Timor-Leste Ministry of Planning and Finance Capacity Building Project (MPFCBP)

East Timor 027K0G

INDEPENDENT COMPLETION REPORT (ICR)

March 2009

Aid Activity Summary

Aid Activity Name	Ministry of Finance and Planning Capacity Building Project		
AidWorks initiative number	027K0G		
Commencement date	06/2003	Completion date	12/2008
Total Australian $	AUD $24.2 million		
Implementing Partner(s)	Sinclair Knight Merz Pty Ltd (SKM)		
Country/Region	Timor-Leste		
Primary Sector	Economic Governance / Public Financial Management		

Acknowledgments

Thanks are due to AusAID Dili for expeditiously arranging meetings for the ICR team.

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Executive Summary

Following the independence of Timor Leste (TL), donors, including Australia, had introduced operational budget and revenue systems which were largely managed by international advisers. The MPFCBP mobilised in mid 2003 to migrate the operation of these systems to national staff of the fledgling Timor-Leste Budget Office and Revenue Service (TLRS) in the Ministry of Planning and Finance (MoF).[1]

Phase 2 of the project mobilised in mid 2005, and was extended to budget execution in the Procurement Office, and also to management reform, but the project was not able to have an adviser accepted in the key Treasury area. With civil disturbances in 2006, a new Government in August 2007 and burgeoning petroleum revenues, budget appropriations grew rapidly and, at the request of the Government of Timor-Leste (GoTL), direct operational support by project advisors grew in importance relative to their capacity building activities. This change in emphasis was assisted by increased use of the project's Flexible Support Facility (FSF), managed by a Project Committee chaired by the TL Minister of Finance.

This Implementation Completion Review (ICR) reviews the project's achievements against Logframe objectives for the four project components (Management Support, Planning and Budgeting, Budget Execution and Revenue). Some difficulty was encountered in assessing project performance against Logframe *objectives* for each of the four project components. While these objectives specify 'effective' budget systems, the associated Logframe *outputs* of the various components do not specifically task the project with a clear program of budget system reform activities. Reflecting this, and the lack of government focus on budget system reform during Phase 1, the project has not achieved comprehensive budget system reform, but was essentially a series of separate technical support interventions based on existing budget systems rather than a well documented and integrated budget and revenue reform program. With the day to day priorities of creating a stable new state this was apparently what the Government of Timor-Leste (GoTL) sought, and a high level policy advising input based on a multi-year roadmap for budget reform was unlikely to be welcomed by the previous GoTL administration.

While a number of worthwhile system reforms have nonetheless been made, the project was more effective in migrating budget and some revenue systems previously managed by international advisors to management by national staff, and in providing operational support to maintain budgeting standards during the transfer process. In particular:

Budget preparation: *Phase 1* of the project supported GoTL efforts to connect planning to budgeting and to develop the Combined Sources Budget in which both domestic and external sources of financing were reported on budget. *Under Phase 2* the main output has been operational support for a rapid succession of budgets which could not have been effectively delivered by Budget Office staff on their own. In addition, under Phase 2 the project initiated or contributed to a number of procedural changes in budgeting, including: 1) ending of carryovers from the previous budget; 2) commencement of basic budget analysis – Budget Office staff now undertake more critical appraisal of line ministry submissions; 3) gradual move towards outer year spending estimates (still at a very early stage); 4) some progress in preparing budget strategy papers to give greater strategic content to budget preparation (particularly the 2008 ministerial workshop on budget priorities); 5) a much improved annual budget circular, and 6) increased outreach by Budget Office staff to line ministries. *All these developments are likely to be sustainable.* Quantitative evidence on the success of capacity building is provided in Annex G.

Budget execution and management: the project responded flexibly to the need to speed up procurement following the new Government's much expanded budgets, although the priority given to avoiding budget under-spends was possibly at the expense of the quality of procurement.[2] Reflecting Government priorities, there have also been project contributions to the *strategic development of procurement processes .*Procurement legislation has been redrafted, a strategic plan for the procurement function has been developed, procurement authority is being delegated to line ministries for tendering and contracting and a training and accreditation scheme is in place to support this. There are now plans to establish an independent procurement authority to set policies and standards, and monitor compliance.

[1] The Ministry of Planning and Finance subsequently become the Ministry of Finance and the acronym 'MoF' should be interpreted as covering both titles.

[2] For example, legislated timelines for different stages of procurement were not observed.

Revenue: the project has supported improvements in systems and processes for tax administration, in particular implementation of the Standard Integrated Government Tax Administration System (SITGAS). Advisory support was also provided to strengthen the tax audit function, and in the area of petroleum revenues. However, the project focused primarily on administering the existing tax system. The level of project resourcing (which comprised a maximum of three long term advisors for the Revenue Service at any one time) was insufficient to support broad based tax reform and the ICR found limited evidence of the project initiating institutional or policy diagnostics to simplify the tax system or promote efficiency and equity of tax policy.

The project also included a component to assist MoF to strengthen its internal management. However, as suggested by the draft Activity Completion Report, gains in this area have primarily reflected the reform focus of the current Minister, with the major contribution of the MPFCBP being the conduct of a detailed jobs analysis.

Despite these not-inconsiderable achievements, GoTL now faces a number of challenges to making the budget a satisfactory policy-making tool. These include: 1) maintaining the budget at sustainable levels (including consistency with medium term macro and fiscal frameworks); 2) presenting budget documents that are more strategic in nature with less detail; 3) ensuring strategic alignment of resource allocation (across and within sector prioritisation); and 4) regaining momentum on capacity building.

Lessons learned

Based on a review of MPFCBP experience, this ICR identifies three possible lessons for any future AusAID support for public financial management (PFM) reform in fragile states such as TL:

Lesson 1. Minimise ambiguity about what the assistance is intended to achieve. At project inception TL was a newly created state with a set of 'starter' budget systems introduced, and at that time largely run, by international advisors. There was an unresolved tension in MPFCBP design relating to whether the project was intended to engineer the transfer of operation of these systems from advisors to local officials (while providing interim operational support) OR to gradually upgrade these systems, processes and outputs through a comprehensive budget and revenue reform project.

The latter objective is suggested by the Logframe objective for each component, but the former by: 1) the absence of any long term agenda for PFM reform built into the project design; 2) the project's short time frame (as originally planned); 3) and the small scale of project resourcing compared to that required for a full PFM reform project.

A lesson is the need to be clear about the *goal* of delivering assistance in the public finance sector in post conflict, low capacity environments. Ideally there would be greater discussion with other donors (who will almost certainly have other perspectives) of the priority between building local capacity to run basic systems and the introduction of more refined systems.

Lesson 2. Build adaptiveness into the project design, but with more robust accountability for adaptations made. Even in a non-fragile state the PFM reform environment is highly volatile – fiscal conditions change, governments change and budget directors change. Any one of these changes can quickly alter the priority of an existing PFM assistance activity, or lead to new priorities for existing assistance programs.

The project's Flexible Support Fund (FSF) proved to be a highly successful tool for adapting MPFCBP to major changes in the project's environment, particularly in 2007. It allowed new priorities to be addressed through *joint* GoTL/AusAID decisions, made in Dili by the joint Project Board, which were quickly implemented by the managing contractor. However, the *purpose* of an FSF allocation needs to be sufficiently clear to ensure that it delivers value for money *and can be held accountable for any under-performance in doing this*. This may require a little more fine-tuning of FSF procedures in regard to clarity of purpose of FSF allocations and expected results than in the MPFCBP case.

Lesson 3. There is a need for more work on the conditions for successful *joint management* of PFM aid activities by AusAID and the recipient government (ie. on the conditions conducive to a successful management partnership). Building on Phase 1, and consistent with the subsequent Paris Accord, Phase 2 was intended to be jointly managed by GoTL and AusAID through a Project Board chaired by the Minister and with greater decision-making authority than the previous Project Coordination Committee. FSF allocations (comprising some 60% of project funds under Phase 2) were made in Dili by the Project Board.

This partnership approach worked well only initially. Failure to fill the Director General position in MoF, or deputy positions, resulted in the Project Board being chaired at the political level. Although in principle offering the project greater access to the minister (a problem for many aid activities), the operation of the Board in fact suffered from her limited availability, and in the latter stages email tended to substitute for Board meetings. Ministerial level chairmanship also removed the buffer between political and administrative domains normally provided by the director general and deputy director generals of a ministry of finance.

The partnership approach to PFM reform also encountered challenges under the PNG Enhanced Cooperation Program, with low PNG Government participation in the joint management arrangements combining with criticism by the PNG Government of program management. However, anecdotal evidence suggests joint management has proved to be more successful in the case of the Philippines-Australia Partnership for Economic Governance Reforms (PEGR).

A partnership approach to program management is an important staging point in the broader progression from donor executed to government executed assistance programs. Consideration could therefore be given to undertaking a comparative review of the effectiveness of joint management arrangements for PFM reform activities across different recipient countries (and possibly under different donors), to help identify the particular forms of partnership arrangements which have proven successful and the circumstances which, as in the TL case, have worked against success.

Quality Ratings

Quality Indicator	Rating (1-6)	Explanation
Relevance of goals	3-4	This rating reflects ambiguity about how far project goals embraced reform of budget systems as well as capacity building and operational support for existing systems (goal ambiguity)
Relevance of delivery mode	5	There was little alternative to the Managing Contractor model at the time of project inception
Effectiveness	3-4	Use of a range here reflects goal ambiguity.
Efficiency	4	There is little evidence of cost-ineffective advisors
Monitoring & Evaluation	3	A good M&E design, but ambiguity about how far the results were used
Sustainability	4-5	Evidence of increased independence in parts of MoF, particularly Budget and some parts of Revenue. But advisory input still needed on some of the more advanced functions.
Gender Equality	3-4	The project design was generally gender aware, but evidence of pro-active actions is less clear
Analysis & Learning	4	The project was intensively reviewed particularly under Phase 1, but there is less evidence of the project taking on board analysis of external diagnostics (e.g. 2004 Public Expenditure Review, 2007 PFM Performance Report). However the latter point is qualified by the goal ambiguity issue.

Rating scale: 6 = very high quality; 1 = very low quality. Below 4 is less than satisfactory.

Introduction

Activity Background

The MPFCBP mobilised in mid 2003 to build on earlier operational support provided by Australia and other donors to the fledgling Timor-Leste Budget Office and Revenue Service (TLRS) in the Ministry of Planning and Finance (MoF). In contrast to pre 2003 assistance, emphasis was now placed on formally structured capacity building combined with operational support as needed. Phase 2 mobilised in mid 2005, and was extended to budget execution and management reform, but the project failed to have an advisor accepted in the key Treasury area. With civil disturbances in 2006, a new Government in August 2007 and burgeoning petroleum revenues, budget appropriations grew rapidly and, at the request of GoTL, operational support increased in importance relative to capacity building, assisted by increased use of the project's Flexible Support Facility (FSF). By the close of the project operational support provided to the Budget Office was restricted to high level processes. Capacity building was, however, less effective in other MoF offices.

The project was extended twice under Phase 2 due to delays in mobilizing its multi-donor successor, the Planning and Financial Management Capacity Building Program (PFMCBP), in which Australia is participating. The GoTL Minister for Finance has expressed a preference for future support for MoF to be multilateral in nature, precluding a further extension of the AusAID project. She has also expressed interest in an FSF like facility, although there are differences of opinion between donors about the benefits this might offer.

Evaluation Objectives and Questions

The objectives of the ICR (as defined in the TOR at Annex B below) are to 1) assess the findings of the draft Activity Completion Report (see Annex C below for this assessment); 2) independently assess the project against eight broad indicators listed in the TOR at Annex B, and 3) consider lessons for future assistance to MoF, including through PFMCBP, covering four issues listed in paragraph 14 of the TOR (see Annex B below).

Evaluation Scope and Methods

The evaluation team reviewed prior project reviews, project six monthly reports, wider literature on PFM reform in conflict affected countries and aid effectiveness. It also undertook a five-day visit to TL to discuss achievements of the project with the AusAID staff, the Minister, the former Minister and Vice Minister, directors of MoF offices, advisors and counterparts to the advisors, and World Bank staff. The full evaluation method is laid out in the TOR at Annex B.

ICR Team

The ICR team comprised 1) Geoff Dixon (independent consultant and ICR Team Leader) with a background in the (then) Australian Department of Finance and Administration and in budget process reform in developing countries, 2) Habib Rab (World Bank Country Economist in Timor-Leste) with a background in analytical work and project management on PFM reform in developing countries, and 3) James Donald an AusAID observer from East Timor Section who participated in the work of the team. Information for this report was collected by Geoff Dixon and Habib Rab, with drafting primarily undertaken by Geoff Dixon. The report does not necessarily reflect the views of AusAID or the World Bank.

Evaluation Findings

Relevance of the goal against GoTL priorities and responsiveness to changes in context

The project began as essentially a capacity building project (as its name implies). Following independence, donors, including Australia, had developed operational budget and revenue systems in TL, which were largely managed by international advisors. The project aimed to migrate the operation of these systems to national staff. Operational support was to maintain budgeting standards during the transfer, and provide a platform for on-the job mentoring.

Reflecting this, the project was essentially a series of technical support interventions rather than a well documented and integrated budget and revenue reform program. With the day to day priorities of creating a new state this was apparently what GoTL sought, and a high level policy advising input on a multi-year roadmap for budget reform was unlikely to be welcomed by the previous GoTL administration.

Reflecting this, MPFCBP was initially seen primarily as a capacity building rather than a budget reform project, and was not based on a specific list of proposed budget system reforms. Having said this, the Logframe somewhat ambiguously included as an output of each component "appropriate systems and processes" (see Annex D, Summary of MPFCBP Phase 2 Objectives).

This has led to some ambiguity about the project goal. One perspective is that **the Logframe suggests that the project should have delivered "effective" PFM systems, processes and outputs**. This is not to suggest that the plan in the Logframe was to move to best practice but would have required a more strategic sector-wide approach to project implementation. Improvements might have meant simplification of existing practices, or strengthening them where appropriate. In either case, however, the focus in the Logframe is on comprehensive system-wide reform.

On another perspective, **the project could be viewed as an operational support and capacity building project to establish local control over budgeting processes previously introduced and operated by international consultants**, and was not resourced for implementing major changes to these systems. In many (if not most) countries major system reforms such as updating the budget classification or introducing a medium-term expenditure framework are handled as separate projects, and draw on much more specific technical expertise on the detailed processes being reformed than could be expected of the MPFCBP advisors. It is also easy to overlook the weakness of the fledgling Budget Office in 2003 (such as understaffing, absence of numeracy skills) and the Budget Director saw system stability as one factor contributing to the successful transfer of most routine budget preparation functions to Budget Office staff by the close of the project.

It is clear from AusAID and World Bank comments on the draft of this report that there is considerable disagreement about which of these two interpretations of project objectives is correct (World Bank comments are in Annex F below). Linked to goal ambiguity is disagreement between reviewers of the draft of this report about whether the project should rated as 'ineffective' due to its failure to systematically implement improved budget systems across the board (the view of the Bank) or 'effective' due to its substantial operational support and capacity building for self-reliant budget management by MoF.[3] The independent author of this report believes that there were shortcomings in the project inception process, both in

[3] A Bank representative suggests that "..the design stage did not figure out how this project would link up with the TSP [Transition Support Program] and have an appropriate feed-back loop to the overall reform program. So the rating of 3-4 seems rather generous. From reading the ICR it seems a rating of 2-3 would be more appropriate." An AusAID representative indicated "...it could also be said that a number of the program's outputs were not about building systems. Rather they are about building staff capacity to use and manage existing systems. See, for example, Outputs 1.4, 2.3, 2.4, 3.3, 4.3, which focus on training and capacity building rather than systemic reforms. Moreover, the program did record some results on supporting systemic reform (eg. driving the MoF's Procurement Reform process and improving the MoF's budget processes...". Bank views are at Annex F.

regard to donor coordination and inclusion of over-ambitious objectives in the project Logframe which imply holistic system changes which were never resourced. However, in the end the real impact of the project can only be ascertained by considering how things would have looked had the project not been undertaken (the null hypothesis), and this points to substantial achievements (outlined in the section of this report on the effectiveness of the project). While the processes for project design, and ambiguities in project objectives, have clearly raised concerns for a key donor, and some lessons from this are discussed below, there is arguably a case for rating a project primarily on its actual impact combined with qualitative analysis of the shortcomings or otherwise of its original objectives.

Relevance of the delivery mode

There are three main issues: the use of a managing contractor, the role of the Flexible Support Facility (FSF), and joint AusAID GoTL management through a Project Board (during Phase 2) [4]

Australian managing contractor

Management of the project through an Australian managing contractor (MC) is a higher cost option than through a GoTL managed project implementation unit, and less consistent with the 2005 Paris Declaration on Aid Effectiveness. However, at project inception, in a newly created state which had lost much of its bureaucratic infrastructure and for which government functions were being undertaken by outside advisors, a government managed Project Implementation Unit did not seem to be a practical option. The MC approach enabled rapid mobilization of advisors drawing on the MC's network of contacts. Between 2005 and 2007, there were delays in setting up a government managed PFMCBP and such delays would have had greater costs had there been a similar experience in 2003.

The appropriateness of the MC model continued into the turbulent years of 2006 – 2007. Before 2006 there might have been policy dialogue space, but not between 2006 and August 2007, although after August 2007, AusAID gave greater control over the project to GoTL (still under the MC model) through the creation of a Project Board chaired by the Minister, which decided FSF allocations and accepted the MC's six monthly reports. However, as local capacity grows, there is little doubt that the managing contractor model will eventually crowd out government ownership. By the close of the project this point had probably been reached for the Budget Office.

Flexible Support Facility

The project has been able to adapt to a rapidly changing environment. For example, under Phase 1 the inception report had already started to identify the gaps the project would fill as UNDP advisors were leaving. Under Phase 2, a decision was taken to expand support for budget execution, and the project was able to respond by providing advisors in the Procurement Directorate.

The FSF became an increasingly important part of the delivery mode as the project environment changed. This imparted greater flexibility to the project, since important resourcing decisions could be made in Dili by the Project Board (chaired by the Minister) without the need for reference to Canberra. This allowed the project to respond to the rapidly evolving political and fiscal environment and emerging GoTL priorities on the basis of shared responsibility.[5] The Minister has indicated her desire to maintain an FSF type facility in parallel with the multilateral PFMCBP.

The central role played by the FSF under Phase 2 does raise a question about reconciling flexible response by a program to a rapidly changing project environment with having a clear

[4] Costs and benefits of sector wide approaches are discussed in the section on Conclusions and Recommendations below.

[5] This was consistent with AusAID's decentralization of management responsibilities from Canberra to posts.

program purpose and being accountable for achieving that purpose. One view is that, following the major changes in project environment in 2006 and 2007, the goal, purpose and objectives of the project should have been formally updated and re-launched rather than large in-course alterations being made through more informal FSF processes.

Project goals were not revisited partly because the environmental changes occurred close to the originally scheduled end of the project, when the three month and twelve month extensions due to delays in launching the PFMCBP had not been envisaged.

Moreover, as noted by the OECD, there is a case for greater flexibility being built into assistance which is for fragile states.[6] Capping the FSF at the lower Phase 1 level and re-launching changed objectives in 2007 would have greatly delayed the project's response to the rapidly moving environment, as well as reducing GoTL's role (since decisions on the use of the FSF are made in Dili whereas a re-launch of objectives would have involved a Canberra based process).

At the same time, two cautionary points can be made. First, there is a view that when the decision was taken to extend the project for 18 months as a transitional measure, objectives and outputs could have been narrowed. This is not inconsistent with a flexible delivery mode. But project objectives between Phases 1 and 2 did not really change very much.

Second, a flexible response also needs to acknowledge the risks of departing from original objectives, and how these departures impact on the final outcome. To illustrate, AusAID made a decision to assist the new government survive through a crisis situation in 2007 by helping to increase spending in line with its budget appropriations. This may have had important benefits in terms of promoting stability. At the same time, there may be longer term costs, which might include the expectations created by rapidly rising budget appropriations; the future cost implications of poor spending decisions; and how to reign in poor practices which may have been embedded by the need to spend quickly (e.g. shortening timelines under procurement rules, which interviewees noted has happened in the recent period). These issues need to be understood to determine whether rapidly responding to short-term demands really did have a positive impact or not.

The bottom line appears to be that highly flexible projects should be robust in three respects:

- the processes for allocating FSF type funds should be option based, involve contestability mechanisms and thorough review of competing options;
- tracking of results should be prompt, transparent and pro-actively considered by the Project Board;
- there should be an analysis of the risks of responding quickly to short-term demands, and a review of the impact on final program outcomes.

While MPFCBP marked a step forward in project flexibility it is less clear that in-country management processes responded commensurately.

Project Board

Building on Phase 1, and consistent with the subsequent Paris Accord, Phase 2 was intended to be jointly managed by GoTL and AusAID through a Project Board chaired by the Minister and with greater decision-making authority than the previous Project Coordination Committee. FSF allocations (comprising 60% of project funds under Phase 2) were made in Dili by the Project Board.

This partnership approach worked well only initially.[7] Failure to fill the Director General position in MoF, or deputy positions, resulted in the Project Board being chaired at the political level. Although in principle offering the project greater access to the minister (a problem for many other aid activities), the operation of the Board also suffered from her limited availability, and in the latter stages email tended to substitute for Board meetings.

[6] See OECD Fragile States: Policy Commitment and Principles for Good International Engagement in Fragile States and Situations, April 2007, and July 2008 Kinshasa Statement on assistance to fragile states.

[7] See Morgan, Jan, 2006. Timor-Leste Ministry of Planning & Finance Capacity Building Program Review. P.4.

Ministerial level chairmanship also removed the buffer between political and administrative domains normally provided by the director general and deputy director generals of a ministry of finance.

For example, the Minister complained to the review team about insufficient involvement of GoTL in writing TOR for advisors, and in processes for selecting them. However, both of these issues were resolvable by the Project Board of which she was the chair. As also evidenced by the PNG Enhanced Cooperation Program, there is a risk with shared management of aid activities that time constraints or other factors limit the active involvement of the recipient government in the structures for shared management, with management defaulting to the donor and the ostensible management partner continuing to be an arms length (and often negative) critic of project management. This issue is further discussed below.

The effectiveness of the project

Project effectiveness is reviewed in the four areas of budget preparation, budget execution, revenue management and capacity building. The project also included a component for assisting MoF to improve its internal management. However, as suggested by the draft Activity Completion Report, gains in this area have been attributable to the reform focus of the current Minister with the major contribution of the MPFCBP being a detailed jobs analysis.[8]

Budget preparation (MPFCBP Component 2)

There is evidence that the project has contributed to building capacity and gradually refining systems and processes for budget preparation and management. *Under Phase 1* the project supported GoTL efforts to implement its strategic framework by linking the National Development Plan to Sector Investment Plans, and in turn to Annual Action Plans. It also helped to develop the Combined Sources Budget in which both domestic and external sources of financing were reported on budget. Both the 2004 World Bank Public Expenditure Review and the 2007 European Commission funded PFM Performance Report highlighted a number of positive features of budget preparation.[9]

However, under Phase 1, the various project reviews undertaken by AusAID would have benefited from more specific reporting on the systems and processes the project was helping to refine (e.g. macro-framework, timetable, classification, chart of accounts, call circulars, bringing extra-budget spending on-budget).

Under Phase 2 capacity building continued, and data pointing to significant capacity building achievements are at Annex G. However, the main project output for the Budget Office has been operational support for a rapid succession of budgets which could not have been effectively delivered by Budget Office staff on their own.[10] This crowded out more strategic

[8]. The Capacity Building Report notes that “The Job Analysis was undertaken across the whole Ministry to examine the tasks, or sequences of tasks, and associated skills and knowledge necessary to perform each position in the Ministry. Job descriptions and specifications were created for each permanent and temporary staff member in the Ministry (714 staff) to clarify the roles and responsibilities for each position.” (p. 75 of the draft ACR). However, one interviewee suggested that the job analysis is not being used by PFMCBP

In general the objectives of the remaining three Component Output indicators for Component 1 (see Annex D) were not achieved. Issues relating to Output 1.3 (Effective project management and administration arrangements and systems established based on partnership principles) are discussed further below.

[9] World Bank, 2004. Democratic Republic of Timor Leste Public Expenditure Review (July), and Linpico, 2007. Timor-Leste Public Financial Management Performance Report (February). There was also a joint AusAID World Bank review of the program in September 2007, which was not available to the ICR team.

[10] After the elections in 2007, a decision was taken to change the Fiscal Year from July-June to January-December. After this four budgets had to be prepared in quick succession: 1) Transitional Budget (last three months of 2007); 2) 2008 Budget (January-December); 3) 2008 Mid-Year Review Budget (July-December); 4) 2009 Budget. Reflecting the resulting heavy work pressures, the quality (but not quantity) of PFM outputs under the project’s budget component may have suffered during the later stages of Phase 2.

developments, such as consideration of the acquisition of budget preparation software to assist a more structured budget development process, as well as reducing the focus on capacity building.

Perhaps reflecting pressure to produce a rapid succession of budgets, the quality of the budget process suffered somewhat. The budget documents are very detailed, and the lack of a strategic framework has meant that the budget information itself is not very strategic. This has contributed to the growth in the budget documentation, as ministry allocations get justified in the budget document, putting undue pressure on the Budget Office and its advisors. There has also been a loss of budget discipline, reflected in the absence of fiscal envelopes and budgeting above the Estimated Sustainable Income level. A number of commentators also noted the lack of discipline in the 2008 and 2009 budget processes following the budget submission stage, when negotiations were not conducted through a policy contestability process based on the Budget Policy Committee.

However under Phase 2 the project has also initiated or contributed to a number of procedural improvements in budgeting. Systems and processes improvements by the Budget Office during the life of the project include: 1) ending of carryovers from the previous years' budget; 2) initiation of basic budget analysis – Budget Office staff do a lot more critical appraisal of line ministry submissions; 3) a gradual move towards outer year spending estimates (still at a very early stage); 4) some progress in preparing budget strategy papers to give greater strategic content to budget preparation (particularly the 2008 ministerial workshop on budget priorities); 5) a much improved budget circular and 6) increased outreach by Budget Office staff to line ministries. *All these developments are likely to be sustainable.*

Following the 2007 election the project has also provided economic management advice to the Minister through high level engagement of the Lead Budget Advisor with the Minister, although this role diminished with the inception of the PFMCBP, However, the project has been less successful in eliminating Mid-Year Budget Updates, despite formal advice to the Minister.

Has the project been effective in achieving the Logframe objective of the Planning and Budgeting Component? As noted above, that objective simply states that "Plans and Budgets are *prepared and managed effectively* with increasing levels of local ownership" (italics added). The benchmark for 'effective preparation and management' is unclear – does it refer to 1) the technical attributes of good budget processes contained, for example, in a PEFA diagnostic (in which case the project design might have identified the specific budget processes to be reformed and proposed a roadmap of the reform process)[11] or 2) the effectiveness of budget management in stabilising a fragile new state, achieving reduced advisor dependency without compromising fiscal sustainability, but with slower progress in achieving the allocative and technical efficiency attributes of good budget practice?[12]

World Bank comments have taken the Logframe objective of *effectively managed* budget systems to imply that the project should have undertaken a system wide reform of the original budget processes introduced by international advisors following Timor Leste's independence. However, with the exception of a reference to Budget Office procedures and outputs being simplified, none of the Logframe performance indicators for the five outputs of Component 2 refer to system reform, but instead emphasise capacity building and effective local ownership (presumably of the budget systems existing at project inception). In building Budget Office capacity to use (largely) existing systems the project has been effective. However, as a broad based budget system reform project it has not. Given the level of resourcing it has been effective in assisting Timor-Leste's progress toward reduced advisor dependency and independent public financial management during a difficult period. Given the Logframe objective that budget functions are managed effectively from a technical perspective, Timor-

[11] PEFA (Public Expenditure and Financial Accountability) is a multi-agency partnership programme sponsored inter alia by the World Bank, the International Monetary Fund, the European Commission.

[12] The same ambiguity applies to the Logframe objective for Component 3 ("…budget execution functions are managed effectively with increasing levels of local ownership") and Component 4 ("Revenue functions are handled effectively with increasing levels of local ownership").

Leste is numbered among the large number of developing countries in which this is still some way off.

Reflecting this, GoTL now faces a number of challenges in improving the quality of the budget including: 1) maintaining the budget at sustainable levels (including consistency with medium term macro and fiscal frameworks); 2) presenting budget documents that are more strategic in nature with less detail; 3) ensuring strategic alignment of resource allocation (across and within sector prioritisation); and 4) regaining momentum on capacity building. There is therefore some way to go before the budget can be seen as a satisfactory policy-making and implementation tool.

Budget execution and management (MPFCBP Component 3)

In Phase 2, at the request of the Minister, MPFCBP advisors played an operational role in speeding up procurement as budget appropriations by the new Government grew rapidly and budget execution threatened to fall behind. Although the circumstances of achieving stability in fragile states need to be taken into account, this has been criticized by some due to the risk that the quality of spending could have been compromised through 'short form' procurement.

When assessing the effectiveness of the budget execution component, it is important to consider the trade off between accelerating expenditure to match growth in budget appropriations and maintaining controls on the quality of procurement. It is true that GoTL priority was to accelerate spending in line with appropriations. The project responded quickly to this need, including at the time of the Transitional Budget at the end of 2007, when operational support was provided to accelerate procurement.

However, whilst there may be a short-term imperative to accelerate spending, this may have negative consequences over the medium to long-term if the quality of spending is not assured and there is a later need to reign in spending to more sustainable levels. The long term impact of this component of the project therefore needs to be assessed in the light of both facilitating the new Government's desire to avoid underspending its rapidly growing appropriations and the possible medium to long term impacts of its appropriation decisions.

This raises a basic problem for donors providing technical assistance for budget management in fragile states. How far should the assistance help implement short term government policies where there could be a trade-off against longer term PFM goals and standards?

AusAID, along with the World Bank and IMF, rightly highlighted the risks to GoTL. The issue of short form procurement was discussed by the Project Board (with the Minister in the chair) and the procurement advisors ensured that their concerns about a truncated procurement process were clearly set out. An AusAID commentator observed that, following consultation with other donors, AusAID "made a conscious decision to back GoTL's efforts to increase rates of (budget) execution and instructed our TA to support this (albeit with a protocols framework in place to protect them in the event they were asked to engage in inappropriate behavior). AusAID were aware of the risks (poor quality of spend etc) but decided, on balance, to support GoTL's spending agenda. We felt that the risks of a repeat of the 2006 crisis (arguably caused in part by a lack of service delivery by the government) warranted this approach."[13]

It is also important to note that project advisors refused to process procurement requests that were contrary to the law. On several occasions this led to informal GoTL requests to the project Team Leader for removal of the advisor, which were not subsequently documented by GoTL or brought to the Project Board.

Reflecting government leadership, MPFCBP contributions to the *strategic development of procurement processes* have been more unambiguously positive. Over the past twelve months procurement legislation has been redrafted, a strategic plan for procurement has been developed, procurement authority is being delegated to line ministries for tendering and contracting and a training and accreditation scheme is in place to support this. There are now

[13] Comment by AusAID representative on the draft ICR.

plans to establish an independent procurement authority to set policies and standards, and monitor compliance.

The project has been less effective at strengthening *operational procurement systems and processes* and promoting local ownership of procurement functions. This partly reflects delays in recruiting procurement advisors and the 2006 political crisis. However, related changes during the life of the project included delegation of signing of commitment purchase vouchers (CPVs) by the Minister and decentralisation of virement processes introduced by the Government in 2008.

By contrast, the project had little success in assisting *Treasury's* role in budget execution. Consistent with normal budget practice, GoTL's very centralised Treasury pre-audit and management of transactions on behalf of line ministries should be seen as a stepping stone to line ministries being given greater responsibility for processing their own transactions.[14] GoTL accepted in principle the placement of an MPFCBP advisor in Treasury to help review centralized Treasury systems, but failed to approve the TOR for the new advisor. With the project unable to address reforms in Treasury financial systems, budget execution has remained quite centralised.

Revenue (MPFCBP Component 4)

The project has had success in introducing some improvements in systems and processes for tax administration. In particular, it helped with the implementation of the Standard Integrated Government Tax Administration System (SITGAS). A full-time advisor was put in place to establish SIGTAS and train staff in its operation. Counterparts spoke positively of this support, and are now able to administer most of the system themselves. Advisory support was also provided to strengthen the tax audit function (through review of case studies) and in regard to petroleum revenues. The new Tax Commissioner, who previously worked in Tax Audit, spoke highly of this support, emphasizing the project's mentoring approach. She noted that Timor-Leste Revenue Services would be able to maintain current level of collections even without the advisors. The project has also helped to improve the capacity and knowledge of tax law and operational procedures through structured training workshops. All planned training and skills development activities have been completed with materials developed in Tetun. Twenty one staff have been assessed as competent and received Certificate II Working in Government accreditation.

The project, however, has focused on administering the existing tax system rather than reforming it based on institutional and policy improvements. For example, the 2007 Linpico PFM Performance Report referred to above highlights a number of weaknesses including: 1) serious deficiencies in taxpayers' access to up-to-date legislation and procedural guidelines (consistent with the Activity Completion Report (ACR) assessment on the lack of progress with implementing the Taxpayer Charter); 2) audit programs are not based on clear risk assessment criteria; 3) significant levels of tax arrears (consistent with ACR assessment of weaknesses in collections and enforcement); 4) delays in reconciling tax assessments, collections, arrears and transfers to Treasury.

It is difficult to get a sense from the project design and reviews of the intended balance between building capacity to operate the existing tax system and tax policy/administration reform, or of priorities among the latter. The Logframe for the Revenue component suggests more ambitious objectives than the number of advisors to TLRS could have supported (the project fielded a maximum of three long term advisors in TLRS at any one time). Clearly the resourcing provided to TLRS was not sufficient to solve all the weaknesses identified in the Linpico PFM Performance Report.

[14] Other issues noted in the 2007 PFM Performance Report included poor predictability of fund availability for commitments due to weak cash flow planning, and a lack of reliable and timely information on expenditure ceilings for ministries and other government departments. The weaknesses in the internal control framework included lack of financial reports; lack of efficiency, effectiveness and value for money audits; variation in classification between the budget and budget execution reports.

More recently rapidly rising petroleum revenues have resulted in a reduced focus on support for TLRS. Leadership from the former Tax Commissioner has also been weak, and SKM reported that they had to fight hard to keep this area on board. However, on the positive side, in 2008 the Government has pushed through a number of important tax policy reforms (based on earlier technical assistance from the IMF), which reduce tax rates, help to lower compliance costs and streamline regulations.

Capacity building

As is apparent from Phase 1 reports, MPFCBP was established primarily as a capacity building project, although there was a reversion to direct operational support by advisors in Phase 2. The project adopted a systematic approach, based on job analysis, assessments of advisor dependency of national staff in implementing their work plan tasks and the preparation of training plans for individual national staff linked to advisor workplans. During Phase 1 inception the project team undertook a thorough analysis of skills in different departments, needs, and stakeholder expectations. Efforts were also made to identify specific cultural, social and workplace norms in Timor-Leste, which were to be taken into account in capacity building methods.[15] When Phase 2 was being designed priority principles were identified to improve capacity building efforts based on lessons learned under Phase 1.[16] This resulted in a capacity building framework under Phase 2, and a proposed system of accreditation.

Capacity building under MPFCBP worked best where capacity building was strongly supported by the director of the particular MoF office and, reflecting this, the greatest capacity gains were in the Budget Office.[17] With the departure of Indonesian bureaucrats at independence, MoF was a small and relatively ineffective organisation, and initial budgets of the new nation state were prepared by international advisors. At that time Budget Office characteristics included the following

- duties and accountability of each position were poorly defined
- staff lacked understanding of their role in overall budget process
- staff mechanically processed budget submissions from line ministries rather than *analysing* ministry proposals
- staff attendance, punctuality and productivity were poor and underperformers were not disciplined or moved on
- managers (deputy directors) were unwilling to take decisions
- senior officers failed to delegate and the few effective senior officers could barely cope
- networking to cover interconnected responsibilities was poor
- the urgent crowded out strategic reform at senior levels.

Arguably the greatest project achievement was the development, in conjunction with the Budget Office Director, of a more professional and functionally effective Budget Office. While there is a long way to go before the Budget Office can fulfill all its functions without advisor support, there has been a change in Office culture over the life of the project from transcribing budget data to basic analysis, and a start to developing a 'budget challenge' role when staff

[15] Australia-East-Timor MPFCBP, Inception Report, (December 2003), Section 5.

[16] "MPFCBP – Phase 2 (Transition) Design Framework, (29 June 2005), "Lessons learned on capacity building: (i) always keep ultimate goal of CB in mind; (ii) manage expectations and clearly define advisors' roles; (iii) train junior staff; (iv) use structured training methods; etc."

[17] The Report on Capacity Building provided by the MPFCBP, Section 3.1, indicates that most of capacity building activities involved personnel in the level 3 to 5 (ie. middle management) positions; 16% of all capacity building was to level 6 and 7 positions; very little training was provided to level 1 and 2 positions (with the exception of those in the Tax Division).

review line ministry submissions. Given the instability in 2006 and the need to twice evacuate the advisors this is a commendable achievement.

Data supporting this conclusion is provided in Annex G below.

By contrast, culture in the Procurement Office has apparently not changed greatly (although a marked change did appear to occur in the Transition Budget Coordination Unit). Capacity building was not a formal objective of the procurement component and the major deliverables were speeding up of budget execution in response to sharply increased appropriations (at the request of the Minister) and development of the new decentralised procurement strategy. Reflecting this, mentoring of local staff has been very limited, a result which has been reinforced by language difficulties. In sharp contrast to their (current) Procurement Director, local staff were very critical of all procurement advisors except for one. They felt they were isolated whilst advisors were busy drafting legislation without consultation, and that they did not get much support from advisors. Some attributed to this to the former Procurement Director who was not particularly cooperative. It appears that inability of procurement advisors to speak Tetun (in contrast to recent advisors in the Budget Office) was also an important factor limiting skills transfer.[18]

In the revenue office mentoring has also been relatively limited beyond support to SIGTAS and to the Petroleum Tax Division Team Leader.

Data on capacity building outputs of the project, together with indicators of changes in advisor dependency of MoF staff over the life of the project, are provided at Annex G.

Efficiency

Efficiency of the MPFCBP was influenced by the mode of project delivery, based on a managing contractor approach combined with a flexible support facility, and the appropriateness of the project goals. These are discussed below.

Mode of project delivery

The Managing Contractor (MC) approach adopted for the project reduces project management burdens on both AusAID and the recipient government. Alternative and possibly lower cost approaches would have been government execution (probably not an option in 2003) or to have individual advisors contracted directly by AusAID without them operating within a formal MC project structure. The latter approach would have imposed greater administrative burdens on AusAID. However, it would have simplified the onerous reporting framework under Phase 1. It might also have contributed to greater engagement by AusAID with management issues which could have come before the Project Board, although the effect of this is uncertain given the infrequency of Board meetings in the later stages of the project.

An earlier project review raises the question whether the large FSF built into the project might have inadvertently encouraged cost ineffective spending.[19] A possible cause of ineffective spending is initial under-disbursement of project funds leading to pressure to 'catch-up' through rushed and cost ineffective spending. This could be a problem for an FSF type of arrangement, since the budget initially allocated to the FSF cannot be based on an accurate knowledge of the range of cost effective proposals it will subsequently generate.

[18] An earlier AusAID reports had recognized language as a barrier to capacity building. See Timor-Leste, Ministry of Planning and Finance Capacity Mission, November December 2004, p. 16, which recommends sourcing advisors from Portuguese speaking countries, selecting advisors who already speak Portuguese, Bahasa or Tetun or who demonstrate an aptitude for learning languages. However, this would compound the difficulty of recruiting technically competent advisors.

[19] See Morgan, J. 2006. Timor Leste Ministry of Planning and Finance Capacity Building Program Review. March. p.10.

The FSF was used particularly for capacity building and provision of procurement advisors and spending appeared to have responded to genuine needs rather than disbursement to meet budget targets. At the close of the project some $800,000 of the FSF was not disbursed.

Are project goals amenable to cost effective delivery?

Another cause of cost ineffectiveness is the choice of inappropriate project goals, such as attempting to introduce program budgeting or a medium term expenditure framework in a rigid bureaucratic environment which is not ready to adapt to large-step changes.[20]

Despite the broad nature of the MPFCBP Logframe, there is little evidence of project resources being ploughed into changes which are unlikely to be sustainably implemented. Nor did the project appear to have advisors sitting in 'quiet corners' or creating work to justify their presence and, particularly in the Budget Office, advisors providing operational support were hard pressed for much of the time.

Other influences on cost effectiveness

A recurring concern for the project has been the number of unfilled positions in MoF. This both weakened the benefits from capacity building and increased the need for advisors to provide operational support. The Report on Capacity Building prepared by the MPFCBP notes that "As of 30 September, 2008, the Ministry of Finance had 709 staff (415 permanent and 294 temporary). There were 98 vacant positions (permanent) across the Ministry which is equivalent to approximately 12% in each division."[21] This has occurred at a time of greatly increased budgeting activity and at times training courses for the Budget Office have not taken place due to competing operational pressures on staff. In regard to the TLRS the former Commissioner's practice of to rotating staff within the TLRS, at short notice, had adversely affected skills sustainability, although this has occurred less more recently.

A further influence on cost effectiveness relates to the quality of staff training. The Inception Report notes that poor workplace planning, along with poor time management, has resulted in chronic lateness and absenteeism regarding programmed capacity building activities, adversely affecting progress. This is apparently closely related to the degree of support given by the director of the relevant MoF office for training his/her staff, and has been less of a problem for the Budget Office, where the Budget Director has been a very strong supporter of training.

The absence of a Director General of MoF (or deputies) over the entire life of the project meant that a normal filter separating the professional bureaucratic and the policy political arenas was missing. This risked increased political intervention in the operation of the project, including in regard to particular advisors. It appears that the project adopted an independent approach in responding to ministerial requests. While this may have contributed to the Minister's stated preference to have advisors responsible to her rather than a MC, it also provided a safeguard on project cost effectiveness.

Monitoring and Evaluation (M&E)

AusAID and the MC have put much effort into regularly monitoring and reviewing the project and the project reviews and design documents were important channels for providing feedback to project managers. For example under Phase 1, an inception report was prepared within six months, a Technical Advisory Group (TAG) review conducted within a year, followed by a project review within a year and a half. Under Phase 2, the project was less intensively reviewed (once in March 2006 then again in July 2008), probably as a result of the period of instability, but also in light of two extensions, which envisaged continued support along the lines of the Phase 2 design document.

[20] See Le Houerou, P and Taliercio, R. 2002. Medium Term Expenditure Frameworks: From Concept to Practice – Preliminary Lessons from Africa. World Bank.

[21] MPFCBP Draft Activity Completion Report, p. 73.

Efforts were made in Phase 1 and early parts of Phase 2 to try and understand evolving needs and challenges, and how the project should respond as a result. Phase 1 and Phase 2 design documents had clearly set out M&E frameworks, centred mainly on the logical framework but also with additional provisions to separately monitor the performance of the MC (e.g. quality of inputs, contract compliance).[22] Under Phase 2, there was also the intention to align with and strengthen MoF M&E systems so that "monitoring will focus on the performance of the project overall and the contributions made by all Stakeholders (GoTL and AusAID), not just the contributions made by the AMC."[23]

In addition to this the project envisaged a range of work planning and six-monthly reporting arrangements. It was planned that advisors would be assessed on their performance over the previous six months based on 360° feedback from project stakeholders covering technical inputs, capacity building achievements, interpersonal relationships (especially with counterparts and other East Timorese), and professional relationships with other advisors and stakeholders.

The Project Board carried out a formal assessment of contractor performance every six months, based on approval of the contractor's six monthly project report.

Despite the comprehensive M&E framework, *formal* M&E appeared to work with only partial effectiveness. In particular there may have been a failure of M&E findings to close the circle by influencing project management and resource allocation decisions. This did happen to a degree in Phase 1 (see the AusAID Report on implementation of the 2004 TAG recommendations). Feedback to advisors also seemed to be effective under Phase 2. However it proved more problematic with the move to joint management under Phase 2. While there is evidence that the project tried to do this through the Project Board, and the Board worked effectively during its initial stages (in terms of joint monitoring, mutual accountability for management and results),[24] this became less so nearer the end of the project. SKM and AusAID have both noted that it has been very difficult to get traction with the Government. The Managing Board therefore increasingly became an approving body rather than a strategic one.

A further M&E issue relates to project risk analysis. The project reviews could have better highlighted how risks from the rapidly changing project environment were impacting (or likely to impact) on final project outcomes. Risks were rightly highlighted[25] but not the impact. The Phase 2 Design Framework proposed an excellent Risk Management Matrix to be prepared as part of the Annual Plan for the project.[26] But there is little reference to this in subsequent reviews. In fact, the final review by AusAID still notes that the original goals and purpose have remained relevant and does not refer to how these were affected by the findings in the Risk Management Matrix.[27]

A final M&E issue relates to how far M&E should involve reporting of specific information on the *quality* of PFM outputs, for example, on tax administration indicators such as revenue/GDP, tax paid voluntarily/total tax revenue collected, tax gap (if this can be estimated), annual recurrent budget of Tax Department/total tax revenue collected. Such information could have been looked at to assess the general performance of the revenue system. However, with only three long term project advisors in TLRS, care is needed in evaluating project performance on the basis of the performance of the overall revenue system, which reflects a wide range of non-project influences.

22 East Timor Ministry of Planning and Finance Capacity Building Project – Project Design Document, (October 2002), p.39-41 and MPFCBP – Phase 2 (Transition) Design Framework, (29 June 2005), p.36-39.

23 MPFCBP – Phase 2 (Transition) Design Framework, (29 June 2005), p.36-39.

24 Morgan, J. 2006. Timor Leste Ministry of Planning and Finance Capacity Building Program Review. March. p. 3.

25 MPFCBP – Phase 2 (Transition) Design Framework, (29 June 2005), Risks: (i) expectations and pace of change; (ii) quality and behaviour of international advisors; (iii) aid delivery methods/forms of aid; (iv) transition to joint donor program; (v) lack of GoTL ownership and management; (vi) continued centralisation of PFM systems and decision-making; (vii) availability of local counterparts; (viii) pay and conditions in the civil service; (ix) maintenance of IT systems; (x) corruption; (xi) social and political stability.

26 MPFCBP – Phase 2 (Transition) Design Framework, (29 June 2005), Annex 5.

27 Bilateral Program Review – Final Report, (9 July 2008).

Similarly on the quality of the budget, the M&E could have looked at indicators on credibility (e.g. outturn, stock of expenditure arrears), transparency (e.g. budget classification, comprehensiveness of information, extent of unreported government operations), and policy orientation (e.g. participation in budget preparation, multi-year perspective).

Sustainability

Any assessment of project sustainability relies heavily on how sustainability itself is defined. One commentator on the draft of this ICR saw sustainability as requiring that, when the project terminates, continuation of the activities it supported no longer relies on advisor support. An alternative view is that, while activities supported by the project may continue to need advisor support after the project concludes, the project has been effective in sustainably reducing the amount of support needed.

These alternative views on sustainability can be tested for MPFCBP using the statistical analysis of advisor dependency ratios presented in Annex G on page 47 of this report. This Annex provides changes in advisor dependency ratios for the Budget Office and TLRS as a result of project activity between August 2005 and July 2008. A table explaining the ratios is at Annex G, page 50 of this report.

The advisor dependency ratios suggest that, on the first of the above definitions of sustainability, MPFCBP results are clearly not sustainable. As indicated in Chart 1 on page 51, at project conclusion only 32% of Budget Office work plan tasks could be performed independently of advisor support.

However, on the second of the above interpretations of the meaning of sustainability, the proportion of Budget Office work plan tasks which could be performed independently of advisor support had risen from 5% in November 2006 to 32% in July 2008, indicating a six fold increase in self-reliance as measured. Barring adverse staff turnover following project conclusion, this *increase* is not likely to be reversed, suggesting a sustainable result for the MPFCBP.

The Chart also shows that in August 2005 some 9% of Budget Office activities were assessed as dependent (requiring the advisor to perform the task). By project conclusion this had fallen to zero – also supporting an assessment of sustainability.

Of particular interest, however, is the rise in the proportion of tasks for which Budget Office staff require strong support from an advisor - *up* from 45% in August 2005 to 66% in July 2008. While suggesting project unsustainability this reversal appears to reflect the resumption by advisors of an operational role during Phase 2, due to the preparation of multiple budgets in 2007 and 2008 (Budget 2007-08, Transition Budget 2007, Budget 2008, Budget Review 2008, Budget 2009). Linked to this, work pressures on Budget Office staff crowded out their attendance at some scheduled capacity building activities.

The resumption of an operational role by advisors reflects AusAID's decision to support the new government through a difficult initial period. However, it appears that support for political stability has had a cost in terms of project sustainability as measured by dependence of Budget Office staff on advisors to help cope with the budget workload, If the adverse movement in this particular advisor dependency rating does in fact reflect stepped up operational support from advisors to cope with an unusually large number of budgets, it may be that as budget workloads drop to more normal levels the proportion of Budget Office activities rated as requiring strong advisor support will also fall.

The advisor dependency ratings referred to above and in Annex G probably understate project achievement since they exclude the first two years of the project (measurement of the ratings began some two years after the project commenced in August 2003). Also, they are essentially based on perceptions of advisors, local office directors and staff, and in the time available in Dili it was not possible to review data capture procedures in any detail. However, if AusAID intends to use similar advisor dependency ratios in other capacity building programs (as seems desirable) it would be worth evaluating further the somewhat pioneering methodology and data capture procedures used by the MPFCBP.

The data discussed above needs to be reconciled with the assessment by the Budget Director that the Budget Office is now able to undertake some 70% of its *functions* without reliance on advisors. He also indicated that he now has a core of officials who are able to train newly arriving staff after the project advisors leave. MPFCBP advisors suggested that there has been a change in Budget Office culture over the life of the project, from transcribing budget data to analysing it, and the development of a 'budget challenge' capacity when staff review line ministry submissions.

While there may be a difference between Budget Office 'functions' and the 'work plan tasks' on which the dependency ratios are based, with more of the former being routine in nature, the data suggests that the Budget Director's assessment of '70% self-reliance' for functions errs on the optimistic side. On balance, the data and qualitative assessments suggest that the MPFCBP has been effective in strengthening Budget Office capacity, but there is much further strengthening for the PFMCBP to do.

Sustainable capacity building benefits appear to be narrower in the Revenue Office (where the need for project inputs was limited due to burgeoning petroleum revenues and there has not been a change in culture of the type occurring in the Budget Office) and in the Procurement Office (where the project focus was on operational support and procurement decentralisation rather than capacity building).

Annex G provides evidence on the success of capacity building. Annex H provides the views of local staff on their development needs at the close of the project, as they expressed them at the September 2008 project completion workshop.[28]

Improvement of systems

System reform was not a feature of MPFCBP design, which does not specify which (if any) systems are to be upgraded in MoF's progress to self-reliant budgeting. Reflecting this there is mixed evidence on effectiveness in terms of sustainably strengthening systems and processes to improve PFM outputs and outcomes.

The system changes which the project did make (listed in the section of this report on project effectiveness) are likely to be sustainable. In particular the quality of the budget circular is a key test of the effectiveness and policy content of the budget preparation process and this has improved markedly to the point of conforming to standard international practice.

Other sustainable system related changes include the procurement strategic plan and introduction of the devolution strategy in the Procurement Office, gradual improvements in budget preparation, and establishment of SIGTAS in TLRS.

However failure of the project to gain access to Treasury meant that it did not contribute to reducing the centralization of budget execution responsibilities in Treasury through the devolving of transactions to line ministries. This normally occurs a relatively early stage of the budget reform process.

PFM reform is a very long term if not perpetual process (even in developed countries) and AusAID has indicated that it is committed to supporting future PFM reform in GoTL through the (much larger) multilateral successor to MPFCBP. In many respects Phase 2 of the MPFCBP has been a transition phase to the PFMCBP. While the exact position of the baton change between the two programs has varied across specific PFM functions, sustainability of the MPFCBP contribution will benefit from back to back sequencing of the two programs.

Gender Equality

The project operated in an environment of gender inequality, with considerable variation in the gender ratio between MoF directorates. The greatest proportion of females was in the TLRS

[28] The MPFCBP Completion Workshop Report (P. 7) lists, for each of the four components, staff perceptions of the areas where they did not require further assistance, needed further assistance and the type of assistance required.

(48.6%) and the lowest in the Budget Office (24.4%).[29] Females generally hold lower level positions, except in the TLRS where approximately 50% of the permanent level 4 (middle-management) staff are female.

The project design was generally gender aware, indicating that training programs would ensure that both men and women have equal access.[30] Women were included among advisors (six women compared to 11 men in early 2008) and among advisors' local counterparts. The ACR provides an overview on the gender breakdown of project team members and MoF. But there is no mention of applying "the gender mainstreaming guidelines developed by the Office for Promotion and Equality, both for the project, and to positively influence staff behaviour," which was intended for Phase 2.

In the area of capacity building, the training materials developed were to be both culturally sensitive and gender inclusive in terms of the language used and their content, although this has not been verified by the review. However, collection of gender disaggregated data on participants in training programs provides information on the level of participation by female staff of MoPF. In regard to training, the Report on Capacity Building provided by the MC notes that "On average, the participation rates, in training and capacity building activities, across the four components involved around 70% males and 30% females. This reflects the gender composition of MoF staff as a whole."[31]

The Report also notes that "All capacity building activities undertaken acknowledged the principles of gender equity and diversity by ensuring that training materials and the delivery of training were devoid of gender bias and encourage opportunity for equal participation." (Section 4.7)

The Phase 2 design document noted "scope for the project to consider lessons learned from international experience in framing gender sensitive budgets, and to introduce this concept in the East Timorese context." The quality of public spending can have an important impact on gender outcomes. This is promoted through, for example, the review of differential access to public services between men and women (i.e. by looking at gender disaggregated household data), which in turn influences the targeting and prioritization of public spending. But there is little evidence in the subsequent reviews that the project was able to engage in this area.

Adoption of previous analysis and learning in the project design

The original project design was intended to provide a combination of 1) *operational support* and 2) *capacity building* to the MoF and TLRS as the country sought to move from dependence on budget advisors to self–reliant budgeting.

In the case of 1) *operational support*, the project adopted a formula used in other AusAID programs of drawing heavily on current or former Australian government officials who have practical experience in government budget and revenue management. This ensures that advisors have hands on experience but is not an ideal solution, since in the early stages of the project most budget advisors did not have a great deal of developing country experience. However, the project is notable for stability in the advisors it appointed and as time passed they were able to combine professional budget management experience with sensitivity to the developing country environment. Notably, Budget Office advisors developed fluency in Tetun.

This was less true in the area of procurement, although Phase 2 benefited from the participation of a highly experienced public sector procurement expert.

In regard to 2) *capacity building,* under Phase 1 the project initiated an innovative approach using competency based training. This involved formal certification for achievement of specific

29 The data are from the MPFCBP Draft Activity Completion Report, November 2008, p. 73

30 Australia-East-Timor MPFCBP, Inception Report, (December 2003), Section 5.5.

31 MPFCBP Draft Activity Completion Report, Attachment 5, Report on Capacity Building provided by MPCBF, p. 73.

public sector competencies.[32] While innovation is to be commended it does involve risks – in this case national staff preferred job based to competency based training - and the project flexibly reverted to a more conventional approach to capacity building based on job specific training for individual participants, combined with basic training in language and numeracy.

However, innovative elements remained in the capacity building strategy. One was to attempt to train according to on the job needs and to translate this into competency based qualifications in association with Victoria University.[33] This also slipped by the wayside in Phase 2 due to the administrative effort required to match the content of actual job related training in TL with prior training required to satisfy formal competency standards managed by Victoria University.

However a second, and potentially more durable, innovation (suggested by a 2004 Technical Advisory Group review) is the project's adoption of a four step scale of the dependence of local staff on international advisors when they undertake each of the tasks making up the work plans of the Budget Office and TLRS. This information was used to assess the capacity building needs of individual Budget Office and Revenue Office officials.

The approach is described in Annex G. Briefly summarised, each work plan task was given a rating on the scale 1) Dependent (completion of the task requires an advisor to perform an operational role); 2) Supported (completion of the task requires strong support and assistance from an advisor); 3) Guided (national staff can complete the task with some coaching/mentoring); and 4) Independent (no advisor input required for the task to be completed). The rating for each task was agreed with the office director (in the case of the Budget Office), the relevant office work group and the MPFCBP advisor. It was then used to discuss and agree training needs with officials in the work group, which were reflected in the relevant advisor's work plan. This is a much more structured approach to capacity building than is normally used (for example, in the PNG Enhanced Cooperation Program).

More generally, there is evidence that specific components of MPFCBP have taken on board recommendations made in the various AusAID reviews of the project. The project also reported on progress against recommendations made by a short term consultant under the project who reviewed budget preparation. However, there was less evidence of the project taking on board recommendations from external diagnostics, including the Public Expenditure Review (World Bank, 2004) and the PFM Performance Report (Linpico, 2007). Therefore project monitoring could probably have drawn more broadly on other diagnostics available at the time. The Minister also indicated that it was at the Government's own initiative that a review of procurement was conducted rather than at the project's initiative.

Quality Ratings

Quality Indicator	Rating (1-6)	Explanation
Relevance of goals	3-4	This rating reflects ambiguity about how far project goals embraced reform of budget systems as well as capacity building and operational support for existing systems (goal ambiguity)
Relevance of delivery mode	5	There was little alternative to the Managing Contractor model at the time of project inception
Effectiveness	3-4	Use of a range here reflects goal ambiguity.

[32] The competencies were those defined by the Australian National Training Information Service for use in the public sector. They describe the skills and knowledge that is expected to be applied for a person to operate effectively in the workplace. Competencies are defined by the relevant industry (in this case the public sector), are nationally recognised and form the basis of training for that industry.'

[33] A key advantage of a competency-based approach is that is provides a clear and objective framework for demonstrating that skills transfer has occurred.

Quality Indicator	Rating (1-6)	Explanation
Efficiency	4	There is little evidence of cost-ineffective advisors
Monitoring & Evaluation	3	A good M&E design but ambiguity about how far the results were used
Sustainability	4-5	Evidence of increased independence in parts of MoF, particularly Budget and some parts of Revenue. But advisory input still needed on some of the more advanced functions.
Gender Equality	3-4	The project design was generally gender aware, but evidence of pro-active actions is less clear
Analysis & Learning	4	The project was intensively reviewed particularly under Phase 1, but there is less evidence of the project taking on board analysis of external diagnostics (e.g. 2004 PER, 2007 PFM Performance Report). However the latter point is qualified by the goal ambiguity issue.

Rating scale:

Satisfactory		**Less that satisfactory**	
6	Very high quality	**3**	Less than adequate quality
5	Good quality	**2**	Poor quality
4	Adequate quality	**1**	Very poor quality

Conclusion and Recommendations[34]

General lessons for PFM assistance in low capacity environments

This review of the MPFCBP suggests three messages for future AusAID support of PFM reform in fragile states:

Lesson 1. Avoid ambiguity about what AusAID's assistance is intended to achieve. An important lesson relates to 'quality on entry', particularly in regard to the clarity of definition of MPFCBP objectives.

At project inception TL was a newly created state with a set of 'starter' PFM systems introduced, and at that time largely run, by international advisors. There was an unresolved tension in MPFCBP design about whether the project was intended to engineer the transfer of operation of these systems from advisors to local officials (while providing interim operational support) OR to gradually upgrade these systems, processes and outputs through a budget reform project.

The latter objective is suggested by the Logframe, and the former by the absence of any detailed agenda for PFM reform in the project design, the project's short time frame (as originally planned) and the small scale of project resourcing compared to that needed for a full PFM reform project.

If MPFCBP *was* to be a PFM reform project it should have had an explicit systems reform agenda (eg. budget classification updated to GFS, pre-audit of agency spending transactions changed to post audit, introduction of budget preparation software, introduction of medium-term planning and budgeting framework). Since any one of these system reforms would in many (if not most) cases be managed as a project in its own right, the project should have been divided into different modules for each system to be upgraded. Moreover, the combined resourcing would be of a different order of magnitude to that of MPFCBP, involving major inputs from 'deep' technical specialists on each of the reform initiatives.

An important lesson is the need for AusAID to be clear about the goal of delivering assistance in the public finance sector in post conflict, low capacity, environments. Ideally there would be greater discussion with other donors (who will almost certainly have other perspectives) of the priority between building local capacity to run basic systems and introduction of more refined systems.

The Budget Director suggested that the stability in Budget Office systems over the life of the project contributed (by project close) to the ability of the Office to work without advisor support for 70% of its functions. This should be balanced against some attempt to assess the actual welfare losses when basic PFM systems are perpetuated until they can be run by local officials, rather than being reformed from the outset with slower progress to self-management. This general issue of 'getting the basics right' in developing countries before introducing more sophisticated systems has been around for some time and may be especially relevant to fragile states.[35] Perhaps a key issue is the need to inventory existing systems before inception of an aid activity in this area (in conjunction with the government and other donors), so that the activity knows which systems to work *with* and which to work *on*.

Lesson 2. Build adaptiveness into the project design, but with more robust accountability for adaptations made. Even in a non-fragile state the environment of PFM reform is volatile – fiscal conditions change, governments change and budget directors change. Any one of these changes can quickly alter the priority of an existing aid activity or lead to higher priorities which would be better served by existing assistance.

[34] The issues covered in this section are required by the TOR for this report, reproduced at Annex B (see paragraph 14 on page 28 below).

[35] See Schick, Allen. 1998. "Why Most Developing Countries Should Not Try New Zealand's Reforms." The World Bank Research Observer (February).

FSF proved to be a potent tool for adaptiveness of MPFCBP, allowing new priorities to be addressed through joint GoTL/AusAID decisions, made in Dili and quickly implemented through the managing contractor.

However, the purpose of an FSF allocation needs to be sufficiently clear to ensure that it delivers value for money *and can be held accountable for any under-performance in doing this*. This may require a little more fine-tuning of FSF procedures in regard to clarity of purpose of FSF allocations and expected results than in the MPFCBP case.

For example, as the new Government rapidly increased appropriations to achieve its policy objectives, under-execution of the GoTL budget prompted a rapid build-up of FSF funded support to speed up procurement. This was associated with shortcutting of timelines set out in the procurement law in order to meet disbursement priorities. It has been difficult for the review team to assess whether this amounts to under-performance since the FSF management process does not establish clear accountability criteria. This is closely connected to the third lesson.

Lesson 3. There is a need for more work on the conditions for successful *joint management* of PFM aid activities by AusAID and the recipient government (ie. on the conditions conducive to a successful management partnership).

While a partnership approach was introduced under Phase 2 of the MPFCBP through a Project Board chaired by the Minister, the Board proved less effective as time progressed. This reflected pressures on the Minister's time and possibly the absence of a MoF Director General or deputies who alternatively might have chaired the Board.[36] There is a risk that meetings of joint management boards may become less frequent as project life progresses, or are not attended by senior national bureaucrats, since the financing partner can be expected to take up the 'management slack' by default.

Infrequent meeting of the Board exposed AusAID to criticism by GoTL of management shortcomings of the project which should have been resolvable through the Board process itself. For example, the Minister complained to the review team about lack of GoTL involvement in drafting TORs for advisors, and in selecting advisors, although these concerns could have been expected to have been remedied by an effectively operating Project Board under her chairmanship.

Joint management arrangements also encountered challenges under the PNG Enhanced Cooperation Program, with low PNG Government participation in the joint management arrangements combining with criticism by the PNG Government of program management. However, anecdotal evidence suggests joint management has proved to be more successful in the case of the Philippines Philippines-Australia Partnership for Economic Governance Reforms (PEGR).

Given the importance of a successfully implementing a partnership approach to managing AusAID PFM assistance as a staging point in the broader progression from donor executed to government executed assistance, consideration could be given by AusAID to reviewing factors influencing the success of joint management arrangements of PFM reform activities in different countries (and possibly under different donors).

Lessons from transition between the bilateral and World Bank led projects

AusAID made an early decision to support the multi-donor PFMCBP, noting the benefits of this approach compared to a bilateral project. However, there was also a view in AusAID (but not supported by the Minister) that bilateral support for some aspects of PFM might continue in parallel.[37] Phase 2 was meant to be a transitional arrangement, with MPFCBP playing an

[36] This was not a new problem. The MPFCBP inception report observes that at that stage "The Lead Budget Advisor (LBA) currently does not have the counterpart envisaged in the PDD, as the position of Budget Office Director is nominally occupied by the Vice-Minister, who is generally unavailable due to workload." p. 11.

[37] T-L MPFCB Planning Mission, Report of the Mission (November-December 2004), p.25.

important role throughout this period in ensuring continuity of donor support. Both the Minister and the former Vice Minister noted how much they appreciated the flexibility with which MPFCBP responded during this period.

Delays in getting PFMCBP off the ground have meant that MPFCBP had to be extended beyond original intentions to ensure that critical support continued to be provided. PFMCBP started to take off early in 2008.

A number of MPFCBP advisors are transferring to the new project for varying durations (mainly procurement and revenue areas) leading to a direct element of continuity. However, in the area of *strategic* procurement there has been a limited overlap period for the (different) advisors in similar areas of the old and new activities.

A MPFCBP-PFMCBP transition committee was established, although the range of attendees diminished over time. SKM have been regularly consulted and involved in establishing PFMCBP, with AusAID requiring that two of the milestone payments to SKM were conditional on SKM's support in making PFMCBP functional (e.g. by assisting with the integration plan). SKM have helped with the preparation of ToRs, recruitment of advisors, advisor orientation packages, handover briefing, and preparation of PFMCBP's first Implementation Action Plan. Despite these efforts and MPFCBP's contributions and institutional memory, the MPFCBP team has more recently felt that it has been sidelined in the transition between the two programs.

Although there have been improvements in PFMCBP implementation, a number of important issues were identified by AusAID in recent reviews**.** Key among those include: 1) capacity of the PFMCBP Program Implementation Unit (PIU); and 2) the need to monitor PFMCBP capacity building performance against broader civil service reform efforts.[38] On capacity of the PIU, the most recent AusAID review noted that this is a fragile set up and that it would not be able to provide the same level of services as SKM. This is an important issue as it might affect quality and speed of services delivered. To address this, the World Bank has posted the PFMCBP Task Team Leader to the field and increased its in-house capacity, including through the appointment of an AusAID secondee to Bank staff. To address speed and quality, the World Bank is also considering an on-call technical support facility to help the PIU with short-term technical needs, but also to supplement the World Bank's capacity for program supervision. Finally, one issue raised by the Minister of Finance is the greater flexibility under the MPFCBP compared to PFMCBP due to the latter's reliance on World Bank fiduciary and operational standards. AusAID and the World Bank have discussed this with the Minister, and it is difficult to determine at this stage what sort of support this could be and why it could not be funded by PFMCBP. Therefore it has been agreed to revisit this later.

The appropriateness of alternative aid modalities, including SWAPs and budget support

AusAID's Phase 2 (Transition) Design Framework for MPFCBP states

> "Project financing arrangements will be similar to Phase 1, namely that GoA resources for the MPFCBP will be provided by AusAID through an AMC.
>
> However, it is proposed that in Phase 2 a greater proportion of available resources be managed through the Flexible Support Facility. The purpose of *this is to increase MoPF's role in prioritising the use of these resources* and to increase flexibility in the way that they are used. Decision making on the use of the FSF will therefore rest with the Board, based on advice from the Management Team as required….
>
> It is nevertheless anticipated that options for providing (at least some of) donor's future support to PFM capacity building directly <u>through the GoTL budget</u> will continue to be

[38] Bilateral Program Review – Final Report, (July 2008).

pursued (particularly through the planned joint donor program)."[39] (Italics added to second paragraph).

This quote suggests a multi-stage transition of AusAID PFM assistance from donor management through an MC, to shared management through a recipient chaired project board (to which the MC reports on a six monthly basis), and eventually to general budget support.

The challenge is not so much to *identify the best* of these different assistance modalities but to identify the appropriate *transition timing* between them. Clearly joint execution was not an option under the relatively ineffective TL ministry of finance existing in 2003, while under Phase 2 newly introduced joint execution has probably suffered from the absence of a senior MoF management. Even then there is a question mark over the transaction costs incurred when the few senior and experienced bureaucrats are diverted from managing much needed reform strategies to managing the donor supported activities that implement the strategies.[40]

This suggests the need for a flexible approach to the mode of assistance, with the form of assistance adapting progressively to the changes it achieves. Development partners should be ready to extend existing modes of assistance until recipient governments are in a position to take on more responsibility, then to move promptly to more devolution. The managing contractor model has provided a good approach to supporting GoTL to date, but going forward a sector wide approach (SWAP) such as PFMCBP presents a number of advantages. As requested in our TOR, the following sections review the possible future role of SWAPs and budget support in this continuum of assistance modalities for PFM reform.

SWAPs

SWAPs are an approach to funding rather than a funding instrument per se, which involves a single framework for sector funding from all donors as well as by the national government. This approach reflects well known problems with project assistance - distortion of sector policies through ring fenced projects; undermining of national ownership; and high transaction costs for recipients.

The design of a SWAP can vary along a progression from coordinated donor *earmarking* of funds for specific parts of an integrated sector wide framework using special purpose donor accounts to donors *pooling* their funds for a sector in a common account without attribution to particular activities in the sector.[41] Either extreme can in principle be donor or government executed. Given the need for agreement between donors, lead times for preparation of a SWAP are usually greater than for unpooled donor assistance.

Generally a government executed SWAP will be successful when the recipient has a clearly defined sector strategy, is capable of guiding its implementation with transparent and effective use of donor funds, and is able to attract suitably qualified advisors. This will normally require a detailed reform roadmap for the sector, which is owned by the government, with design of reform modules agreed by major contributing donors. Progress with PFMCBP has been assisted by the election in 2007 of a Government committed to budget reform, and the sector wide approach which it embodies places PFM reform on a more holistic basis which is unambiguously owned by the Government.

The PFMCBP also: 1) offers a cost-effective way of providing support to those donors not otherwise able to provide support (unless at much higher cost); 2) allows donors to take advantage of the World Bank's expertise in terms of country dialogue, analytical work, policy advice, and project preparation; 3) reduces risks to donors through application of the Bank's fiduciary standards, and use of the Bank's project management and supervision capacity;

[39] Phase 2 (Transition) Design Framework, p.36.

[40] Uncoordinated bilateral aid in a crowded donor environment can also impose transaction costs on the recipient government. Transaction costs on the government should not be measured by the salary cost of time spent on assistance related issues but the opportunity cost in terms of time unavailable for reform issues.

[41] The recipient and the donors would agree annually on the specific activities in support of the program, together with the associated budget and procurement plan, separately identifying contracts to be financed by individual donors from activities to be financed from the pool. There are common disbursement, accounting and accountability arrangements which will ideally be eventually based on government rather than donor procedures.

4) reduces burdens on the government by having a harmonised channel for funding donor support.

Budget support:

Successful PFM development should be accompanied by growing capacity of GoTL to manage both domestic and donor resources effectively and transparently across *all* of its budget sectors. This would facilitate an eventual progression by donors from sector wide (SWAP) based support to general support for the GoTL budget.

General budget support recognizes that donor contributions are ultimately fungible with spending from the budget for virtually any sector, so that transaction costs can be reduced by donor's providing general assistance directly to the recipient's budget. Whereas a SWAP is based on a sector strategy, general budget support is frequently based on national strategy documents such as a national plan or a Poverty Reduction Strategy Paper (PRSP) supplemented by a Country Assistance Strategy (CAS) and Public Expenditure Review (PER).

However, general budget support is only likely to be required in the context of structural imbalances and the recipient's need for a national restructuring program of some sort, and may be conditional on prior actions relating to the achievement of national restructuring objectives. This may involve using a jointly agreed (among donors) policy matrix as the basis for mutually agreed benchmarks for disbursing general budget support, together with shared disbursement cycles and monitoring. This facilitates the coordination of donor support with the recipient's comprehensive reform agenda and maximizes incentives for effective government executed reform.

While Australia has provided general budget support in the past, for example unconditional support to PNG, with mixed results, such untargeted budget support is unlikely to be an early priority for TL, due to TL's recent migration from aid dependence to resource abundance. Budget support could be considered if there is a marked deterioration in GoTL's fiscal environment (such as due to the current international financial instability) or the development of underlying structural imbalances. However, it would desirably be accompanied by prior conditions for structural adjustment. Conversely, if Australia wanted to support, for example, an infrastructure upgrade program for GoTL this might be better achieved through a SWAP modality rather than general budget support accompanied by ad hoc sector based conditionality.

Options for future Australian support for PFM reform in TL

The Australian Government, through MPFCBP and other technical assistance support to GoTL, has acquired substantial experience and knowledge of technical and policy dialogue issues which will be important for PFMCBP going forward. Through PFMCBP AusAID will have the opportunity to contribute to the strategic implementation of support to PFM. Key to this is participation in the PFMCBP Supervisory Committee. Two areas in particular where AusAID could play a key role include:

(i) *Participation in policy dialogue:* PFMCBP will be supporting reforms identified through the Ministry's Priority Reform Strategies process. The plan is for GoTL to engage with donors through the Supervisory Committee to present plans, monitor progress and have policy dialogue around donor support.

(ii) *Joint analytical work:* to inform donor support through PFMCBP, and wider reform processes on PFM, the Bank will do its regular Analytical and Advisory work and Economic and Sector Work. AusAID could look at opportunities to carry some of these activities out jointly, which would help to strengthen its own understanding of technical budget issues and participate more effectively in policy dialogue.

A further area in which Australia might assist GoTL budget processes, which is complementary to the PFMCBP, relates to the budget management areas of GoTL *line ministries*. Budgeting is a top down/bottom up process and line ministries play an important role. This includes identifying, designing and costing policies to achieve government objectives, delivering programs cost effectively and with a service culture, and reporting performance in achieving government objectives.

In particular, the overall success of budget preparation depends heavily on the quality of line ministry budget proposals to MoF. This requires a range of line ministry skills – ability to define sector policies against government objectives, translate these into spending proposals, define the benefits of the proposals, and design and cost the proposals.

Line ministries will also play an increased role in budget execution, through devolution of procurement functions and the possible decentralization of transaction processing using an upgraded version of Freebalance. If modern budget preparation software is purchased to complement Freebalance, the inputs will be entered by line ministries. Without effective performance by line ministries, improvements in central budgeting are unlikely to be reflected in improvements in resource allocation.

AusAID has already assisted budget execution in selected line ministries under MPFCBP. However, PFMCBP is not currently envisaged to encompass line ministries in its PFM reform program. Consideration could be given to AusAID offering budget management support to selected line ministries in parallel with the PFMCBP in order to leverage the PFM reforms planned for central agencies. This could encompass line ministry budget management skills, particularly in regard to preparation of line ministry budget requests, assistance with financial management using ministry based Freebalance operating screens and their relationships and building of numeracy and policy identification/analysis skills.[42] It could also pick up the Minister's interest in continuing an FSF type arrangement through a management structure which emphasizes flexible in-country decision-making and responsive use of short term advisor support. However steps would be needed to ensure the joint management arrangements operate more effectively than occurred for MPFCBP during 2008.

There may also be merit in development of relationships between some TL and Australian line ministries through twinning arrangements.

[42] Timor-Leste & AusAID Bilateral Program Review Final Report July 2008 also concludes that the narrower focus of the PFMCBP on MoF "may lead to a broadening of some PSCDP components to include aspects of public financial management in Line Ministries." p. 4.

Annex A: Terms of Reference

INDEPENDENT COMPLETION REPORT
OF THE

MINISTRY OF PLANNING AND FINANCE CAPACITY BUILDING PROJECT (MPFCBP)

Background

1. The Australian Government has been providing support to the budget office and revenue service of Timor-Leste's Ministry of Planning and Finance (then called the Central Fiscal Authority) since early 2000. Australia's initial assistance focused on the provision of technical assistance to fill in-line positions. A review of Australian Government support was conducted in late 2001 to develop a program of longer-term assistance focused on building a sustainable financial management system and local staff capacity.

2. In 2002, after two years of UNTAET administration of Timor-Leste, a number of key government functions were handed to the new Timor-Leste Government for the first time. Central among these was the management of Timor-Leste's public finances. In mid 2002, the Timor-Leste Government took full control of the Ministry of Planning and Finance.

3. In July 2003 the Australian Government funded Ministry of Planning and Finance Capacity Building Project (MPFCBP) was mobilised, with a two-year Phase 1 duration and budget of $6.8m. The project was designed to build on the operational support to the budget office and revenue service that had started in 2000, whilst also increasing the emphasis on capacity building.

4. In September 2004 a World Bank led team developed a framework for a broader Planning and Financial Management Capacity Building Program (PFMCBP). The PFMCBP was designed to be a Government of Timor-Leste implemented program and have a broader reach than the MPFCBP.

5. In November 2004, a follow-up AusAID MPFCBP planning mission visited Timor-Leste to develop a strategic framework for future Australian Government assistance in light of the planned World Bank program. The mission recommended continued bilateral assistance during the period of transition to the PFMCBP (July 2005 to mid-2006) and for longer term assistance through the PFMCBP.

6. In May 2005 a final design mission for the MPFCBP transition phase was mobilised by AusAID, which resulted in the preparation of the Phase 2 design framework document.

7. AusAID mobilised Phase 2 of the project in mid-2005. However, the planned mid-2006 transition to PFMCBP did not occur as the PFMCBP experienced a number of implementation difficulties with the Ministry of Finance. As a result of this, AusAID extended Phase 2 of the MPFCBP until end-2008, at the request of Timor-Leste's Minister of Finance. At its peak, the program placed over 20 long-term and up to 10 short-term advisors throughout the Ministry. The program is valued at $30.5 million over its life.

8. In 2008 the PFMCBP has made good progress in establishing itself within the Ministry of Finance. The Minister has requested that post-2008 Australian Government support for public financial management is channelled directly through the PFMCBP.

9. As the MPFCBP draws to a close and the World Bank program scales up, it is opportune to take stock of the major achievements, strengths and weaknesses of the bilateral activity. It is also timely to draw lessons that may be relevant to the World Bank program and to future support the Australian Government may provide to the Ministry of Finance.

Objectives of the Independent Completion Report (ICR)

10. The objectives of the ICR are:

    1) To assess the findings of the Activity Completion Report (ACR) and provide feedback to AusAID on how, if need be, the ACR can be modified;
    2) To independently assess the MPFCBP against eight broad indicators (outlined below), drawing conclusions about the project's successes and limitations; and
    3) Consider lessons for future assistance to the Ministry of Finance, including through the World Bank-led program.

11. The ICR's audience is AusAID (including Department of Foreign Affairs and Trade) management, decision makers in the Government of Timor-Leste and development partners.

Scope of the ICR

12. The ICR team will assess the accuracy and judgements of the Activity Completion Report's analysis and key conclusions.

13. In assessing the MPFCBP performance, the ICR will review the project over the full period of its life (2002-06) and will consider:

    - The **relevance** of the goal, purpose, objectives against GoTL priorities and Timor-Leste's context, and the extent to which the project responded to any changes in context since the activity was designed;

- The **relevance** of the delivery mode used to implement the program, its appropriateness in the Timor-Leste public service context, and its costs/benefits relative to a sector-wide approach;
- The **effectiveness** of the project against its original goals, purpose and objectives, as well as any unintended impacts of the project;
- The **efficiency** of the project in managing a value-for-money project (including the cost-effective use of technical assistance) and on budget;
- The project's **monitoring and evaluation** system and whether quality data was produced;
- The **sustainability** of project activities, including evaluating the extent to which they contributed to stability and self-sufficiency in the Ministry of Finance;
- Whether the project included **gender** considerations in its design and implementation and what impact the project has had on gender equality;
- How well the project design was based on previous **analysis and learning**, and how well learning from implementation and evaluations were incorporated during the project.

14. In drawing out lessons for future assistance to the Ministry of Finance (and central finance agencies more broadly), the review will consider:

- General lessons learned from delivering assistance in the public finance sector in Timor-Leste, as well as, where relevant, in **other post-conflict**, low capacity environments;
- Lessons learned from the process of **transition** from the bilateral MPFCBP program to the World Bank-led program;
- The appropriateness of various **aid modalities** (and combinations of modalities) to Timor-Leste's Ministry of Finance, including budget support, sector wide approaches, sector-based programs (such as PFMCBP), and bilateral programs; and
- The **future role of the Australian Government** in supporting central finance agencies in Timor-Leste and options for leveraging Australia's policy engagement and strategic influence.

Evaluation method

15. The ICR will be conducted using the following method:

- Conduct a pre-mission desk review of key program documents provided by AusAID;
- Meet with AusAID in Canberra prior to the in-country mission;
- Assess the performance data provided in the project's Activity Completion Report and assess the key lessons derived from this data. The ICR will do this by liaising with the managing contractor, AusAID, counterparts and other stakeholders involved in the projects;
- Provide comments on the draft ACR to AusAID and the managing contractor for updating the document;
- Participate in an in-country mission, consulting with:
    - relevant officials within the Ministry of Finance and other relevant government ministries Ministers;
    - advisors employed by the MPFCBP;
    - advisors working in or with the Ministry of Finance employed by other donor programs or the Government of Timor-Leste;

  - implementing partners including the Asian Development Bank, the World Bank and relevant Australian managing contractors;
  - relevant staff at the Australian Embassy;
  - other donors and key stakeholders;
  - any other persons deemed relevant by the team;
- Present initial findings to AusAID's East Timor Program in Dili;
- Prepare a draft report;
- Participate in an AusAID peer review of the ICR that will test the team's findings;
- Present the final draft of the report to AusAID's East Timor Program.

16. In preparing the ICR, the team will use AusAID's 'ICR Template', attached.

Duration and Phasing

17. The ICR will follow the following timeline:

Deadline	Task	Output
24 November - 5 December	Preparatory reading and consultations with AusAID Canberra	Thorough understanding of the history of the MPFCBP, the Ministry of Finance, and the general Timor-Leste context
8-13 December	In-country mission	5 page Aide Memoire for presentation to AusAID Dili and Canberra
14-19 December	Preparation of draft ICR submitted to AusAID Canberra	Draft ICR
20 January	ICR Peer Review	Participation in peer review
20-26 January	Incorporate peer review and AusAID management comments into ICR	Finalised ICR
30 January	Present final ICR to AusAID Canberra	Final ICR

Composition of the Team

18. The team will have three members, with roles as follows:

19. Team leader: Experience with public financial management, and institutional strengthening, including in post-conflict states; experience with leading review teams.

20. Economist / institutional specialist: Experience with public financial management in post-conflict states; experience with institutional reform, capacity development, training and organisational planning in public finance programs, ideally in post-conflict settings.

21. An AusAID Desk representative will support the team and will have experience with AusAID's support to public financial management in Timor-Leste, a sound working knowledge of the MPFCBP program, and the capacity to liaise with counterparts in Timor-Leste. The Desk representative will step out of certain meetings if requested by the Team Leader.

Reporting Requirements

22. The team will produce an aide memoire (5 pages maximum) for presentation to AusAID at the conclusion of the in-country mission.

23. The team will produce a draft of the ICR for AusAID's consideration by 19 December, 2008. The report will be a maximum of 20 pages (excluding annexes) and will include a 2 page executive summary.

24. AusAID will provide the team with feedback by 5 January, 2009.

25. The team will provide AusAID with a final version of the report by 30 January, 2009. The report will reflect the views of the individual members of the ICR team, and ought in no way to be reflective of the organisations in which they are employed.

Annex B: Comments on the Draft Activity Completion Report

East Timor Ministry of Planning and Finance Capacity Building Project (MPFCBP)

Independent Completion Report (ICR)

Review of the Draft Activity Completion Report

The terms of reference for the ICR require us to "assess the findings of the Activity Completion Report (ACR) and provide feedback to AusAID on how, if need be, the ACR can be modified." (TOR para. 10). This note fulfils this requirement.

The note is in two parts:

- Comments on the structure of the draft ACR;
- Comments on the conclusions of the draft ACR.

In summary, the comments below:

Suggest an alternative structure for section 2.1 of the draft ACR to better capture achievements against original objectives, achievements not initially envisaged, gaps in achievements and reasons for those gaps.

Propose an adjustment to the conclusions, flowing from the revised structure for section 2.1. In particular, it is our preliminary view that a lower rating than 'highly effective' is warranted in regard to achieving the very broad range of objectives included in the project log frame, including in a sustainable way. However, this partly reflects the absence of updates to the log frame which take account of:

- The rapidly changing economic and political environment;
- The clear break in 2007 (e.g. change in Ministerial demands, focus on delivering and executing budgets);
- The medium to long-term costs and benefits of responding to the Government's short-term demands.

It is suggested that conclusions about project effectiveness against its log frame need to be viewed in light of these developments and, as indicated below, much has been achieved in this broader frame of reference.

Structure of the draft ACR

Context and rationale

MPFCBP ('the project') has been the main supplier of TA to MoF since 2003. The period has seen some important changes including: 1) transition from aid dependence to spike in domestic revenue from oil; 2) change of government in 2007. These have impacted on the project in a number of ways: 1) prioritizing in line functions nearer the end of the project; 2) pressure to deliver four budgets in 12 months; 3) new priorities (e.g. budget execution), etc. The ACR would benefit from setting these changes out up front and the unforeseen challenges that the project has had to deal with as a result. This would put the discussion of effectiveness in the context of both the log frame objectives and developments subsequent to log frame preparation.

Effectiveness

The key area of the draft ACR requiring comment is Section 2.1 on the effectiveness of the project. As presently structured this seems insufficiently comprehensive and evidence based to justify the conclusion of the draft ACR that the project has been highly effective.

In particular summaries of project achievements in Section 2.1 are not cross referenced to the relevant project objectives (from the project log frame), and not fully connected to the evidence in Attachment 1 of the ACR, which reviews for each component the project achievements against each of that component's outputs. Nor is there a comprehensive presentation of objectives not achieved. Hence the overall conclusion in the draft ACR that that "...the Project has been highly effective in meeting its Goal, Purpose and Objectives" (draft ACR Executive Summary P. x) is not really supported by the text in the draft report.

This contributes to the anomaly identified by AusAID of the ACR assessing the project as highly successful but observing that its sustainability is low.

Example of an alternative structure for ACR Section 2.1

A possible alternative structure for Section 2.1, **based on a separate chapter for each project component**, is suggested below.

In this alternative each chapter discusses 1) the original/updated objectives for the component discussed in the chapter; 2) the actual achievements of that component, and 3) gaps in achievements against objectives and possible reasons for those gaps.

A possible framework for 2) the actual achievements is

- Operational support
- Development of systems and processes
- Capacity building
- Other output and outcome indicators

An example of the application of this suggested framework for the budget preparation, procurement and revenue components is contained in Attachment 1 of this note.

Conclusions of the draft ACR

The MPFCBP has generated a range of views about what the project should have achieved and its actual achievements which is not reflected in the draft ACR. At one extreme is the view of a senior consultant that "little has changed since he was last here seven years ago" and at the other the view in the draft ACR that "the Project has been highly successful in meeting its Goal, Purpose and Objectives, and has contributed significantly to the development of GoTL institutional capacity." (draft ACR Executive Summary P. x).

The ACR provides a substantial list of project outcomes in terms of provision of operational support to budget preparation and procurement, improvement in systems and processes and capacity building, mainly in the Budget Office. The Flexible Support Facility proved successful in reorienting the project to assist the 2007 new Government deliver its greatly increased spending program.

However, the project has been less successful in meeting its original objectives derived from the updated log frame and listed at Attachment 2 below. This appears to reflect in part GoTL role in steering the project and the rapidly changing economic and political environment in the past five years.

Ministerial demands on the project

The project was primarily conceived as a capacity building project, with direct operational support being needed in its early phase, but being phased out as capacity building progressed.

In Phase 1 of the project it appears that, after a re-orientation of the capacity building strategy, the project achieved some success in building capacity, particularly in the Budget Office, through both mentoring and formal training.

However, with the change of Government in 2007, it appears that project management responded flexibly to Ministerial direction on priorities. Thus the later years of the project saw a resurgence of operational support for budget preparation and procurement which tended to displace capacity building based on mentoring (though not formal training activities).[43] Arguably full achievement of the originally conceived transfer of responsibilities was postponed by the stepping up of operational support at the request of the new Minister.

This suggests a tension in project design. As discussed in Attachment 3 below, it was intended by AusAID that GoTL play a greater role in steering the project than under Phase 1. Under Phase 1 the then Minister had shown little interest in the project. One of the reasons suggested for this was the accelerated design of the project, leaving little time to engage properly with the client to ensure ownership. Another reason was the small number of project management meetings convened by the then Minister in her role as Chair of the Project Coordination Committee, and difficulty of access to the Vice Minister.

Under Phase 2, the Minister made very specific demands of the project. In particular, she requested a ramping up of operational inputs to budget preparation and procurement (rather than the ramping down envisaged by the log frame objectives).

Reshaping of project objectives by the Minister also occurred in regard to her discouragement of project engagement with Treasury (which manages core budget execution systems).[44] This limited the ability of the project to achieve the log frame objective for Component 3 that "Appropriate systems and processes that further improve Treasury functions are developed, documented and progressively implemented."[45]It was also apparent that project involvement in the policy advising area was not encouraged. While the performance indicators for the Phase 2 Design Framework document envisaged MPFCBP to be a hybrid of a policy-based instrument and pure project approach, the ACR notes that it was not the role of advisors to influence broad policy.

The more proactive role played by the Minister when compared to Phase 1 was not reflected through into updates of the performance indicators in the log frame to take account of the increased emphasis on operational support or the apparent reluctance of the Minister to approve the TOR for a Treasury advisor.[46]

This contributes to some ambiguity in the criteria by which the success of the project should be assessed. The bottom line is that in assessing project performance against the Phase 2 objectives, greater account should be taken in the draft ACR of conflicting pressures arising from the AusAID goal of increased GoTL involvement in steering the project, and Ministerial preferences in regard to the services provided by the project which differ from the formal project objectives.

[43] It does appear however that in the Budget Office time pressures on staff during 2008 limited the amount of formal training that could be offered.

[44] This reluctance was also there under the previous Minister.

[45] MPFCBP Phase 2 (Transition) Design Framework, p. 41.

[46] There was no update of the Phase 2 performance indicator "Balance of Advisor time shifts over time (as appropriate) away from operational support towards more capacity building activities" in response to the new Minister's request that the project provide operational assistance for much higher levels of budget preparation and procurement processing in 2008.

Conclusion

On balance, and without pre-empting the conclusions of the forthcoming Independent Completion Review, it is suggested that the rating of ‘highly effective’ suggested by the draft ACR be re-visited when preparing the final of that report.

When account is taken of (on the positive side) the substantial range of operational support and capacity building provided by the project, but (on the negative side) limited system and process development (other than devolution strategy in the Procurement Office and gradual improvements in budget preparation) and the crowding out of mentoring activities in the closing years by high levels of operational inputs, a lower rating may be more appropriate.

This view is not a comment on the performance of the AMC. Phase 2 of the project was intended to involve greater partnership with GoTL through the creation of a managing board, and the project focus on operational inputs in fact reflected greater influence of the Minister on project priorities than occurred during Phase 1, particularly the priority she placed on the project assisting preparation and execution of the new Government’s greatly expanded budgets.

This could be seen as an indicator of project success, even though it meant departing from the log frame objectives listed in Attachment 2. Similarly, the inability to access Treasury systems does not appear to be a fault of the project management (which instituted the Minford review of budget systems and submitted a TOR for a Treasury based advisor) so much as a preference by the Minister.

At the same time, the longer-term costs and benefits of responding to the short-term needs of the Government also need to be understood, especially by AusAID. For example, there may have been important benefits in increasing the budget execution rate. But what were the potential costs in terms of quality of spending? AusAID along with the World Bank and the IMF had highlighted the risks of ring-fencing certain procurement functions under Transitional Budget Unit. In the end, the decision to provide operational support was taken – what are the longer-term costs and benefits?

While in an ideal world AusAID would have revised the project objectives to take account of the Minister’s increased emphasis on operational support, and reluctance to allow the project to access Treasury, this did not occur due to the closeness of the election to the scheduled end of the project in December 2007. Alternatively, the ACR could have looked at the risk assessment carried out in the Phase 2 Design Framework document, and commented on the extent to which these have materialised and impacted on the project outcomes.

The draft ACR should recognise that the rapidly changing environment, and the unforseen expansion of operational support in 2008 has complicated the normal process of judging the success of the project against the objectives in its log frame, while at the same time evidencing a greater partnership approach with GoTL in steering the project.

Attachment 1 Illustration of an Alternative Framework for Section 2.1 of the Draft ACR

A possible framework for discussing the effectiveness of the project (in Section 2.1 of the draft ACR) is illustrated below for the budget preparation and procurement components. The framework cross references to the relevant project objectives (from the project log frame), reviews for each component the project achievements against each of that component's outputs, and summarises objectives not achieved.

Chapter A. Budget Preparation Component

1. **the original (and updated) objectives** (brief summary of the four outputs for the Budget Office component in the original design)
2. **the actual achievement** of the component: for each chapter the actual achievements could be conveniently divided according to four heads: operational support by the project; systems development by the project; capacity building by the project; other output and outcome indicators.
   - a) *operational support:* the primary project output for the Budget Office under Phase 2 has been the delivery of a rapid succession of budgets which could not have been delivered by Budget Office staff on their own; (some of this is also hidden in Attachment 1 Appendix C of the draft): "The State Annual Accounts for FY2005 were finalized with a clean audit opinion within three months of the end of the fiscal year, and budget execution reports were produced, albeit with some delay. To promote dissemination of budget information, the FY2006 budget was published in Portuguese, English, and Tetun" (ACR P. 47)
   - b) *development of budget preparation systems*[47]*:* the project commissioned a report from an advisor on systems and procedures in late 2006 and contributed to a number of procedural changes in budgeting. Budget process improvements to which the project has contributed include a reduction of carry over, initial steps to a medium term expenditure framework for line ministry submissions and use of forward estimates in preparing 2009 budget, delegation of signing of commitment purchase vouchers (CPVs), some progress in preparing budget strategy papers to give greater strategic content to budget preparation (particularly the 2008 ministerial workshop on budget priorities), and increased outreach by Budget Office staff to line ministries
   - c) *capacity building:* there has been a change in Budget Office culture over the life of the project, from transcribing budget data to analysing it, and the development of a 'budget challenge' capacity when staff review line ministry submissions
   - d) *other output and outcome indicators:* there is mixed evidence of success against other indicators of effective budget preparation and management of the budget. Strategic alignment is weak because of a lack of an overall strategic framework. The project, however, has helped with basic budget

[47] The MPFCBP Phase 2 (Transition) Design Framework states: "Additional TA should be brought in to work with existing long-term advisors, GoTL budget officials, other expatriate advisors and ministers to review how established budget systems, processes and products (e.g. Budget circulars and other consultation mechanisms, spreadsheets, databases and Budget papers and reports) can be made more appropriate to the skill levels and needs of GoTL officials and Ministers and identify ways in which current Budget Office tasks and outputs could be streamlined to enable Budget Office staff to more easily take over responsibility from advisors for the tasks related to producing, analyzing and reporting budget information. This review should include consideration of consistency between Budget Office's systems and processes and those used in other parts of the MoPF and relevant line agencies as well as the effectiveness of current Budget documentation (Budget Manual etc). Once the review and consultations have taken place, the findings should be clearly explained to relevant stakeholders and agreement reached so that changed processes can be implemented in time for the 2006-07 budget" p. 22

analysis, which helps to question line ministry submissions. There have also been improvements to the budget circulars. Budget discipline in last two/three years has suffered due to by-passing of the policy contestability processes. The budget has grown very rapidly and is not prepared within a medium-term macro-fiscal framework. The budget is very detailed, but coverage/structure does not lend itself it being used as a strategic policy-making and implementing tool.

3. **gaps in achievement against objectives**
   - no consideration given to purchasing off the shelf budget preparation software (as Freebalance does not have a budget preparation module)
   - some improvement in quality of budget documentation and budget preparation process under Phase 1, but progress on these may have suffered over the past two years with increased pressures to deliver and implement budgets.
   - the pressure of multiple budgets in 2007 prompted Budget Office advisors to undertake line functions (without formally being in line) which partially displaced counterpart Budget Office officials.

Chapter B. Budget Execution Component

1. **the Phase 2 objectives** for the Treasury and Procurement Office
2. **the actual achievement**

- a) *operational support:* a major deliverable was the speeding up of budget execution in response to sharply increased appropriations (at the request of the Minister). This includes the establishment of standard time frames for procurement processing. A suite of regular budget execution reports using Freebalance data has been initiated.
- b) *development of procurement systems:* a major deliverable was development of the new decentralised procurement strategy in the form of a three year strategic plan, including procurement documentation for accredited line ministries, drafting of a new law and decentralisation of authority to accredited line ministries for tendering and contracting. Work has been undertaken on creation of an independent procurement authority to determine policies and ensure compliance by line ministries. A new Procurement Decree Law delegated responsibility for procurement contracts of up to US$ 100,000 for key line ministries and consideration is currently being given to increasing this threshold to US$ 250,000.
- c) *capacity building:* capacity building in the Procurement Office was not a project objective. However it did occur in the Transitional Budget Procurement Unit and for the decentralisation of procurement to accredited line ministries (the level of authority delegated to each line ministry, ie. its accreditation status, is linked to the line ministry's participation in training by the MOF Procurement Training Unit.
- d) *other output and outcome indicators:* the focus over the past year has been on increasing spending. This may have been at the expense of strengthening expenditure controls and the quality of spending. To help address this, the project tried to strengthen control weaknesses identified in a Deloitte diagnostic earlier in 2008. It has also helped with the development of a strategic framework for procurement across government and posted advisors in line ministries. But there were also reports of shortening certain requirements (e.g. timing needed for submission of request for proposals).

3. **gaps in achievement** against objectives

- failure to gain access to Treasury resulted in the absence of progress in updating Freebalance or distributing it to line agencies
- “at 62 on a cash basis, overall budget execution did not reach the target of 70 in FY2006, though actual spending did increase significantly over the amount disbursed through the FY2005 budget” (ACR P47).

Chapter C. Revenue Component

1. **the original (and updated) objectives** (brief summary of the three outputs for the Budget Office component in the original design)

2. **the actual achievement**.

- a) *operational support:* Full-time advisor in place to establish SIGTAS and train staff in its operation. Advisory support to strengthen tax audit function, through review of case studies. Taxpayer Charter. Training and brochures developed for both Revenue Department staff and taxpayers.
- b) *development of revenue administration systems:* SIGTAS database installed and implemented for Tax (including Petroleum Tax) Division.
- c) *capacity building:* improved capacity and knowledge of tax law and operational procedures through structured training workshops throughout life of project. Staff trained and able to operate SIGTAS. All planned training and skills development activities completed – materials developed in Tetun. Twenty one staff have been assessed as competent and received Certificate II Working in Government accreditation.
- d) other output and outcome indicators: rather than just looking at overall revenue growth, it would be worth looking at other indicators including revenue/GDP, tax paid voluntarily/total tax revenue collected, tax gap (if this can be estimated), annual recurrent budget of Tax Department/total tax revenue collected to assess the performance of the system.

3. gaps in achievement against objectives

- Register of taxpayer has been run down.
- GoTL has done little to implement the Taxpayer Charter.
- No taxpayer surveys undertaken since 2005.
- General reduction in focus on tax policy and administration since oil revenue inflow.

Attachment 3 Transition to a Partnering Approach in Phase 2[48]

Assessment of the performance of the project against the indicators in Attachment 2 should take account of the intention in Phase 2 of the MPFCBP to strengthen the role of GoTL in ongoing management of the project.

“An important change in Phase 2, in keeping with the move towards a partnering approach, is that monitoring will focus on the performance of the project overall and the contributions made by all Stakeholders (GoTL and AusAID), not just the contributions made by the AMC. Project monitoring will become primarily the responsibility of the MPFCBP Board and the Management Team.[49] They will therefore access, analyse and use relevant information on an ongoing basis (from formal and informal sources, using qualitative and quantitative data as appropriate) to help them make informed decisions about the most efficient and effective use of available resources.[50]

The Design Framework also states that “in keeping with the move towards a partnering approach, it is important to note that the Logframe indicators are focused primarily on assessing ***project*** performance (which is the responsibility of the Board and all stakeholders on the Management Team), not specifically on the ***AMC’s*** performance.” p. 37. The Design Framework continues

> “It is not intended to move immediately to a full partnering arrangement (in which the use of all project resources are determined solely by the board), but rather that during the Phase 2 transition, the issues and implications associated with partnering principles and arrangements are discussed and clarified between the GoA and GoTL, and once agreement is reached, are progressively implemented.” (P.20)

The Minister has been a lot more directive during Phase 2 than the former Minister in Phase 1. However at this stage of the ICR it appears that progress with discussion of the issues and principles associated with partnering principles seems to have been limited. Ministerial involvement with the project tended to have a unilateral rather than a partnering quality and the operation of the Project Board became progressively less effective. With the development of the PFMCBP Ministerial preference appeared to be for GoTL management of international advisors and a partnership based review of MPFCBP objectives was not undertaken.

Perhaps reflecting shortcomings in the partnering activities, as well as the short time between election of the new government and the originally intended completion of the project in December 2007, performance indicators in the log frame were not updated for the increased emphasis on operational support or the apparent reluctance of the Minister to approve the TOR for a Treasury advisor.

[48] Attachment 2 of the Review of the Draft Activity Report is omitted here as it is reproduced below as Annexes D and E of the ICR.

[49]The MPFCBP Phase 2 (Transition) Design Framework states: To this end the current Project Coordinating Committee will be re-named the MFPCBP Management Board, and will take on increased responsibility and authority for resource allocation decisions, particularly with respect to the use of resources provided through the Flexible Support Facility. In addition, the current Project Working Group will be more formally constituted as the project Management Team, taking on greater responsibility for implementing the decisions of the Board.” p. 20.

[50] MPFCBP Phase 2 (Transition) Design Framework, P. 37. The document continues “The Board will be assisted in making informed judgments about the project’s progress and performance through access to the services of a Technical Assessment Group (TAG). The type and timing of services provided by the TAG will be determined by the Board. It is currently anticipated that high-level expertise in Public Finance Management and in Institutional Strengthening/Capacity Building will continue to be required (as provided for under Phase 1). It is further anticipated that TAG inputs will be mobilised to coincide with the production of key planning and progress report documents (namely the Annual Plan and six monthly progress report).” Op cit, p. 37.

Annex C: Summary of MPFCBP Phase 2 Objectives

MFPCBP Phase 2 Objective structure

Goal

To support the delivery by GoTL of high quality and value for money public services

Purpose

GoTL can sustainably generate and effectively manage public funds

Management Support

Component 1 - Objective

MoPF and MFPCBP resources effectively managed with increasing levels of local ownership

- **Output 1.1 –** Organisational functions, management systems and staff roles and responsibilities within MoPF reviewed and clarified
- **Output 1.2 –** Government-wide HR policies and procedures progressively implemented within MoPF
- **Output 1.3 –** Effective project management and administration arrangements and systems established based on partnership principles
- **Output 1.4 –** Performance information collected, reported and used to support continuous improvement, accountability and transparency

Planning & Budgeting

Component 2 - Objective

Plans & Budgets are prepared & managed effectively with increasing levels of local ownership

- **Output 2.1 –** Budget office procedures, tools and outputs streamlined and simplified
- **Output 2.2 –** Budget office documents prepared and systems managed effectively in collaboration with line-agencies
- **Output 2.3 –** Appropriate skills development program and materials further developed for BO & Planning staff, endorsed and implemented effectively
- **Output 2.4 –** MoPF budget office provides effective service to counterparts in spending ministries
- **Output 2.5 –** Planning & budget functions of MoPF & line ministries effectively coordinated

Budget execution

Component 3 - Objective

MoPF & line-agency budget execution functions managed effectively with increasing levels of local ownership

- **Output 3.1 –** Appropriate systems and processes that improve procurement timeframes and promote value for money are further developed, documented and implemented effectively
- **Output 3.2 –** Appropriate systems and processes that further improve treasury functions are developed, documented and progressively implemented
- **Output 3.3 –** Appropriate skills development program and materials developed for procurement, treasury & line-agency staff, endorsed and implemented effectively

Revenue

Component 4 - Objective

Revenue functions managed effectively with increasing levels of local ownership

- **Output 4.1 –** Appropriate systems and processes for effective GoTL revenue management further developed, documented and progressively implemented
- **Output 4.2 –** Client service systems & culture further developed within ETRS
- **Output 4.3 –** Appropriate skills development program and materials further developed for ETRS staff, endorsed and implemented effectively

Annex D: Summary of MPFCBP Performance Indicators

Category	Performance Indicators	
PI 1. Ongoing improvements in public finance management and the quality of service provided by the MoPF to 'clients'	• a) Pro-poor expenditure targets achieved in line with the NDP Action Matrix • b) National budget is prepared on time, is of good quality and clearly linked to the NDP, SIP priorities and line agency AAPs • c) Revenue targets are consistent with the medium-term fiscal framework • d) Budget execution rates are improved • e) Procurement time-frames are reduced and value for money increased • f) CPV processing time is reduced • g) Increased delegation of financial authority to Line agencies • h) Line-agency and taxpayer satisfaction with services provided by MoPF	•
PI 2 Improvements in the MoPF's own organizational effectiveness and human resource management functions	• a) Level of staff vacancies within MoPF reduced • b) Increased delegation of responsibilities within MoPF • c) Requirements of the Civil Service Act and related regulations effectively implemented within MoPF • d) Staff increasingly clear about the functions of their department/division, and their own individual roles and responsibilities • e) Annual Action plans for each MoPF Department/Division are prepared on time, are of good quality and show clear synergies	•
PI 3 Tangible evidence of value-added support for specific operational activities within MoPF (e.g. systems and process development)	• a) Budget process, tools and outputs simplified • b) Draft budget documents provided to cabinet in line with budget schedules • c) Planning and budget office AAPs are jointly prepared, managed and reviewed • d) Procurement and Treasury systems and processes are increasingly clear to all responsible MoPF staff and targeted line-agencies • e) Quality of line-agency procurement plans progressively improve • f) Reliable and timely information on commitments and expenditure is made available to line agencies • g) ETRS systems and processes are clearly documented and understood by staff • h) Accurate register of taxpayers is maintained • i) ETRS Service Charter developed and used to guide ETRS interaction with taxpayers	•
PI 4 Genuine capacity building, as	• a) MoPF staff competencies improve • b) Progressively increased independence of MoPF counterpart staff in	•

Category	Performance Indicators	
evidenced by improved competencies of MoPF staff and line-agency Finance Focal points	undertaking specific operational tasks • c) Balance of Advisor time shifts over time (as appropriate) away from operational support towards more capacity building activities	

Annex E: Evidence on the Success of Capacity Building

The MFPCBP was originally designed primarily as a capacity building project, although operational support for budget preparation and execution tended to displace capacity building after 2007. How successful were the capacity building outputs? This assessment draws on three main sources - comments by persons interviewed by the ICR review team (particularly Directors of the MoF Budget, Procurement and Revenue Offices), the ‘Report on Capacity Building Provided by the MPFCBP’ prepared by the Managing Contractor, and the MPFCBP Completion Workshop Report (September 2008). The latter contains the views of MoF staff on the achievements and shortcomings of the project and the areas in which further assistance is needed at the close of the project (summarized in Annex H of this ICR).

Capacity building covered the following areas:

Component 1 - Management Support

- Human Resources Division and senior management staff in the MoF; and
- Foundation Skills training for all Ministries.

Component 2 - Planning and Budget

- Budget Office (primarily); and
- National Department of Planning and External Assistance Coordination

Component 3 - Budget Execution

- Central Procurement Office
- Staff in the Finance Divisions in key line ministries including: Ministry of Education, Ministry of Justice, Ministry of Infrastructure and Ministry of Mineral Resources and Economic Development, and Public Works
- Other Line Ministry staff (procurement training provided by MOF)

Component 4 – Timor Leste Revenue Service (TLRS),

- Domestic Tax – Collections and Audit
- Petroleum Tax.

Background

The project adopted an innovative capacity building framework under which each task making up the work plans of the Budget Office and TLRS was assessed on a four point scale ranging from currently dependent on advisor inputs to currently independent of advisor inputs. This provided a frame in which advisors and counterparts could focus on the capacity building needed by each national staff member in order to perform their assigned tasks without advisor support. It also provided a guide to the resourcing needed to build the capacity of staff members involved in a specific task to the level of independence from advisor support. Resulting training plans were jointly prepared with the Director and counterparts in each directorate and were incorporated into advisor workplans (which reflected the directorate’s work plan).[51]

The MPFCBP Capacity Building Report notes that around 800 capacity building activities were conducted during Phase 2. During the second phase between 40 and 70 civil servants

[51] A partial casualty of the change in focus to operational support in Phase 2 has been the formal capacity building objective which gives the project its name. The Phase 1 experiment (in conjunction with Victoria University) based on job related training being linked to competency based credentials was been dropped in Phase 2 due to administrative complexities.

attended an average of 342 hours of capacity building activity each month. Most of capacity building activities involved personnel in the level 3 to 5 (middle management) positions and 16% of all capacity building was to level 6 and 7 positions. Very little training was provided to level 1 and 2 positions (with the exception of those in ETRS).

The Capacity Building Report also notes that some twenty of training activities involved direct input by national counterparts, either as a co-trainer or facilitator. The level of direct input from counterparts has increased over the course of the project.

The draft Activity Completion Report notes that around *fifty five of training activities* were in response to issues that had been raised on the job and were linked to operational support. Key MoF staff received on the job training in systems introduced by earlier advisors and by the project, the latter including the Ministerial Briefing Note template, ETRS Information Sheets eg. Income Tax Guide, the File Movement System (record management based on database serial numbers for procurement transactions) and the Procurement Data Registration System, including progress sheets.

A further *20 of training activities* involved workshops, seminars and courses (although this rose to around seventy for the TLRS). The remaining *25 of activities* involved developing plans, systems, procedures and documents.

Table 1 Capacity Building Activities, July 2005 to Sept 2008
Activity Type by Component and Proportion of Total Capacity Building Time

	Component 1 Management, HR & IT	Component 2 Budget	Component 3 Procurement	Component 4 TLRS
Workshops	28.0	3.7	4.4	31.6
Mentoring & Coaching	9.7	19.2	41.8	16.2
On the Job Training	36.5	68.2	46.1	44.5
Planning, Development of Systems & Procedures	9.3	7.4	4.6	3.5
Formal Training (courses more than 3 days)	0.0	1.5	3.1	4.2
Other (eg. Study Tour)	16.5	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: ‘ Capacity Building Provided by the MPFCBP’, Draft ACR, p. 77.

The higher proportion of workshops for Components 1 and 4 were related to the Job Analysis and SIGTAS (the tax database) systems respectively. In contrast, capacity building for the Budget and Procurement offices focused much more on on-the-job training based on direct counterparting of advisors with small operational teams.

One commentator on the draft of this report observed that the “project’s approach to capacity building seems very ad hoc” (see Annex F). If anything, the opposite appears to be the case, with the project adopting a structured approach to the capacity building needed by individual MoF staff in order to independently complete the work plan tasks for which they were responsible.

Capacity building results

Evidence on the success of capacity building provided in this section is mixed, with the balance between operational and capacity building support being a challenging issue throughout the life of the project. Early reviews of the project tried to manage expectations on how much could be delivered on capacity building. It was made clear from the start that the "main aim of the project is to maintain effective operations during the difficult transition period, whilst also developing basic skills and local training capacity."[52] The project review at the end of 2004 noted AusAID concerns about the balance between operational and capacity building support, and the need to manage stakeholder expectations.[53]

A more positive view was expressed by the Budget Director. He indicated that the Budget Office is now able to undertake some 70 of its functions without reliance on advisors. He also indicated that he now has a core of officials who are able to train newly arriving staff after the project advisors leave.[54] MPFCBP advisors suggested that there has been a change in Budget Office culture over the life of the project, from transcribing budget data to analysing it, and the development of a 'budget challenge' capacity when staff review line ministry submissions.

However, some hard data on the success of capacity building by the MPFCBP is also available, based on advisor dependency ratios, and the following analysis draws on this to verify (or otherwise) these subjective assessments.

Work plans of MoF directorates comprise structured lists of tasks. As indicated earlier, each task in the work plans of the Budget office and Revenue Service was periodically rated on a four point scale from 'task dependent on advisor assistance' to 'task not requiring advisor assistance'. These advisor dependency ratings were made jointly by the relevant advisor, the Budget Office or TLRS director and the individual staff members.[55] These ratings are defined in the first row of Table 2 below (headed 'Task').

Since these advisor dependency reviews were repeated at intervals over the project life (in August '05, February '06, November '06, July '07 and July '08) they provide useful time series information on changes in the ability of staff in the Budget Office and TLRS to independently undertake each of the work plan activities as the project progressed.[56]

Two examples of the time series charts (taken from the draft ACR) are reproduced below. The two charts show changes over time in the reliance of local staff on advisors in undertaking their respective work plan tasks.[57]

[52] "Australia-East-Timor MPFCBP, Inception Report," (December 2003), p.6

[53] "T-L MPFCB Planning Mission," Report of the Mission (November-December 2004), section 3.3

[54] End of session feedback comments by staff participating in training were strongly positive about the benefits received.

[55] In the case of the Budget Office , advisors prepared the initial draft assessment of each national officer, these ratings were conveyed to the Budget Director who then convened the management team to review the assessment. The assessment was then discussed with the relevant officers.

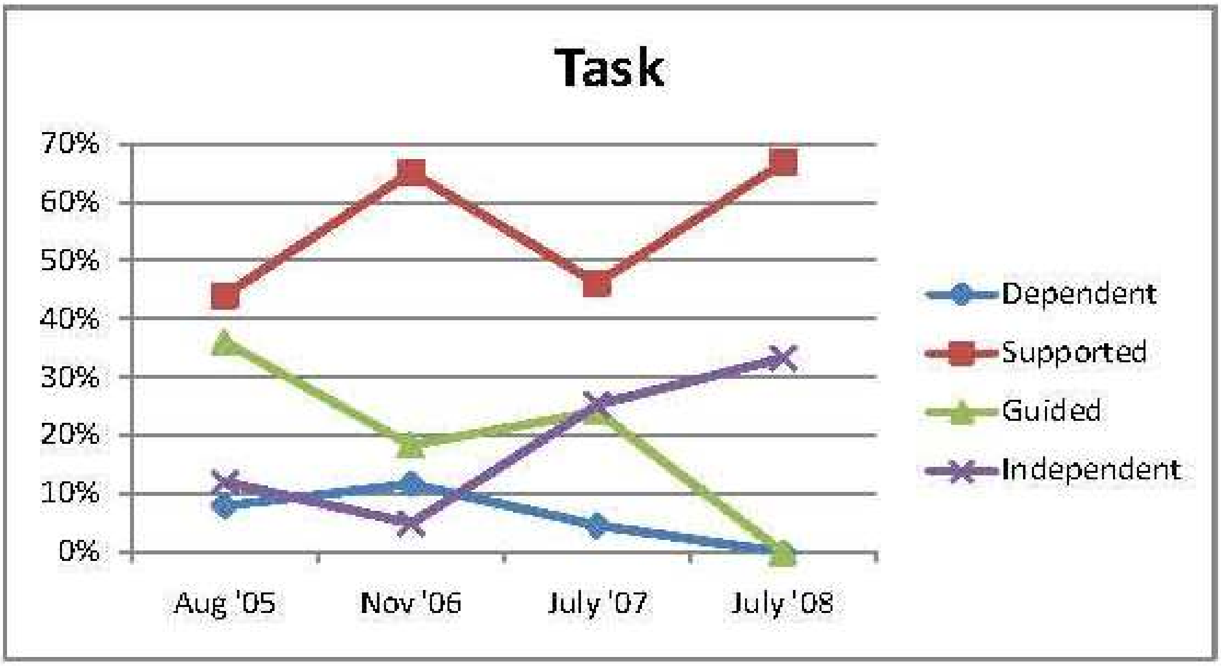
[56] The information relates to the capacity of the Directorate. For example, recruitment of a new officer rated as independent and departure of an existing officer rated as dependent would result in an increase in the measured capability of the directorate, as well as increases due to successful capacity building of the same officer. However, staff turnover does not appear to have been a major issue in the Budget Office, and the movements in the ratings over time largely reflect capacity building activities.

[57] Charts relating to other capability dimensions in Table 2 are presented in the draft ACR.

Table 2 Framework for the Assessment of Capacity

	Dependent	**Supported**	**Guided**	**Independent**
Task The conduct of all necessary processes and activities	Task requires advisor to perform an operational role	National staff requires strong support and assistance from an advisor	National staff can complete the task with some coaching or mentoring	No advisor input required for the task to be completed
Quality Ensuring that the task is done well enough to meet its purpose	Advisors must check every part of the work and usually must redo a substantial part	Advisor will do part of the task with the national staff in order to meet quality standards	National staff are able to complete the task to required quality standards with some guidance from the advisor	No advisor input required for the task to be completed at the required quality standard
Follow through Once started the extent to which all aspects of the task are completed. Are obstructions ”pushed through”?	The tasks will not be completed unless an advisor is driving it	Advisors need to constantly check progress, and prompt action by the national staff in order for the task to be completed	The advisor’s input is to assist national staff to plan the activity and to be involved in routine monitoring of progress	No advisor input required for the task to be completed
Development Design and implementation of required process or system change.	No change will occur unless the advisor manages the change	Advisor has significant input to design and implementation of the change	Advisor advises and inputs to the change design but it is undertaken and implemented mostly by national staff	No advisor input is required for a change to be effected.

Chart 1 Budget Office Capability Framework , Joint Assessments



The intended use of this rating system was to tailor capacity building for each local staff member to their level of advisor dependency. However it also provides a guide to any increases in MoF self-reliance over the project life. Thus it is apparent from the Budget Office time series in Chart 1 above that in August 2005 (two years into the project life) some 9% of work plan tasks were assessed as dependent (requiring an advisor to perform the operational role), while this ratio had fallen to zero by the latter stage of the project in July 2008.

The proportion of tasks rated as independent (ie. not requiring advisor input) rose from 11% in August 2005 to 32% in July 2008. Over the same period the guided category (national staff required some coaching to complete the task) fell from 35% to zero.

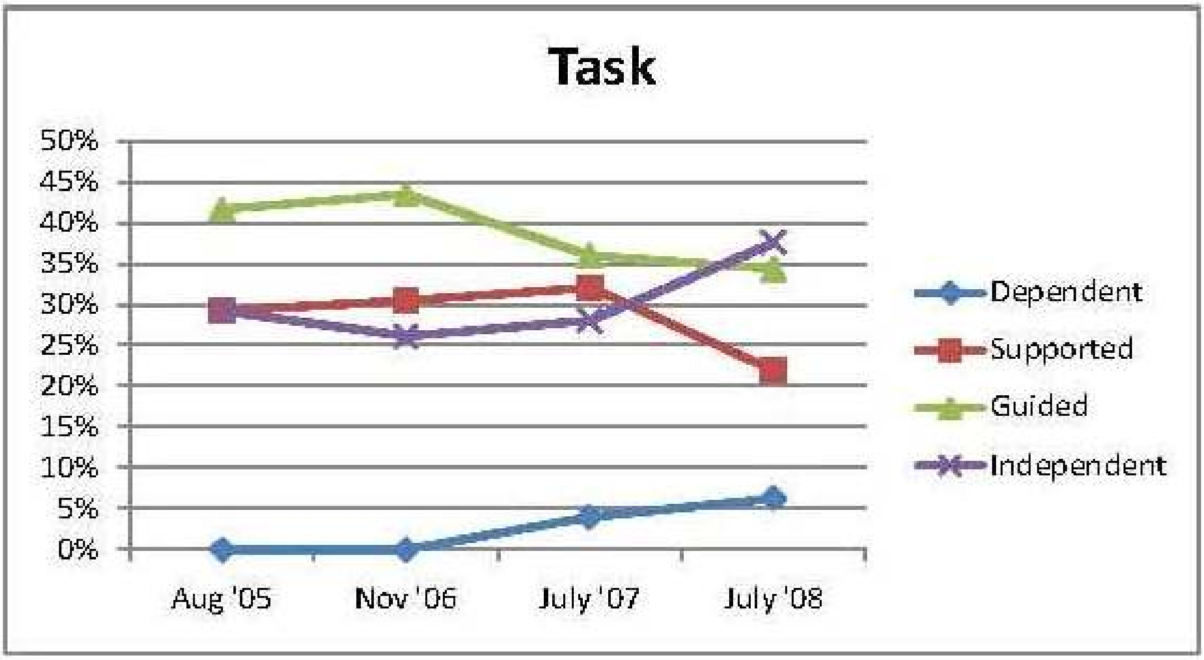
It is interesting to note that the proportion of tasks requiring strong support from an advisor actually rose from 45% in August 2005 to 66% in July 2008. This rise in the proportion of supported tasks in 2008 appears to reflect the resumption by advisors of an operational role due to the preparation of multiple budgets in 2007 and 2008 (Budget 2007-08, Transition Budget 2007, Budget 2008, Budget Review 2008, Budget 2009). Linked to this, work pressures crowded out some scheduled capacity building activities. If the adverse movement in this particular advisor dependency rating does in fact reflect stepped up advisor inputs to budget preparation it may be that as budget workloads drop to more normal levels the proportion of Budget Office activities rated as requiring strong advisor support will also fall.

These data suggest that the PFMCBP has had a significant, although not dramatic, effect on the self-reliance of the Budget Office and has been effective in achieving its major goal. In particular, the proportion of tasks which could be completed without advisor support rose from 11% to 32%.[58]

[58] This partly reflects the quality of the advisors. Ideally the advisor should have hands on budget experience, developing country experience and cross cultural skills. Most of the MPFCBP advisors worked in Australian government financial management departments, ensuring both an implementation focused approach and a largely shared approach to budgeting processes. Moreover, all three skills develop with professional experience and the MPFCBP was fortunate in retaining most of its advisors over the full five years of the project. In general, the quality of advisors was a strength of the project.

However this conclusion, and the above data, should be interpreted in conjunction with the self assessment by Budget Office staff about areas in which they continue to need assistance from advisors, as expressed at the MPFCBP Completion Workshop (summarized in Annex H of this ICR). At the Workshop Budget Office staff suggested that they did not require further assistance in regard to the recurrent operational budget, and the design of the budget process and template, but did need further assistance in regard to budget analysis (combined sources, macroeconomic), petroleum issues and linking with the strategic plan, unit costing methodology, budget monitoring and improvement of quality control. These are areas in which the successor PFMCBP may need to complete the work initiated by MPFCBP.

Chart 2 TLRS Capability Framework Joint Assessments



In the case of the Revenue Service (where project inputs were more limited) Chart 2 indicates (surprisingly) that by July 2008 the proportion of TLRS work plan tasks rated as dependent (ie. requiring an advisor to perform an operational role) had actually risen slightly from 5% in August 2005 to 7% in July 2008. This adverse result may be linked to the much criticized propensity of the former ETRS Director to move staff frequently and without consultation, so that newly trained officers were frequently moved to positions where they had to be trained again for a different role.

A more positive result was that supported tasks (for which TLRS staff require strong advisor support) had fallen from 29% in 2005 to 22% in 2008, guided tasks (national staff can complete the task with some coaching) had fallen from 42% to 35% and independent tasks (requiring no advisor input) had risen from 29% to 38%. Self assessment by Revenue Office staff about areas in which they continue to need assistance from advisors after MPFCBP ends (as expressed at the MPFCBP Completion Workshop and summarized in Annex H of this ICR) include SIGTAS, domestic and Petroleum Tax Department law and application of the law.

By contrast, culture in the Procurement Office has apparently not changed significantly (although a marked change did appear to occur in the Transition Budget Coordination Unit). Capacity building was not a formal objective of the procurement component of the project and the major deliverables were speeding up of budget execution in response to sharply increased appropriations (apparently at the request of the Minister) and development of the new decentralised procurement strategy. Reflecting this, mentoring has been very limited, a result which has been reinforced by language difficulties.

Annex F: Assessment of Capacity Building by Counterparts

This Annex records the views of MoF staff about areas in which further assistance is or is not required at the close of the MPFCBP. The views were expressed by national staff attending the MPFCBP Completion Workshop on September 17 2008, and are extracted from the MPFCBP Completion Workshop Report, p. 7.[59]

Planning and Budget

(There were no planning staff present at this session)

No further assistance required?

- Management and leadership
- Administration issues
- Recurrent operational budget
- Presentation – COM, BRC, COM, MoF
- Design budget process
- Design budget template
- Linking databases
- Work ethic and discipline
- Recruitment and management
- Teamwork

Further assistance required?

- Budget analysis (combined sources, macroeconomic)
- Petroleum and linking with strategic plan
- Unit costing methodology
- Numeracy skills (advanced)
- Portuguese, English language training
- Excel / database and performance budget
- Performance Budget System
- Budget monitoring
- Reviewing and analysis AAPs vs QRMs
- New budget manual
- Citizens guide
- Socialisation of budget
- Professional development plan
- Improvement of quality control

[59] The MPFCBP Completion Workshop report forms part of the draft Activity Completion Report prepared by SKM.

• Exposure to other cultures (professional development)

• Job description and performance management

Budget Execution

No further assistance required?

• Operational procurement work, particularly at lower values

• Quotations for low value purchases

Further assistance required?

• Full range of PFM processes – setting up Procurement Units; linking to corporate services; linking to planning, budget, budget execution; access to FreeBalance; training in systems/processes; project management

• Management skills

• Significant assistance required for Line Ministries, commencing from CPV entry to FreeBalance

• MoF role will be to protect the integrity of the PFM system, standard setting/audit function

• Better internal and external communication

• MoF better understanding its new role

• Client servicing; client relationships

• Awareness building of good governance

• Code of Conduct in the Civil Service and piloting civil service initiatives

• Reward and incentive structure

• Professional codes

Revenue

No further assistance required?

• SIGTAS – funding is no longer required because Ministry is providing funds

Further assistance required?

• SIGTAS

• Domestic and Petroleum Tax Division law

• Application of the law

• Numeracy

• English skills

• Accounting knowledge

• Management and leadership

• Compliance with civil service code

Management Support

No further assistance required?

• Job analysis – research and documentation finished

Further assistance required?

• Numeracy skills

• English – structured and for special purposes

• Office and record keeping skills

• Language training for advisors

• Quality assurance

• Quality assurance (QA) and Quality Control (QC) – documentation / template

• HR systems

• Daily planning

• Organic Law and organizational structure

• Ownership of capacity development should be the responsibility of Directors and managers

• All staff should take some responsibility for their own professional development

Annex G: List of Persons Met

GOVERNMENT	
Emilia Pires,	Minister for Finance
Madalena Boavida	Former Minister of Finance
Aicha Bassarewan	Former Deputy Minister of Finance
Vasco Govindo	Advisor
Antonio Freitas	National Director of Budget
Aguthinho Castro et al	Budget Office staff
Francisco Soares	National Director of Procurement
Procurement Office staff	
Maria Amaral	Acting Tax Commissioner
TLRS Office staff	
Eusebio Jeronimo	Former Director of NDPEAC
Gregorio da Silva	Former Director of Procurement
PFMCBP	
Doug Porter	World Bank
Paul Keogh	World Bank
Mike Francino	Senior Management Advisor PFMCBP
Nik Soni	Senior Management Advisor PFMCBP
Ramon Oliveros	PFM PIU
Greg Gibbons	PFM PIU
Sylvia Bitter	PFM PIU

MPFCBP	
Steve Gurr	MPFCBP TCMA
Brad Bowman	Former MPFCBP TCMA
Peter Wild	Budget Advisor
Jenny Asman	Budget Advisor
Bob Brammer	Procurement Advisor
John Peachey	Procurement Advisor
Kerry	Procurement Advisor
Stretton Jones	Tax Advisor
Terry Greenwood	Tax Advisor
Ian Sutherland	SKM
Angus Barnes	SKM
AusAID	
James Gilling	ADG Indonesia and East Timor Branch
Andrew Lang	Director East Timor Program Canberra
Robin Scott-Charlton	Counsellor Dili
Donna-Jean Nicholson	First Secretary Dili
James Donald accompanied the team as observer	AusAID East Timor Section Canberra