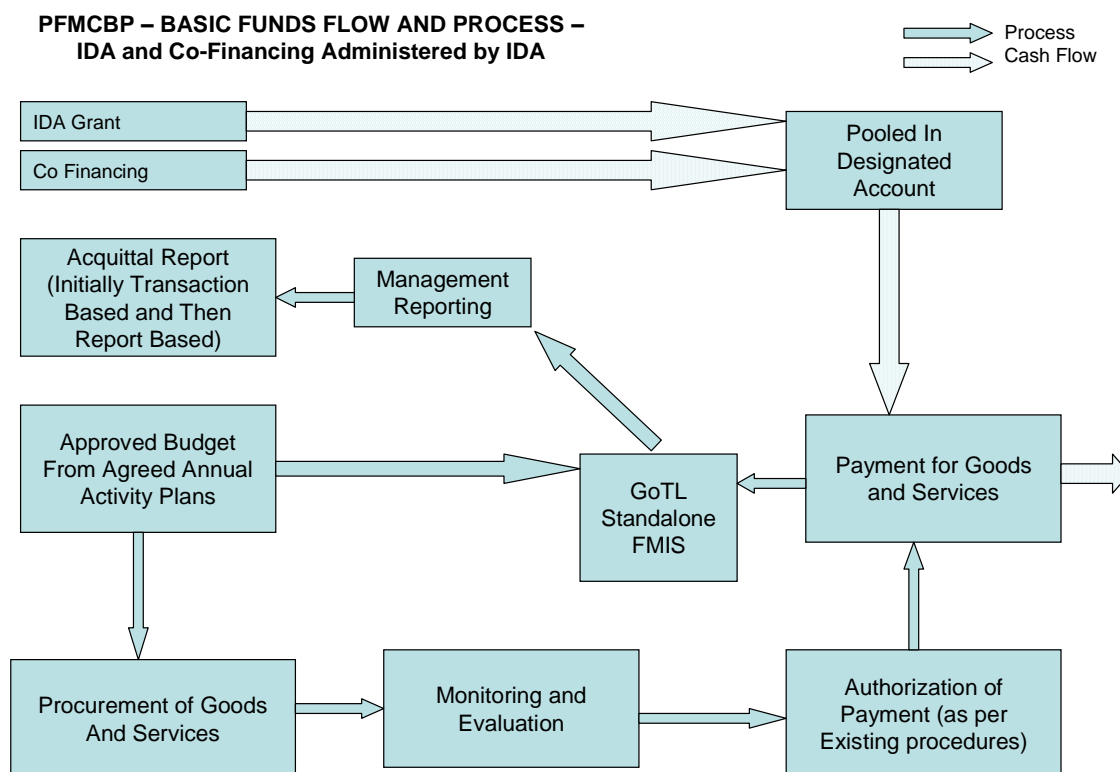
An update to the disbursement letter will be issued once FMR formats have been agreed which will allow for disbursement on a report basis.

16. The fourth quarterly report in each year will take the form of an annual program progress report and will be prepared for GoTL and shared with Development Partners. The annual report will include financial information, progress and performance data. The financial statements within the annual report will be audited within 6 months of the year end.

17. **Designated Account** – A separate Bank Account will be opened for the IDA and co-financing trust funds administered by the IDA in a commercial bank (BNU) The funds advanced would be accounted for through the stand-alone FMIS and therefore Development partners will have confidence about the use to which funds had been put. The designated account would pool advances from the IDA and co-financing Trust Funds with reporting by source of funding being calculated by reference to the disbursement percentage applicable to each source of fund. Arrangements for donors choosing to provide earmarked budget support or parallel financing would be agreed bilaterally with GoTL.

18. **Accounting Policies and Standards** - The accounting standard to be used will be Financial Reporting Under the Cash Basis of Accounting.

The chart below summarizes the fund flow arrangements.



Auditing

19. The constitution of Timor-Leste allots the function of external audit to the High Administrative, Tax and Audit Court. As this institution remains to be created, the function of external audit is for the time being assigned to the MoPF which discharges its responsibilities through the contracting of external audit services. The MoPF is required under Regulations to prepare an annual financial report and to have this report audited and presented to the President and Parliament. It is accepted that this approach has several shortcomings, most prominently, the auditor does not operate independently from Government as the audit services are recruited and remunerated by the Executive. The Government will be required to seek an additional Audit Opinion on the expenditures of the program as presented in the annual program report and this will be submitted to development partners within 6 months of the year end. This information will be in more detail than the published accounts of Government and this is justification alone for the requirement of a separate audit of the program financial statements. The Government will fund the costs of the audit through their existing contractual arrangements.

20. Although the Auditor will be recruited and remunerated by Government the Development partners will reserve the right to insist on a supplementary audit if the quality and scope of audit services contracted by Government falls short of the required standards. The audit report will include as a minimum the following:

- the audit report will state the purpose of the report and its intended use,
- The audit report will state which/whose generally accepted accounting standards have been applied and indicate the effect of any deviations from those standards.
- The audit report will state that the audit was conducted in accordance with either ISA or INTOSAI audit standards.
- The audit opinion will cover the current period.
- The audit opinion will state whether or not the financial statements present fairly for the program that the funds were utilized for the purposes defined by the funding agreements.
- The audit opinion will cover in all material respects the supporting schedules (e.g. procurement, assets register etc).
- The auditor should provide an opinion on whether the auditee complied with applicable laws, regulations and the Procurement procedures and other provisions of the funding agreements that have a direct and material financial effect on the financial report.
- The auditor should provide an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as internal control over financial reporting.

Supervision Plan

21. The overall rating for the program is Moderate and it is envisaged that, after the first year FM supervision missions would be required only on an annual basis. To minimize costs the missions would be planned to coincide with financial management supervision of other programs in Timor-Leste.

Annex 8: Procurement Arrangements

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

A) General

Procurement for the proposed Program would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Development Credit Agreement and the Co-financing Grant Agreement. The general description of various items under different expenditure categories is set out below. For each contract to be financed by the Credit or the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are to be agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual Program implementation needs and improvements in institutional capacity.

I. Procurement of Works (US\$0.2 million):

(a) Procurement of Small Works: The Program would finance a number of small works for the improvement of physical environments (mainly of refurbishment of existing office space). Procurement of such small works estimated to cost less than US\$15,000 may be under lump-sum, fixed price contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to written invitations. The invitations for quotation shall include a detailed description of the works including basic specifications, the required completion date, and a form of agreement acceptable to the Bank, and relevant drawings where applicable. The award shall be made to the contractor offering the lowest price quotation for the work and who has the experience and resources to complete the contract successfully.

(b) National Competitive Bidding (NCB): Works estimated to cost more than US\$15,000 but less than US\$100,000 per contract may be procured through NCB. For procurement on the basis of NCB, until new Procurement Legislation is effective, the mandatory provisions shall be included as an Annex to the Procurement Schedule. Once the new Legislation is effective, these provisions will be reviewed and amended as necessary.

II. Procurement of Goods (US\$6.5 millions):

(a) International Competitive Bidding (ICB): ICB procedures shall be used for procurement of goods estimated to cost US\$150,000 or more per contract. Goods planned for procurement through ICB include Information Technology Equipment (hardware and software). The estimated cost of goods to be procured through this method is US\$3 million.

(b) National Competitive Bidding (NCB): Goods estimated to cost more than US\$15,000 but less than US\$100,000 per contract may be procured through NCB. The estimated cost of goods to be procured through this method is US\$0.5 million. For procurement on the basis of NCB, until the new Procurement Legislation is effective, the mandatory provisions shall be included as an Annex to the Procurement

Schedule. Once the new Legislation is effective, these provisions will be reviewed and amended as necessary.

(c) Shopping: Goods estimated to cost less than US\$15,000 per contract may be procured through Shopping. The estimated cost of goods to be procured through this method is US\$0.2 million.

(d) Direct Contracting: Software which is of a proprietary nature and obtainable from a single source may, with Bank's prior agreement, be procured directly from the suppliers. The estimated cost of goods to be procured through this method is US\$1.95 million.

(e) Procurement from IAPSO: Computers and related equipment may be procured through the Inter-Agency Procurement Services of the United Nations (IAPSO). The estimated cost of goods to be procured through this method is US\$1.3 million.

III. Selection of Consultants (US\$18 millions):

An important part of the consultants' services would consist of individual advisers, both international and local, who would provide technical assistance for MPF on specific areas. With regards to firms, a main contract would be for the Timor Leste Living Standards Survey. As the national consulting industry is small, short lists of consultants composed entirely of national consultants shall not be applicable.

(a) Quality-Cost Based Selection (QCBS): With regard to the assignments related to Management Services activities, the recommended method is QCBS. The estimated cost for the contracts in this category is US\$6 million.

(b) Quality Based Selection (QBS): With regard to the assignments related to systems and process and other high downstream impact activities, the recommended method is QBS. The estimated cost for the contract US\$5.5 million.

(c) Selection Based on Consultants' Qualifications (CQS): Regarding small assignments (below US\$100,000) of a routine nature, such as training and/or facilitation, a qualified consultant firm shall be selected through CQS method. The estimated value of consultants selected through CQS method would not exceed US\$0.5 million.

(d) Single Source Selection (SSS): With prior concurrence from the Bank, highly specialized tasks such as maintenance or development of proprietary systems may be selected through SSS. The estimated value of consultants selected through SSS method would not exceed US\$1 million.

(e) Individual Consultants: Approximately 20 to 40 long-term international advisers would be supported under the PFMCBP (with some support from short-term, targeted advisory assistance, for example during the budget preparation season). It is recognized that international advisers will be needed for some time to come to support the public financial management system in Timor-Leste, undertaking a combination of in-line functions and capacity building activities. They should be selected through a comparison of qualifications of at least three qualified consultants among those who have expressed interest in the assignments or have been

approached directly by MoPF. The total estimated cost of the individual consultants to be selected through a competitive process is US\$10 million. In addition, with appropriate justifications and after concurrence by the Bank, individual consultants may be selected on a sole-source basis in exceptional cases, such as (i) tasks that are a continuation of previous work that the consultants have carried out and for which the consultants were selected competitively, (ii) assignments lasting less than six months; and (c) when the individual is the only consultant qualified for the assignment.

IV. Operational Costs (US\$4.9 million):

This item would include communications, utilities, stationery, transportation, accommodation and allowances. The procurement of such items would follow the implementing agency's administrative procedures.

V. Others (US\$5.5 million):

Training will be provided domestically and abroad. Although in the medium-term some training may be provided by the National Institute of Public Administration (INAP) when a suitable curriculum on a consistent basis over time can be offered, other training providers, including overseas, will be used in the short- to medium-term and in cases where INAP does not provide the required curriculum.

B) Assessment of the agency's capacity to implement procurement

Procurement activities would be carried out by MPF's Procurement Division. In addition to the Chief Procurement Officer, the total positions in the Procurement Division include 15 permanent national procurement officers and 14 permanent national procurement assistants (there are also 6 temporary staff in different support positions). Three international advisors currently assist the Division. A similar level of support would be maintained for the Program.

An assessment of the capacity of the Implementing Agency to implement procurement actions for the Program was carried out by Cristiano Nunes in August 2005. The assessment reviewed the organizational structure for implementing the Program and the interaction between the Program's staff responsible for procurement and the Ministry's relevant unit for administration and finance.

Most of the issues/ risks concerning the procurement component for implementation of the Program have been identified as: (a) weak local procurement capacity within the Procurement Division, (b) heavy reliance on an international consultant for procurement functions, and (d) the complexity of contracts (particularly related to IT systems) that are anticipated under this Program. Since capacity building of the Procurement Division is one of the Program's objectives it was considered that a separate action plan would not be necessary.

The overall Program risk for procurement is "high", consistent with the CPAR

C) Procurement Plan

The Borrower has developed a draft Procurement Plan for Program implementation which provides the basis for the procurement methods. This plan is agreed in principle

between the Borrower and the Program Team and remains to be formally confirmed. The plan will be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Program Team annually or as required to reflect the actual Program implementation needs and improvements in institutional capacity.

D) Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency recommends a yearly supervision mission to visit the field to carry out post review of procurement actions.

E) Prior Review Thresholds

(a) Prior review by the Association of Goods and Civil Works will include: (a) All International Competitive Bidding; (b) all Direct Contracting; and (c) contracts for goods awarded on the basis of NCB greater than \$100,000 equivalent. The remaining procurement will be subject to post review.

(b) Prior review by the Association of consultant services will involve: (a) prior review of all Terms of Reference regardless of the estimated value; (b) contracts greater than US\$100,000 equivalent for consultant services provided by firms, (c) selected contracts for individual consultants (on an exceptional basis and based on a specific request from the TTL and indicated in the procurement plan); and (d) all Single Source Selection and Sole Source, regardless of value. Other procurement of consultant services will be subject to post review.

ATTACHMENT 1

DETAILS OF THE PROCUREMENT ARRANGEMENT INVOLVING INTERNATIONAL COMPETITION.

1. Goods and Works.

(a) List of contract Packages which will be procured following ICB and Direct Contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments

(b) Goods and Works contracts estimated to cost above US\$100,000 per contract and all Direct Contracting will be subject to prior review by the Bank.

2. Consulting Services.

(a) List of Consulting Assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments

(b) Consultancy services estimated to cost above US\$100,000 per contract and Single Source selection of consultants (firms) for assignments regardless of the amount involved will be Subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: None

Annex 9: Economic and Financial Analysis

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

1. As a technical assistance grant, the economic and financial impacts of the program are difficult to quantify. However, benefits are expected to include: improved planning and budgeting, with closer links between plans and budgets, and with plans based on better informed costings; improved budget execution; improved revenue collection; more accurate and timely procurement; more effective expenditure and cash planning to reduce the size and incidence of idle cash balances; more timely financial reporting and internal auditing; and more effective management of the GoTL's financial resources through the use of an integrated FMIS. Other benefits include improved governance; more effective leadership and management; improved integrity and transparency of the public financial management system; improved skills base (language, accounting/bookkeeping, computer applications); and improved service delivery. Expected impacts, by component, are summarized in the table below.

Table 1. Financial and Economic Impacts

Component and Subcomponent	Expected Financial Impact	Expected Economic Impact
<i>Component A. Public Expenditure Management</i>		
Planning, Budget Formulation, and Budget Execution	Medium- to long-term savings, with improved budgetary allocations and improved monitoring and evaluation of overall and sector-specific expenditures	Gains in efficiency and effectiveness leading to improved quality of services and better service delivery
Financial Management Information System	Short-term cost with medium-term pay-off in terms of improved planning, management, and oversight capabilities	Gains in efficiency and effectiveness through automated system to track expenditures, catch fraud, and reconcile data discrepancies
<i>Component B. Revenue Administration and Macroeconomic Management</i>		
Tax Administration and Petroleum Revenue Collection	Short- to medium-term financial gains	Gains in efficiency and effectiveness to increase revenue collected, increasing budget for job-creation and private sector development expenditures focused on growth and poverty reduction
Customs	Medium-term financial gains	Gains in efficiency and effectiveness, contributing to increased revenues for job-creation and private sector development expenditures
Macroeconomic Management	Medium- to long-term financial gains	Macroeconomic stability through improved revenue forecasting and budgeting
<i>Component C. Program-wide Activities</i>		
Program-wide professional leadership, work ethic, basic skills training, and performance assessment	Short-term cost with medium-term pay-off in terms of improved human resource and institutional capacity	Performance-driven management and gains in efficiency and effectiveness in job performance, resulting in improved service delivery/client orientation
Good Governance in Public Financial Management	Medium- to long-term savings	Improved compliance with procurement procedures and improved internal control/audit to decrease leakages, improved accountability through increased transparency and

Component and Subcomponent	Expected Financial Impact	Expected Economic Impact
		access by citizens to information
Component D. Σ Support for Improvement in Governance and Management (SIGMA)		
<i>Office of the Minister and Vice-Minister</i>	Medium- to long-term financial gains	Enhanced strategic view: establishing the overall Ministry objectives, setting priorities among them, and allocating resources to these priorities
Component E. Program-wide Activities		
Coordination of Program and Advisers	Moderate financial impact through government co-financing, with medium- to long-term pay-off in terms of efficiency and effectiveness gains introduced by the program	Improved management capacity

2. Economic and financial sustainability is built into the design of the program. The program will build institutional and human resource capacity and systems and processes that are meant to serve the government over the long-term, with a broad view to improved economic and financial management of the country. Incentive systems and budgets for staff salaries are to be aligned with program objectives to ensure that as much of the human resource capacity developed under the program remains in the service of the government as possible. Risk mitigation measures outlined in Table 4 in the text of the PAD will serve to enhance the program's sustainability.

Annex 10: Risk Mitigation IDA-only Funding Scenario

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

1. This Annex outlines a contingency plan for use of the IDA grant of \$US7m should other donors decide not to directly finance or co-finance the PFMCBP along with IDA. In that case, the IDA grant would finance a reduced and re-oriented program over three years. If, as expected, other donors do finance the program through co-financing with IDA or through parallel financing or budget support, the IDA grant will contribute a percentage of the total co-financing amount applied to the full PFMCBP over five years. This percentage will vary from year to year.
2. An IDA-only program would be re-oriented rather than cut evenly across the board. Given commitments already made, the program outlined below is based on the assumption that some donors would continue to be involved in the Ministry of Planning and Finance although not within the framework of the PFMCBP. It is assumed that the Australian Government would continue in Budget and ETRS (domestic tax), with partial involvement in macroeconomic management; Australian Government and JICA would continue support to Planning; and Portugal would give partial support to Customs through placement of advisers.
3. The IDA-only grant would help create the three-pillar capacity-building framework for the program, support management capacity to manage the program and any further support that might eventuate within that framework, and help develop an adviser performance management system that could be applied to all external support provided. A further priority would be to develop management and leadership capacity within the MoPF and selected line ministries, and support the socialization and use of the Civil Service Act ethics and disciplinary codes. It would also provide some basic and intermediate skill training in a complementary manner to the MPFCBP supported by Australia, with the requirement that staff selected for skill training would be expected to perform better as a result. Finally, the IDA-only program would focus on the critical areas of petroleum revenue, Customs, Public Works, and macroeconomic management (including statistics), together with foundation work to improve access to information through the FMIS in the interests of greater transparency and accountability overall. Many of the areas under the IDA-only program would need more sustained attention than this limited program could supply, but it would establish the framework needed so that the government could manage and coordinate further capacity-building activities, in a consistent and productive way.
4. Precise figures are given by component below. The brackets indicate the full PFMCBP costing over 5 years, followed by the amount that would be allocated under a three-year IDA-only program. Costings for the three-year program are attached to this Annex.
5. *Component D: Admin and IT:* (\$2,841,000 over 5 years); \$1.867m over 3 years. The Admin and IT Directorate would be responsible for creating the three pillar capacity building framework, supporting ethics and HR (including recruitment to key vacancies), and developing the performance management system to manage advisers. This component would also include the IT advisor and the local FM adviser who would set up the accounting and financial reporting system for the program at a detailed activity level.
6. *Subcomponent C 1:* (\$5,372,000 over five years); \$1.665m over 3 years. Front loading of training on leadership and management, supporting development of agency mission and role statements (incorporating the ethics and Civil Service Act socialization); focus on delegation (for both managers and staff); improved managers then handle the basic skills training for their staff and the discipline on using the training once acquired.

7. *Subcomponent A2*: \$6.270,000 over five years); \$0.671m over 3 years. Minimum support and replacement of equipment to keep existing IT system operating, plus preliminary reviews of needs and priorities for greater IT access and efficiency improvements in systems:

8. *Subcomponent B1*: (\$3.076,000 for domestic and petroleum revenue over 5 years); petroleum revenue only: \$0.713m for 3 years.

9. *Subcomponent B2*: (\$3.305,000 over 5 years): \$1.134m over 3 years. The focus would narrow to ASYCUDA systems, risk management strategy, document rationalization, and key training including on Arusha Declaration.

10. *Subcomponent A1*: (\$9,692,000 over 5 years) \$0.475m over 3 years. Support for planning and budget execution in one line ministry only - Public Works.

11. *Subcomponent B3*: Macroeconomic management (\$3.4m over 5 years); \$0.475m over 3 years, This subcomponent would be oriented to high-level economic and technical training, especially for staff responsible for macroeconomic forecasting and Petroleum Fund permanent income estimates and related tasks.

Results Framework for the IDA-only Funding Scenario

12. The results framework for the IDA-only funding scenario over three years is elaborated in the table below. As for the results framework under full donor participation, the IDA-only funding scenario will focus on the measurement of output as well as outcome indicators to gauge whether program has met its objectives. As a rolling program under which annual activities will build on the preceding year, activity plans will be elaborated each year in collaboration with the agencies, and an annual results framework will be elaborated with interim indicators to monitor progress toward expected outputs/outcomes at the end of the program. Regular reporting to the extent possible based on a variety of sources (e.g., the FMIS, stakeholder consultations, and surveys) will be used to track achievements. Overall outcomes – at the very broadest level—expected by the end of the program include:

- The Medium Term Fiscal Framework reflects petroleum savings policy and is consistent with sustainable growth and poverty reduction;
- Improved budget execution in the Ministry of Public Works;
- Improved petroleum revenue performance;
- Strengthened accountability integrity, and service culture;
- Improved sustainability as measured by improved leadership and management and increased recruitment of capable staff at Levels 5-7.

13. The IDA-only risk mitigation scenario retains and selects from four of the five inter-related components of the full program: (a) Public Expenditure Management; (b) Revenue Administration and Macroeconomic Management; (c) Program-wide Activities; and (e) Program Implementation. Costings under each component are shown in the Table below.

Total Program Costs By Component IDA-only Funding Scenario				
Program Cost By Component and/or Activity	Local (USD million)	Foreign (USD million)	Total (USD million)	Total Incl. Contingencies (USD million)
Component A. Public Expenditure Management				
Subcomponent A.1. Planning, Budget Formulation, and Budget Execution	0.000	0.432	0.432	0.475
Adviser to the Program Implementation Officer			0.144	
HR and Capacity Building Adviser			0.216	
Attitudes and Behaviors Adviser			0.216	
FMIS Adviser			0.000	
Subcomponent A.2. Financial Management Information System	0.000	0.610	0.610	0.671
Component B. Revenue Administration and Macroeconomic Management				
Subcomponent B.1. Tax Administration and Revenue Collection	0.000	0.648	0.648	0.713
Subcomponent B.2. Customs	0.011	1.020	1.031	1.134
Subcomponent B.3. Macroeconomic Management	0.000	0.432	0.432	0.475
Component C. Program-wide Activities				
Subcomponent C.1. Professional leadership, Work Ethic, Basic Training, and Performance Assessment	0.000	1.514	1.514	1.665
Subcomponent C.2. Accountability and Transparency in Public Financial Management	0.000	0.000	0.000	0.000
Component D. Support for Improvement in Governance and Management (SIGMA)				
	0.000	0.000	0.000	0.000
Component E. Program Implementation				
Program Implementation	0.039	1.658	1.697	1.867
Total Baseline Cost				
Price Contingencies	0.005	0.631	0.636	
Total Financing Required	0.055	6.945	7.000	7.000

IDA-only Scenario Results Framework and Monitoring
TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Project Development Objective	Overall Outcome Indicators	Use of Outcome Information
Sustainably strengthened revenue administration for growth and poverty reduction, with emphasis on efficiency; effectiveness; accountability, integrity and service culture; and transparency.	<ul style="list-style-type: none"> Annual Combined Sources Budget, including Medium Term Fiscal Framework, reflects petroleum savings policy and is consistent with sustainable growth and poverty reduction; MoPW budget framed by sector performance indicators. MoPW budget execution improved as indicated by: <ul style="list-style-type: none"> cash spending > 70% of cash allocations by and beyond FY08¹⁸. Revenue performance improved as indicated by: <ul style="list-style-type: none"> periodic audits of petroleum companies; reduced clearance time for customs. Accountability, integrity, and service culture strengthened as indicated by: <ul style="list-style-type: none"> adoption and implementation by MoPF of a mission statement and agency codes of conduct; successful implementation of MoPF complaints response function as evidenced by annual report showing number and treatment of complaints; Sustainability improved as indicated by: implementation of performance assessment of staff and managers, with gradual reduction in international advisers and increase in responsibilities and duties performed by national managers and staff. 	This subset of indicators provides an overarching framework for assessment of project management, implementation progress reporting, and semi-annual joint donor reviews.
Intermediate Results (One per Component)	Indicative Results Indicators for Each Component	Use of Results Monitoring
A. Public Expenditure Management		
A.1. Planning, Budget Formulation, and Budget Execution <ul style="list-style-type: none"> improved budget execution in MoPW 	<ul style="list-style-type: none"> Budget execution increased for MoPW and reaching at least 70% (on cash basis) by and beyond FY08, including for capital expenditures¹⁹ Annual procurement plans prepared for MoPW Quality of CPV preparation improved as evidenced by fewer rejections (MoPW) Enhanced job creation as evidenced by measurable increase in annualized jobs (MoPW). 	Indicators enable tracking of improvements in planning, budget formulation, and budget execution.
A.2. Financial Management Information System	<ul style="list-style-type: none"> Continuity for existing systems ensured and reviews undertaken to create platform for MoPF decision on system enhancements (Administration/IT) 	Indicators verify improved functionality, reliability, and use of FMIS.
B. Revenue Administration and Macroeconomic Management		

¹⁸ This figure may need to be adjusted to take account of the Government capital budgeting methodology.

¹⁹ This figure may need to be adjusted to take account of the Government capital budgeting methodology.

<p>B.1. Tax Administration and Petroleum Revenue Management</p> <ul style="list-style-type: none"> Improved revenue collection and compliance for petroleum sector Enhanced professional integrity and skills 	<ul style="list-style-type: none"> Audits of petroleum companies conducted periodically (ETRS). Code of conduct for ETRS/ Petroleum Tax Division adopted and implemented (ETRS). Tax Service Charter should be further developed 	<p>Indicators verify the successful implementation of measures leading to improved tax revenue performance.</p>
<p>B.2. Customs</p> <ul style="list-style-type: none"> Improved revenue collection and compliance Fair implementation of customs laws Enhanced professional integrity and skills 	<ul style="list-style-type: none"> Customs code and customs legislation harmonized with WCO, WTO, and Kyoto Convention standards (Customs). Code of conduct for customs adopted and implemented (Customs). ASYCUDA II fully functional in Dili and regions (Customs). Reduced clearance time for customs (Customs). Staff integrity and service improved as gauged by annual public perception survey of clients, e.g., traders, brokers, client government agencies (Customs). 	<p>Indicators verify the successful implementation of measures leading to improved customs revenue performance.</p>
<p>B.3. Macroeconomic Management</p> <ul style="list-style-type: none"> Strengthened macroeconomic forecasting for sustainable use of Petroleum Fund revenue 	<ul style="list-style-type: none"> Petroleum revenue forecasts produced at least annually for budget document and Petroleum Fund annual report (Macro-economy and Tax Policy Unit – 1 person only). Macroeconomic forecasts produced at least annually for budget document and Petroleum Fund annual report (Macro-economy and Tax Policy Unit – 1 person only). 	<p>Indicators verify the regular production of macro economic forecasts of satisfactory standard to be incorporated in budget planning</p>
C. Program-wide Activities		
<p>C.1. Program-wide professional environment, conducive to high quality service delivery</p> <ul style="list-style-type: none"> Strengthened leadership and management Staff display integrity and work ethic Staff enhance basic skills (language, accounting/ bookkeeping, administrative, IT) 	<ul style="list-style-type: none"> Improved leadership and management as evidenced by competency-based training assessments of staff work ethic and work delivery (Administration/IT, Program-wide Agencies). Development of performance assessment systems for managers, staff, and advisers . Adoption and implementation of mission statement and agency codes of conduct within MoPF, socialization of code as gauged by competency-based training assessments (Administration/IT, MoPF agencies). Improved awareness and application of Civil Service Code of Ethics. Skills enhancement in selected Directorates (complementary training supplied by other donors) as measured by competency-based training assessments. 	<p>Indicators verify the impact of activities on creating a professional working environment oriented toward service delivery.</p>

E. Program Implementation		
<ul style="list-style-type: none"> • Effective program management and supervision involving GoTL and Development Partners • Performance assessment of international advisers • Sustainability 	<ul style="list-style-type: none"> • Quarterly meetings of the Supervisory Committee: <ul style="list-style-type: none"> – review and agree annual activities plan and results framework; – review and agree annual procurement plan; – review progress against annual activities plan and overall and annual results framework; – financial management and procurement satisfactory; – consider performance of international staff and capacity building of local staff; – consider project information including results from surveys; • Recruitment, selection and expected outputs for international staff (as delineated in TORs) geared to capacity building responsibilities (Administration/IT and Program-wide Agencies); • Annual performance review of international advisers with input from staff competency-based training assessments (Administration/IT); • Annual performance reviews of national managers and staff under competency-based training assessment verifies increased capacity to independently perform assigned responsibilities (Administration/IT); <ul style="list-style-type: none"> – Gradual reduction in the number of international advisers and increase in number of local staff and responsibilities and duties performed by national managers and staff (Administration/IT). 	<p>Indicators provide an overview of program monitoring and evaluation and coordination with funding partners; verify adequate project financial and procurement management; and verify capacity building achievements and sustainability.</p>

Annex 11: Safeguard Policy Issues

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Environmental issues: Environmental Category ☐ A ☐ B ☒ C

Neither the proposed PFMCBP program nor the risk mitigating IDA-only scenario deal with environmental issues as described and identified by the Bank's policy. No involuntary resettlement takes place under either program. In accordance with IDA's environmental policies (OP 4.01) this Technical Assistance Lending is classified as Category C (Not Required).

Annex 12: Program Preparation and Supervision
TIMOR-LESTE: Planning and Financial Management Capacity Building Program

	Planned	Actual
PCN review		01/31/2005
Initial PID to PIC		03/02/2005
Initial ISDS to PIC		03/02/2005
Appraisal		11/03/2005
Negotiations		02/15/2006
Board/RVP approval	03/16/2006	
Planned date of effectiveness	04/20/2006	
Planned date of mid-term review	09/20/2008	
Planned closing date	10/20/2011	

Key institutions responsible for preparation of the program:

- The World Bank
- AusAID
- DFID
- Development Cooperation, Ireland
- JICA

Bank staff and consultants who worked on the program included:

Name	Title	Unit or Funding
Helen Sutch (TTL April 2005 onwards)	Regional Governance Adviser	EASPR
Rosa Alonso I Terme (TTL 2004 – March 2005)	Senior Public Sector Specialist	EASPR
Elisabeth Huybens	Country Manager	EASPR
Laura Bailey	Consultant	World Bank
Allison Berg	Operations Officer	OPCCE
Peter Brooke	Consultant	DFID
Peter Boulding	Consultant	DFID
David Chandler	Sr. Financial Management Specialist	EAPCO
Amanda Green	Research Analyst	EASPR
Colin Hicks	Consultant	Development Cooperation, Ireland
Tuan Minh Le	Public Finance Economist	PRMPS
Mark Minford	Consultant	AusAID
Jan Morgan	Consultant	AusAID
Adam Nelsson	Consultant	EASPR
Cristiano Nunes	Procurement Specialist	EAPCO
Bruce Pollock	Consultant	Australian TF
Shilpa Pradhan	Consultant	PRMPS
Charles Sampford	Consultant	Australian TF
Christine Wong	Operations Officer	EASPR
Lynn Yeargin	Senior Program Assistant	EASFP
Muriel Greaves	Program Assistant	EASPR

Bank funds expended to date on program preparation:

1. Bank resources: USD 292,402.55
2. Trust funds: USD 69,472.87
3. Total: USD 361,875.42

Estimated Approval and Supervision costs:

1. Remaining costs to approval: USD 6,000
2. Estimated annual supervision cost: USD 75,000

Annex 13: Documents in the Project File

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Document Name	Date
Aide Memoire	September 2004
Aide Memoire	November 2004
Concept Note	January 2005
Project Concept Note Data Sheet	January 2005
Comments on Concept Note	February 2005
Project Information Document	February 2005
TOR: Preparation Mission	May 2005
Back to Office Report (preparation)	June 2005
Project Appraisal Document Data Sheet	August 2005
Project Information Document	August 2005
Minutes of the Concept Review Meeting	August 2005
Safeguards Screening of Project PAD	August 2005
Integrated Safeguards Data Sheet	August 2005
Statement of Mission Objectives Pre-Appraisal Mission	August 2005
Project Appraisal Document	February 2006

Annex 14: Statement of Grants, Loans, and Credits²⁰

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

Project ID	FY	Project Name	Original Amount in US\$ Millions				Difference between expected and actual disbursements		
			Grant	IBRD	IDA	Cancel.	Undisb.	Orig.	From Revised
P072648	2001	TP-2nd Health Sector Rehab	12.60	0.00	0.00	0.00	4.27	4.27	0.53
P072461	2001	TP-Economic Institutions For Capacity Building	0.95	0.00	0.00	0.00	0.05	-0.30	0.03
P072647	2002	TP-Fundamental School Quality Project	20.60	0.00	0.00	0.00	3.95	1.82	1.88
P087801	2005	TP-Power Sector Priority Investments	1.39	0.00	0.00	0.00	1.33	0.87	0.00
P082942	2003	TP-Second Timor-Leste Petroleum Project	1.70	0.00	0.00	0.00	0.05	0.42	0.00
P072654	2002	TP-Small Enterprises Project II	7.50	0.00	0.00	0.00	4.05	4.05	1.36
P079320	2004	TP-Third Agric. Rehabilitation Project	3.00	0.00	0.00	0.00	0.88	0.48	0.53
Total:			47.74	0.00	0.00	0.000.00	14.58	11.61	4.33

ERROR! UNKNOWN DOCUMENT PROPERTY NAME. STATEMENT OF IFC's Held and Disbursed Portfolio In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
Total portfolio:		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Approvals Pending Commitment					
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

²⁰ As of October 5 2005.

Annex 15: Country at a Glance

TIMOR-LESTE: Planning and Financial Management Capacity Building Program

POVERTY and SOCIAL	Timor-Leste	East Asia & Pacific	Low-income
2003			
Population, mid-year (millions)	0.81	1,855	2,310
GNI per capita (Atlas method, US\$)	430	1,080	450
GNI (Atlas method, US\$ billions)	0.35	2,011	1,038
Average annual growth, 1997-03			
Population (%)	-0.5	10	19
Laborforce (%)	-0.6	1.1	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty (% of population below national poverty line)
Urban population (% of total population)	8	40	30
Life expectancy at birth (years)	..	69	58
Infant mortality (per 1,000 live births)	89	32	82
Child malnutrition (% of children under 5)	43	15	44
Access to an improved water source (% of population)	..	76	75
Illiteracy (% of population age 15+)	..	10	39
Gross primary enrollment (% of school-age population)	143	111	92
Male	..	112	99
Female	..	111	85

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

— Timor-Leste

— Low-income group

KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1983	1993	2002	2003	
GDP (US\$ billions)	0.36	0.31	
Gross domestic investment/GDP	
Exports of goods and services/GDP	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	..	0.8	2.0	-2.0	..
GDP per capita	..	10	-15	-5.6	..

Economic ratios*

Trade

Domestic savings

Investment

Indebtedness

— Timor-Leste

— Low-income group

STRUCTURE of the ECONOMY	1983	1993	2002	2003
(% of GDP)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Imports of goods and services
	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services

Growth of investment and GDP (%)

20

0

-20

-40

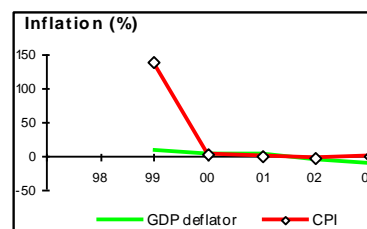
98 99 00 01 02 03

— GDI

— GDP

PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	-2.0	0.0
Implicit GDP deflator	-6.7	-10.4
Government finance				
(% of GDP, includes current grants)				
Current revenue
Current budget balance
Overall surplus/deficit



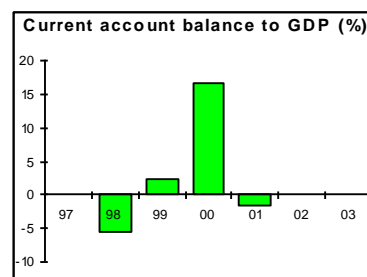
TRADE

	1983	1993	2002	2003
(US\$ millions)				
Total exports (fob)
n.a.
n.a.
Manufactures
Total imports (cif)
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

	1983	1993	2002	2003
(US\$ millions)				
Exports of goods and services
Imports of goods and services
Resource balance
Net income
Net current transfers
Current account balance
Financing items (net)
Changes in net reserves
Memo:				
Reserves including gold (US\$ millions)
Conversion rate (DEC, local/US\$)	10	10



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
(US\$ millions)				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments

Annex 16: Map # IBRD 33496

TIMOR-LESTE: Planning and Financial Management Capacity Building Program