

TIMOR LESTE
Ministry of Planning & Finance

Capacity Building Strategy

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Acronyms and Abbreviations

ADB	Asian Development Bank
AFO	Agency Financial Officer
ASYCUDA	Automated System Custom Data
BPA	Banking and Payments Authority
CAS	Central Administrative Services
CDCU	Capacity Development Coordination Unit
CFU	Central Fiscal Authority
CFET	Consolidated Fund for East Timor
CISPE	Civil Service and Public Employment
CPV	Commitment and Payment Voucher
DG	Director General
DLC	Distance Learning Center
DSRSG	Deputy Special Representative of the Secretary General
ET	East Timor
ETCS	East Timor Customs Service
ETRS	East Timor Revenue Service
HRD	Human Resource Development
HRIS	Human Resource Information System
HRM	Human Resource Management
IMF	International Monetary Fund
IT	Information Technology
LTU	Language Training Unit
MoPF	Ministry of Planning and Finance
NDP	National Development Plan
OGPSIM	Office of Government Procurement, Supply, and Inventory Management
PEAC	Planning and External Assistance Coordination Division
SITGAS	Standardized Integrated Government Tax Administration System
SRSR	Special Representative of the Secretary General
TA	Technical Assistance
TFET	Trust Fund for East Timor
TOR	Terms of Reference
TSP	Transition Support Program
UN	United Nations
UNDP	United Nations Development Programme
UNTAET	United Nations Transitional Administration in East Timor
WB	World Bank

Ministry of Planning & Finance

Capacity Building Strategy

Executive Summary

I. Introduction

This Capacity Building Strategy sets out directions and strategies for building managerial, technical and administrative skills within the Ministry of Planning & Finance in East Timor. The purpose of the document is to guide policies and action within MoPF over the next 3-5 years aimed at ensuring that East Timor develops a transparent and effective public financial management system.

II. Assessment of progress

To date, MoPF has relied heavily on international experts to carry out core responsibilities in financial management. However, there have been a number of valuable **achievements**:

- there is now in place a relatively simple, but accountable and transparent, financial management system. Significant computerization of budget functions has been achieved.
- Many local staff are well-motivated towards improving their knowledge and skills.
- Some local staff have already been appointed to positions of responsibility: e.g. in expenditure planning, supply and procurement, budget negotiation, customs and tax operations, statistical survey, IT operation and support, and line ministry accounting.
- Various skills have begun to be acquired through initial training activities.

At the same time, the Ministry exhibits a number of **weaknesses** that indicate the size of the capacity building task:

- very high dependence on international staff and advisers in management and technical roles, in many cases with no obvious counterpart arrangements or prospects,
- language and communication barriers between staff and, in some cases, with external agencies and stakeholders,
- a lack of clarity in the functions and responsibilities of some divisions,

- overly ambitious targets and expectations for the achievement of many divisions, with a comparable and unnecessary expansion of the capacity building task,
- extreme demands on a small number of capable local officials, often resulting in long and unhelpful absences amongst key decision makers,
- lack of continuity and consistency in donor assistance,
- very weak budget execution capabilities in most line agencies.

Now that basic operational capability and stability have been achieved within the financial management system, there is an urgent need to put in place measures which will help to build a capacity for effective self-management over the next 10 years.

III. Key Themes:

The capacity building task should be informed by several key themes:

1. *Clarity and stability in organizational structure and functions.*
2. *Concerted efforts to appoint, develop, and promote East Timorese staff*
3. *Greater realism (i.e. moderation) in institutional objectives and donor expectations of standards and technical sophistication.*
4. *A more effective role and contribution from technical assistance*
5. *Flexibility in the use and development of language.*

IV. Strategies for Capacity Building

The *Capacity Building Strategy* shall apply these *themes* across four major areas of institutional development within MoPF:

1. Organizational Structure and Functions

Structural Issues in MoPF:

- a. Appointment of a permanent (non-political) manager for the Ministry
- b. Appointment of local counterparts in managerial and technical roles
- c. Inclusion of macroeconomic and tax policy functions in the Budget Division

- d. Clarification / promulgation of recent institutional reforms in OGPSIM
- e. Rationalization of Planning & External Assistance Coordination Division functions
- f. Clarification of the role and location of Internal Audit - within the Treasury
- g. Establishment of a professional human resources management function.

2. Building Skills

There is a substantial task facing MoPF to build skills and competencies across most facets of the organization. The *Capacity Building Strategy* identifies a range of training and development needs across three main areas: administration, management and technical fields.

For each area, the *Strategy* identifies required skills and competencies and possible sources of training. Successful implementation of this training and development will require a much more structured approach to the identification of individuals to receive training, an overall coordinator within the MoPF, individual training programs, greater counterpart involvement and much increased utilization of senior local staff in training and mentoring roles.

3. Human Resource Development

A fully functioning Human Resource Management Unit is essential to implementation of the capacity building program. This unit will be responsible for:

- job descriptions,
- individual training and development plans,
- performance assessments,
- new policies and strategies for recruitment and promotion, and
- management of a simple HRM database.

4. Setting Achievable Standards

The initial heavy reliance on international staff within MoPF has been responsible in large part for setting comparatively high standards in some areas of financial management. The continuing demand for technical assistance has already “raised the bar” across many budget operations.

There is a clear need to consider the long term requirements of East Timor and to align standards, systems and activities to expected and achievable levels, taking into account future capabilities and resources. A systematic review of processes and outputs within MoPF is

required to identify the appropriate standards while taking account of the level of the capacity building task which their complexity and sophistication imply. The higher the bar is raised in standards of financial management, the longer, more costly and more difficult the localization process.

5. Technical Assistance in the Capacity Building Strategy

While MoPF will need considerable external assistance over the next several years, it risks being overwhelmed by the task of identifying and managing appropriate inputs. A clear strategic approach is required which focuses on:

- ***Donor Responsibility:*** Donors need to share responsibility with the Government for particular areas of operation to give added focus and continuity to capacity building,
- ***Programs and Not People:*** Donor programs are more successful where they bring well defined objectives and deliverables and a performance evaluation process,
- ***Consistency of Training and Delivery:*** Skills and processes delivered in training must be complement and support the systems and procedures used in implementation
- ***Language:*** Donors must be willing to have a flexible approach and to provide extensive interpretation and translation services, where required,
- ***Evaluating TA personnel:*** A formal evaluation process is required involving a shared responsibility between donors and the Government; a recent UN initiative in this area is a promising start,
- ***Role of the 100/200 positions:*** There must be a practical and realistic approach in assigning tasks to these individuals; even 100 (stability) posts need to provide training and 200 (development) posts may need to maintain some line responsibilities,
- ***Donor Commitment Timetable:*** There should be a gradual, but measurable, increase in localized management role by mid-2004; some technical roles in the ministry will require advisors and training programs for at least a further 5-10 years,
- ***Specific Donor Roles:*** Some specific responsibilities can already be assigned to individual donors; there is room for some changes to current responsibilities to ensure greater donor ownership.

ACTION PLAN

Required Action	Responsibility
<i>SET UP Task: Review the required actions and transform them into a work plan for implementation.</i>	Vice-Minister
1. <i>Discuss and confirm the goal set for the development of MoPF.</i>	Senior management
2. <i>Identify specific targets for the percentage of localization to be achieved within MoPF by (a) mid-2004 and (b) 2010. These targets could be differentiated for Levels 4-5 from Levels 6-7 to reflect importance of retaining adequately skilled expatriates in some senior posts as trainers.</i>	Minister and Vice-Minister on advice from Directors
3. <i>Discuss and understand the recommended “ themes” for capacity building. Identify areas and ways in which these themes may be applied in a practical sense to the management and operation of divisions. Present to the Minister specific strategies for showing how/where these will be applied.</i>	Divisional Managers of MoPF
4. <i>Assess and report progress on the implementation of these strategies within each division after a period of no more than six months.</i>	Divisional managers to Minister / Vice Minister
5. <i>Complete the draft organic law for MoPF and submit to Government and legislature for approval.</i>	Minister / Vice Minister
6. <i>Distribute approved organic law; require detailed functions, organization and job descriptions.</i>	Vice Minister
7. <i>Implement remaining organizational arrangements and structural modifications described in this Strategy and pursue a policy of stability and simplicity with regard to future changes.</i>	Vice Minister (or DG once appointed)
8. <i>Design and implement tailored localization strategies within each division, incorporating appropriate goals, training needs assessments and recruitment actions.</i>	Divisional managers
9. <i>Appoint a chief executive officer (“Director General”) to assume primary responsibility for operational – including especially institutional development – matters.</i>	Minister

10. <i>Coordinate preparation of comprehensive training and development programs for each local staff member, drawing on the skill areas and competencies identified in this Strategy.</i>	Divisional directors
11. <i>Prepare a consolidated training program for the Ministry, identifying sources, timing and content of training activities.</i>	Director of Administration, (new Head of HRM Unit)
12. <i>Approve the establishment and resourcing of a professional human resources management function within the Administration Division.</i>	Minister
13. <i>Seek donor assistance for technical support and professional development of the HRM Unit.</i>	Vice Minister
14. <i>Coordinate an assessment by directors of existing standards and practices with a view to identifying unnecessary and/or unsustainable activities as described in this report.</i>	Vice Minister
15. <i>Prepare a report on proposed enhancements to systems and procedures to be introduced in over next two years, detailing necessity and capacity building implications. Review for appropriateness and sustainability.</i>	1. Divisional directors 2. Vice Minister
16. <i>TSP Matrix to be reviewed in consultation with the donors to determine scope for rationalizing content and capacity building implications of financial management targets.</i>	Vice Minister / World Bank
17. <i>Prepare a draft set of proposals for involvement of local managers in training and mentoring activities. Set voluntary limits on the maximum amount of external travel time.</i>	East Timorese senior managers
18. <i>Discuss and prepare an assessment of capacity building requirements from donors, including a proposed plan for rationalizing assignment of TA to MoPF from the various donors.</i>	Planning & External Assistance Coord. Division
19. <i>Joint Government/donor initiative for the systematic evaluation of expatriate personnel, building on the current UN personnel review process.</i>	Minister / donor agencies

Capacity Building Strategy

1. Introduction

This document provides a capacity building strategy for the development of the Ministry of Planning & Finance (MoPF) of East Timor. Background information on the establishment of MoPF, and on the preparation of this document, is provided in Annex 1. This *Strategy* will be implemented in conjunction with the *MoPF Action Plan*.¹

The *Strategy* contains an assessment of the current strengths and weaknesses of the Ministry. Based on this assessment, it identifies the priorities for capacity building, including some key themes and strategic goals. It then develops a number of specific strategies and actions to be implemented in pursuit of these objectives.

The various themes and strategies contained in this document provide a *framework* for capacity building in MoPF. Individual divisions and sections within the Ministry will need to build on this framework in order to achieve the necessary improvements in local capacity. Similarly, donors will be encouraged to use the framework to review and discuss their proposed assistance strategies and projects with the Government to ensure consistency of purpose and coordination of action.

2. Assessment of Financial Management Capabilities

Responsibility for the public financial management systems, procedures and regulations of East Timor are vested in MoPF. However, all ministries and Government agencies participate in the financial management process, including budget preparation and execution. This assessment focuses on MoPF, but includes comments on aspects of the broader financial management process.

2.1 Achievements and Successes

Financial Operations

The first goal in January 2000 was to operationalize a system of public financial management for East Timor. Against that yardstick, there have been a number of notable achievements:

¹ Under preparation as at October 2002.

- Based on Regulation 2001/13 “On Budget and Financial Management,” the MoPF prepares and executes a fairly comprehensive budget for East Timor using widely accepted public expenditure management practices.²
- On the revenue side, the implementation of various laws, policies and procedures has been successfully initiated by the East Timor Revenue Service (ETRS) and the East Timor Customs Service (ETCS).³
- Several components of the financial management system are automated and/or are well on the way to further computerization:
 - the expenditure management and reporting system has been computerized for more than a year using *Freebalance*,
 - new tax administration software, *SIGTAS*, has recently become operational
 - payroll administration is based on *CHRIS* software, and
 - *ASYCUDA* has been purchased for customs administrations and should be operational by end of 2003.

Additional Functions

With the establishment of MoPF in May 2002 from the CFA, several additional divisions and responsibilities were added:

- Economic planning and donor-financing activities were integrated with fiscal operations through the creation of the Planning and External Assistance Coordination Division,
- Responsibility for the collection and publication of major statistical series was transferred to MOPF in the form of the office of Statistics,
- Procurement and supply activities became an additional competency of the ministry under the Office of Government Procurement, Supply, and Inventory Management (OGPSIM). Procurement laws, regulations and manuals are operational.

² Although there has not been a formal evaluation against standards such as the IMF’s Fiscal Transparency Code, the government of East Timor would probably receive a fairly positive assessment.

³ An IMF mission in early 2002 described the general structure of the tax system as remarkably good given its stage of development. That mission also praised the ETRS as well designed and the ETCS as well managed.

Local Responsibility

East Timorese civil service staff have been appointed to positions of responsibility in a number of managerial and technical areas in MoPF:

- Management and operation of the procurement and supply functions for budget expenditures are substantially localized due, in part, to long term (pre-independence) experience in these activities.⁴
- ET staff participate in most budget negotiations with spending agencies, using knowledge and skills gained from training in the Budget Division's "Budget School".
- The Customs Service and Revenue Services rely on large numbers of partially trained local staff for collection functions.
- Managerial responsibilities and most basic data collection, analysis and publication functions are performed by local staff in the Statistics Office.
- IT support functions, in particular the tax software (SIGTAS), involve significant responsibility and participation by local staff.
- Local staff in most line ministries are now responsible for budget preparation and execution, including program-based budgets, budget constraints and financial management regulations. Several agencies have read-only on line access to the expenditure management software for budget monitoring purposes.
- Many local staff are able to articulate well their needs, and some of the critical obstacles they face, for further capacity building.⁵

Provision of Training

Training of East Timorese staff has been provided across a range of functions and has taken many forms:

- Introductory and computer training by the Civil Service Academy (CSA),

⁴ Does not include procurement of TFET expenditures under World Bank management and TA support.

⁵ Preparation of this *Strategy* did not extend down to the level of capacity assessments of individual ET staff, though several divisions of MoPF – e.g. ETRS, Administration and Budget - have already instigated individual training and development programs.

- Financial management training for Budget Division staff and line agency financial officers (AFOs)
- Classroom training for tax and customs officers,
- One-on-one training throughout various divisions when resources allow,
- English language training in East Timor and overseas,
- Financial management training overseas,
- Tours of agencies in other countries (e.g. procurement and supply in Northern Territory);
- IT training in Canada for SIGTAS programmer.

2.2 Problems and Challenges

Despite these achievements, MoPF faces a challenging task to develop local capabilities to the point where they could assume full responsibility for management and operation of Ministry functions. There are several factors underpinning these huge and continuing gaps in local capacity:

Low educational qualifications standards amongst employee intake

Academic achievement, especially the development of strong numeracy, accounting and managerial skills, was not encouraged for East Timorese under the former Indonesia rule. Consequently, there is a very limited pool of secondary school leavers and tertiary education graduates with appropriate skills from which to select and train financial management staff. This situation is expected to improve over the next 10 years, but only slowly. In the meantime, the Ministry itself will need to conduct training in many of the core skills of public administration and economic and financial management.

Shortcomings in technical assistance

Not all of the technical assistance provided during the last two years has been of high quality in terms of either technical expertise or training capacity and orientation. Some international staff have failed to encourage the development of local expertise and responsibility even amongst able, or potentially able, local staff. Lack of continuity and inconsistencies in procedures and training approach amongst donors and international staff has also unnecessarily complicated the learning process.

Inexperience and overload amongst local managers

Lack of managerial opportunities and experience amongst East Timorese under the former regime has been exposed by the new demands. Good local managers are few, often over-taxed in their workloads and expectations and frequently absent from their office on official duties. This disrupts the decision making process. Much of this latter problem results from the demands placed by donors and others on local officials. There has so far been very little opportunity for the better local managers to help identify, encourage and mentor younger and less experienced staff.

Over-ambitious objectives and standards

The extensive presence of international staff has meant that some sections of MoPF have accepted quite onerous workloads and technically complex responsibilities. In some cases, these responsibilities – and the managerial and technical practices which have accompanied them – have been set at high levels relative to the current stage of development in East Timor and well beyond what is locally sustainable even in the medium term (10 years or more). Moreover, there remains a strong bias within some sections of the ministry – and amongst many new international staff and external partners – to continue “raising the bar” in terms of expected standards and practices without adequate regard for capacity or resourcing (i.e. sustainability) issues.

Language barriers

Communication has at times been a significant problem within the Ministry, and between MoPF and line agencies, due to the use of multiple languages. Documentation issued by the Ministry relating to budget preparation and implementation is not always understood properly at the spending agency level. International experts are often unable to communicate effectively with local staff, reinforcing the (often incorrect) perception that local staff cannot perform the task or that it is quicker/easier for the international to do it. The impact of training may also be greatly limited by language factors and the language of software can exclude significant numbers of local staff from either using or understanding the technology.

Structural uncertainty

In some divisions, there remains a lack of clarity concerning, structure, functions and individual responsibilities. This has hindered the development of expertise and the assignment of responsibilities amongst local staff.

2.3 Conclusions

While many of the problems outlined above are critical, they are not the result of mismanagement. Rather, they reflect several factors, many of which are related to the unique circumstances in which the financial management system of East Timor has evolved.

Enormous progress has been made and none of the above problems is insoluble. However, the focus must now switch from putting in place essential systems and practices to *building local capacity for the sustainable operation and management of a competent and effective public finance system*.

3. Strategic Goals and Key Themes for the Development of MoPF

Commendable progress has been made in developing a financial management system for the Government of East Timor. This *Capacity Building Strategy* provides the MoPF with broad guidelines, as well as specific goals and strategies, for the next stage of development.

3.1 Capacity Building Goals and Timing

The following goals provide a broad framework for the strategic development of MoPF:

Capacity Building Strategy: Proposed Goals

1. A clear and efficient budget process in which ministers, parliamentarians, officials and the broader public can understand, respect and implement the budget appropriation decisions of the Government.
2. The design and implementation of revenue policies and practices which maximise the amount of revenue which can be collected fairly, efficiently and legally, under the prevailing legislation.
3. A high level of transparency and accountability in public financial management activities which ensures that the system remains open to public scrutiny and is free of waste or corruption.
4. A lean, efficient and stable organizational structure for MoPF which effectively supports the range of financial management functions defined within the legislation
5. Eventual full localisation of in-line positions within MoPF, with international experts filling a limited number of technical, advisory or training (i.e. developmental / capacity building) roles.
6. The development of an organizational culture within MoPF that motivates and rewards staff, as well as encouraging and requiring professionalism, integrity and impartiality amongst staff at all levels.
7. A capability within MoPF for assisting line ministries and other spending agencies to achieve complementary standards of efficiency and professionalism in their financial management functions.
8. Constant recognition of the resource and capacity constraints confronting the Government and MoPF such that financial systems and procedures are always appropriate to local needs and conditions.

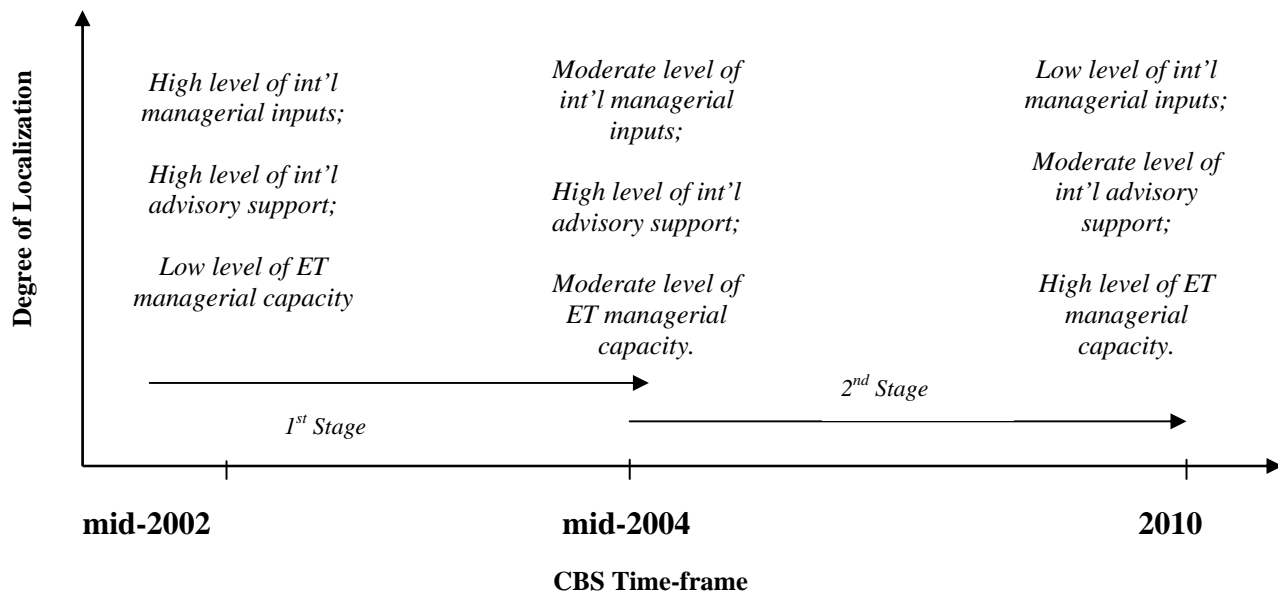
Full achievement of some of these goals may take many years. Even then, the Government recognises that the development of an effective financial management system is an on-going process. It involves constant improvements in efficiency, effectiveness and accountability.

This will necessitate progressive assessment and assimilation of new skills, procedures and practices that may be developed locally, or imported from other jurisdictions or financial systems over many years. In other words, capacity building is itself an on-going task.

This *Capacity Building Strategy* therefore sets, as a key objective, the successful localization of *existing* functions and responsibilities in MOPF over the period to 2010. This combination of objective and time-frame helps to limit and define the task. However, it does not rule out the need for improvements or enhancements to the financial management system during this period, or beyond. Such improvements will, however, almost certainly expand the capacity building task – in terms of both the time and resources required.

The following diagram indicates that the next eight years should be considered in two stages: an immediate period from mid-2002 to the scheduled end of direct UN administrative support in mid-2004, followed by a further period of 5-6 years of development and consolidation of local capacities. Both periods will entail drawing heavily on various forms of bilateral and multilateral assistance.

Figure 1: Time-frame for this Capacity Building Strategy (CBS)



Required Actions

Action 1. Senior managers to discuss and confirm the goal set for the development of MoPF.

Action 2. Minister and senior managers to identify specific targets for the percentage of localization to be achieved within MoPF by (a) mid-2004 and (b) 2010 as a framework for capacity building objectives and activities. These targets could be differentiated for Levels 4-5 from Levels 6-7 to reflect the importance of retaining adequately skilled expatriates in some senior posts as trainers of middle level staff.

3.2 Key Themes

The assessment process for this *Strategy* identified several “themes”, or principles, which are critical to the success of capacity building activities in MoPF. These themes should guide decision making on all issues involving structure, operations and staff development.

Theme 1: Clarity and Stability in Organizational Structure and Functions

The MoPF has developed comparatively rapidly out of the former CFA. Moreover, the functions and operations of the new ministry differ significantly from the financial management approach and requirements of the former Indonesian System. This relatively rapid transition has generated two main concerns regarding future organizational change:

- i. A need for greater *clarity* in the description of functions and responsibilities. This applies more in some divisions – e.g. OGPSIM - than in others, where some functions and responsibilities have developed in an ad hoc manner and/or without adequate explanation. Some positions and functions have been maintained despite organizational changes that have clearly made these redundant and/or wrongly located.

The Organic Law for MoPF will help to improve this situation and should be followed by a process of defining and clarifying roles and responsibilities needs to be continued down to the level of individual positions.

- ii. A need for relative *stability* in organizations and procedures. The tendency to make frequent structural changes in the organization, often for non-essential purposes, must be resisted. Individuals should be allowed sufficient time in their positions to achieve competence and confidence in their roles and responsibilities.

Theme 2: Concerted Efforts to Appoint, Develop, and Promote East Timorese Staff

During the period of UN administration, much emphasis has been placed on establishing new financial procedures and systems that will enable East Timor maintain an efficient budget process. This establishment phase has required a high level of expatriate involvement, often in key managerial positions, such as the Director of the CFA and the Director of Treasury positions. The “100” posts identified and funded by the UN have a specific objective of continuing “stability” of governance during the transition to full self-government.

The priority throughout the period covered by this *Strategy* is to accelerate the transition to local management and operation of MoPF through a much more intensive focus on capacity building. This requires a concerted effort by both East Timorese and international officials to:

- identify and recruit East Timorese for almost all in-line positions, based on merit. (For the next 2-5 years, this will involve identifying individuals who are capable of

supporting and learning from the advisers retained in those positions. It is unlikely that many of these appointees will be capable of performing the job without assistance and/or close supervision. However, unless they are in place, current experience demonstrates clearly that no effective transfer of skills and knowledge can take place.)

- ensure that all international appointments, including the “100” positions, involve a specific strategy for achieving full localisation of those positions by May 2004, or can show measurable progress towards that objective for more technical functions,
- require all international staff to recognise that training and support of East Timorese staff is now a primary focus of their role, equivalent to or even greater than the “stability” objective,
- encourage and promote local staff to accept increased responsibilities and to develop the skills and aptitudes necessary for higher levels of responsibility and/or technical complexity, and
- support and encourage the promotion of local staff solely on merit.

Theme 3: Moderating System Complexity and Donor Expectations

East Timor is a new developing country with substantial limitations on capacity and resources. There is no substantial pool of well-educated people from which to build a new bureaucracy – a feature that has influenced and assisted the transition process in many centrally-planned economies over recent years. Consequently, the rapid transition to self-government has necessitated an extensive reliance on international staff.

As a consequence of this establishment phase, the financial management system of East Timor already exhibits many relatively sophisticated standards and practices. Donors have contributed to this by requiring high standards of financial transparency and reporting as conditions of their assistance. This has not been unreasonable in most cases, but the cumulative effect of these demands has been overlooked. It is likely that many of these practices will increase in sophistication and, therefore, in the demands they make on local managerial and technical competencies. The key task of managers will be to identify which standards and practices are essential for achieving or maintaining an *adequate* level of transparency versus those which involve something approaching best practice but require an unrealistically high degree of technical expertise. Those judgements have not been made successfully to date.

A key implication of this process is that the current large “skills gap” to be addressed by capacity building will be difficult to close as the “bar” – i.e. the standards and complexity of the financial management system – is further raised. Development of the financial management system should be focused on achieving the goals of efficiency and transparency

described in Section III.1 above. However, it must also take explicit account of the present stage of economic development, local capabilities and longer-term sustainability.

It is of course appropriate that the MoPF should lead the development of the financial management system. However, the effectiveness of that system will depend critically on capacities within the executing line agencies. The current huge disjuncture between MoPF standards and practices and the reality of budget execution effectiveness must be addressed urgently.

Considerable thought must therefore be given to the following:

- which of the many financial management standards, procedures and practices introduced during the last two years may be more technically sophisticated, or resource intensive, than is required at this stage of East Timor's economic development?
- to what extent may future technical assistance, especially that obtained from countries with highly-developed financial systems, demand even higher levels of expertise for sustainability in terms of the knowledge, skills and capacity of local staff?
- to what extent may further systemic improvements absorb scarce professional resources within MoPF, thereby reducing the quantity and quality of efforts that can be directed to capacity building objectives at the center and in line agencies?

These considerations do not imply that East Timor has been provided with an unnecessarily sophisticated financial management system, nor should they necessarily imply a lowering of standards in financial management. Transparency and accountability will remain as cornerstones of good governance in financial matters. Some future technical and managerial enhancements arising from international best practice may be very desirable.

However, it is clear that some existing budget-related practices not only require significant technical assistance expertise and resources, but reflect modern managerial innovations that are out of step with the many, simple, practical difficulties line agencies now face simply in implementing basic expenditure activities. Moreover, increased sophistication seems also to have been achieved at the expense (time-wise at least) of correcting some basic procedural failings and bottlenecks. Both the Government and donors need to set appropriate limits to complexity and sophistication. These limits will, of course, be adjusted from time-to-time as local capacities increase.

This issue of what are the appropriate practices and technologies in financial management must also be kept under careful review considering the implications it has for *further extending the capacity building task*. Sustainability considerations are vital and both local and international staff shall adopt a firm and more effective “*keep it simple*” philosophy. Donors too must play a more considered role in keeping their expectations of what are *necessary*, versus what are *possible*, improvements in the financial management system.

Theme 4: The Role and Contribution of Technical Assistance

Capacity building for financial management within MoPF is first and foremost the responsibility of management. However, it is clear that line agencies also require considerable support in developing their financial management capacities. This will continue to require substantial levels of technical assistance from donor countries and organizations throughout the period of this *Strategy*. However, in addition to the important changes of emphasis outlined above – i.e. stability of structures, increased localisation, and more appropriate systems, technologies and expectations – the provision of technical assistance should also exhibit:

- greater “*shared ownership*” – i.e. a commitment between individual donors and the Government - for the success of specific components of the capacity building task,
- where appropriate, more use of international “*twinning*” arrangements at the institutional level,
- much increased emphasis on “*counterpart*” relationships for individual international staff – both in-line (100) posts and advisers,
- more systematic, coordinated and targeted *training* activities, taking into the time/resourcing implications for local staff, and
- better understanding of the cultural, organizational and managerial factors that can *motivate* and encourage counterpart staff.

Theme 5: Flexibility in Language Issues

Language issues are an important consideration in developing a capacity building strategy for the financial management systems, as well as for other areas of public administration. This *Strategy* adopts the Government’s pragmatic view of these issues. It recognises the following:

- the official languages of East Timor are Portuguese and Tetun. Legislation, including financial management policies and instructions, must be available in Portuguese,
- the day-to-day language of the MoPF local staff is mostly Bahasa Indonesian and, to a lesser extent at the moment, Tetun language,
- different departments of MoPF have different language demands depending on (a) the particular sections of the domestic and international communities with whom they

interface most, and (b) the source, and therefore language, of the international staff working in their area. The latter influence may not be constant over time,

- there are already varying pressures on staff to acquire new language skills depending on their interests, responsibilities and the most available sources for training opportunities,
- in general, the opportunities for East Timorese training in financial management disciplines are significantly greater in (and from) English-speaking countries,
- the majority of staff will require several years at least to obtain an adequate working knowledge (written and spoken) of either Portuguese or English.

For capacity building purposes, the development of language skills in both Portuguese and English languages should be encouraged where these help the staff to perform their duties. Training activities should take account of the fact that the most effective communication will occur where information and materials are made available in at least two – and sometimes three – of the above languages. The additional complexities and costs of meeting this requirement will need to be assessed on a case-by-case basis.

Required Actions

Action 3. *Divisional managers of MoPF shall discuss and understand the above themes. They shall identify areas and ways in which these themes may be applied in a practical sense to the management and operation of their divisions. They shall present to the Minister their specific strategies for showing how/where these themes will be applied.*

Action 4. *The Minister shall delegate to the Vice-Minister (or other senior manager as appropriate) a responsibility to assess and report progress on the implementation of these strategies within each division after a period of no more than six months.*

4. Strategies for Capacity Building

4.1 The Organizational Structure

Capacity building in MoPF will be greatly assisted by achieving clarity and stability in the organizational structure of the ministry.

Organic Law

Ministries, including MoPF, have been required to draft an “organic law” specifying their functions and responsibilities. The form of an organic law can vary substantially depending on individual country circumstances. However, there are some basic principles and actions to be followed:

- i. define the functions and competencies of the Ministry in a straightforward manner, recognizing that some future changes to responsibilities within the ministry are inevitable, and define a simple method to allow these changes without the need for revised legislation,⁶
- ii. draft the Organic Law to describe the responsibilities of the MoPF in general terms,⁷
- iii. complete the MoPF organizational diagram (Annex 1) and attach to the organic law as illustrative of the current structure; circulate to all divisions,
- iv. require each division to submit detailed descriptions of its responsibilities along with its organigram and individual job descriptions. Reference should be made to relevant laws, where applicable.⁸

Organizational Arrangements

The following organizational arrangements and structural modifications shall be implemented as part of this *Capacity Building Strategy*:

- i. Appointment of a non-political “permanent head” of the ministry – i.e. a Director General (DG), or Chief Executive Officer (CEO). This position effectively separates responsibility for day-to-day operations of the ministry from the critical policy and decision making issues which must be referred to the political level (minister and vice-minister). The authority to appoint a DG already exists in the legislation.
- ii. A Director of Budget should be appointed, thereby reinforcing the distinction between the political decision making functions (of the Vice-minister) and the managerial/technical functions of budget preparation and monitoring.

⁶ For example, a separate and independent Office of Statistics may be desirable in the future.

⁷ Regulation 2000/1 which established the CFA, provides a useful starting point.

⁸ The roles of the ETRS and ETCS are explained in detail in their respective regulations. Similarly there are regulations that largely define the responsibilities for OGPSIM, Budget and Treasury.

- iii. The macroeconomic analysis and tax policy functions should remain small and be incorporated in the Budget Division.⁹
- iv. Uncertainty over the structure and responsibilities of OGPSIM should be resolved by merging of procurement and supply functions. Recent decisions on changing the organizational structure and responsibilities relating to transportation should be implemented in practice (or otherwise rescinded altogether).
- v. The Administration Division should establish a human resource unit and an external consultant should be contracted to set up the work of this unit (see Section 4.4. below).
- vi. The Planning and External Assistance Coordination is under resourced for its currently proposed functions. Either the extensive combination of planning and coordination activities should be reviewed and rationalised, or further staff should be appointed to support effectiveness.
- vii. Future planning for the Office of Statistics should be on the basis that it will eventually develop into an independent organization. Given the current resource constraints, however, it will remain within MoPF and concentrate on key economic and demographic statistics. It shall provide a coordinating, collation and publication role for data series collected by other divisions and ministries.
- viii. The Internal Audit Unit will remain within the Treasury and focus on financial compliance issues.¹⁰

⁹ The arguments for this adjustment include: i) simplicity: there are only two staff currently allocated to these areas; ii) complementarity: the budget division is responsible for compiling most of the budget documents, which inevitably contain sections on these two topics, and iii) technical content: at least over the near term, IMF or other international advisers will continue provide much of the technical work and should be integrated with other local budget office staff for coordination and training purposes.

¹⁰ This is consistent with the original recommendations of the IMF report on CFA structure, January 2000. Internal audit is a management tool, not an oversight function. Internal audit within a finance ministry performs primarily a checking role and is vested with the responsibility to ensure compliance with the financial management regulations. They should report on possible irregularities or compliance issues to the Head of Treasury, as the individual that oversees the execution of those regulations. In order to address the concern that the Minister wants to be informed of all financial audit issues, the Minister has the right to ask the Head of Treasury to forward all reports. In order to make it clear that its role is to check financial compliance for the Treasury and not perform the external audit role, the name of the unit should be changed to the Financial Compliance Unit.

Localization Strategies

Within the MoPF, each division shall implement a localization strategy by *identifying specific local staff to assume, or to be trained to assume, each management and technical position – i.e. level 5 and above*. Each of these staff will be assigned a training and development program to ensure they will be able to fulfil these functions in the medium-term. The implementation period for this strategy will vary by division and skill gaps, but it needs to be done in the context of a documented strategy with target dates. Localization strategies will be linked, where necessary, to specific recruitment policies and actions.

- The Administration Division, which tends to require less technical skill, should identify staff and/or counterparts to assume all positions by November 2003.
- The Budget Division shall identify a director (as above) as a matter of priority. There is a substantial task required for building skills amongst budget officers in data analysis and budget policy development, to be undertaken in conjunction with line ministry budget management staff.
- The Treasury, with no local counterparts identified at middle/senior management levels, needs to assign counterparts for all functions as a priority with a goal of end-2003 for all positions, with at least half of the counterparts assigned by early 2003. Intensive one-on-one training will be undertaken by all international staff.
- Both the Revenue and Customs Service will continue the implementation of their current training strategies, against a framework of specific localization targets.
- Training and development of IT staff within MoPF needs to be organized and implemented within the context of what is necessary, sustainable and cost effective for efficient operation of MoPF. An IT strategy document will be developed which meets these criteria and provides a framework for localization policies.

Required Actions

Action 5. *Complete the draft organic law for MoPF and submit to Government and legislature for approval.*

Action 6. *Distribute the approved organic law to each division and require detailed functions, organization and job descriptions.*

Action 7. *Implement remaining organizational arrangements and structural modifications described in this Strategy and pursue a policy of stability and simplicity with regard to future changes.*

Action 8. *Design and implement tailored localization strategies within each division, incorporating appropriate goals, training needs assessments and recruitment actions.*

Action 9. *Appoint a chief executive officer (“Director General”) to assume primary responsibility for operational – including especially institutional development – matters.*

4.2 Building Skills

Successful localisation of the financial management system in East Timor requires concerted policies and actions for closing the current “skills gap”. For many staff this involve starting with basic skills, making sure that they have basic numeracy, drafting and personal management skills before starting on more complex professional / academic / analytical training. For a small number of current staff, it will be possible, and desirable, to establish training programs which begin at a higher level.

Required Skills

The skills required by East Timorese staff for successful local management and operation of the financial management system extend across almost the full range of ministry operations and responsibilities. There are particular areas of weakness – for example in the more complex technical fields such as accounting and law as well – but there is also an acute shortage of core managerial skills.

In this *Strategy*, the building the skills required in MoPF is divided into three main areas:

<i>Administrative</i>	<i>Managerial</i>	<i>Technical</i>
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Tables 4A, 4B and 4C below detail the various skill components within these areas, the public service appointment levels at which they are needed, and the core subjects or areas of

competency within each. The tables also identify possible sources for the required development of these capacities.¹¹

Taken as a whole, these tables provide a framework for the capacity building task confronting MoPF over the next 5-10 years. Addressing these needs will, however, require the successful implementation of a number of parallel strategies:

- progressive identification of at least *one local staff person as a candidate for each in-line position* (as described above in Section 4.1), with ultimate appointments dependent on development merit,
- the location of responsibility within one position for *overall coordination of the Ministry's training requirements*, thereby ensuring that resources (local and international) are used efficiently and that donor training activities fit specifically into the capacity building strategy¹²,
- preparation of *individual training programs* for local staff – this is already being done in some cases, and
- assigning to the directors of each department – in consultation with the relevant international counterpart staff/advisers - responsibility for implementation of the individual training plans of local staff.

Table 4A. Administrative Competencies (Levels 2-4)

Areas of Competence	Specific Skills and Knowledge Required	Possible Sources / Methods of Delivery
Conditions of Employment	<i>Basic rules, procedures and expectations for ET public servants</i>	<i>CSA (2 week) Induction courses</i>
Information Management	<i>Distributing, filing and responding to documentation, faxes, emails, etc.</i>	<i>CSA courses Divisional in-house training</i>
Basic Computer Operation	<i>Keyboard skills, filing, word processing, data entry, email</i>	<i>CSA courses</i>

¹¹ The competencies listed are not exhaustive. Additional components will be added by MoPF staff based, in part, on the Ministry's detailed *Action Plan*. Careful prioritization of training needs will be required within each division, within the broad menu of needs identified here.

¹² The Head of Human Resources Management Unit will be assigned responsibility for overall relevance and coordination of training activities (see Section 4.3).

Communication	<i>Generic telephone/communication skills, standard layout/content for letter writing</i>	<i>CSA courses Ministry in-house training</i>
Document Presentation	<i>Standard report formats, tables, charts, agendas, and itineraries.</i>	<i>CSA courses Divisional in-house training</i>
Numeracy	<i>Basic arithmetic tools and procedures</i>	<i>Ministry in-house courses Local training institutions</i>

Table 4B. Managerial Competencies (Levels 5-7)

Areas of Competence	Specific Skills and Knowledge	Possible Sources / Methods of Delivery¹³
Communication	<i>Letter writing (structure, style and argument), report writing</i>	<i>Ministry in-house training</i>
Computing (for managers)	<i>Word processing, spreadsheets, email</i>	<i>CSA</i>
Language	<i>Portuguese, English (working knowledge targets)</i>	<i>CSA Language Training Unit Short int'l courses Scholarship training</i>
Personnel Management	<i>Recruitment, supervision, staff evaluation, motivation, conflict resolution, mentoring</i>	<i>Ministry in-house courses Short int'l mgmt courses</i>
Leadership	<i>Standards, ethics, teamwork methods, decision making, meetings, negotiation skills, briefing and presentation skills</i>	<i>Ministry in-house courses Short int'l mgmt courses</i>
Financial Rules and Procedures	<i>Budget laws, tax laws, customs laws, financial regulations</i>	<i>Ministry in-house courses</i>
Public Finance	<i>Fiscal policies, budgeting methods, government accounting principles</i>	<i>Ministry in-house courses Short int'l finance courses</i>

¹³ Several of these training activities may be effectively delivered through the World Bank's Distance Learning Center. The CSA may also be upgraded to deliver management training appropriate to these needs.

Policy Analysis	<i>Basic research methods, analytical techniques, consultative processes</i>	<i>Ministry in-house courses Short int'l economic course</i>
Policy Development & Strategic Planning	<i>Planning approaches, implementing strategies, institutional development</i>	<i>Ministry in-house courses Short int'l mgmt courses</i>

Table 4C. Technical Competences (Mainly Levels 4-6)

Areas of Competence	Specific Skills and Knowledge	Possible Sources / Methods of Delivery
Computing (specialised applications)	<i>SIGTAS, Freebalance, CHRIS, ASYCUDA, Access, Oracle</i>	<i>Donor sponsored courses for MoPF and line agency financial staff</i>
Computing (systems)	<i>Programming (above), help desk, network maintenance.</i>	<i>Special courses for MoPF</i>
Language – Interpretation and Translation	<i>Portuguese, English (fluency targets)</i>	<i>LTU, WB DLC Intensive int'l courses Scholarship training (e.g. NZ)</i>
Economics	<i>Macroeconomic analysis, fiscal policies & forecasting, trade/resource specializations</i>	<i>ET training institutions IMF Institute, WB DLC Scholarship training</i>
Accounting	<i>Basic bookkeeping, financial accounting, management accounting</i>	<i>Ministry workshops ET training institutions IMF Institute, WB DLC Scholarship training</i>
Statistics	<i>Data collection, analysis, interpretation and reporting (to int'l standards, methods)</i>	<i>Ministry workshops ET training institutions IMF Institute, WB DLC Scholarship training</i>
Donor Coordination	<i>Economic planning, donor policies and strategies, international agreements and conventions, aid reporting</i>	<i>On-job training Divisional workshops Donor agency study tours</i>
Bidding and Procurement	<i>Sourcing suppliers, bidding procedures, purchase contracts</i>	<i>On-job training Divisional workshops</i>
Policy Analysis	<i>Research methods, performance indicators, quantitative techniques,</i>	<i>Divisional workshops ET training institutions</i>

	<i>cost/benefit evaluation</i>	<i>WB DLC</i>
Human Resources Management	<i>TNA, job description methods, recruitment & promotion strategies, HRIS, personnel evaluation, IR legislation</i>	<i>Short int'l courses Scholarship training WB DLC</i>
Legal Specializations	<i>Constitutional issues, resource mgmt, penalties & sanctions, legal drafting</i>	<i>Topic workshops Scholarship training</i>

It should be emphasised that the above list of training needs is a menu from which individual and ministry wide training plans will need to be developed.

Required Actions

Action 10. *Divisional directors to coordinate preparation of comprehensive training and development programs for each local staff member, drawing on the skill areas and competencies identified in this Strategy.*

Action 11. *Administration Division to prepare a consolidated training program for the Ministry, identifying sources, timing and content of training activities.*

4.3 Human Resources Management

As at July 2002, MoPF had an approved establishment of 484 positions for FY2002/03. At that time, 404 of those positions were filled. A further 12 “Temporary” positions were also approved, of which 11 were filled.¹⁴ The number of positions required within MoPF are likely to increase as the appointments of international staff are phased down through to May 2004. The replacement of international staff will mostly require new appointments at more middle/senior levels of the bureaucracy (i.e. Level 5 positions and above). Filling these positions will require both recruitment and promotion policies. However, current ceilings on new appointments mean that the majority of posts may have to be filled on a promotion basis. Hence the importance of the training and development task under the “managerial candidates” strategy, described above.

¹⁴ Up-to-date data on the distribution of positions (approved and existing) across divisions is available from the Administration Division.

Implementation of this *Capacity Building Strategy* will be supported by the establishment and development of a professional human resources management (HRM) function, (Table 4D) involving:

- establishment of a small but effective HRM Unit within the Administration Division,
- preparation of individual job descriptions for all staff,
- development of individual performance assessment procedures,
- development of individual training and career development plans,
- development and implementation of the overall Training Plan for the Ministry
- improved policies and strategies for recruitment and promotion,¹⁵
- utilization of a simple but effective HRM database.

Some of these initiatives have already been adopted, to a limited degree, in some divisions. However, there is a need for broader, more consistent and a more quality-assured implementation. In line with the overall theme of “appropriateness”, these strategies should be designed and implemented on a sustainable basis – i.e. the technology and complexity involved should be developed apace with local capacities.

¹⁵ Consideration of civil service remuneration levels is outside the context of this *Strategy* document, but these policies will have a very important bearing on the motivation and retention of staff over time. Encouragement shall be given to exploring innovative approaches to the remuneration issue.

Table 4D. HRM Strategy – Main Components

HRD Strategy Component	Description of Task	Timing	Key Responsibility
Establish HR Unit	<i>Create a small unit – Head plus 2 support staff – within the Administration Division. Head of Unit will have overall responsibility for coordination and implementation of the CBS. Technical assistance from donor(s) would be helpful to define and implement core activities.</i>	<i>Establish Unit with appointees by Feb. 2003</i>	<i>Director of Administration</i>
Job Descriptions	<i>The HR Unit will develop a template for job descriptions. (This design may be influenced by the HRM database system.) Job descriptions will be drafted for each position, wherever possible by the director of the division in consultation with the incumbent and his/her immediate supervisor. The job description will detail functions, responsibilities, reporting channels and required skills and aptitudes.</i>	<i>All positions should have written and approved job descriptions by mid- 2003.</i>	<i>Directors of each division. HR Unit to collate and enter into HRM database.</i>
Staff Performance Assessment	<i>Once a job description is available, each staff member will have an annual performance assessment by their supervisor.(New appointees should be assessed after 3 months, or as otherwise provided for in civil service regulations.) Staff will have the right to comment on their assessment. Assessments will be placed on the HRM database.</i>	<i>To be introduced progressively through 2003.</i>	<i>Directors of each division to establish timetable for implementation. Director of Administration to ensure that assessments are conducted fairly and accurately.</i>
Staff Training and Development Plans	<i>Each staff member will have a training and development plan which records prior training accomplishments, a progression path and proposed training requirements. These plans will provide the basis for the identification of training courses and the selection of participants.</i>	<i>To be introduced progressively, once initial staff assessments have been completed.</i>	<i>Head of the HR Unit in consultation with division managers and staff.</i>

Policies and Strategies for Recruitment and Promotion	<p><i>The overall framework for recruitment and promotion of MoPF staff is set through civil service regulations. However, MoPF should investigate strategies and policies that are within existing rules, but address the special needs of the financial management system. For example, building up a cadre of capable and experienced financial officers may be assisted by certain rotation policies – e.g. placements in line ministries as AFOs.</i></p> <p><i>A policy will also be determined regarding where, and to what degree, donor technical assistance appointments will in future be targeted at, and designated as, “200” posts.</i></p>	<i>On-going process</i>	<i>Vice-minister, on advice coordinated by Director of Administration Division</i>
HRM Database	<p><i>Many of the above HRM functions and activities can be stored and managed from HR database software. The present CHRIS system should be capable of supporting some of the above strategies and will be developed in line with this objective.</i></p>	<i>On-going process</i>	<i>Head of HRM Unit</i>

Required Actions

Action 12. *Minister to approve the establishment and resourcing of a professional human resources management function within the Administration Division.*

Action 13. *Seek donor assistance for technical support and professional development of the HRM Unit.*

4.4 Setting Appropriate and Achievable Standards

This *Strategy* promotes the development of systems, procedures and standards for managing public finances that will be sustainable under near-full localization of management positions – i.e. by 2010. This will require a *much more effective alignment between financial management activities, capabilities and resources than is currently indicated*. Donor expectations must also be conditioned to accept and support this improved alignment. In future years, as the economy and domestic capacities expand, financial management standards and practices should rise at a complementary pace towards best practice

This important strategic objective requires all MoPF divisions to identify the appropriate level of complexity and sophistication in all of their activities, such that these standards can be achieved and maintained through the capacity building process. Implementation of this approach will require *a systematic review by each division of current and proposed practices* to establish:

- it criticality to core functions,
- time/resource costs (including international and local staff) for supporting the practice or standard of the real value added to the division or organization's performance,
- the specific capacity building requirements (skills and knowledge amongst ET staff) implied for sustainability,
- proposed source and duration of the implied capacity building needs,
- the potential for certain tasks – for example the Citizen's Guide to the Budget or the Public Expenditure Review – to be conducted out under contract by an outside agency such as an NGO.

This systematic review process will result in the identification of some current and proposed systems and practices which should be modified or eliminated – or avoided in the case of new initiatives - because they are:

- non-essential for the efficient management of public finances in East Timor,
- unduly sophisticated for existing requirements and conditions,
- useful, but absorbing of scarce resources which could be better applied to addressing basic problems of budget management, e.g. program design and execution in line ministries, and/or
- ultimately unsustainable under expected capacities and resources.

It is intended that this systematic review process will result in much more critical assessment in future of subsequent innovations, irrespective of whether they are prompted by donors, individual international advisers or local staff.

Examples of some possible areas for current review include:

MoPF Functions	Examples of Areas for Review/Reassessment
Budget Preparation	<i>Quantity (detail) of annual budget documentation</i> <i>Number/sophistication of agency budget programs</i> <i>(Proposed) utilization of budget preparation software</i> <i>(Proposed) “Citizen’s guide to the budget”</i>
Revenue / Expenditure Execution	<i>Purpose and sophistication of mid-year budget review</i> <i>Administrative demands of income tax collection from small businesses</i> <i>Operation of regional tax offices</i> <i>Complexity of customs data reporting systems</i> <i>(Auditors’ recommendation for) introduction of accrual accounting methods</i>
External Assistance (capital expenditures)	<i>Frequency and complexity of donor negotiations (incl. potential to consolidate into a single program)</i> <i>Line agency planning documentation requirements</i> <i>Performance measurement systems, incl. monitoring requirements and expectations of line agency skills</i>

Computerization	<i>Extent and complexity of networks (cf. local utilization and infrastructural capacities)</i>
Statistics	<i>Range and depth of proposed data collection activities – cf. capacities of NGOs or other government agencies to provide some sector data (e.g. social) on behalf of Govt.</i>

Required Actions

Action 14. *Vice-minister to coordinate an assessment by directors of existing standards and practices with a view to identifying unnecessary and/or unsustainable activities as described in this report.*

Action 15. *Directors to prepare a report on proposed enhancements to systems and procedures to be introduced in their functions over the next two years, detailing the necessity and capacity building implications. These proposals to be reviewed for appropriateness and sustainability by the Vice-minister, with appropriate technical advice.*

Action 16. *TSP Matrix to be reviewed in consultation with the donors to determine scope for rationalizing content and capacity building implications of financial management targets.*

4.5 Utilizing Local Experience

Divisions – many of which are currently headed by international staff - must not set over-ambitious targets for the quality and quantity of functions to be performed. Maintaining realistic objectives and appropriate work programs will help to ensure that essential capacity building tasks are not pushed down the ladder of priorities.

Much increased emphasis will be placed on the *training and mentoring roles to be played by East Timorese senior managers*. This experience must be used more effectively within capacity building activities. Each division will undertake careful review of how these staff shall be:

- assigned mentoring roles within their division,
- used for presentation or support of training activities,
- involved in all management discussions (internal and external) which address local capacity issues.

Consideration shall be given by the Minister – in consultation with the proposed Director General - to setting *maximum annual limits on the absences of senior ET staff on international travel*.

Donors will also have a major role in adjusting their expectations and demands on the time of local managers. They shall be requested to sign up to the imposed limits.

Required Actions

Action 17. *East Timorese senior managers to each prepare a draft set of proposals for their involvement in training and mentoring activities within their division and for setting voluntary limits on the maximum amount of external travel time that is compatible with effective discharge of their responsibilities.*

4.6 The Role and Use of Donor Assistance in the Capacity Building

Taking full advantage of donor assistance in capacity building activities will require a much more strategic approach by MoPF. The following strategies will therefore be further developed and implemented within each division:

Shared Ownership: The ultimate owner of a program is the country receiving the assistance. However, giving each donor a specific institutional focus for its assistance can increase their “share of responsibility” for the outcome. AUSAID, for example, has already provided substantial support to the Budget Division and the ETRS. The developmental progress of these divisions therefore has been viewed as a reflection on the quality of the Australian aid program. This has increased the donor’s commitment to these areas and should help to raise its consciousness of longer-term sustainability issues.

Programs, Not People: A closely related issue is the need for a “program approach” to providing assistance. It is not necessary to have complete donor support for an area to have a program but generally the two go hand-in-hand. Keys to the success of donor support include well-defined objectives, specific deliverables and an evaluation strategy. In that way it is clear what form the assistance will take and the extent to which it is expected to deliver results. It also supports continuity of delivery that is often missing when individuals are simply placed in positions. Where necessary and appropriate, programs of assistance may involve more than one donor.

Complementarity of Training and Operations: Different donors tend have different concepts and practices in budget and financial management. Greater care will be taken to ensure that multi-donor involvement does not result in the training of local staff that is inconsistent with,

or divorced from, implementation procedures. Consistency, or at least complementarity, of approach is critical and may be best supported by well-designed twinning arrangements.

Language: Donors will be encouraged and required to exercise a flexible approach to language requirements. More effective use of interpreters and translators is required. Language decisions will be based on what is most appropriate for the goals and circumstances of each occasion.

Evaluating Technical Assistance: Successful delivery of technical assistance requires effective evaluation methods. A program approach that – as described above - defines the deliverables and sets up a formal evaluation process is recommended. However, even in cases where there is no specific program and where donors provide individuals to fill positions, there shall be clear Terms of Reference and performance evaluation procedures. The recent initiative by the UN to evaluate the people assigned to the “100” posts should prove useful. Evaluation of individual advisers should continue beyond this on a bi-annual basis. The HRM Unit shall coordinate this process. Procedures for removing unsatisfactory advisers shall be developed in consultation with donors.¹⁶ Ultimate authority on these issues shall rest with the Minister in consultation with the relevant donor organization

Donor Commitment Timetable: Successful localization is defined in this *Capacity Building Strategy* as a process in which East Timorese assume a steadily increasing level of responsibility for the management and operation of the financial management system, without deterioration in effectiveness, efficiency or transparency.

The target date for progressive localization of most managerial roles in MoPF is mid-2004 (i.e. the end of the UN “100” post appointments). However, the successful localization of all managerial positions and most technical roles is expected to take considerably longer, possibly another 10 years or more. At least one adviser may be required for that time in each of the core areas of the ministry: Treasury, Budget, ETCS, and ETRS. Short-term assistance will also be required in specific areas. Donors will be encouraged to set technical assistance strategies and programs in a realistic and complementary medium-term framework.

Specific Donor Roles: While it is premature to assign specific roles to individual donors, Table 4E indicates some possible assignments of responsibility that take account of current donor involvements, recent expressions of interest, and “shared ownership” objectives:

¹⁶ This task will be assigned to the DG/CEO.

Table 4E. Possible Donor Support Strategy

Division	Primary Donor	Support Role	Comments
Budget	AusAid	Portugal, UN	<i>AusAid takes the lead defining a program; consultation with Portugal</i>
Treasury	IMF	UN, Portugal	<i>IMF Switches adviser post from Minister's Office to Treasury; provides and oversees capacity building program with UN responsibility for skills transfer; Portugal supports Audit function</i>
ETRS	AusAid	Canada	<i>AusAid takes the lead in defining a program; possibly Canada provides additional support</i>
OGPSIM	World Bank	UN	<i>Assumes PER grant is approved; Govt and PMU procurement operations progressively merged</i>
Office of Minister	Norway		<i>Oil and gas fund issues</i>
ETCS	Portugal	UN, UNDP	<i>Portugal to focus its efforts in this area; should develop a program approach with specific deliverables</i>
Administration (HRM)	NZ? WB?	UN, UNDP	<i>Donor assistance to be sought</i>
Planning & Coord.	UNDP	WB	<i>Assumes PER grant is approved</i>

Required Actions

Action 18. *Planning and External Assistance Coordination Division to discuss and prepare an assessment of capacity building requirements from donors, including a proposed plan for rationalizing assignment of TA to MoPF from the various donors.*

Action 19. *Joint Government/donor initiative for the systematic evaluation of expatriate personnel, building on the current UN personnel review process.*

Annex 1

Background to the Capacity Building Strategy

On January 14, 2000, under the authority of the United Nations Security Council Resolution 1272, Regulation 2000/1 established the Central Fiscal Authority (CFA) of East Timor.

The CFA was made responsible for formulating an overall fiscal strategy and for overall financial management of the Consolidated (Budget) Fund of East Timor (CFET). This included: (i) setting the rules and regulations governing the operation and management of the CEFT; (ii) development of a public revenue and expenditure programs and formulation of plans for the control and execution of spending; (iii) formulation of policies for the raising and collection of revenues; and (iv) establishment of appropriate internal audit arrangements for the budget.

In late January 2000, at the request of the United Nations, the IMF provided detailed recommendations for the development of the CFA. Those recommendations recognized that the fiscal institution would need to be relatively basic given the situation in East Timor, but at the same time must have the necessary level of accountability and transparency to ensure that public funds, including donor funds, would be managed appropriately. UNTAET subsequently requested IMF assistance to oversee and coordinate the staffing the CFA.

By April 2000, the CFA was modestly staffed with experts brought together from various financial sources including many bilateral donors (notably Australia and Portugal) as well as the United Nations, IMF, and World Bank. Following independence in May 2002, the CFA became the Ministry of Planning and Finance (MoPF), while being given additional responsibilities including economic planning, donor coordination, statistics, and procurement. It is generally recognized that the CFA has largely met the goals set forth in the original IMF plan. However, it continues to rely heavily on international staff for both technical and managerial expertise.

The National Development Plan (NDP) provides a strategy for reducing poverty and promoting equitable and sustainable growth. It recognizes the critical role that must be played by the MoPF — i.e. the strategy must be implemented in close parallel with the annual budget process.

A key component of the NDP focuses on capacity building throughout government in order to realize these objectives. To help achieve the NDP goals, the UN Security Council authorized the provision of 100 “political stability” advisers that are considered vital to the continuing viability of government. Their main responsibility is to carry out line functions in areas where local expertise is not yet available or sufficient. These positions are intended to be phased out over two years – i.e. by May 2004.

In addition, 200 “developmental” adviser positions have been identified where the main focus is on capacity building. These posts are to largely be financed by bilateral donors although the multilateral institutions are also playing a role. It is expected that these capacity building posts will provide the training in many of these same areas in order for the local civil service to acquire the required expertise. As at October 2002, funding for less than half of these developmental positions had been confirmed by donors. Because of the technical nature of the work within MoPF, a significant percentage of both the 100 and 200 posts are slotted for this ministry.

The Government recognises that it cannot rely indefinitely on donor-funded technical assistance. As part of its strategy for implementation of the NDP it has requested every ministry to develop a capacity building strategy. This includes: defining the ministry objectives, identifying the skills needed to achieve those goals, evaluating the current skill levels of the local staff, and the capacity building program needed to bridge the skills gap.

MoPF has relied on international experts to carry out many core responsibilities in financial management and now faces an especially difficult challenge in capacity building. It requested the assistance of experts from the IMF and World Bank¹⁷ to help develop the capacity building strategy reflected in this document. The document is therefore a joint effort between these international agencies and ministry officials, and forms the official MoPF *Capacity Building Strategy*.

Preparation of the *Strategy* involved interviews with bilateral and multilateral donors providing support to the MoPF, the international and local staff within MoPF, staff from other ministries that interact with MoPF through their responsibilities in budget preparation and execution, and international and local officials directly involved in capacity building. Information from these discussions was supplemented by an extensive amount of written material and advice provided by senior management, including the Minister, Vice Minister, divisional directors and other staff.

¹⁷ Steven Symansky and David Webber visited Dili from 3-17 October 2002 to assist the authorities with the preparation of this *Strategy*.