

**TIMOR-LESTE & AUSAID  
BILATERAL PROGRAM REVIEW  
FINAL REPORT**

9 July 2008

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## **GLOSSARY & ABBREVIATIONS**

ADB	Asian Development Bank
AEU	Aid Effectiveness Unit
ATM	Aids, Tuberculosis, Malaria
AusAID	Australian Agency for International Development
CDCU	Capacity Development Coordinating Unit
COM	Council of Ministers
CSC	Civil Service Commission
CSU	Corporate Services Unit
DP	Development Partners
FDTL	Defence Force of Timor-Leste
GoA	Government of Australia
GoTL	Government of Timor Leste
INAP	National Institute for Public Administration
LM	Line Ministry
LTA	Long-Term Advisor
M&E	Monitoring and Evaluation
MAFF	Ministry of Agriculture, Fisheries and Forestry
MoE	Ministry of Education
MoED	Ministry of Economy & Development
MoF	Ministry of Finance
MoH	Ministry of Health
MoSA	Ministry of State Affairs
MPFCBP	Ministry of Planning and Finance Capacity Building Project
NDP	National Development Plan
NDPEAC	National Department of Planning and External Assistance Coordination
NDPS	National Division of Public Service
ODA	Official Development Assistance
OPM	Office of the Prime Minister
PAD	Project Appraisal Document
PFM	Public Financial Management
PFMCBP	Planning and Financial Management Capacity Building Program
PIO	Project Implementation Office
PMG	Program Management Group
PMIS	Personnel Management Information System
PNTL	National Police of Timor-Leste
PSCDP	Public Sector Capacity Building Project
REA	Register of External Assistance
SIP	Sector Investment Plan
SIP	Sector Investment Program
STA	Short-Term Advisor
SWG	Sector Working Group
TA	Technical Advisor
TA	Technical Assistance
TASI	Technical Assistance Support Initiative
TL	Timor-Leste
TOR	Terms of Reference
UNDP	United Nations Development Program
UNTAET	United Nations Transitional Authority in East Timor

## EXECUTIVE SUMMARY

### Background and methodology

1. This Review is Phase 3 of a four-phase process; and evaluates the cross-sectoral aspects of the Economic Development and Management Pillar of the AusAID Country Program. This report combines the findings of the first three phases. There were no divergent views within the Review Team.
2. The Review was conducted in two steps. A desk study of monitoring reports and current Annual Plans was undertaken in-Australia; followed by the in-country mission for 10 days in Timor Leste. A detailed itinerary of consultations was developed by AusAID Dili to support these interviews, see Annex 2 – Itinerary and Persons Met at page 37. The Review would like to thank AusAID Dili for the extensive support given to the in-country part of this Review.
3. This draft report will be peer reviewed by stakeholders in June 2008; and the fourth and final phase of the process conducted in July 2008. The Strategic Review will offer advice to partners to improve effectiveness of strategy and/ or program implementation.

### Objectives, scope and resourcing

4. The Review considers that the original Goals and Purpose for both MPFCBP and PSCDP have remained relevant; and continue to meet the needs of the bilateral program to establish basic Civil Service functionality. Regular adjustments to the scope and focus of both activities have been necessary; and reflect the nascent and developing nature of the GoTL Civil Service machinery. This will continue in the fragile context of Timor-Leste; and can best be absorbed as changes to the Annual Activity Plans and contract terms. The Review can find no case for larger scale redesign.
5. The flexibility built into the design of both activities has achieved the desired level of adaptability and responsiveness; and is openly appreciated by GoTL. The attendant risk that some sub-components will have only temporary relevance until GoTL policy attention moves on has been realised more in PSCDP than MPFCBP, but both activities have been affected by this phenomenon.
6. The level of resourcing that supports both activities is appropriate; and is found to either exceed or be consistent with GoTL absorptive capacities. PSCDP resources may need to be expanded if AusAID accepts the Review's recommendations that developing the capacity of Line Ministry CSUs become another main component of this activity into the medium term.
7. The successor activity to MPFCBP in mid-2008 is the nationally executed PFMCBP. This activity includes annual planning and flexibility in design through an amount of unprogrammed, but available, funding. The Review considers that this program will meet the needs of the bilateral program in the area of public finance into the medium term, but its narrower focus on MoF may lead to a broadening of some PSCDP components to include aspects of public financial management in Line Ministries. This is not duplication of public finance roles, but a link to whole-of-government; and will need to be closely coordinated with MoF.

## Achievements

8. The Review finds that both programs have realised their technical goals; and that implementation has been efficient. Effectiveness, medium-term efficiency, impact and sustainability have all been reduced by the limited capacity building that both activities have achieved; and the subsequent on-going dependency on TA at end-of-project in MPFCBP. This needs to be addressed in future Annual Plans for PSCDP to avoid a similar end-of-program outcome.
9. Major factors that have reduced the capacity building impact of the Advisor-Counterpart approach used by both activities have been (i) TA was in an in-line role and should have been clearly identified as such, with CB provided through other techniques; (ii) Counterparts were not available to transfer skills to; and (iii) in mixed in-line/ advisory TA roles, there was a greater emphasis on the “doing”; and CB was not a high priority within the time available.

## Context and future directions

10. The context in TL is expected to remain fluid and fragile into the medium term; and flexibility and responsiveness in programming will continue to be required. The Review sees specific benefits in quarantining the diverting aspects of urgent and emerging issues within a special fund; while allowing the main components to be largely unaffected by the need to respond. The reality of this process in GoTL is that AusAID receives these requests and needs to make a programming judgement; while the Provider implements efficiently. Accordingly, the PSCDP contract needs to recognise that AusAID bears all programming risk for any special fund; and the Provider will bear the implementation risk.
11. Lessons learnt by AusAID emphasize that CB takes time, and needs to be balanced against short-term technical needs facing GoTL. The Country Program needs to be clear when identifying TA needs whether it will be in-line or CB, and over what time-frames. All TA needs to have capacity-building plans, but the methods to be used need to be balanced against the various short-term technical needs of each position, and of the ministry in question.
12. In fragile states, it is also clear that in-line roles are the reality (and necessity) over the medium-term, in order to deliver Government services. In this context, AusAID needs to be prepared to provide long-term assistance to GoTL, with large TA investments upfront (the current situation). Further, CB options need to be varied and flexible: exploring longer-term training/twinning options where possible (especially for more technical roles); and placing appropriate TA to do one-on-one CB, where the role and counterpart are in place to justify this more conventional approach.

## General recommendations

- **The Review recommends** that Providers develop cultural awareness-raising for all TA around TA dependency and TA embeddedness issues; and write-up good practice guides as GoTL policies and procedures emerge under the direction of the CSC.
- **The Review recommends** both activities model good practice around GoTL policy formulation. This can most effectively be achieved by consulting with GoTL and agreeing on a draft framework of protocols for policy development that then be modelled by PSCDP. Once approved by GoTL, this framework can be used as guidance to the Civil Service and Advisors. This output will also be used by the proposed INAP Level 6 & 7 Civil Service training curriculum. PSCDP, as an on-

going activity, would be performance assessed on its application of these protocols to all future policy development tasks.

- **The Review recommends** that each activity/ component develop and monitor a specific capacity building plan. This plan needs to be reported against and every effort made to ensure that capacity is built and efficiency is introduced into that activity over time. This can be linked to Annual Performance Assessments for TA, which can bypass the need to re-advertise the TA position annually where the assessment is positive; and so reduce the administrative cost/ burden of these activities. Where the TA performance assessment is weak, then re-advertising can be used to test the market place for an alternative Advisor.

### MPFCBP recommendations

- **The Review recommends** that AusAID make regular assessments of PIO's operational capacity to ensure that the mutually shared vision of MoF national execution is married to the reality of a properly functioning PIO.

### PSCDP recommendations

- **The Review recommends** that the medium term goal of PSCDP should be to increasingly select activities that are least likely to be adversely affected by political and policy shifts; and contribute most to building the basic structures of a functional public sector in TL. This will require a risk analysis approach to activity selection; or at least accepting that some activities identified by GoTL for PSCDP implementation are inherently at risk of becoming less relevant as circumstances change.
- **The Review recommends** that riskier program activities be quarantined in a Public Sector Support Fund (placeholder name only), with a financial limit on the amount of support that can be given to such initiatives. This fund would be managed by the PSCDP Provider, with GoTL and AusAID accepting responsibility for programming risk; and tasking the Provider with accepting responsibility for good quality and timely implementation.
- **The Review recommends** that PSCDP build on its current central agency focus to make Line Ministry (LM) CSU capacity-building a major activity into the medium term; and be resourced accordingly. This strategy supports the Governments priority in budget execution; and will underpin any moves towards decentralisation, plus fill gaps left by PFMCBP.
- **The Review recommends** that opportunities for greater GoTL participation are facilitated by changes in PMG meeting procedures. Possible changes include: (i) invite other Line Ministries with PSCDP activities to PMG meetings, as appropriate; (ii) rotate the PMG Chair among GoTL representatives only, AusAID to be excluded; and (iii) that program and general briefings by GoTL representatives to the PMG be included as an early Standing Agenda item.

### AusAID recommendations

- **The Review recommends** that AusAID proceed with the two-year, full-time appointment of a Senior Governance Policy Advisor (placeholder name only) in AusAID Timor Leste to develop, document and advance a broad range of AusAID Economic Development and Management program themes in close consultation with GoTL and other donors in TL. Details of this proposed post are set out in Section 5.3 "AusAID program management" on page 27.

## 1.0 BACKGROUND

### 1.1 Introduction

13. The Bilateral Program Review focuses on the implementation of Australian bilateral activities to the second pillar '*economic development and management*', which has the objective of '*better public sector management and budget execution*'. AusAID engagement in economic development and management in Timor Leste consists of by two activities:
  - Ministry of Planning & Finance Capacity Building Project (MPFCBP, commenced in August 2003); and
  - Public Sector Capacity Development Project (PSCDP, commenced in August 2006).
14. The Review is to be conducted in four Phases and this report combines the findings of Phase 1-Internal Initiative Management Review and Phase 2- Capacity Development Review into a single document. See the Terms of Reference attached at "Annex 1 - Terms of Reference" on page 30.
15. The Review Team, consisting of a Public Finance and Governance Advisor and three AusAID Policy Officers, two in Public Finance (Canberra/ Dili) and one in Public Sector Management (Dili), were tasked to conduct a technical assessment of activity progress to date, where these activities sit within a broader strategic context; and an analysis regarding future directions to determine:
  - the appropriateness of the strategy's objectives, the risks and assumptions underpinning the strategy, and key approaches and delivery mechanisms; and
  - inform AusAID and GoTL of any changes needed.
16. This Review replaces the regular review missions scheduled for each activity. AusAID, in partnership with GoTL, will use the recommendations to re-orient support or address resources as appropriate. The report is organised to address these issues.

### 1.2 Policy Setting

17. Since the design phase for both activities:
  - East Timor has experienced protracted social, political and economic instability, resulting in a change to the Fourth Constitutional Government in August 2007 that labelled 2008 as 'The Year of Administrative Reform'. Notwithstanding this positive tone, the disruptions of 2006 had profound social and economic impacts and GoTL is entering a new phase of "stabilisation and recovery"<sup>1</sup>. GoTL can be expected to favour "back to basics" initiatives that seek to restore the functionality of public sector mechanisms and process; and to disregard complex activities or those that appear vulnerable to political instability and/or change.

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<sup>1</sup> Page 4, 2008 National Priorities – Working Together to Build the Foundations for Peace and Stability and Improve Livelihoods of Timorese Citizens. Government of Timor Leste, Timor-Leste and Development Partners Meeting (TLDPM), 28-29 March 2008.

- The new Government's national priorities, in order, are grouped into six sectoral clusters and have the highest priority for ODA support listed alongside each:
  - 1) Public Safety and Security- *Professionalization of PNTL and FDTL*;
  - 2) Social Protection and Solidarity – *Reintegration of IDPs through housing*;
  - 3) Addressing the needs of youth – *Supporting youth*;
  - 4) Employment and Income Generation – *Public works infrastructure generating employment*;
  - 5) Improving Social Service Delivery – *Education*; and
  - 6) Clean and Effective Government – (i) *Enhanced leadership, management and service orientation of the Civil Service*, (ii) *Government accountability transparency and integrity*.
- The new Australian Government has indicated different directions to guide Australia's development assistance over the medium term to 2015<sup>2</sup>. These new directions include:
  - 1) strengthening the effectiveness of the aid program as the aid budget is scaled up to reach 0.5% of Gross National Income by 2015. Part of this scale-up of activities is to be realised through cost-sharing with multilateral programs, but these activities will need to perform well if AusAID is to avoid implementation risk in its own program;
  - 2) ensuring that Australian aid is increasingly consistent with partner government policies and aligned with the efforts of other donors; and
  - 3) more innovative approaches to engagement with fragile states, such as Timor-Leste. These include: engaging closely with key policy-making agencies; an assessment of the potential for outsourcing of government functions to qualified service providers; and the scope for appointment of internationally recruited officers to fill key Government posts in resource-rich countries.
- Recalling the experiences of Bougainville and Solomon Islands since 2003, Australia has a clearer perspective of the timeframes and processes involved in stabilisation and capacity building in small Fragile States such as Timor Leste. In particular, an awareness that there is no defined, or linear, progression from stabilisation to capacity building. As government staffing and skill levels change due to agency-specific circumstances, temporarily weakening at some points, ODA activities need to be sufficiently flexible and adaptable to move between stabilisation and capacity building as the situation demands. The primary role for ODA activity in these states is to support the government to deliver services and so underpin security and civil society stability; but with a trend towards more consistent capacity building by the administration over time. Depending on the pace at which government can develop its policies and resources its agencies, the time frame over which this general trend towards capacity building occurs needs to be analysed in five-year segments within a 15 to 20 year perspective. Independent assessments of the overall trend towards capacity building in these highly fluid political and administrative contexts are a key aspect of these analyses.

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<sup>2</sup> [http://www.ausaid.gov.au/hottopics/topic.cfm?ID=4268\\_7778\\_8520\\_7274\\_5738](http://www.ausaid.gov.au/hottopics/topic.cfm?ID=4268_7778_8520_7274_5738). Accessed 15 May 2008.

18. At first glance, both AusAID initiatives under the second pillar of '*economic development and management*' appear to link most directly with 6) Clean and efficient Government , as listed above, and may appear to rank lower than the other priorities relating to national security and civil society development. However, the central agencies of Office of the Prime Minister (OPM) and MoF have consistently emphasised the importance of stronger national mechanisms of Civil Service management and budget execution to improve service delivery in all the above-mentioned priority areas. Going forward, AusAID programs in the second pillar will need to identify and support aspects of these national mechanisms that will not be materially affected by political instability; and which will form part of the foundations of a functional Civil Service into the longer term future.

### **1.3 Objectives and Scope at Design**

19. The Review incorporates the designs of two activities. Each is considered separately and in the context of the policy settings noted above.
20. **MPFCBP** – has the purpose of ensuring “*That GoTL can sustainably generate and manage public funds*” and is currently in the third stage of its second phase and has been subject to regular review and amendment of the design throughout. At the request of the Minister for Finance, the Budget formulation, Budget execution and Revenue components of the current design are being extended for a further six months to facilitate full integration of these activities within PFMCBP by December 2008.
21. The strong support that these activities continue to give to MoF service delivery is a good fit with the current GoTL policy settings and recognises both the priorities of GoTL and the comparative advantages of the AusAID program in delivering technical assistance.
22. The Review considers that the objective, purpose and scope of MPFCBP have remained relevant in the changing policy context of GoTL, which is reflected in their replication in PFMCBP.
23. The design of PFMCBP as a successor activity was supported by AusAID in 2004/2005. The original Project Appraisal Document (PAD) will be adjusted as an outcome of the TA Critical Needs Assessment to be finalised in June 2008; and revised fully by mid-2009<sup>3</sup> as part of a review of PFMCBP alignment with MoF reform priorities. Maintaining a sound technical alignment of the PFMCBP design with GoTL priorities seems likely under this approach. However, the Review notes that the transition to a nationally executed PFMCBP will present a new set of challenges to GoTL in terms of sustaining the same level of services delivery as MPFCBP achieved. This is because the MoF Project Implementation Office (PIO) is a typically fragile GoTL operational support mechanism for sourcing, recruiting, mobilising and retaining the large numbers of TA proposed for delivery of MoF services from mid-2008 onwards.
24. **PSCDP** – has significant programming flexibility built into its design, enabling a number of diverse activities to be supported. It is in its first design at present; and has as its purpose “*To strengthen capacity building institutions and processes to build individual and institutional public sector capacity in East Timor*”. The 2008-2009 Draft Annual Plan allocates \$6.0m in program funding across three categories of

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<sup>3</sup> Doug Porter- World Bank, Presentation and Discussion: PFMCBP Refocussing Discussion Note. Ministry of Finance, First Supervisory Committee Meeting, 29 April 2008.

activity, they are (i) Support to Central Agencies [\$4.3m or 71.7%]; (ii) Support to Deconcentration [\$0.5m or 8.3%]; and (iii) Transitional and Supplementary Support [\$1.0m or 16.7%]. A Flexible Resources Fund is also available for emergent needs [\$0.2m or 3.3%].

25. The majority of support has been directed to Central Agencies; and is focussed on Office of the Prime Minister; Office of the Secretary of State (SOS) for the Council of Ministers (COM); Ministry of State Administration; Ministry of Finance; and Ministry of Economy and Development. These agencies have the lead role in establishing the foundations of a functional Civil Service; and the Review finds that the focus and scale of PSCDP program resourcing is appropriate.
26. The Review considers that the objective, purpose and scope of PSCDP remain relevant in the rapidly changing policy context of GoTL. This is despite the dissolution of two of its four main counterpart agencies, being the Capacity Development Coordination Unit (CDCU) and the Sector Investment Plan (SIP) Coordination Unit of the National Department of Planning and External Assistance Coordination (NDPEAC). Further, Sector Working Groups (SWG) supporting planning have not functioned since 2006. This has necessitated a shift in focus to MoF, which has adopted planning and aid coordination functions; and a focus on the emergent deconcentration/ decentralisation issues in the 2008/2009 Annual Plan.
27. The Council of Ministers (COM) recently approved the establishment of a Civil Service Commission for GoTL<sup>4</sup>. This body is intended to be an independent statutory authority to oversight the proposer functioning of the Civil Service. While the final model for granting the CSC statutory powers is yet to be determined, with some debate around Common and Civil Law approaches to be agreed, the benefits of having a central authority to set priorities and tasks for ODA support activities like PSCDP are clear. The Review anticipates that the formation of a CSC will have design implications that affect future PSCDP Annual Plans for supporting the Civil Service.

## 1.4 Implementation Arrangements

28. Both activities are implemented by a traditional managing contractor model, with Providers being responsible for all aspects of program delivery and funding within the framework of an annual plan. Both activities have had access to a flexible funding facility to meet emergent or urgent needs identified by GoTL and AusAID; and have benefitted from being highly responsive to new challenges arising in their programs.
29. Given the limited capacity of the fledgling GoTL Civil Service to manage more complex sub-contracting or national execution models for ODA delivery, the activity implementation arrangements have realised good results for both GoTL and AusAID. Good results for GoTL in terms of the timeliness and quality of Technical Advisors (TA) mobilised by Providers to deliver good quality capacity support. Good results for AusAID, in terms of reliable program delivery and fiduciary management of Government of Australia (GoA) funds.
30. **PSCDP** - The Review notes that this program appears to have had more difficulty than MPFCBP in TA selection and retention. This has been mainly due to the broad range

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<sup>4</sup> Report of the Civil Service Commission Taskforce on the proposed establishment of a Civil Service Commission. Office of the Prime Minister, Government of Timor-Leste, 3 April 2008. Approved by COM on 27 April 2008.

of skill sets required by its diverse program of activity across the whole public sector; whereas MPFCBP is limited to the public finance field. The impact of TA mobilisation issues has not been significant to PSCDP overall, but a few individual activities have been delayed and diverted by this issue.

31. **MPFCBP** – is to be succeeded by PFMCBP, which will be nationally executed. In the short-term, the capacity of the MoF-PIO as a “slow starter” to become “fully functional and credible” and operate as efficiently as the existing Provider is open to question; and its “program management capacity” and “leadership and coordination of TA inputs” have been identified as risks<sup>5</sup> to this program.
32. Noting that GoA is willing to provide substantial support to PFMCBP, with seed funding of A\$1m in July 2008 and 2009 and current approvals for a further A\$13m to 2011, subject to performance; the **Review recommends** that AusAID make regular assessments of PIO’s operational capacity to ensure that the mutually shared vision of MoF national execution is married to the reality of a properly functioning PIO. This concern is not new; and has previously been expressed by AusAID review teams in July and December 2007. The Review is advised that a weekly MPFCBP –PFMCPB Transition Committee meeting, as proposed during the Review, continues to be held to assist formation of PIO capacities. After December 2008, any assessments of PIO capacity will need to be linked to the reports of regular Supervisory Committee meetings and any periodic reviews that AusAID may participate in.
33. **TA management** - the Review notes that AusAID selection of Providers is largely based on their ability to source, recruit and retain good quality TA to service program needs. Maintaining this capacity needs to remain top-of-mind for AusAID in the Economic Development and Management Pillar, because many on-going bilateral activities and relationships in GoTL will depend on the responsiveness and quality of the TA the Provider can supply.
34. This requirement for TA to be responsive and build relationships within a fragile Civil Service that operates under a top-down hierarchy with asymmetric power relationships and political partisanship needs to be contrasted with legitimate concerns about TA ‘embeddedness’ once strong personal relationships are forged, especially with host agency leadership. Providers need to develop techniques to manage all TA to walk the fine cultural line in TL between building harmonious relationships; and a suitable level of professional detachment to preserve their independence and credibility.
35. This is especially difficult when TA is sourced from organisations with ‘flat’ management structures, which are committed to rapid problem-solving. These TA are comfortable to manage upwards to a Minister; and have that level of access. The consequence is that the GoTL directorate feels, and is in fact, by-passed; and any resulting decision-making from of the TA-Minister engagement is then imposed on the directorate in a top-down way. Ownership by the directorate responsible for operationalisation of these decisions is low; and their sustainability is suspect.
36. **The Review recommends** that Providers develop cultural awareness-raising around this issue for all TA; and write-up good process guides as GoTL policies and procedures emerge under the direction of the CSC.

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<sup>5</sup> Pages 2,4 &6, World Bank, Presentation and Discussion: PFMCPB Refocussing Discussion Note. Ministry of Finance, First Supervisory Committee Meeting, 29 April 2008.

37. **Capacity Building** – in both programs has been broadly confined to the Senior Advisor-Counterpart model. Capacity Building in both activities has been limited by constraints on both the supply and demand side of the process. Advisors providing services have limited time for training; and the absence of GoTL counterparts all but eliminates the potential for the highly effective on-the-job/ one-on-one skills transfers. Further, some TA had in-line roles; these need to be clearly identified and CB an additional activity to be separately resourced.
38. The Review notes few examples of longer-term capacity-building options such as organisation and systems capacity building being modelled alongside individual capacity building through mentoring, twinning, secondments/ attachments, seminars, study tours, formal long and short training courses, or scholarships. Further, there has been little use of volunteers or consortium arrangements with regional training institutions to supply varying levels of TA to support the host organisations.
39. The consequence of a capacity-supply approach and limited skills transfer opportunities during implementation is that both activities face End-Of-Project situations where on-going GoTL service delivery will depend on continuation of TA.
40. As the Civil Service management framework in TL takes a more concrete shape over coming years, AusAID will need to seek better structured and more diverse capacity building approaches, especially for future PSCDP activities. The aim of this approach needs to be to avoid a continuation of GoTL dependency on TA for services delivery.
41. PFMCBP is taking a very resource-intensive approach to capacity building in MoF. Senior GoTL officers will undergo formal long-course training overseas<sup>6</sup> for periods of up to three years, during which time PFMCBP TA will act in-line to deliver services for MoF. After training, a structured one-on-one handover/ takeover between the TA and Civil Servant will occupy up to one year.
42. The Review notes that this capacity-building model is very TA intensive at the front-end of PFMCBP; and remains heavily dependant on PIO being equipped to source and retain good quality TA in key service delivery positions in MoF for up to four years. Further, it is reliant on effective coordination between civil service reforms and the MoF capacity building timetable to ensure retention of trained GoTL officers after their return to government service from training. Both these factors represent potential implementation risks to AusAID's program in Timor Leste.

## 1.5 Completion

43. **MPFCBP** – will complete on 31 December 2008, but many of its activities will be replicated in the successor program PFMCBP.
44. **PSCDP** - is a five-year program and is scheduled to complete in mid-2011. AusAID is likely to be requested to support further activities in GoTL Civil Service development beyond this program term.

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<sup>6</sup> Minister of Finance advised of a US\$60m p.a. agreement between GoTL and Government of The Philippines to train up to 10,000 GoTL Civil Servants annually. The MoF component of this arrangement was to be US\$5m p.a., or approximately 833 places annually.

## **1.6 Financing**

45. Both programs are financed through AusAID contracts; with annual funds release determined by an Annual Plan that is approved by their respective management body.

## **1.7 Evaluation Methods**

46. Both activities report against a Monitoring & Evaluation (M&E) Framework on a six-monthly basis. These reports are assessed by a Program Monitoring Group (PMG) in the case of PSCDP; and a Board in the case of MPFCBP. These bodies are a bilateral management forum involving AusAID; and assess activity progress against goals. The scope, orientation and resourcing of activities can be redirected by these high-level evaluation bodies.

47. Both activities have been subject to regular review by AusAID Monitoring and Review Groups (MRG).

48. The review concludes that evaluation and monitoring methods have ensured that these initiatives are effective in the volatile context of GoTL.

## 2.0 ACTIVITY PROGRESS

### 2.1 Detailed activity analysis

49. A detailed summary of each component of MPFCBP and activity of PSCDP is made at Annexes 3 and 4 on pages 41 and 45.

### 2.2 Relevance

50. Given the changing context of public sector management in GoTL, that is the gradual shift to a more structured framework for managing both the civil service and the use of resources to deliver services, the Review finds that the current objective, design, and scope of both bilateral activities are targeted so as to meet the needs of GoTL and AusAID over the medium term. Lessons from the AusAID program emphasise that building public sector capacity takes time. The Review would add that Development Partners (DPs) need to recognise the political reality of changing GoTL priorities that can impact on progress of some specialised activities, especially in a politically partisan and fragile state such as TL.

51. **PSCDP** - As noted in Annex 3, some PSCDP activities have experienced diminished relevance and impact during implementation as a result of changing priorities and strategies as governments and their policies have changed. The Review considers this an inevitable consequence of the fragile and moving context for establishing the public sector framework in GoTL.

52. **The Review recommends** that the medium term goal of PSCDP should be to increasingly select activities that are least likely to be adversely affected by political and policy shifts; and contribute most to building the basic structures of a functional public sector in TL. This will require a risk analysis approach to activity selection; or at least accepting that some activities identified by GoTL for PSCDP implementation are inherently at risk of becoming less relevant as circumstances change. There is a case to be made for quarantining these riskier activities from the more long-term and on-going support to building up the civil service machinery

53. Examples of activities that are likely to fit these criteria are developing legislative and systemic capacity to those GoTL agencies responsible for public sector management, such as the COM and INAP programs. By nature these tend to be multi-year tasks in areas where GoTL has limited existing capacity, so risks of TA embeddedness and dependency need to be carefully guarded against by AusAID and the Provider.

54. Examples of activities that are not likely to fit these criteria are short term, highly technical tasks that have large data requirements to meet both the original and on-going goals of the activity, such as the TA Demographic Database for Advisor effectiveness and the Development and dissemination of a National Workforce Plan. These types of activities require strong and capable counterparts from inception if they are to be effective and sustainable. DP experience in GoTL is that few TA are likely to build such relationships over a few months. Further, sustainability strategies such as post-assignment mentoring by email require good IT capacity, which LMs are finding difficult to sustain. Accordingly, short-term, intensive inputs are more likely to fail the criteria noted above.

55. **MPFCBP** – The Review considers that the current activities of MPFCBP and the PFMCBP Short Term Activity Description for July 2008 onwards are both focussed

on are developing the long-term systemic capacities of MoF. Accordingly, the Review concludes that these activities are targeted so as to meet the needs of GoTL and AusAID over the medium term.

### 2.2.1 Activity design

56. PSCDP - the current design remains valid, but may require some re-organisation of contracted responsibilities to apportion program risk to ‘non-core’ activities more realistically. The Review recognises that the previous PMG sought a tightening of the Providers role in setting a performance framework around ad-hoc activities requested by GoTL and AusAID. This has not occurred in practice; and in the Review’s opinion, is never likely to. The “creative tension” that this approach intended to set up, between GoTL/ AusAID requests and the Provider’s analysis of whether these fit into the main program, in fact led to conflict and little value was added.
57. Accordingly, it is more realistic to recognise that in the fluid situation of TL, AusAID program managers need to accept program risk when the Provider is tasked to implement a ‘non-core’ activity. Part of maintaining the bilateral relationship calls on AusAID Program Managers to exercise good judgement when considering direct requests from GoTL; and this needs to be reflected in the contractual responsibilities.
58. **The Review recommends** that riskier program activities be quarantined in a special fund, with a financial limit on the amount of support that can be given to such initiatives. This fund would be managed by the PSCDP Provider, with GoTL and AusAID accepting responsibility for programming risk; and tasking the Provider with accepting responsibility for good quality and timely implementation.

### 2.3 Efficiency

59. The Review finds that the technical outputs of most components and activities have been delivered in a timely way; and implementation efficiency has been achieved. However, the impact and sustainability of these outputs varies with the level of capacity that was supported, or developed, during implementation.
60. Many of the activities involve TA in-line positions that generate basic data for GoTL and DP analysis; and so inform public decision-making processes. Given the wide range of data that these activities generate, more is now known about the actual ‘gaps’ in GoTL capacity; and the scope for ODA roles seems to grow correspondingly. However, ODA growth is not a viable medium-term response, GoTL capacities need to develop.
61. The Review considers that the current level of resources matches the realistic level of ODA that can be absorbed by agencies building up the capacity of the public sector machinery and MoF. In some cases, cases the current level of resources has run ahead of GoTL commitment and absorptive capacity; and these activities inform the program, but have little impact on GoTL capacity development. Such activities need to be avoided in future.
62. If allowed to continue, the existing level of TA dependency will adversely impact on both activities’ efficiency into the medium term. This will be a result of cost and disruption to GoTL services delivery as TA is successively replaced as counterparts are either not in place, or are unequal to the task. Future efficiency in the program will depend on a more specific set of capacity building strategies, which can only emerge as the leadership in civil service management, most likely in the CSC, develops. Accordingly, the Review concludes that some degree of inefficiency is likely to be

evident in both programs into the medium term because TA dependency will persist until a national capacity building strategy has been developed by GoTL.

### **2.3.1 Timeliness and appropriateness**

63. Both activities have benefitted from being highly responsive to GoTL, both in their main activity programs and in their responsive funding. The program risk of such responsiveness emerges when GoTL priorities move away from an activity that was promptly developed. However, in the interest of GoTL and the bilateral relationship, AusAID needs to weigh this risk and task the Providers to respond as is needed.
64. The Review considers that short, simple interventions that inform GoTL on a timely basis are likely to have as much legitimacy as larger, more technically oriented, interventions that do not produce rapid outputs.

### **2.3.2 Activity monitoring**

65. **The Review recommends** that each activity develop and monitor a specific capacity building plan. This plan needs to be reported against and every effort made to ensure that capacity is built and efficiency is introduced into that activity over time. . This can be linked to Annual Performance Assessments for TA, which can by-pass the need to re-advertise the TA position annually where the assessment is positive; and so reduce the administrative cost/ burden of these activities. Where the TA performance assessment is weak, then re-advertising can be used to test the market place for an alternative Advisor.

## **2.4 Effectiveness**

### **2.4.1 Benefits to the target population**

66. The trickle-down of systemic work in GoTL to service delivery in the 13 Districts is slow; and is likely to be into the medium term. This is because there are few direct operational levers between the Budget allocation and, say, education services in a District.
67. Most of the work being done by both activities is to establish the basic mechanisms that will allow the LMs in Dili to perform better and so implement GoTL programs in the Districts. A missing linkage in this process is a functional Corporate Service Unit (CSU) in each of the major spending LMs. These Units are responsible for:
  - Simple and effective corporate planning that meets the mandate set out by the Organic Law. The Review notes that the earlier efforts at institutionalising Operational Planning have not taken root; and no LM currently uses this tool as it is data intensive and complex;
  - Budget formulation to fund an annual activities program in the capitol and Districts;
  - Procurement planning to meet implementation and service delivery targets (especially for Districts);
  - Human resources development and management to meet implementation and service delivery needs (especially for Districts);
  - Financial management of resources appropriated; and
  - Annual Reporting to COM and progress achieved.

68. Development of various aspects of CSU skills is already being done through other donors and activities; however, the Review was not able to locate a whole of GoTL CSU capacity analysis to guide a more coordinated effort to build this vital LM capacity. CSU capacity will be vital for any decentralisation efforts into the future.
69. **The Review recommends** that PSCDP make CSU capacity-building a major activity into the medium term. This strategy supports the Government's priority in budget execution. This program would build on existing PSCDP and MPFCBP support to LM CPUs and recognises that the current requests for CPU capacity-building from the Ministries of Foreign Affairs and Social Protection and Solidarity are likely to lead to other LMs seeking similar support.
70. PFMCBP does not extend to support to LMs at this time; and PSCDP can play a valuable linking role by bringing both the civil service and finance management elements of LM CSU capacity building together under one umbrella activity, in close partnership with the other DPs. This will require considerable liaison with other donors and activities to ensure no overlap or duplication of efforts; and will need to focus on those agencies most likely to be early adopters of decentralisation roles.

## 2.5 Impact

71. The Review considers that the impact of the activities will contribute to GoTL establishing stability and prosperity over the medium to long-term, but there are likely to be set-backs and periods of reduced activity as political priorities adjust within GoTL. This risk can be reduced by targeting support to the main elements of the civil service machinery, but is to be anticipated in a volatile and fragile state.
72. The response of both activities to a post-conflict environment has been effective; focus on the main programs has been maintained, whilst responding to urgent/ emergent issues through flexible funding facilities and effective recruitment of TA. This combination has served the activities and AusAID/ GoTL well.
73. The next issue that needs to be prioritised is the development of viable capacity building plans and M&E arrangements to introduce efficiency and sustainability into these programs in the longer term. This can be linked to Annual Performance Assessments for TA, which can by-pass the need to re-advertise the TA position annually where the assessment is positive; and so reduce the administrative cost/ burden of these activities. Where the TA performance assessment is weak, then re-advertising can be used to test the market place for an alternative Advisor.

### 2.5.1 Effect on AusAID's policies

74. The main impact on AusAID policy setting is to achieve an appropriate mix between on-going support to the main elements of the civil service machinery; and having a responsive package of support for urgent and emerging issues identified by GoTL. The Review considers that this is more likely to affect PSCDP than MPFCBP/ PFMCBP, due to its broader program of activities across more LMs.
75. The responsive package of resources can absorb many of the diverting issues that arise in a fragile and volatile setting; while leaving the main programs free to steadily pursue their longer-term targets and outcomes.

## 2.6 Sustainability

76. Sustainability has already been noted as a weak area for both activities; and across GoTL as a whole. This was acknowledged by the Minister of Finance in her presentation to DPs, during which it was emphasised that the current capacity-building approach within GoTL was not working and a far bigger investment in people was needed to address this constraint to development in TL.
77. The Review notes the MoF proposed large scale scholarships program is not yet supported by a wider Civil Service Reform or Capacity Building Plan. Without clear whole-of-GoTL support; such an ambitious program may be perceived as a unilateral initiative and suffer from reduced effectiveness as a result. If this is the case, it is characteristic of the fluid and reactive environment within GoTL; and highlights the need for DPs to support the main elements of Civil Service machinery wherever possible.
78. Lessons learnt by AusAID emphasize that CB takes time, and needs to be balanced against short-term technical needs facing GoTL. The Country Program needs to be clear when identifying TA needs whether it will be in-line or CB, and over what time-frames. All TA needs to have capacity-building plans, but the methods to be used need to be balanced against the various short-term technical needs of each position, and of the ministry in question.
79. In fragile states, it is also clear that in-line roles are the reality (and necessity) over the medium-term, in order to deliver Government services. In this context, AusAID needs to be prepared to provide long-term assistance to GoTL, with large TA investments upfront (the current situation). Further, CB options need to be varied and flexible: exploring longer-term training/twinning options where possible (especially for more technical roles); and placing appropriate TA to do one-on-one CB, where the role and counterpart are in place to justify this more conventional approach.
80. The Review considers MPFCBP and PSCDP to be the first five-year elements of the bilateral program of stabilisation and developing a trend towards public sector capacity building and improved public financial management in TL. In the case of MPFCBP, there have been gains made in developing the basic mechanisms for financial management in revenue, budgeting and public expenditure; and delivering services through them. In PSCDP, the development of supporting legislation and strengthening of civil service training programs in INAP are the building blocks for future administrative strengthening. However, the trend towards capacity building is yet to begin in all practical senses in either program.
81. Through this process of establishing and developing basic mechanisms, GoTL has benefitted from five years of service delivery while simultaneously being informed by the data that these systems generate. This information has supported Government decision-making and will assist with future direction setting; and its value should not be underestimated.
82. The Review considers that this low level of capacity building, while disappointing, is realistic in view of the on-going extent of politicisation within the civil service; and the correspondingly slow pace of policy development and limited resourcing of GoTL agencies that results. Future Australian initiatives will benefit from linkages to key agencies, such as MoF and the Civil Service Commission; and from supporting the underlying infrastructure of governance rather than more specific initiatives that may change as political views alter.

## **2.6.1 Institutional capacity**

83. Developing sustainability in capacity building will require LMs to have a more realistic plan for HR development and management than is currently the case. This is the main reason for the Review recommending that PSCDP take up CSU capacity building as a main activity.

## **2.7 Other Issues**

### **2.7.1 Anti-corruption**

84. The Review finds that significant program design work was done to mainstream gender and environment into both activities. The issue of good governance is at the centre of all the activities being considered. Anti-corruption is harder to identify, largely due to the lack of a clear anti-corruption program within GoTL itself.
85. A major anti-corruption initiative has emerged from the OPM, being the establishment of a Commission Against Corruption, to supplement the work already being done by the Providore. This initiative is receiving strong support from OPM and its advisors and is likely to develop over coming years.
86. The establishment of an independent Auditor General is receiving support from USAID. This is another important investigatory capacity that will be needed to support anti-corruption efforts, alongside the Office of the Prosecutor General.

## 3.0 CONCLUSIONS AND LESSONS LEARNED

### 3.1 Overall Assessment

87. **PSCDP** has been challenged by the absence of an agreed GoTL Civil Service Reform Program. However, the Review considers that this program has been analysing and responding to the emerging reform agenda in a constructive and competent way; and has applied the majority of its resources to establishing the core of the Civil Service machinery. There are a few 'orphaned' and low impact activities, but this is an expected consequence of the volatile environment and a rapidly responsive program.
88. As the reform agenda become more complete and concrete under the CSC, it is likely that PSCDP will be able to focus its activities more tightly. This will be assisted by the designation of a PSCDP Public Sector Support Fund (placeholder name only), programmed by AusAID, that responds to urgent and emerging needs.
89. There is an emerging tension around decentralisation/ deconcentration that may impact on PSCDP. This concerns the different emphasis that Ministry of State Affairs (MoSA) (an urgent matter for this year) and MoF (a longer-term issue to be carefully studied first) are giving to this question. Developing a major focus on supporting LM CSUs to perform to a higher standard will lend support to decentralisation when it takes place; as well as maintain an emphasis on improved budget execution by LMs. The Review has recommended this development in PSCDP.
90. The Review can make a case for a limited expansion of PSCDP resourcing. The refocussing of existing levels of resources on the main programs, including funding for a new component of support to LM CSUs; and limiting resources allocated to the PSCDP Public Sector Support Fund will allow an appropriate pace of development of the GoTL Civil Service machinery as the objective of this program. There are a number of key policy determinations to be made by GoTL before important institutions like the CSC and Commission Against Corruption will be seeking support; and there are other DPs earmarked to do this work.
91. **MPFCBP** – has been largely free to deliver capacity in MoF and some LMs without being drawn into the larger Civil Service Reform debate. Capacity building has been weak; and MoF is now seeking a new approach. Accordingly this period of comparative isolation is coming to an end because PFMCBP's medium-term strategy of formally training large numbers of key MoF officers overseas while TA deliver MoF services is largely dependant on Civil Service reform to offer a revised pay scale to retain them. PFMCBP will need to support MoF to buy into Civil Service reforms and their timing if this new strategy is to succeed.
92. The success of PFMCBP will not only be measured by their ability to transition from MPFCBP effectively, but also by their capacity to realise positive outcomes from the Civil Service reform debate into the medium-term. This is not a major item in their current list of Activity Descriptions, but will need to be.

## 3.2 Recommendations

93. The following is a summary of the Reviews recommendations.

### 3.2.1 General recommendations

- **The Review recommends** that Providers develop cultural awareness-raising for all TA around TA dependency and TA embeddedness issues; and write-up good practice guides as GoTL policies and procedures emerge under the direction of the CSC.
- **The Review recommends** both activities model good practice around GoTL policy formulation. This can most effectively be achieved by consulting with GoTL and agreeing on a draft framework of protocols for policy development. Once approved by GoTL, this framework can be used as guidance to the Civil Service and Advisors. This output will also be used by the proposed INAP Level 6 & 7 Civil Service training curriculum. PSCDP, as an on-going activity, would be performance assessed on its application of these protocols to all future policy development tasks.
- **The Review recommends** that each activity/ component develop and monitor a specific capacity building plan. This plan needs to be reported against and every effort made to ensure that capacity is built and efficiency is introduced into that activity over time.

### 3.2.2 MPFCBP recommendations

- **The Review recommends** that AusAID make regular assessments of PIO's operational capacity to ensure that the mutually shared vision of MoF national execution is married to the reality of a properly functioning PIO.

### 3.2.3 PSCDP recommendations

- **The Review recommends** that the medium term goal of PSCDP should be to increasingly select activities that are least likely to be adversely affected by political and policy shifts; and contribute most to building the basic structures of a functional public sector in TL. This will require a risk analysis approach to activity selection; or at least accepting that some activities identified by GoTL for PSCDP implementation are inherently at risk of becoming less relevant as circumstances change.
- **The Review recommends** that riskier program activities be quarantined in a Public Sector Support Fund (placeholder name only), with a financial limit on the amount of support that can be given to such initiatives. This fund would be managed by the PSCDP Provider, with GoTL and AusAID accepting responsibility for programming risk; and tasking the Provider with accepting responsibility for good quality and timely implementation.
- **The Review recommends** that PSCDP make LM CSU capacity-building a major activity into the medium term; and be resourced accordingly. This strategy supports the Governments priority in budget execution; and will underpin any moves towards decentralisation.
- **The Review recommends** that opportunities for greater GoTL participation are facilitated by changes in PMG meeting procedures. Possible changes include: (i) invite other Line Ministries with PSCDP activities to PMG meetings, as appropriate; (ii) rotate the PMG Chair among GoTL representatives only, AusAID to be excluded; and (iii) that program and general briefings by GoTL representatives to the PMG be included as an early Standing Agenda item.

## 4.0 STRATEGIC CONTEXT

### 4.1 Assumptions underpinning the strategy

94. The main assumptions underpinning the strategy in the Economic Development and Management Pillar are:

- AusAID activities are designed to simultaneously provide capacity and build a limited volume of critical capacity in key GoTL functions. This is in question given the very limited capacity building that is evident to the Review; and another approach is needed to link capacity building more closely to activity outcomes.
- GoTL needs time to develop the central Civil Service machinery to guide larger scale capacity building efforts; and the AusAID activities provide that buffer. This is correct, but political partisanship and civil unrest have made this process slower than anticipated and large parts of this machinery are yet to be put in place.
- The time frame for the first stage of this parallel approach is approximately five years. This is partially correct, but a number of new initiatives have only recently emerged from the OPM, so it is more likely to be eight years.

### 4.2 Key approaches

95. Flexibility in design has been a key approach adopted to address post conflict volatility in GoTL; and both programs have benefitted from this capacity. This needs to be maintained going forward, but an increasing level of focus on main programs is needed to establish the central Civil Service machinery. Adopting a risk based approach to selecting new activities will be needed to ensure that higher risky activities do not divert the main programs.

### 4.3 Risks

96. **PSCDP** - The key risks to the program are delays in GoTL decision making around key policy directions, such as the model to be adopted for establishing the CSC (civil or common law); and the passage of enabling Regulations of the Civil Service Act 2004. Delays in these areas have the potential to paralyse aspects of the main programs; and can adversely impact PFMCBP into the future. Accordingly, it is important for new activities not to run ahead of the real pace of decision-making of GoTL.

97. Managing this risk requires that these categories of risk be assessed before new activities are approved by the PMG. This guidance needs to be given to the PMG by AusAID.

98. **MPFCBP/ PFMCBP** – The key risk to this program are that it does not achieve full functionality as planned due to limited capacity in the PIO. The consequence of this would be a loss of legitimacy in the eyes of the Minister for Finance in late 2008, early 2009; and the possibility that bilateral activity would be requested to prop up the Nationally Executed program.

99. A secondary risk in the medium-term is that Civil Service reforms do not advance in line with the PFMCBP capacity building approach; and senior MoF officers cannot be retained to deliver services. The result will be a continuation of TA dependency.

100. AusAID cannot manage this risk, only respond if it should materialise. The Minister for Finance has already declared her willingness to consider additional bilateral support, should this be deemed necessary.

#### **4.4 Delivery mechanisms**

101. The use of contracted Providers has been effective to date; and a strong case would need to be made for migrating to another modality. The Review notes that PFMCBP is nationally executed, but capacity issues need to be closely monitored in that case.

## 5.0 FUTURE DIRECTIONS

### 5.1 MPFCBP

102. MPFCBP will transition to PFMCBP by 31 December 2008. This process needs to take into consideration a number of risks:

- PIO has been asked to defer recruitment until after the TA Critical Needs Analysis is completed in late June 2008. The impact of this decision is significant; and it needs to be reconsidered in light of the lost opportunities for an effective handover/ takeover that this will cause. The Review estimates that this decision will cause critical gaps in MoF services delivery in 14 out of 20 MPFCBP positions in late 2009, see “Annex 5 – MPFCBP positions: recruitment table proposed to PIU” and “Annex 6 – MPFCBP positions: recruitment table forecast by the Review” on pages 46 and 47 for details. This will have a significant adverse impact on MoF revenue and procurement services. This may trigger a request for further bilateral support to either (i) provide a contracted manager for the nationally executed program; or (ii) another bilateral activity to deliver these key services. Either outcome, if realised, would have major resourcing implications for AusAID.
- There are a significant number of emerging technical issues in MoF that require overlaps between TA to address. A sample of these is attached as “Annex 9 – Budget 2009 - Risk factors” on page 55. Other emerging risks include delays to the passage of new tax laws that will need correct documentation and the migration of taxation systems to an Oracle 10G platform in the Revenue Division; and FreeBalance Procurement Module workflow training and the need to develop eTendering packages in the Procurement Division.

103. Further, any delays to PIO recruitment capacity would cause planned PFMCBP activity objectives to be delayed, with further losses in both service delivery and reforms in MoF.

104. The Review proposes that AusAID discuss this important timing issue with World Bank ahead of any decision to milestone the transfer of Australia’s proposed A\$13m support to PFMCBP.

#### 5.1.1 Program Activity - priorities going forward

105. *Extend existing programs only under the terms of the Extension.* Continuity of services delivery by MoF remains a key outcome of the proposed MPFCBP Extension. This Review recommends that Advisors limit the activities undertaken during the extension to only those that can be effectively completed and handed over during that period. Commencing new activities that will not be completed will create conditions for an unfocussed and incomplete handover to PFMCBP, with the greater risk of “gaps” in MoF services delivery thereafter. This needs to be avoided by mobilising additional Short Term Advisors during the Extension, funded by PFMCBP, to assist in delivering any new activities that may emerge. This need is most likely to arise in the Budget and Revenue Components of MPFCBP.

### 5.1.2 Program Management – priorities going forward

106. ***Support efforts by the PFMCPB to strengthen the PIU.*** The Review recommends that the PFMCPB takes decisive action to fast-track the recruitment of key positions under the program. Viable options could be the early recruitment by PFMCPB - ahead of the final Implementation Plan - of MPFCBP positions in critical areas such as budget and procurement. This could be augmented with a selection of short-term PFMCPB TA to fill critical gaps and support MoF reform priorities during the transition period (see Annex 9 for an outline of key risks to the budget over 2008). The Review would encourage close consultation by the PFMCPB with current bilateral TA in the planning and implementation of such support. The Review would also support the provision of ‘surge capacity’ by the PFMCPB to the Program Implementation Unit to speed up the initial recruitment of key TA. Weekly Transition Committee Meetings support on-going development of PIU capacity, but there may need to be more resourcing applied to this process by PFMCPB.
107. ***Provide more certain opportunities for longer handover/takeover periods with PFMCPB incoming advisors.*** The Review recommends to GoTL and AusAID that the extension terms of key advisors are extended to provide the greatest possible opportunity for a 4-week handover period between key Advisors. Recruitment schedules to support this have been provided to PFMCPB; and Advisor extension proposals have been submitted to AusAID in support of this goal.
108. ***Support development of a strong logistics support capacity in the PIU.*** Prior experience indicates that recruitment, installation and retention of advisors will depend on the effectiveness of the logistical support that MoF can offer. Noting that 45 Long-Term Advisors and 20 Short-Term Advisors will be recruited by PFMCPB in its inception phase, PIU needs to establish a robust capacity in logistical support. In the spirit of National Execution, this Review recommends that Line Ministries with relevant skills be mobilised in support of PFMCPB PIU logistical capacity development, such as Tourism, Health and others. MPFCBP will extend support to this process also.
109. ***Support PFMCPB PIU recruitment capacities.*** This Review recommends that MPFCBP provide immediate technical support to the preparation of TORs and handover notes for PFMCPB PIU by 30 May 2008. This will facilitate timely recruitment of PFMCPB Advisors and provide opportunities for longer handover periods during the MPFCBP Extension.

## 5.2 PSCDP

### 5.2.1 Program Activity - priorities going forward

110. ***Support to establish a fully functioning regulatory framework for public sector management.*** Priorities will include meeting the technical and advisory needs of the central organs of Civil Service regulation and management; being Ministry of State Administration, the proposed Civil Service Commission, National Department of Public Service, INAP and those agencies involved in monitoring public sector effectiveness. There is likely to be a large demand for legal drafting of laws and regulations; and development of accompanying guidance and communications programs to educate the Civil Service. This will need to be done in close consultation with other donors in the Civil Service reform program (e.g. UNDP and Xanana Trust).

111. ***Support to develop and cost a national public sector capacity development strategy and associated implementation plan.*** The on-going Workforce Planning Activity of PSCDP, combined with similar research being conducted in the key service delivery ministries of Health, Education and Infrastructure, will inform the development of a public sector capacity development strategy . Improved services delivery clearly requires a structured development of Civil Service organisational capacity, systems and individual skills. On capacity building, proceed cautiously and pragmatically. Capacity-building has largely failed in Timor-Leste, and currently is very poorly coordinated. In the absence of a focused and well-resourced GoTL-wide CB program, PSCDP should look for opportunities to support civil service CB in areas it can have a tangible impact. Working with INAP is a case in point. PSCDP has been very effective in INAP, and could look to scale up support. However, in other areas, such as workforce planning, there is a lack of data and little buy-in by GoTL and these activities have a limited impact.
112. ***Support to improved Line Ministry service delivery.*** Provide technical and other assistance to establish fully functioning Corporate Services Units (CSU) in key line ministries. This will require development of corporate planning, Human Resources management, budgeting, procurement, financial management and reporting skills in each CSU. An initial focus for this work will be regulatory and key service delivery agencies, to support their capacity to deconcentrate activity to the Districts/ Municipalities as part of the decentralisation strategy of GoTL. This will need to be done in close consultation with other donors supporting these agencies and decentralisation; and with the Ministry of Finance.

### **5.2.2 Program Management – priorities going forward**

113. ***Model good practice around GoTL policy formulation.*** PSCDP Program Management and all Technical Advisors need to model good practice in the way they engage with GoTL on policy development. This can most effectively be achieved by consulting with GoTL and agreeing on a draft framework of protocols for policy development. Once approved by GoTL, this framework can be used as guidance to the Civil Service and Advisors. This output will also be used by the proposed INAP Level 6 & 7 Civil Service training curriculum. PSCDP would be performance assessed on its application of these protocols to all future policy development tasks.
114. ***Provide opportunities for greater GoTL participation in project management.*** GoTL representatives in the Program Management Group (PMG) represent central agencies only; other Line Ministries supported by PSCDP are not present. Further, participation by these GoTL representatives has been limited to date. The Review recommends that opportunities for greater GoTL participation are facilitated by changes in PMG meeting procedures. Possible changes include: (i) invite other Line Ministries with PSCDP activities to PMG meetings, as appropriate; (ii) rotate the PMG Chair among GoTL representatives only, AusAID to be excluded; and (iii) that program and general briefings by GoTL representatives be included as a Standing Agenda item at all meetings. PSCDP management will remain as Secretariat, but may be invited by the Chair to brief PMG meetings on specific issues.
115. ***Establishment of a ‘Short-term request’ trust fund or facility, managed separately from PSCDP.*** Given the likely scale of such a fund (\$2.7 m per annum currently earmarked in the PSCDP for such requests), separate management would not be cost-effective. GRM has indicated its capacity to manage and report on ‘non-core’ activities within its program. AusAID could consider ensuring that proper process is

followed in vetting non-core proposals, to ensure they are as strategic as possible, and fall within the broad remit of the program. Alternatively, GRM could be asked to administer the fund/facility as a sub-set of PSCDP. The following features would need to be considered (i) fund to be used for rapid responses to urgent emerging issues identified by GoTL and AusAID; (ii) set a cap on the level of funding available to support such activities; (iii) all activity justifications and associated program risks are the responsibility of AusAID Dili; and (iv) GRM maintains current QA for implementation.

### **5.3 AusAID program management**

116. The Review considers that the following steps will strengthen management of the AusAID Economic Development and Management Program:

- Maintain a clear emphasis on basic services delivery in support of GoTL policy goals. In PSCDP, this includes strengthening of public expenditure and procurement through the CSU in each LM. This work will require clear coordination of recruitment and training of CSU staff with the decentralisation policies of MoF for LMs and Districts. In PFMCBP, this will require a focus on the timely development of decentralisation policies and the supporting public financial management mechanisms and staff training for their implementation.
- Focus on five-year cycles of capacity building, within a 15 to 20 year timeframe for overall public service strengthening in GoTL; and support the analyses of progress made within each cycle with independent appraisals of capacity building achievements.
- Establish a strong Australian presence in mechanisms that will facilitate increased alignment of AusAID programs with GoTL policy and other donor's efforts. This may include lobbying for the revitalisation of the Donor Consultative Group in GoTL; and taking a leadership role on this body.

An example of the need for greater harmonisation of donor efforts in TL is the finance management system established under the UNDP Local Governance Support Program. This mechanism manages US\$2.0m distributed to eight Districts via the MoSA, but did not have MoF endorsement the time of this Review. This can be built on, but will need considerable coordination effort.

- Establish strong linkages between the program and the three priorities of GoA by:
  - a) locating AusAID funded activities to key agencies, such as the CSC and its supporting Secretariat and implementation arms in each LM;
  - b) supporting multilateral programs through cost-sharing and participation on joint monitoring/ supervision missions, as appropriate. This will facilitate up-scaling of Australian Aid, while managing implementation risk through other organisations.
  - c) Engage in discussions with GoTL on the links between bilateral program exist strategies and issue such as GoTL direct contracting of international staff as TA positions conclude, but it is agreed that capacity is yet to be developed within the Civil Service. This may be affordable, given GoTL's resource revenue streams; and practical, given the experience developed by the MoF PIU. Other options may include outsourcing of some functions, such as larger scale procurements; which is common in many other developing countries.

- Establish the position of Senior Governance Policy Advisor (placeholder name only) in AusAID Timor Leste to develop, document and advance these themes in close consultation with GoTL and other donors in TL. This full-time position can initially be for two years, with the specific outputs of:
  - a) Defining the outcomes of each five-year capacity building phase within a 15 to 20 year AusAID Economic Development and Management Program in TL;
  - b) Monitoring the development of major GoTL policy initiatives, such as the CSC and the GoTL-Philippines Scholarship Scheme and their potential impact on capacity building strategies in AusAID programs;
  - c) Identifying emerging Economic Development and Management issues for consideration by the program and develop briefing notes and agenda items on these for AusAID and any GoTL/DP coordination meetings;
  - d) Undertaking the initial pre-feasibility study for any new activities in the program, such as in the areas of decentralisation and procurement; and
  - e) Regular close consultation and liaison with GoTL agencies and other donors across all areas of the program to maintain a clear understanding of the relative capacity of those agencies and whether any is experiencing a reduction in capacities that may require a temporary return to stabilisation type inputs to maintain services delivery. This function will also ensure that synergies between Australian and other DP programs can be maximised; and any duplication and overlap avoided.

## **6.0 APPENDICES**

## 6.1 Annex 1 - Terms of Reference

### **Review of bilateral activities between the Governments of Australia and Timor-Leste in the area of economic development and management- April 2008**

#### **Background**

1. The draft Australia East Timor development cooperation strategy prioritises three key areas of focus: democracy, security and justice; economic development and management, and; better services for better lives.
2. This review will focus on the implementation of Australian bilateral activities to the second pillar '*economic development and management*', which has the objective of better public sector management and budget execution.
3. It is timely to take stock of how and where Australia's major bilateral activities sit within a broader strategic context, given that since the design phase:
  - a) East Timor has experienced protracted social, political and economic instability, resulting in a change of Government;
  - b) The Australia East Timor development assistance program has substantially changed due to opportunities arising from the first whitepaper on Australian aid; and
  - c) The new Australian Government has indicated different directions to guide Australia's development assistance over the medium term to 2015.
4. The above factors to varying degrees contribute to an altered operating context in which the two critical Australian bilateral activities under the '*economic development and management*' pillar are being implemented, these activities are:

<b>Bilateral</b>	<b>Goal</b>	<b>Purpose/Mission</b>
<i>Public Sector Management Capacity Development Program (PSMCDP) - since 2006</i>	To support GoTL to deliver high quality and value for money public services.	That GoTL can sustainably generate and manage public funds.
<i>Ministry of Finance (and Planning) Capacity Building Program (MFPCBP) - since 2005</i>	A sustainable and effective system of governance and administration for the delivery of high quality public services.	To strengthen capacity building institutions and processes to build individual and institutional public sector capacity in East Timor.

5. The change in government in Timor-Leste also resulted in a renewed focus on administrative reform throughout the executive and organs of state since August 2007. Moreover 2008 has been badged 'The Year of Administrative Reform'. The Australian bilateral activities continue to demonstrate consistent flexibility and responsiveness to the coalition Governments program, through substantive and unanticipated support to the following requests:

<b>117. Office of the Prime Minister</b>
<ul style="list-style-type: none"><li>- Support to establish a Task Force to establish a Civil Service Commission, and the placement of an interim international (Australian) Commissioner.</li><li>- Support to establish a Task Force to establish an Anticorruption Commission.</li><li>- Substantive advisory support package: a senior executive management advisor and assistant; a seconded executive assistant acting as Chief of Staff, and; media advisory support.</li></ul>
<b>118. Office of the Secretary of State for the Council of Ministers</b>
<ul style="list-style-type: none"><li>- Supported a review of the operations of the Office.</li></ul>

- Provide additional management, administrative services and technical support.
<b>119. Ministry of Finance</b>
- Redirected capacity development advisory assistance to in line technical assistance to draft the transitional and 2008 national budgets.
- Redirected capacity development assistance to in line technical assistance to streamline and expedite central procurement.
- Provided technical assistance to develop a new organic law articulating the Minister's reform agenda.
<b>120. Ministry of Economy and Development</b>
- Redirect support to develop a State of the Nation Report, through placing Coordinators for the Sector Working Groups.

\* Refer to initiative reporting for further detail.

## Purpose

6. This review will produce a major monitoring output for GoTL and AusAID that addresses issues of efficacy and efficiency for both key bilateral activities.
7. For the purpose of continuous improvement, external reviews for both PSMCDP and MFPCBP are scheduled to provide regular advice to GoTL and AusAID, this review will replace the ordinary review missions. AusAID in partnership with GoTL will use recommendations to re-orient support or address resources as appropriate.
8. The purpose of this review of Australian bilateral activities in the priority area of economic development and management is two fold:
  - a) to determine the appropriateness of the strategy's objectives, the risks and assumptions underpinning the strategy, and key approaches and delivery mechanisms, and;
  - b) inform AusAID and GoTL of any changes needed.

9. The review will be consistent with AusAID's *Policy on Performance Assessment and Evaluation*, particularly the principles for performance reporting: clear objectives, transparency, contestability and sound evidence, whole of government and other partnerships, alignment and harmonisation, efficiency and appropriate mix of independence and self assessment. The review will contribute to AusAID's *Quality Reporting System*, specifically including analysis for the *Quality at Implementation (QaI) Reports*<sup>7</sup>.

## Review Team

10. The review team will be comprised of the following AusAID nominations:
  - a) *Principle Development Planning Advisor* – to be confirmed (5 days)
  - b) *Public Finance and Governance Advisor* – Mr Peter Heijkoop (15 days)
  - c) *Capacity Development Advisor* – Ms Sue Emott (15 days)
  - d) *AusAID Operations Policy Management Manager* – Mr Jeremy Stringer, to be confirmed (5 days)
  - e) *AusAID Policy Officer, Public Finance* – Mr James Donald (ongoing)
  - f) *AusAID Program Officer, Public Finance* – Mr Gerson Alves (ongoing)
  - g) *AusAID Program Officer, Public Sector Management* – Mr Alvaro Riebiro (ongoing)

<sup>7</sup> See "Guideline: Completing a Quality at Implementation Report" and "Policy: Performance Assessment and Evaluation", AusAID, December 2007.

11. GoTL appointments to the team, or enhanced participation, or other representation during any phase are essential to the review process and its outcome.

## Duration and Phasing

Activity	Responsible	Date
Terms of reference finalised	AusAID	<i>By 3 April 2008</i>
<b>Phase 1 - Internal Initiative Management Review</b>		
Phase 1 will ensure activity management alignment with GoTLs program and national priorities framework, it will also incorporate performance feedback from the AusAID quality at implementation report and contractor performance assessment.	SKM and GRM will prepare proposals for extension and or restructure respectively to be presented to AusAID and GoTL for endorsement, through agreed work plans.  Content of proposed extensions, work plans and contract amendments will be agreed with AusAID and GoTL following advice provided by external technical specialists (Emott and Heijkoop).	<i>By 30 April 2008</i>
<b>Phase 2 – Capacity Development Review</b>		
Analysis of progress to date towards achieving the objective of the capacity development strategy, and analysis regarding suitability and future directions.	Capacity Development Advisor, Sue Emmott will lead this phase.  Recommendations for action will be agreed to by partners.	<i>7 to 17 April 2008</i>
<b>Phase 3 – Cross Sector Review</b>		
A technical assessment of activity progress to date, and analysis regarding suitability and future directions.	Public Finance and Governance Advisor, Peter Heijkoop will lead this phase.  Recommendations for action will be agreed to by partners.	<i>23 April</i>
<b>Phase 4 – Strategic Review</b>		
In light of the above analysis, this phase will provide advice to partners to improve effectiveness of strategy and or program implementation to achieve the 'economic development and management' objective of better public sector management and budget execution.	A principle advisor is yet to be confirmed. (Suggestions: Sue Ingram, Kaye Schoefield or Kaye Bysouth).  A discussion paper and roundtable will be conducted with key policy leaders in East Timor.	<i>31 May 2008</i>

## Methodology

12. The review methodology will comprise:

- a) **Desk review** - comprehensive pre-departure reading of relevant documentation to inform all team members of key design features and activity prior to the in-country program.
- b) **In-country consultations** - team members will participate in broad consultations with key individuals and groups who participate or have an indirect relationship to the bilateral activities. AusAID Dili will facilitate a comprehensive timetable of meetings and focus groups. There will be sufficient flexibility built into the program to allow for any additional consultations if required.
- c) **De-briefing sessions** - team members will debrief AusAID on its interim findings at the end of each week during the in-country assignment.
- d) **Reporting** - formal reporting will be designed to be brief, user-friendly and subject to wide stakeholder feedback and peer review prior to finalisation. Each team member reporting input will be agreed with AusAID in advance.

## Scope of Work

The review process will address the following issues:

13. **Relevance** - Given the changed context, is the original, and now evolving strategy, objective, design, and scope appropriately targeted to address the needs of GoTL and AusAID over the medium term in a persistently fragile context? Are the activities and progress consistent with the intended objective impact, over both a short to medium term horizon?
14. **Effectiveness** - What progress has been made in achieving the objective and outputs with regards to the components (interim objectives) of the bilateral activities? Are governance arrangements (management, reporting and monitoring and evaluation tools) adding value to AusAID and GoTLs data collection, analysis, reporting and decision-making processes? Are the scope of the existing activities and the choice of respective outputs too broad for the pool of resources available, and needs?
15. **Impact** - Are the current choice of activities likely to contribute to stability and prosperity, or reduce poverty for the target group? Are the bilateral activities responding adequately to a volatile post conflict environment? Specifically, is post conflict analysis and good practice being incorporated appropriately into program activities? If not, how and what needs to be prioritised?
16. **Sustainability** - Is the structure of the current investment likely to lead to sustainable benefits? What are the key factors influencing sustainability? Should the strategy be revised to better address issues of sustainability? If so, how?
17. **Other issues** - Is the approach to identify and manage risks effective, and why? Are the issues of gender, environment, anti-corruption and good governance being addressed effectively? If not, how should this be strengthened?
18. **Conclusions, Recommendations and Lessons Learnt** - The review process will produce a lessons learnt analysis, and include discussion regarding conclusions and recommendations to improve performance.

## Deliverables

19. Each team member will provide the following deliverables:
  - a) Undertake all required pre-reading in order to be familiar with the operating context.
  - b) Draft a report framework for AusAID endorsement prior to in-country consultations.
  - c) Participate in consultations and focus group discussions scheduled by AusAID (further consultations will be arranged as needed) to gather information in order to respond completely and effectively to the Scope of Work.
  - d) Prepare a brief (2 page) Exit Report to discuss this with GoTL and AusAID, and other partners as necessary, in Dili before departure, including suggestions and timing for agreed priority actions.
  - e) Draft a report (15 pages maximum) for GoTL and AusAID consideration, within one week of departure.
  - f) Provide a final report within one week of receiving comments on the draft, AusAID and GoTL will provide comments on the draft report within two weeks of receipt.
  - g) Provide input, including participation in further discussions, to the final strategic review process and output, taking into consideration GoTL and AusAID comments.
20. In particular the Capacity Development Advisor will provide the following advice to GoTL and AusAID:
  - a) Is bilateral technical assistance being managed efficiently and effectively, and providing a value for money service? Does this need to be strengthened? How?
  - b) Is the calibration between technical advice and human resource development (management, training, mentoring and coaching) resulting in, or likely to result in, improved service delivery over the short to medium term? Could the methodology be improved? How?
  - c) Should policy and guidelines on capacity strengthening from AusAID and GoTL, and other best practice international thinking be better applied?
  - d) Is the balance and profile of international technical assistance appropriate between capacity substitution and development support to achieve the objective?
  - e) Did the choice to novate advisers from the predecessor program into PSMCDP prove to deliver results to GoTL and AusAID?
21. Building on the findings of phase 1, the Public Finance and Governance Advisor, in particular will provide the following advice to GoTL and AusAID:
  - a) Is the scale of resource allocation between the activities and their components appropriate and delivering results? Should this be reconsidered? How?
  - b) Appropriateness of transition planning for the World Bank and GoTL implemented Public Financial Management Capacity Building Program (PFMCP) for the MPFCBP extension and the IDA co-financed components?
  - c) Will the activity objectives be achieved within the scheduled time frame and with the inputs as planned and budgeted?
  - d) Are the institutional and organisational operational management arrangements appropriate?
  - e) Given the broader structural change the Australia East Timor development cooperation program, is the balance of support between central and sub national

agencies appropriate, and likely to deliver results?

22. Building on the first two phases, the Principle Development Planning Advisor will provide the following advice to GoTL and AusAID:

- a) Are the bilateral economic management and development activities likely to contribute to the overarching objective of AusAID and GoTL? (Refer to paragraph 3).
- b) Is the structure of bilateral activities likely to deliver tangible results and outcomes in public service delivery over the short to medium term, which will contribute to poverty reduction?
- c) Is the *Development Policy Advisory Group* model that is being tested adding value to AusAID and GoTL? Are there alternative models that should be prioritised?
- d) Are appropriate mechanisms in place to achieve effective bilateral policy dialogue?
- e) Should the bilateral activities be doing more to work with the range of partners engaged on public sector efficacy and efficiency, including other donors and other Australian and regional Government agencies?

## Annex 1: Relevant Background Documents

### *Government of Timor-Leste*

- a) RDTL Constitution
- b) GoTL Sector Investment Program Pillars of State 2006 – no longer endorsed.
- c) GoTL Sector Investment Program Public Sector Management Pillars of State 2006 – no longer endorsed.
- d) Prime Minister's Budget Speech, December 2008
- e) GoTL National Budget, February 2008
- f) GoTL National Priorities Plan, March 2008
- g) Timor-Leste Development Partners Meeting, Background Note, March 2008

### *AusAID*

- a) AusAID Country Program Performance Assessment Framework, December 2007
- b) AusAID Senior Law and Justice Sector Advisor Brief – Establishing Commissions
- c) Capacity Development Facility, Evaluation Report, May 2004
- d) Capacity Development Facility, Independent Completion Report, May 2007
- e) AusAID Draft Annual Country Program Review, March 2008
- f) Draft PSMCDP and MPFCBP Quality at Implementation Report, March 2008
- g) MFPCBP Six Month Report, to January 2007 and July 2007
- h) PSMCDP and PFMCBP Exception Reports, since December 2007
- i) PSMCDP Annual Plan 2006-2007, July 2006
- j) PSMCDP Annual Plan 2007-2008, October 2007
- k) PSMCDP Civil Service Reform Brief – February 2008
- l) PSMCDP Design Framework, December 2005
- m) PSMCDP Draft Annual Review and Plan 2008 – 2009, March 2008
- n) PSMCDP Performance Assessment Framework, April 2007
- o) PSMCDP Review Report, May 2007
- p) PSMCDP Six Month Reports, to January 2007 and July 2007

### *Other*

- a) UNDP Institutional Capacity Development Support, Final Assessment, 2006
- b) World Bank, Public Financial Management Capacity Development Program Appraisal Document, February 2006
- c) UNDP Office of the President Project Document, January 2008
- d) UNDP Civil Service Reform Project Document, January 2008

## 6.2 Annex 2 – Itinerary and Persons Met

Time	Activity	Contact	Place	Remarks
<b>Monday 28 April</b>				
09 00	Peter arrived	Gerson [731 1595]	Airport	<b>AusAID to arrange</b>
1000	PFMCPB Supervisory Committee Meeting	Catherine ( 7257749)	MoF	<b>Confirmed</b>
	<b>Lunch (open )</b>			
16.30	James Donald arrived	Gerson [731 1595]	Airport	<b>AusAID to arrange</b>
1700	Discovery Inn	Gerson [731 1595]		<b>AusAID to arrange</b>
	<b>Dinner (Open )</b>			
<b>Tuesday 29 April</b>				
0830	PSCDP – Peter Blunt ( Project Manager ), John Walsh	Peter Blunt [732 3767]	PSCDP	<b>Confirmed</b>
1000	PSCDP – Core team	Nina Marques [7231 921]	PSCDP	<b>Confirmed</b>
1130	COM – advisers ; Domingos Tristao, Valter Vicente and Judite Palma	Domingos Tristao [724 2381]	PSCDP	<b>Confirmed</b>
	<b>Lunch (Open )</b>			
1430	Meeting with World Bank/ PFM CBP	Catherine ( 7257749)	WB Office	<b>Confirmed</b>
1600	Contractor – MOPF CBP management Team	Steve Gurr (728 7547)	COM	<b>Confirmed)</b>
	<b>Dinner (Open )</b>			

Time	Activity	Contact	Place	Remarks
<b>Wednesday 30 April</b>				
0830	OPM – Simon Fenby (senior policy adviser ) & Maria Braz (senior adviser)	Simon [738 2377] Maria Braz [732 4173]	OPM	<b>Confirmed</b>
0945	OPM – Greg Vines (chair of civil service commission )	Greg Vines [738 2379]	OPM	<b>Confirmed</b>
1145	Meeting with Ramon Oliveros PIU/PFMCBP	Ramon Oliveros	MoF	<b>Confirmed</b>
	<b>Lunch (open )</b>			
1500	Letencio de Deus (Director of INAP)	Letencio de Deus [7230 136]	INAP	<b>Confirmed</b>
1600				
	<b>Dinner – Open</b>			
<b>Friday 02 May</b>				
0900	NDPS - Liborio Pereira Director of NDPS) & Jose Reali (adviser)	Alvaro Ribeiro [731 2389]	MoED	<b>Confirmed</b>
1130	Meeting with Vice Ministry of Economy and Development	Alvaro Ribeiro [731 2389]	MoF	<b>Confirmed</b>
1400	Lead Advisers MPFCBP	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>
	<b>Lunch (open )</b>			
1600	MPFCBP <b>Component 1</b> Advisers  Mr Steve Gurr, TCMA  Ms Kitty Kahn, Capacity Building and Training Adviser  Mr Stephen Morris, Human Resources and Capacity Building Adviser	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>
	<b>Dinner (Open )</b>			
<b>Monday 05 May</b>				
0900	<b>MPFCBP, Revenue Advisers</b>  <i>Mr Terry Greenwood – Lead Revenue Adviser (out of country)</i>  <i>Mr Stretton Jones – SIGTAS Adviser</i>	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>

<i>Time</i>	<i>Activity</i>	<i>Contact</i>	<i>Place</i>	<i>Remarks</i>
	<i>Mr Rob Steele – Petroleum Tax Adviser (out of country)</i>			
1000	MPFCBP, <b>Budget Execution Advisers</b> Line Ministries <i>Ms Lauraine Oakeshott –Lead Line Ministries (out of country)</i> Ms Cristina Pinto – BEA, Ministry of Justice Ms Rosa Ribeiro , BEA, Ministry of Infrastructure Ms Joana Amora – BEA, Ministry of Education Meeting with	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>
1100	MPFCBP <b>Budget Office</b> Advisers Mr Richard Neves –Lead Budget and Planning Adviser <i>Ms Jenny Asman -Budget Adviser (out of country)</i> Mr Peter Wild – Budget and Planning Adviser Mr Patrick Adlam –Planning Adviser (NDPEAC)	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>
	<b>Lunch (open )</b>			
1400	MPFCBP - <b>Procurement Advisers</b> <i>Mr Brian Moore -Lead Procurement Adviser (out of country)</i> Mr Bob Brammer – Procurement Mr Sorin Reach –Procurement <i>Mr Trevor Parris – Procurement (out of country)</i> Mr John Peachey –Procurement Mr Michael Smiler - Procurement Mr David Fay-Procurement	Steve Gurr (728 7547)	MoF	<b>Confirmed</b>
1530	Meeting with AusAid,PIU/MPFCBP and AMC ( Paul Keogh, Ramon, Steve Gur)	Ramon Oliveros		<b>Confirmed</b>
	<b>Dinner (Open )</b>			
<b>Tuesday 06 May</b>				

<b>Time</b>	<b>Activity</b>	<b>Contact</b>	<b>Place</b>	<b>Remarks</b>
0830	Meeting with John Walsh (Peter H)			<b>Confirmed</b>
0930	PSMCDP Advisers (Peter H )			<b>Confirmed</b>
1200	PSMCDP Core Team (Peter H)			<b>Confirmed</b>
1015	Sr Antonio Freitas, Budget Director	Gerson (731 1595)	MoF	<b>Confirmed</b>
1115	Sr Francisco Soares, Director of Procurement	Gerson (731 1595)	MoF	<b>Cancelled</b>
	<b>Lunch (open )</b>			
1400	Meeting with Patrick Adlan ( Peter H)			<b>Confirmed</b>
1400	Sr Angelo de Almeida, Head of Revenue	Gerson (731 1595)	MoF	<b>Cancelled</b>
1530	Sr Eusebio Jeronimo, Director of NDPEAC	Gerson (731 1595)	MoF	<b>Cancelled</b>
16.30				
	<b>Dinner (Open )</b>			
<b>Wednesday 07 May</b>				
0900	Debrief AusAID (Robin)	Gerson (731 1595)		
0930	Debrief MoPFCBP (Management Team )	Gerson (731 1595)		
1130	Debrief PSCDP ( Core team )	Alvaro Ribeiro [731 2389]		
1430	Peter Departure			

### 6.3 Annex 3 – PSCDP Activity Progress

Agency	Activity	Relevance	Efficiency	Effectiveness	Impact	Sustainability	Review comments
Ministry of State Administration (MoSA)	Development of policy, legislation and regulations	Highly relevant to building GoTL Civil Service machinery. A large number of regulations are needed to implement the Civil Service Act 2004.	Medium to Low. Recruitment difficulties have adversely impacted on efficiency.	Medium. Four regulations are now in the process of being finalised, but the Career Regime is stalled in MoF due to Budget implications and lack of dialogue between MoSA and MOF in development.	Medium	Low. Dependant on TA	A key activity that could be expected to expand as CSC processes evolve.
National Institute of Public Administration (INAP)	Civil Service Training Program: Level 3 Course design, materials and delivery	Highly relevant to building GoTL Civil Service machinery. Large numbers of Civil Servants will benefit from in-service training and procedures guidance; and comply with Career Regime prerequisites.	High. Full team functioning well.	High. Level 3 is complete and a sound methodology is in place to develop Level 4 & 5 and Level 6 & 7 programs.	High	Medium. Currently dependant on TA, but TOT and availability of District Training Facilities (ADB District Training Program) will allow accredited HR officers in CSUs to train Level 3 outside of INAP. This has real long term sustainability.	INAP Director requests acceleration of this program. Expected to expand and build partnerships with Line Ministry CSUs.
National Department of Public Service (NDPS)	Human Resources Management	Highly relevant, especially in view of CSC processes.	N/A. Recently commenced.	N/A. Recently commenced.	N/A. Recently commenced.	Absence of counterpart a constraint.	N/A. Recently commenced.
	Twining arrangements, work placements; conferences; education and training.	Highly relevant to capacity building of senior management.	Medium. Slow to implement, only one NDPS Director engaged.	High.	Medium	High.	Can be expanded.

Agency	Activity	Relevance	Efficiency	Effectiveness	Impact	Sustainability	Review comments
Chief of Staff, MoF	TA Demographic Database for Advisor effectiveness.	Low. Responded to a short-term concern of previous GoTL that TA was not well allocated.	High, in terms of database task. Low in terms of Advisor Effectiveness task, as this TA was mobilised for 2 months only. Low in terms of monitoring TA effectiveness, as this has not commenced since 12/2006.	Low. 13 of 38 (37%) agencies did not respond within 4 months of activity. Database is for ODA TA only, does not include volunteer or NGO TA. Data capture ceased in April 2008 and MoF has no resource or program to update. TA for Advisor Effectiveness has not been deployed in any real sense.	Low. No use for output is evident in MoF. Can be transferred to Aid Effectiveness Unit (AEU) in MoF, when this is established.	Low. No counterpart to update or maintain technical integrity of database; or link to related initiatives such as the Register of External Assistance (REA) in MoF, or UNDP Personnel Management Information System (PMIS). Any transfer of the Database Methodology and Toolkit to AEU will require PSCDP management input as TA tasks conclude in 7/2008.	Complex technical solution to a short-term concern that could have been resolved by a prompt census of TA at that time. Do not extend.
Ministry of Economy and Development (MoED)	Development and dissemination of a National Workforce Plan	Highly relevant to identification of national capacity building needs and any 'gaps' that ODA can support.	Low. Very limited data sets available. Currently working with incomplete data in Education and Agriculture only. This is a major reduction of activity scope.	Low. Activity limited to workforce analysis for small sub-set of civil service agencies only. Methodology has been developed that may be replicated again by MoED at a later date.	Low. Use for the limited scope of this activity's outputs are not clear to the Review, other than as a basic information and lesson learnt.	Low. Data for analysis of national workforce by MoED or LMs is not available; and is not likely to be for some time to come. Activity is ahead of GoTL policy development on capacity building, but will assist by informing this process.	Main outcome will be documentation of methodology and lessons learnt. AusAID needs to task PSCDP to generate this report. Cost does not justify benefit. Do not extend.
	Sector Working Group (SWG) advice – Private Sector Development	Relevant to national planning.	N/A. Recently commenced.	N/A. Recently commenced.	Low. SWG program not active following suspension of Sector Investment Programming and disbanding of NDPEAC.	Low. Counterpart agency not clear, may be proposed Sector Planning and Investment Unit in OPM.	Can assist MoED budget and procurement planning. Links to national planning remain limited until national planning role is re-instated in GoTL.

Agency	Activity	Relevance	Efficiency	Effectiveness	Impact	Sustainability	Review comments
Office of the Prime Minister (OPM)	Senior Policy Advice	Highly relevant to ensure proper functioning of this office in support of major GoTL Civil Service reforms in 2008 and beyond.	N/A. Recently commenced.	N/A. Recently commenced.	N/A. Recently commenced.	Absence of counterparts and operational support staff in OPM a real constraint.	N/A. Recently commenced.
Secretary of State – Council of Ministers	Development of policy, legislation and regulations	Highly relevant to building GoTL Civil Service machinery. A large volume of legislation and regulations are needed.	High. Large volume of legislation, regulation and procedures developed and the majority approved by COM.	High. Works well with GoTL priorities.	High. Enabling legislation and regulations being implemented.	Low. Dependant on TA.	A key activity that could be expected to continue as GoTL and the Civil Service evolve.
Ministry of Health (MoH)	Project management advice	High, given volume of services and ODA in ministry.	High, recruitment of replacement TA did not delay inputs.	High. Global Fund criteria and AusAID policy of diversification of assistance to TL being met.	High. MoH has restored credibility with Global Fund ATM programs.	Low. Dependant on TA.	Needs to link with greater capacity development in LM CSUs into the future. This is a likely area of program focus for PSCDP going forward.
	Community nutrition advice	High, given level of need in community.	Medium. Program developed and training delivered.	Medium. Training at national and district levels was performed, but MoH needs to be able to deliver repeat courses to have an impact on nutrition indicators being collated.	Medium. Training and collation of nutrition indicators reduced by lack of counterparts to roll-out program activities.	Low. Dependant on TA.	MoH commitment to supporting this activity in question. Extend only where MOH agrees to provide national and district counterparts to allow effective dissemination of program developed.

Agency	Activity	Relevance	Efficiency	Effectiveness	Impact	Sustainability	Review comments
Ministry of Agriculture, Fisheries and Forestry (MoAFF)	Sector Working Group advice - Livestock	Relevant to national planning.	N/A. Recently commenced.	N/A. Recently commenced.	Low. SWG program not active following suspension of Sector Investment Programming and disbanding of NDPEAC.	Low. Counterpart agency not clear, may be proposed Sector Planning and Investment Unit in OPM.	Can assist MoAFF budget and procurement planning, but links to national planning remain limited while national planning role is re-instated in GoTL.
	Food security advice	High, given level of need in community.	High	High	High	Medium, Ministry buy-in is limited, but two of 13 districts have Food Security Committees operating.	One year TA only.
Ministry of Education (MoE)	Vocational Education and Training advice	High, given level of need in community.	N/A. Recently commenced.	N/A. Recently commenced.	N/A. Recently commenced.	N/A. Recently commenced.	Supports on-going AusAID investments in education sector.
World Bank Leadership and Communication project	Training coordination	Highly relevant to capacity building in leadership. Has links to NDPS twinning, etc.	High	High	High	High	One year TA only.

## 6.4 Annex 4 – MPFCBP Activity Progress

Agency	Component	Relevance	Efficiency	Effectiveness	Impact	Sustainability	Review comments
MoF	Budget	High. Budget formulation is a core function of GoTL.	High.	High.	High. Development of national budget depends on this function being filled.	Low. Dependant on TA, but PFMCBP will continue service delivery under current plans.	Sustainability of AusAID's investment of the past 5 years is dependent on the MoF PIO efficiently recruiting successor TA for these positions in PFMCBP during the MPFCBP Extension period. This would allow overlaps of TA appointments and realistic handover-takeover opportunities. Further, there are many emerging issues in MoF that will require early attention from PFMCBP TA. PIO recruitment capacity remains uncertain, but is improving. The recent decision to delay recruitment until after the PFMCBP TA Critical Needs Assessment is completed in late June 2008 materially reduces the opportunities for an effective transition between MPFCBP and PFMCBP TA. This is risk to gains made in MoF; and has the potential to reduce MoF service delivery in the first 6 to 12 months of PFMCBP.
	Budget execution (Procurement)	High. Procurement and associated services delivery is a high priority for GoTL.	High.	High.	High. Increases in procurement outcomes largely due to this component.	Low. Dependant on TA, but PFMCBP will continue service delivery under current plans.	
	Revenue	High. Internal revenue mobilisation is important to future budgets.	High.	High.	High. Compliance approach to internal revenue-raising is being adopted.	Low. Dependant on TA, but PFMCBP will continue service delivery under current plans.	
	Human Resources	High. Effective functioning of MoF will support all other LMs.	High.	High.	Medium. MoF Reform Working Group and HR and IT Division are not utilising analyses completed.	Low. Dependant on TA, but PFMCBP will continue service delivery under current plans.	

## 6.5 Annex 5 – MPFCBP positions: recruitment table proposed to PIU

### Recruitment schedule to support the efficient transfer of MOF functions from MPFCBP Extension to PFMCBP

Based on the revised MBFCBP Extension Proposal proposed by the AusAID Bilateral Program Review - 3 May 2008

#### PFMCBP - begin position recruitment sequence

Assumptions	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<i>This recruitment sequencing schedule makes the following assumptions:</i>								
<ul style="list-style-type: none"> <li>• MBFCBP TA prepare revised TORs for all equivalent positions in PFMCBP before 30 May 2008;</li> <li>• MOF PIU can consistently source, appoint and mobilise Long Term Advisors (LTA) in 90 days; and</li> <li>• PFMCBP new recruitments are not yet included in this schedule (45 LTA, 20 STA)</li> </ul>	1. Capacity Building & HR Advisor - advertised	12. Budget Execution - Lead Procurement Adviser						
	2. Ministerial QA Adviser - advertised	13. Budget Execution - Business Operations Team						
	3. English Training	14. Budget Execution - Process Work Team						
	4. Budget Execution - Reform Management	15. Budget Execution - Strategic Procurement						
	5. Budget Execution - Carryover Management	16. Budget Execution - Strategic Procurement						
	6. Budget Execution - Instructional Designer	17. Budget Execution - Administration Systems						
	7. Budget Execution - Training Adviser	18. Lead Budget Advisor						
	8. Budget Execution - Quality Assurance Adviser	19. Budget Advisor						
	9. Lead Tax Adviser	20. Budget Advisor						
	10. Petroleum Tax							
	11. Tax Advisor & Administrative Systems							
	Tax Law Adviser (PFMCBP)							
<b>No. of recruitments to be initiated</b>	11	10						

#### MPFCBP - end of position extension

Assumptions	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<i>This position termination schedule makes the following assumptions:</i>								
<ul style="list-style-type: none"> <li>• MPFCBP positions extended beyond the original indicated dates by 3 months at cost of \$375,000, but within budget constraints under the "no cost" procurement rule; and</li> <li>• an overlap between MPFCBP positions and PFMCBP new recruitments is highly desirable and may occur where there is a "v" alongside the position.</li> </ul>		1. Capacity Building & HR Advisor ≠			9. Lead Tax Adviser ✓	12. Budget Execution - Lead Procurement Adviser ✓	→ 18. Lead Budget Advisor ✓	
		2. Ministerial QA Adviser ≠			10. Petroleum Tax ✓	13. Budget Execution - Business Operations Team ✓	→ 19. Budget Advisor ✓	
		3. English Training (in PFMCBP?)			11. Tax Advisor & Administrative Systems ✓	14. Budget Execution - Process Work Team ✓	→ 20. Budget Advisor ✓	
					4. Budget Execution - Reform Management ✓	15. Budget Execution - Strategic Procurement ✓		
					5. Budget Execution - Carryover Management ✓	16. Budget Execution - Strategic Procurement ✓		
					6. Budget Execution - Instructional Designer ✓	17. Budget Execution - Administration Systems ✓		
					7. Budget Execution - Training Adviser ✓			
					8. Budget Execution - Quality Assurance Adviser ✓			
<b>No. of positions to be terminated</b>		3			8	6		3

#### Legend

≠ : no overlap between MPFCBP and PFMCBP TA feasible

✓ : overlap between MPFCBP and PFMCBP TA is feasible

→ : Review Team proposed extension

## 6.6 Annex 6 – PFMCBP Core Milestones & MPFCBP Extension Plans

### PFMCBP: Core milestones

Assumptions	Action	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<p><i>This recruitment sequencing schedule makes the following assumptions:</i></p> <ul style="list-style-type: none"> <li>• MOF PIU can consistently source, appoint and mobilise Long Term Advisors (LTA) in 90 days; and</li> <li>• PFMCBP new recruitments are not yet included in this schedule (45 LTA, 20 STA)</li> </ul>	PFMCBP planned recruitment capacity	End-May: PIU core staff (4 ppl) and 4 PIU TA mobilised	By end-June: PIU Core Staff (4 ppl) and PIU TA (7 ppl) mobilised and functional						
			End-June: Implementation Plan finalised, including recruitment plan for 2 remaining Senior Management Advisers						
	PFMCBP planned management capacity	End May: Senior Management Adviser (Program Services Branch) mobilised	End-June: Senior Management Adviser (Revenue Services Branch) mobilised	July 6: Senior Management Adviser (PFM) mobilised					
	PFMCBP recruitment of core MPFCBP positions			Beginning July: Earliest that PIU can start recruiting MPFCBP positions transitioned to PFMCBP (based on current PFMCBP recruitment plans)			Earliest that positions transitioned from MPFCBP to PFMCBP can be mobilised		

### MPFCBP - extension plan

Assumptions and notes	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<p><i>This position termination schedule makes the assumption that an overlap between MPFCBP positions and PFMCBP new recruitments is highly desirable. Based on current PFMCBP plans, this may occur where the position is highlighted in blue. Where it is highlighted in red, there is minimal chance of an overlap</i></p>		1. Capacity Building & HR Advisor			9. Lead Tax Adviser	12. Budget Execution - Lead Procurement Adviser		18. Lead Budget Advisor
		2. Ministerial QA Adviser			10. Petroleum Tax	13. Budget Execution - Business Operations Team		19. Budget Advisor
		3. English Training			11. Tax Advisor & Administrative Systems	14. Budget Execution - Process Work Team		20. Budget Advisor
					4. Budget Execution - Reform Management	15. Budget Execution - Strategic Procurement		
					5. Budget Execution - Carryover Management	16. Budget Execution - Strategic Procurement		
					6. Budget Execution - Instructional Designer	17. Budget Execution - Administration Systems		
					7. Budget Execution - Training Adviser			
					8. Budget Execution - Quality Assurance Adviser			

## 6.7 Annex 7 – Exit Report

# Review of bilateral activities between the Governments of Australia and Timor-Leste in the area of economic development and management

## Phase 3 – Cross Sector Review

Dili, Timor Leste – 28 April to 7 May 2008

### Purpose

Conduct a technical assessment of activity progress to date, and analysis regarding suitability and future directions to determine:

- the appropriateness of the strategy's objectives, the risks and assumptions underpinning the strategy, and key approaches and delivery mechanisms; and
- inform AusAID and GoTL of any changes needed.

### Background

AusAID engagement in economic development and management consists of by two activities:

- Ministry of Planning & Finance Capacity Building Project (MPFCBP-August 2003); and
- Public Sector Capacity Development Project (PSCDP-August 2006).

The following aspects of each program were considered in order to arrive at the Phase 3 conclusions listed below: ***Relevance, Effectiveness, Impact, Sustainability and Other issues***. The Review notes that the first national election and change of government in August 2007 has affected both projects; and introduced new challenges and opportunities going forward.

### PSCDP – Conclusions and recommendations

The Review finds that PSCDP activities do reflect GoTL priorities at the time of each request, but within the context of a developing regulatory framework for public sector management. During the first two years of project activity, in the absence of a complete framework for public sector management, the project has needed to link proposed project activities to GoTL priorities on a case-by-case basis. This Review finds that a few PSCDP activities have since been overtaken by changes in government priorities and structures; with the result that the sustainability and ownership of these activities is uncertain.

Recently, the new government has made several key policy decisions that will enable the public sector regulatory framework to be completed. Once implemented, there will be a clearer basis for targeting PSCDP's future support to GoTL. The proposed areas of concentration for future PSCDP activities are intended to reinforce GoTL's civil service regulatory framework and to provide mechanisms to increase the capacity to deliver services.

### **Program Activity - priorities going forward**

***Support to establish a fully functioning regulatory framework for public sector management.*** Priorities will include meeting the technical and advisory needs of the central organs of Civil Service regulation and management; being Ministry of State Administration, the proposed Civil Service Commission, National Department of Public Service, INAP and those agencies involved in monitoring public sector effectiveness. There is likely to be a large demand for legal drafting of laws and regulations; and development of accompanying guidance and communications programs to educate the Civil Service. This will need to be done in close consultation with other donors in the Civil Service reform program (e.g. UNDP and Xanana Trust).

***Support to develop and cost a national public sector capacity development strategy and associated implementation plan.*** The on-going Workforce Planning Activity of PSCDP, combined with similar research being conducted in the key service delivery ministries of Health, Education and Infrastructure, will inform the development of a public sector capacity development strategy . Improved services delivery clearly requires a structured development of Civil Service organisational capacity, systems and individual skills. On capacity building, proceed cautiously and pragmatically. Capacity-building has largely failed in Timor-Leste, and currently is very poorly coordinated. In the absence of a focused and well-resourced GoTL-wide CB program, PSCDP should look for opportunities to support civil service CB in areas it can have a tangible impact. Working with INAP is a case in point. PSCDP has been very effective in INAP, and could look to scale up support. However, in other areas, such as workforce planning, there is a lack of data and little buy-in by GoTL and these activities have a limited impact.

***Support to improved Line Ministry service delivery.*** Provide technical and other assistance to establish fully functioning Corporate Services Units (CSU) in key line ministries. This will require development of corporate planning, Human Resources management, budgeting, procurement, financial management and reporting skills in each CSU. An initial focus for this work will be regulatory and key service delivery agencies, to support their capacity to deconcentrate activity to the Districts/ Municipalities as part of the decentralisation strategy of GoTL. This will need to be done in close consultation with other donors supporting these agencies and decentralisation; and with the Ministry of Finance.

### **Program Management – priorities going forward**

***Model good practice around GoTL policy formulation.*** PSCDP Program Management and all Technical Advisors need to model good practice in the way they engage with GoTL on policy development. This can most effectively be achieved by consulting with GoTL and agreeing on a draft framework of protocols for policy development. Once approved by GoTL, this framework can be used as guidance to the Civil Service and Advisors. This output will also be used by the proposed INAP Level 6 & 7 Civil Service training curriculum. PSCDP would be performance assessed on its application of these protocols to all future policy development tasks.

***Provide opportunities for greater GoTL participation in project management.*** GoTL representatives in the Program Management Group (PMG) represent central agencies only; other Line Ministries supported by PSCDP are not present. Further, participation by these GoTL representatives has been limited to date. The Review recommends that opportunities for greater GoTL participation are facilitated by changes in PMG meeting procedures. Possible changes include: (i) invite other Line Ministries with PSCDP

activities to PMG meetings, as appropriate; (ii) rotate the PMG Chair among GoTL representatives only, AusAID to be excluded; and (iii) that program and general briefings by GoTL representatives be included as a Standing Agenda item at all meetings. PSCDP management will remain as Secretariat, but may be invited by the Chair to brief PMG meetings on specific issues.

***Establishment of a ‘Short-term request’ trust fund or facility, managed separately from PSCDP.*** Given the likely scale of such a fund (\$2.7 m per annum currently earmarked in the PSCDP for such requests), separate management would not be cost-effective. GRM has indicated its capacity to manage and report on ‘non-core’ activities within its program. AusAID could consider ensuring that proper process is followed in vetting non-core proposals, to ensure they are as strategic as possible, and fall within the broad remit of the program. Alternatively, GRM could be asked to administer the fund/facility as a sub-set of PSCDP. The following features would need to be considered (i) fund to be used for rapid responses to urgent emerging issues identified by GoTL and AusAID; (ii) set a cap on the level of funding available to support such activities; (iii) all activity justifications and associated program risks are the responsibility of AusAID Dili; and (iv) GRM maintains current QA for implementation.

### **MPFCBP – Conclusions and recommendations**

MPFCBP has made significant contributions to providing capacity to Ministry of Finance (MoF) in key areas of Budget formulation, Budget execution, Revenue and HR analysis. The success of these initiatives is reflected in the replication of most of these positions in the nationally executed Planning & Finance Ministry Capacity Building Project (PFMCPB).

Capacity Building has been limited by constraints on both the supply and demand side of the process. Advisors providing services have had limited time for training; and the absence of counterparts limits the potential for skills transfers. Both issues have influenced MPFCBP capacity building outcomes. The End Of Project situation in December 2008 is that ongoing delivery of MoF services will depend on continuation of Technical Assistance.

Accordingly, a key aspect of MPFCBP during its July - December 2008 extension will be to facilitate and support a complete handover of corporate knowledge and transition to PFMCPB advisors. This is the most effective way to preserve MPFCBP gains and ensure the on-going capacity of MoF to deliver critical services to GoTL.

However, based on PFMCPB progress to date, there is a real risk that PFMCPB PIU will not be resourced to effectively manage the transition. Should this risk materialise, there is a reasonable likelihood that Ministry of Finance functionality will drop markedly (for 6-12 months) in the period following the transition. Supporting the Project Implementation Unit during the transition period is the most effective way to mitigate against this risk.

Given that AusAID intends to invest US\$21m in PFMCPB after transition, transition management is a key indicator of the likely success of that investment. Accordingly, AusAID will need to closely monitor the transition for the following PFMCPB outcomes:

- Project Implementation Unit effectiveness; and
- the effective recruitment and management of MPFCBP replacement TA.

Should these outcomes not be realised and MoF service delivery adversely affected by incomplete PFMCPB mobilisation after transition, it is clear that the bilateral engagement

between Timor Leste and Australia remains in place. AusAID will be prepared to engage with the Minister of Finance on options for bilateral support in 2009, within the PFMCBP framework.

### **Program Activity - priorities going forward**

***Extend existing programs only under the terms of the Extension.*** Continuity of services delivery by MoF remains a key outcome of the proposed MPFCBP Extension. This Review recommends that Advisors limit the activities undertaken during the extension to only those that can be effectively completed and handed over during that period. Commencing new activities that will not be completed will create conditions for an unfocussed and incomplete handover to PFMCBP, with the greater risk of “gaps” in MoF services delivery thereafter. This needs to be avoided by mobilising additional Short Term Advisors during the Extension, funded by PFMCBP, to assist in delivering any new activities that may emerge. This need is most likely to arise in the Budget and Revenue Components of MPFCBP.

### **Program Management – priorities going forward**

***Provide more certain opportunities for longer handover/takeover periods with PFMCBP incoming advisors.*** The Review recommends to GoTL and AusAID that the extension terms of key advisors are extended to provide the greatest possible opportunity for a 4-week handover period between key Advisors. Recruitment schedules to support this have been provided to PFMCBP; and Advisor extension proposals have been submitted to AusAID in support of this goal.

***Support development of a strong logistics support capacity in PFMCBP PIU.*** Prior experience indicates that recruitment, installation and retention of advisors will depend on the effectiveness of the logistical support that MoF can offer. Noting that 45 Long-Term Advisors and 20 Short-Term Advisors will be recruited by PFMCBP in its inception phase, PIU needs to establish a robust capacity in logistical support. In the spirit of National Execution, this Review recommends that Line Ministries with relevant skills be mobilised in support of PFMCBP PIU logistical capacity development, such as Tourism, Health and others. MPFCBP will extend support to this process also.

***Support PFMCBP PIU recruitment capacities.*** This Review recommends that MPFCBP provide immediate technical support to the preparation of TORs and handover notes for PFMCBP PIU. This will facilitate timely recruitment of PFMCBP Advisors and provide opportunities for longer handover periods during the MPFCBP Extension.

## **6.8 Annex 8 – MPFCBP Extension Briefing Note**

### **Briefing Note – MPFCBP extension & support to full functionality of PFMCBP**

**Bilateral Program Review Mission: 1 May 2008 – Dili, East Timor**

#### **Background**

In 2006, Ministry of Finance (MoF) approved a nationally executed program, the Planning and Financial Management Capacity Building Project (PFMCPB) to coordinate and manage future ODA in the sector. Since late 2007, the World Bank and MoF have been engaged with start-up activity for this new program. The start-up provides the core team of PFMCPB, comprising an 11 person MoF Project Implementation Unit (7 recruited) and five Lead Advisors (2 recruited). Once mobilised, this core team makes PFMCPB fully functional as the rest of the TA needed (65 = 45 LTA, 20 STA) can then be confirmed and recruited.

AusAID has had a bilateral project, MPFCBP, in the Ministry since 2001. This project was due to conclude in June 2008, but 21 of its positions will be extended for varying terms to provide continuity of services to MoF during the period of the transition to PFMCPB, being 5 months to end November 2008. The terms of this extension are close to finalisation, but it is now urgent that AusAID ratify these with MoF; and contract with the Provider.

#### **MPFCBP extension**

AusAID has an MPFCBP extension proposal before the Minister since 24 April, who is on a State Visit to Indonesia until 8 May 2008. Receiving Ministerial concurrence and contracting the extension is now very urgent, as it will secure the morale and retention of MPFCBP Advisors. This is important for on-going service delivery and to future support to PFMCPB, as discussed later.

The Bilateral Review Team has requested and received World Bank and MoF PIU assistance in an effort to secure the Minister's response to the extension proposal before 8 May 2008. Once secured, AusAID needs to communicate the extension agreement to the Provider as soon as possible so that contract negotiations can begin and MPFCBP Advisors retained.

Delays in securing the extension agreement to after 8 May 2008 significantly increases the risk that MPFCBP Advisors may commit to other assignments and therefore not extend. This will reduce MoF functionality until the associated PFMCPB recruitment takes place; and defeats the primary purpose of making the extension.

The Bilateral Review Team has made one important clarification with the Provider around the extension process. There appear to have been earlier suggestions that the Minister would advise AusAID of certain MPFCBP advisers who would be “tapped on the shoulder” as a way of indicating they should apply for PFMCPB positions. This is not the case. All PFMCPB appointments will be subject to open competition, no direct appointment will be made, and this is well understood by all MPFCBP Advisors.

## **Support to full functionality of PFMCPB**

MoF PIU needs to plan its recruitment sequencing carefully during the transition period. This is needed to ensure that the 21 MPFCBP positions that will be replicated in PFMCPB are recruited in time to ensure MoF services continue after the MPFCBP extension. The recruitment sequencing that will be needed has not been detailed yet, but it is acknowledged that this task will place a significant workload on the MoF PIU during July to October 2008.

Any delays in the early appointments to PFMCPB may defer mobilisation of the core team and can disrupt continuity of service delivery in MoF. Every effort now needs to be made to support the Ministry to meet this recruitment challenge during the transition; and to preserve the gains made by MPFCBP by timely recruitment of the equivalent position in PFMCPB.

PFMCPB has requested that the MPFCBP extension contract include clauses and linked milestone payments requiring full cooperation between all extended MPFCBP Advisors and the MoF PIU. This cooperation is needed to provide technical inputs in support of PIU functions, such as updated TOR, handover notes and possible sources of TA. It is proposed that the PFMCPB Supervisory Committee appraise MPFCBP's performance against these clauses and inform AusAID whether these have been satisfied, or not.

The Bilateral Review endorses this approach; and draft text for the Basis of Payment clauses is included at the end of this Briefing Note. It needs to be noted that this contractual obligation of the Provider will work best in an environment of mutual engagement and collegial peer support with PIU, a feature that has not yet evolved within MoF. The World Bank has undertaken to support the transition by promoting this environment in MoF.

The Bilateral Review Team proposed to World Bank and PIU that it would be useful to make an early start to supporting the transition by tasking MPFCBP advisors to update their TORs and make hand-over notes as soon as possible, say before 31 May 2008. This proposal was well received. The Bilateral Review Team recommends that AusAID provide this direction to the Provider as soon as possible.

The Bilateral Review Team proposed another transition support option to both MoF PIU and World Bank, being to use uncommitted MPFCBP funding for STA to assist MoF PIU during the extension. This proposal did not get support from either World Bank or MoF PIU; and is not considered further here.

The following draft clauses are suggested for the MPFCBP extension contract Basis of Payment. Their purpose is to accommodate PFMCPB's request; and build on the draft text suggested by the World Bank on 18 April 2008:

### ***"Milestone Payment – Support to full functionality of PFMCPB***

*In addition to ensuring that each Advisor fully satisfy their TOR, the Provider is also required to ensure that each Advisor extends all reasonable assistance and support to the PFMCPB PIU to facilitate an effective transition to full functionality of PFMCPB. Full functionality is defined as recruitment of all MPFCBP positions replicated in PFMCPB by 31 December 2008.*

*Requests for assistance will be made by PFMCPB PIU; and it is expected that the Provider will render all assistance possible in a spirit of informal collegiality and goodwill and to the highest professional standards.*

*This assistance will take the form of:*

- *managing relationships with key stakeholders, in particular in the form of close consultation and collaboration with PFMCBP PIU;*
- *information exchanges with PIU staff and the MoF TA Critical Needs Assessment Team, as needed;*
- *peer support to PFMCBP PIU, as requested;*
- *input to drafting of PFMCBP TORs for any replicated MPFCBP positions, as requested;*
- *provision of a handover brief to assist any incoming PFMCBP TA to replicated MPFCBP positions, as requested; and*
- *assist PFMCBP PIU with TA sourcing and selection, as requested. However, the Advisor will need to formally notify PFMCBP PIU of any conflict of interest that renders the Advisor unsuitable for this role, such as his/ her candidacy to the PFMCBP position under selection.*

*(50% of the “Support to full functionality of PFMCBP Milestone Payment”) is payable to the Contractor will be paid progressively, within thirty (30) days of AusAID’s acceptance of the satisfactory completion of each identified output and a correctly rendered invoice.*

*The criteria for “satisfactory completion” of each “Support to full functionality of PFMCBP Milestone” outputs are:*

*The Six-Monthly Report of February to July 2008 and the Minutes of the Supervisory Committee Meeting Report of September 2008 state that the Provider has (i) supported the MoF TA Critical Needs Assessment and (ii) assisted PFMCBP PIU to establish full functionality of the program; and*

*The Draft Project Completion report and the Minutes of the Supervisory Committee Meeting of December 2008 state that the Provider has effectively transferred knowledge and information to PFMCBP TA in replicated MPFCBP positions.*

*Where a Milestone Payment is to follow acceptance of a report, AusAID shall not be obliged to make payment until all of the outputs to be achieved by the Contractor in the period covered by the report have been achieved.*

*It is AusAID corporate practice to inform Contractors as soon as reasonably possible, and in any case within 30 days of receipt of notice of the completion of an identified output or provision of a report whether or not that output or report is accepted.”*

## 6.9 Annex 9 – Budget 2009 - Risk factors

### Note from MPFCBP Budget Component Team

#### 1. Delays in the commencement of the 2009 budget due to expansion of the 2008 Mid Year Budget Update (MYBU) process

Mid Year Budget was originally scheduled for approval by Council of Ministers on 30 April. Extension beyond this date both defers the commencement of the 2009 Budget process and creates a distraction for critical senior Ministers and ministerial staff. The MYBU is currently expected to be provided to Parliament in the second half of May.

This distraction will continue when the MYBU is presented to Parliament as various Ministers and staff will be responding to Parliamentary questions over a period of approximately 4 weeks.

*Note – the recent announcement of changes in the future formation of the AMP coalition may have implications for the timing of the MYBU. The Government may wish to further adjust or completely revise the document before providing it to Parliament. Passage through Parliament may be slower, or Parliament may request changes to the document. Any further delay for the MYBU will exacerbate the pressures on the 2009 Budget.*

#### 2. Expansion of the expenditure levels in 2009 Budget process

An expansion of Government spending proposals beyond the limits previously imposed by the Estimate of Sustainable Income (ESI) will require variations to the process of the budget. There will be increased requirements for planning, modeling, multi-year projections and detailed macro-economic analysis.

The budget process may need to be changed to provide this level of support to decision making. Failure to provide this support will jeopardise the quality of the budget. Allowing sufficient time to provide this support will make it extremely difficult to achieve the deadline of providing the budget to Parliament by 30 September as has been agreed between the Government and the National Parliament.

Trade-offs between quality and timeliness are likely on a product which is perceived to be the first substantial budget of the IV Constitutional Government. Expectations are high both within the Government and the broader community. Management of these expectations is likely to be difficult.

#### 3. Risk of disconnection between national development planning and national budget preparation

The Transition budget and the 2008 Budget were conducted prior to the completion of Whole of Government planning processes. The preparation of the State of the Nation report (SNR) identifying challenges and risks should be complete in June. Previously, preparation of the National Development Plan has taken a month from the completion of the SNR which would lead to its delivery in July 2008. This will allow little time for the development of budget proposals arising from this strategic national planning document.

There is a risk to the timeliness of the budget if proposals are prepared after the National Development Plan is released in July. There is an obvious risk to the quality of the proposals if they are prepared in isolation of this document.

One option is for Ministries to utilise the sector reports for the State of the Nation which will become available to Ministries as they are completed throughout May. These reports will provide a report on the current status within the sector which can then inform planning. If the budget and planning process is coordinated – plans will continue to be developed while Budget proposals are debated and decided and may provide more details to assist implementation.

#### **4. Restructure of the Ministry of Finance**

The Minister of Finance has commenced a process to restructure the Ministry to make it more client-focused. Broadly, areas of the Ministry with significant involvement with Line Ministries will be split into “customer service” and “technical expertise” areas. Technical areas will manage technical development on a whole of Government level Customer service areas will take on responsibility for supporting Line Ministries complete these financial and technical processes.

It is currently planned that the Ministry of Finance transition into the new structure in August. This is expected to be a period of peak activity for the Budget Office when the draft Budget will be approved by Council of Ministers and document prepared.

Any significant change in the operating environment can be expected to delay the preparation of the Budget

#### **5. Change of Budget financial systems**

The Minister has recently committed to change the Budget Office software from GRIMS to Freebalance – Performance Budgeting to be consistent with other Freebalance software in use with the Ministry.

The FreeBalance consultants estimate the process of re-engineering, configuration, installation and training will require 70 days. It is therefore already impossible to complete this before Budget Office will begin to input budget data from the 2009 Budget submissions. Attempting to change the system during the budget process would create significant risks – both in terms of availability of key staff to participate in the transition and training, and the quality of outcomes of a budget produced on a new system without adequate familiarization and training time.

An alternative plan has been suggested to the Minister which would see system design commence before the budget with data transfer and training occurring the budget has been provided to Parliament. It may be advisable to delay the transfer until after Parliament’s final decisions as the new system does not yet have a budget book printing function and there are quality control risks in running the budget across two computer systems simultaneously.

While the timing of the change is uncertain, there will be considerable disruption to budget office due to requirements for training and the very different functionality of the two types of software. Flow on changes to templates and processes are likely.

Peak activity on this transfer is likely to be required after the cessation of the existing adviser support. Failure to plan the systems change into the budget process will make it more difficult to manage the transfer when it occurs. This area, because it is relatively distinct from the 2009 budget, offers an opportunity for the PFMCBP to engage a Short Term Technical Adviser to manage this issue and mitigate the risk.