

PROGRAM ASSISTANCE:
THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE
COUNTRY CASE STUDY

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ACRONYMS

AAP	Annual Action Plan
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BPA	Banking and Payments Authority
CDIE	Center for Development Information and Evaluation
CFET	Consolidated Fund for East Timor
CIDA	Canadian International Development Agency
DCI	Development Cooperation Ireland
EC	European Commission
EU	European Union
FREITILIN	Timorese Front for National Liberation
FY	Fiscal Year of Timor-Leste: July 1 st through June 30 th
GBS	General Budget Support
GOTL	Government of Timor-Leste
GTZ	German Technical Cooperation
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MDTF	Multi-Donor Trust Fund
MoPF	Ministry of Planning and Finance
NDP	National Development Plan
NGO	Non Governmental Organization
NPA	Non-Project Assistance
PRSP	Poverty Reduction Strategy Paper
SEP	Sector Expenditure Program
SIP	Sector Investment Program
SWAP	Sector Wide Assistance Program
TFET	Trust Fund for East Timor
TSP	Transition Support Program
UNMISSET	United Nations Mission in Support of East Timor
UNTAET	United Nations Transitional Administration in East Timor
USAID	United States Agency for International Development
VMPF	Vice-Minister of Planning and Finance

EXECUTIVE SUMMARY

This study was initiated by USAID's Program and Policy Coordination Bureau and conducted with the Government of Japan as one of a five part series on program assistance, sometimes referred to as non-project assistance (NPA). Other countries in the series include Mozambique, Malawi, Tanzania (initiated by USAID's Africa Bureau), and Nicaragua. The objectives of this study were to review the Democratic Republic of Timor-Leste's experience with program assistance, determine whether it has been an appropriate method of disbursing aid, and identify the country conditions that are favorable for such assistance.

This report is based on extensive interviews with Timor-Leste government officials, donors, NGOs, and individuals in both Timor-Leste and Washington, DC, as well as an extensive literature review. The study team was fielded by USAID's Center for Development, Information and Evaluation's (CDIE) Development Information Services (DIS) project and was comprised of three researchers from DIS and a researcher from the Mitsubishi Research Institute, who also served as a contractor of the Government of Japan. During one week of in-country work the Timor-Leste study team was accompanied by a research fellow (sponsored by the World Bank) from the Institute of Development Studies, which is based in the United Kingdom.

The specific focus of this study is Timor-Leste's Transition Support Program (TSP). The TSP provides general budget support (GBS) and has been in operation for over two years. It is coordinated and managed by the World Bank and is the primary program that uses budget support for assistance in Timor-Leste. The TSP is funded by both the World Bank and ten bilateral donors. Total donations for the 2003-2005 period were approximately US\$91million of which USAID's contribution is \$12 million. Though originally scheduled to phase out by 2005, the Government of Timor-Leste has requested that funding be extended to 2007.

In general, the primary objective of GBS is to provide flexible resources for development based on an agreed program and shift the responsibility of development from donors to host governments, encouraging the latter to take a more active role in their own development. Countries with weak and unaccountable governments, low capacity, or insufficient public financial management are usually poor candidates for GBS, as are countries with systematic or large-scale corruption, inadequate or non-existent monitoring and evaluation systems and/or audit agencies.

Timor-Leste was chosen as a case study because: (1) it is a new, post-conflict country, with a new government, new institutions, little revenue outside of foreign assistance, and the need for financial resources to be provided through a flexible instrument; (2) human and administrative capacity are especially low, forcing the government to rely on large numbers of foreign advisors and staff; (3) there is little tradition of entrepreneurship and few natural resources that can be exploited; (4) unlike most post-conflict countries, there is stability and little chance of renewed violence; and (5) off-shore oil and gas deposits are expected to generate significant revenue, most likely by 2007.

Of particular concern were a high incidence of poverty, a shortage of government revenue, the expectation of future oil revenues, and a rudimentary human resource base. Given these considerations, the goals of the TSP are to: (1) provide a temporary source of funding to augment government revenue; (2) enable implementation of Timor-Leste's National Development Plan (NDP); and (3) build sufficient government capacity so that future oil and gas revenues will be appropriately managed.

Because the GOTL has relied heavily on foreign assistance to fund recurrent and capital expenditures and reconstruction/development, donors have considerable influence when engaging in policy dialogue. This is especially true in the case of the TSP where, based on extensive interviews with both donors and high-level government officials, donor harmony and coordination have been excellent and where program design has facilitated frequent discussion.

In addition to a resource constraint, the GOTL faces a limited time period in which to build sufficient capacity to effectively manage oil revenues. This provides further incentive to manage funds responsibly and deepens government commitment to development. The expectation of future oil revenues offers the government and donors a natural and obvious exit strategy for discontinuing GBS.

In addition to the discussion above, the Timor-Leste study team came away with several conclusions highlighted below that may be applicable to similar post-conflict countries or more generally to countries where donors are considering GBS as its main assistance strategy. The report provides greater detail on its conclusions in Section IV.

Much of the success of the TSP may also be attributed to donor actions, specifically World Bank oversight and program design. The World Bank has been very closely involved in TSP implementation and monitoring. Bilateral donors contend that World Bank oversight offers an effective way of managing their assistance while requiring minimal staff on their part. They are satisfied with the current method of reporting and administration.

Though there is no explicit conditionality, donors and the GOTL meet twice each year to review progress and to set new goals and priorities. During this time donors can discuss issues of importance with high-level officials. In this way donors are given a forum in which to voice their concerns. When agreement has been reached, goals and priorities are placed on an Action Matrix which serves as a plan for the following year.

After the budget is approved by Parliament funds are released. At that point the Vice Minister of Planning and Finance coordinates with line ministries and external partners to expedite implementation. The Vice Minister also supervises a Program Management Team which prepares quarterly progress reports for the World Bank and other donors. The quarterly progress reports, as well as very extensive biannual reviews, serve as a monitoring tool and help to achieve donor coherence and harmony.

From the GOTL's perspective, the reviews and strong donor harmony are a source of pressure on the government and are perceived to encroach on sovereignty to some degree. Nonetheless, the GOTL has achieved positive results though with the TSP in place for just over two years, outputs can be identified rather than impacts or lasting, sustainable change.

An area of interest to donors and line ministries is the degree to which authority to expend funds may be delegated by the Ministry of Planning and Finance (MoPF). Though there are benefits to centralizing such authority, inefficiencies can occur, and the host government may not release funds in a timely fashion. Although there was some concern regarding fiduciary risk, donors consistently report that the current system of public expenditure is sound and that the incidence of corruption is minimal and low-level.

Local non-governmental organizations (NGOs) have not been involved in TSP consultation in a systematic or meaningful way. But the task of involving a large and diverse group in an organized, representative, and substantive manner presents a challenge and requires effort by the NGO community in concert with the host government and donor community.

Donors and host government officials found the TSP program relatively easy to manage in as much as both donors and the host government were thinly staffed and sought an effective vehicle for assistance.

Ownership of the TSP's agenda setting process by Timor-Leste government officials was evident. The host government viewed the Action Matrix (and objective-setting) a policy making tool as much theirs as the donors, notwithstanding the rigor of the review process.

With regard to the relative merits of various assistance types over others, the Timor-Leste government has had little experience with projects and programs to state a strong preference. However, they are leaning towards projects which they view as a means of providing needed capacity building assistance if managed jointly with donors in various sectors.

As a new government with fledgling institutions, the capacity building aspects to the TSP were crucial to instilling the skills of public expenditure management largely through World Bank auspices with support from other donors. In East Timor's post-conflict environment, this capacity building within the MoPF was key to engendering donor support for the TSP. Furthermore this type of capacity building ought to be considered in other country contexts where there are established institutions, and donors intend to channel large amounts of their assistance through a GBS mechanism.

Finally, because government revenue from oil and gas will soon be generated, Timor-Leste has an obvious and natural exit strategy for GBS. In part, the strategy is also based on whether the country will have the foundational capacity to manage its budget albeit with the assistance of expatriate advisors.

I. Introduction

A. Objectives of the Study

In order to effectively tailor development assistance to a country's particular needs, USAID and other donors may choose one or more of several assistance modalities. In addition to traditional 'project assistance', donors and host governments may opt for a form of program assistance such as general budget support (GBS), balance of payments support, sector program assistance, a commodity import program or a sector wide approach (SWAp).¹

This study reviews Timor-Leste's experience with GBS, specifically the Transition Support Program (TSP), from the perspective of both donors and recipient government.² To date, GBS is the primary form of program assistance used in Timor-Leste and provides financial support to the recipient government's national budget rather than to specific sectors. In the case of Timor-Leste, the Transition Support Program focuses on the implementation of a development plan and does not entail conditionality.

The objectives of this study were to review Timor-Leste's experience with program assistance, including the use of GBS, whether such assistance has served as an effective and appropriate method of disbursing aid, and to identify country conditions that led many donors to allocate a substantial portion of their foreign assistance in a certain way. The study also looked at the factors that contributed to the success of program assistance tools which in Timor-Leste's case consisted principally of GBS. Other studies in the series examine program assistance in Mozambique, Malawi, Tanzania, and Nicaragua.

B. Definitions of General Budget Support

In the course of preparing this report, we became aware of differences in the international development community regarding the definition of GBS and how GBS may differ from other forms of program assistance. This section attempts to shed some light on the matter and discusses why Timor-Leste's Transition Support Program may be best categorized as GBS.³

¹ See annex 1 for a detailed explanation of various, non-GBS program assistance mechanisms.

² Timor-Leste's official name is The Democratic Republic of Timor-Leste, formerly known as East Timor.

³ USAID transfers TSP funds to the World Bank in the form of a grant. Funds are then placed in a World Bank managed account and later disbursed to the Government of Timor-Leste in the form of general budget support. Because resources are initially in the form of a grant to a multi-lateral institution rather than directly channeled to the recipient government, from USAID's perspective, TSP-funding is categorized as project assistance rather than program assistance. It is important to note that other donors may categorize the TSP differently.

Figure 1: USAID Categorization of Program Assistance

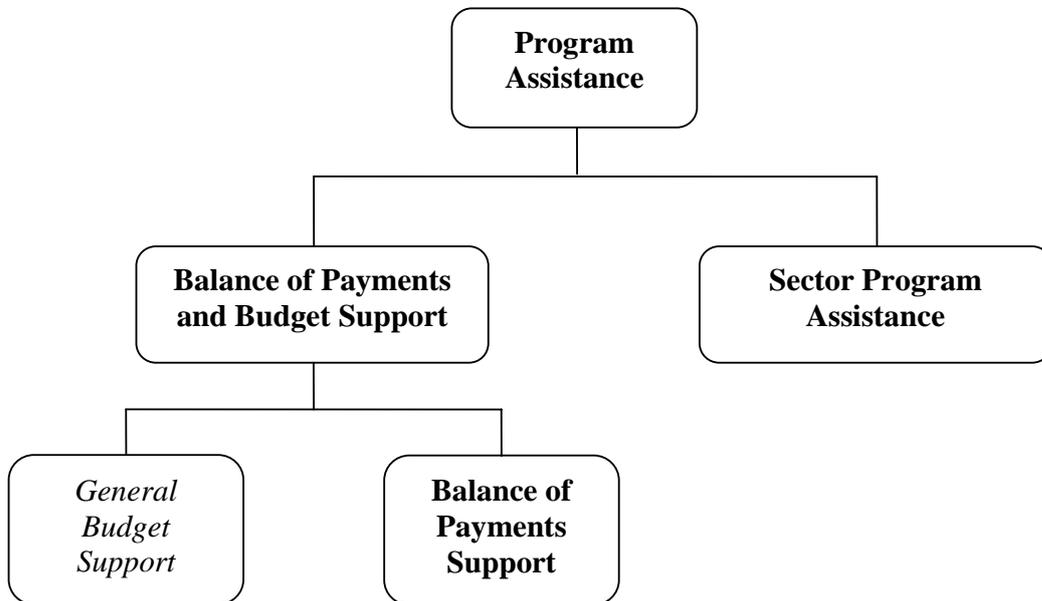
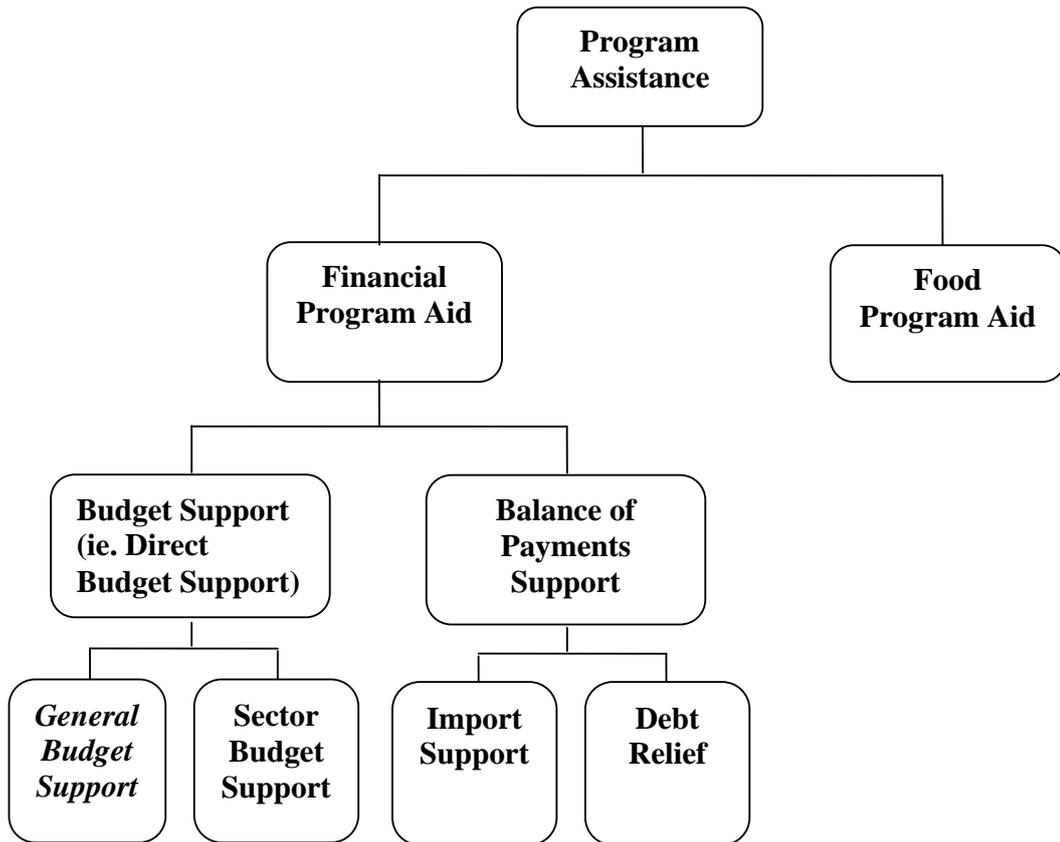


Figure 2: OECD/DAC Categorization of Program Assistance



This summary discussion below draws on definitions and descriptions identified in USAID's Automated Directives System (ADS), which serves as USAID's official guide to policies and procedures, and the OECD's Development Assistance Committee's (DAC) Terms of Reference for the Joint-Evaluation of General Budget Support. (See Annex 1 for a detailed discussion of the definitions).

1. USAID Definition

USAID divides foreign assistance into project assistance and program assistance – sometimes referred to as non-project assistance -- of which there are two types: sector program assistance (SPA) and balance of payments support (see figure 1 above). Though USAID recognizes that balance of payments support and general budget support are two separate tools, its definitions imply that they are closely related but do not address them individually. GBS is usually performance based, rather than based on ex-ante conditions precedent.

2. OECD/DAC Definition

The OECD/DAC's Terms of Reference for the Joint-Evaluation of General Budget Support offers a specific definition for GBS, and unlike USAID, OECD/DAC divides program aid into food aid and financial program aid (see figure 2 above). Financial program aid is further subdivided into budget support, sometimes referred to as 'direct budget support, and balance of payments support such as debt relief and import support.⁴ There are two types of budget support: general budget support and sector budget support.

C. Why the Interest in General Budget Support?

Historically foreign assistance has been provided through bilateral, donor-managed projects. Though this approach is often effective, some donor observers believe it has several disadvantages. First, project assistance can potentially limit host country ownership of the development process and, as a result, host country commitment. Secondly, it has been argued that host governments are often better able to identify critical development priorities than are donors, yet are in less of a position to do so when project assistance is used. Finally, the transaction costs associated with project assistance may be higher than program assistance for both donors and recipient. For these reasons, many projects may be seen as inappropriate and not sustainable, affecting both the return to donor investment and long-term development.

Because Timor-Leste is a new nation with a very short history of donor experience, the study team found it difficult to make conclusive statements about the effectiveness of long term projects. However, interviews reveal that many high-level Timorese government officials feel that once steady oil resources are generated project funded assistance may be preferable to GBS, but only in very specific development contexts.

⁴ It is important to note that USAID offers no official definition for the term 'direct budget support'.

Interviews further reveal that GBS and project assistance are not regarded as substitutes, but rather as complements.

Some donors believe this modality gives recipients greater flexibility and control over how money is spent, thus shifting the responsibility of managing development from themselves to host governments. In this way, governments assume a more active role in their own development, gain greater ownership of the process, and become more committed to sustaining progress. With greater control, host governments are better able to identify development priorities and development programs are likely to be more efficiently managed. In order for GBS to be effective, it is critical that the host government be capable of responsibly managing donor funds.

The study team found that the GBS that funds the World Bank led Transition Support Program (TSP) has resulted in much of the above. It does indeed provide a measure of ownership to the GOTL and has further strengthened a commitment to government-identified development priorities.

Proponents argue that, in addition to ownership, there are other advantages to GBS. Most of these advantages apply to the Timor-Leste experience. Specifically, GBS will:

- Harmonize and align bilateral aid with the host government's budget and policy priorities, and improve donor coordination.
- Foster the use of policy dialogue between donors and recipient in order to reform overall government policies and budget priorities, rather than simply concentrating resources on individual projects or sectors with little or no discussion of policy.
- Improve the efficiency of public expenditure management by not pursuing unnecessary or low priority bilateral aid projects.
- Foster, encourage, and support government accountability.
- Reduce management costs to donors in the long-term because fewer bilateral aid projects will be funded.
- Reduce the management costs to host governments because there will be fewer donor projects and reporting requirements to contend with.

Understandably, many donors have reservations about providing large cash transfers to countries that lack the essential capability to adequately account for funds. Specific concerns that this study examines include:

- Budget discipline and the quality of financial management and systems.
- Corruption and misappropriation of funds.

- The presence and use of skilled managers and technicians.
- Evidence that the finance ministry is willing and able to manage budget allocation in an efficient and transparent manner.
- A central government that has interest in empowering civil society and the private sector.
- The potential or tendency for GBS to encourage centralization of resources, potentially harming local grassroots development.
- The opportunity for donors to consult directly with line ministries and to encourage policy reform at the sector level.

D. Methodology

This study is based on a review of publicly available literature and documents and extensive interviews with donors, NGOs, private individuals, and GOTL officials in both Washington, D.C. and Timor-Leste. The objective of the literature review and interviews was to gather information regarding the selection, design and effectiveness of the TSP. The literature review included documents related to program assistance in general, the TSP specifically, Timor-Leste's economy, and donor programs. Preliminary interviews in preparation for in-country work were conducted in Washington, D.C. with World Bank staff involved in the design and implementation of the TSP, USAID personnel involved with Timor-Leste programs, and the Deputy Charge d'Affaires from the Embassy of Timor-Leste. The field work took place from August 24 to September 11, 2004 and encompassed approximately 34 interviews with 66 people from government ministries, donor organizations, NGOs and private Timor-Leste citizens (see Annex 4 for a complete list). Subsequently, questions were vetted with the Japanese Ministry of Foreign Affairs to gain insight on Japan's commodity support program to Timor-Leste.

USAID/CDIE's Development Information Services (DIS) project director led the study team that was comprised of three researchers from DIS and a researcher from the Mitsubishi Research Institute who served as a contractor of the Government of Japan. During one week of in-country work a research fellow (sponsored by the World Bank) from the Institute of Development Studies in Sussex, UK accompanied the study team. All team members contributed to the substance of this report.

The remainder of this study is organized as follows: section II reviews the political and economic conditions in Timor-Leste; section III discusses the TSP, including program design and implementation, and fiduciary risk; and section IV presents conclusions.

II. Political and Economic Overview of Timor-Leste

A. Political History

In 1975 Indonesia occupied and annexed Timor-Leste, a small and poor Portuguese colony with a population of about 500,000. For 20 years, the Timorese Front for National Liberation (FREITILIN) resisted the Indonesian occupation. After the Suharto regime fell in May 1999 the UN supervised a referendum to decide Timor-Leste's future at the request of a new Indonesian government.

On August 20, 1999, the Timorese overwhelmingly rejected autonomy in favor of independence but promptly faced opposition by organized militias with the support of the Indonesian military leadership. The resistance proved devastating. Thousands of Timorese were murdered, more than half the population was internally displaced, while another 150,000 were forced into the Indonesian territory of West Timor. Infrastructure was affected, with over 70 percent of the public structures in Timor-Leste being destroyed. Though it has undergone significant reconstruction, damaged and burned out buildings are still evident throughout Dili, the capital city.

After two weeks of violence a UN peacekeeping force was deployed and in October 1999 the Indonesian government declared the 1975 annexation void, opening the door to the establishment of the United Nations Transitional Administration for East Timor (UNTAET). Until May 20, 2002, when Timor-Leste became an independent country, the UN administered the peace and UNTAET served as the de facto government. Today the UN maintains a small peacekeeping force while a sovereign parliamentary form of government functions with a President and Prime Minister, both of whom are committed to tackling the many current economic and social challenges.

B. Economic and Social Status

Though Timor-Leste's economy grew at an annual rate of 8.0 percent in 2000 and 13 percent in 2001, much of this growth is attributed to a significant international presence that is now diminishing and to immediate post-conflict reconstruction. It is estimated that in 2002 real GDP growth slowed to 3.0 percent and that in 2003 the economy contracted by 3.0 percent. Growth in 2004 is projected to be 1 percent (IMF (2004)); however Timor-Leste has large off-shore oil and gas deposits which will provide a major boost to the economy within several years.

Currently, the official currency of Timor-Leste is the US dollar, which helps avoid monetary issues that the new government is not yet equipped to handle. But use of the dollar also means that the government has little control over domestic monetary policy and exchange rates. Though national coins with a one-for-one value with the US dollar have been issued, there are no plans to introduce a new national currency in the short-term. In practice, the Banking and Payments Authority (BPA), which officially serves as the central bank, oversees Timor-Leste's four commercial banks but has little control over money supply.

Household surveys conducted in 2001 indicate a poverty incidence of 41 percent, where approximately 85 percent of the poor live in rural areas. Overall, education levels are low, with only about 43 percent of the population being literate. Though primary school enrollment rates have increased somewhat, and are now about 76 percent, universal primary education has not been achieved and educational quality remains poor. Life expectancy is estimated at 57 years and infant mortality is high at 80 per 1000 live births. Malaria and TB, the two most serious diseases in Timor-Leste, are commonplace.

Given the country's social sector problems, health, education and urban works are given priority in the national budget. Since independence, 35 percent of the national budget has been allocated to health and education.

Other than oil and gas, coffee which is marketed to Australia, Europe, Japan, and the United States, is Timor-Leste's largest export. According to some donor experts, live animals, candlenut oil, and copra also offer export potential, with neighboring countries, particularly Indonesia, being the largest potential market. But Indonesia maintains trade barriers which hamper exports and encourage the smuggling of goods, and Australia, also a neighboring country, has highly restrictive regulations governing agricultural imports.

Wage policies enacted during the UN administration prior to independence, a high demand for labor during that time, and a fairly large and well-paid civil service have distorted the labor market and eroded Timor-Leste's potential comparative advantage of inexpensive, unskilled labor. As a result, wages in Timor-Leste are considerably higher than in Indonesia and potentially serve as a disincentive for foreign investment. Though official unemployment data is unavailable, donors estimate that the unemployment rate in Dili may be as high as 20 percent (43 percent for young males). Additionally, the high cost of electricity (\$0.20/kwh), the absence of a regulatory framework and leasing regulation, and an inefficient judicial system also serve as major constraints to private sector development.

Despite the constraints, the government has secured a production sharing agreement with foreign investors for the Bayu-Undan oil and gas field. Additionally, Timor Telecom has attracted investment, and it is expected that the banking and insurance sector will as well.

C. Oil

Through an interim arrangement with the Joint Development Authority, oil production at the Bayu-Undang fields is already well underway. Production at the Greater Sunrise field, which holds even greater oil deposits, has also started. Once international legal agreements with Australia are resolved, Timor-Leste's oil and gas resources are expected to generate significant revenues that, if managed wisely, will reduce its dependence on donor assistance.

Most recent estimates report that in FY2002/2003 oil/gas revenues totaled US\$29.5 million. Though much depends on world oil prices, projections for FY2004/2005 are that

oil/gas revenues will total approximately \$44.2 million (IMF (2004)). If the market price of oil and/or gas increases, Timor-Leste's dependence on donors will diminish and with it donor's influence on policy. If this occurs before Timor-Leste builds sufficient capacity to manage oil revenues, a 'resource curse' becomes a potential danger.

Timor-Leste's oil/gas reserves are expected to provide revenues for approximately 20 years, but if government spending exceeds absorptive capacity and incurs unsustainable recurrent expenditures, or if fiduciary integrity is compromised, then the prospect of significant oil revenues will be a mixed blessing. Timor-Leste seems determined to avoid a 'resource curse', which is common in many natural resource-rich countries and, with assistance from the IMF, is in the process of establishing a petroleum fund based on the Norwegian model. Though it was initially expected that Timor-Leste's petroleum fund would be established by December 2003, mid-2005 now appears more likely. The GOTL has clearly stated that accountability and transparency will be the cornerstones of this fund. Donors, the IMF, and most NGOs find this to be a credible assessment.

D. The National Development Plan

Timor-Leste's National Development Plan (NDP) presents a long-range vision of poverty alleviation and economic growth. It is a comprehensive document, similar to a Poverty Reduction Strategy Paper (PRSP), which presents an ambitious development strategy and outlines specific long term goals and objectives.

The NDP focuses primarily on institutional development, particularly the provision of basic education, health and infrastructure, as well as on job creation, improved governance and sustained internal security. It was designed by 120 senior government officials in close collaboration with foreign advisors, provides a long-term vision for Timor-Leste and is held in high regard by donors and government officials.

The host government consulted a significant cross-section of Timor-Leste society during preparation of the NDP, including national and international NGOs, private and public sector interest groups, and representatives of the Church. By some estimates, up to 40,000 individuals were involved in the process in some way. Though numerous goals are presented, two over-riding short-term (FY 2002-2006) objectives are: (1) rapid, equitable and sustainable economic growth; and (2) poverty reduction. As is typical of most poverty reduction strategies, the NDP does not offer specifics on implementation nor does it adequately prioritize objectives. It does, however, offer a much needed visionary framework for the TSP and has provided Timorese with a sense of ownership over their own development.

E. Donor Role and Coordination

Donor involvement in Timor-Leste began with an informal meeting on September 1999 with the participation of Timorese representatives, bilateral donors, and UN agencies to identify post-conflict assistance strategies and programs. In December of that year, donors pledged US\$520 million and endorsed two separate funds administered by

different international development agencies. Approximately \$343 million was administered by the UN prior to independence, and the remaining \$177 million was co-managed by the World Bank and the Asian Development Bank (ADB).

The UN-administered fund financed recurrent expenditures, while the World Bank/ADB fund, known as the Trust Fund for East Timor (TFET), was used for reconstruction and rehabilitation projects. With independence and with the departure of the UN transitional authorities, the recurrent cost fund was handed over to the Timorese and is now known as the Consolidated Fund for East Timor (CFET). The TSP is a part of CFET. Meanwhile, there are residual reconstruction and rehabilitation projects funded by TFET which is considered separate from the CFET budget.

As a management strategy, the World Bank pooled donor resources for post-conflict reconstruction, which contributed to donor harmony and management efficiency. Though local ownership varied with individual projects, Timorese were involved in project design and in the staffing of individual Project Management Units (PMU), the usual management mechanism employed by the World Bank and ADB.

Monthly donor meetings to monitor reconstruction progress as well as biannual donor meetings set the tone for donor harmony under TFET and established a precedent for good coordination. Importantly, because donor offices are based in Dili, a small city, informal relationships between donors were easily established and, by all indications, are highly collegial. These factors greatly reduced the burden of coordination on the new government whose main priorities were to establish stability and restore normalcy.

The study team found that host government officials had greater involvement in the design of the TSP than in some of the reconstruction projects. The short-term, urgent objectives of post-conflict reconstruction and rehabilitation, and the lack of an official Timor-Leste government, resulted in a trade-off between local ownership in some instances and overall management efficiency of the donors. A preliminary European Commission (EC) evaluation of TFET confirms this finding. Largely because the objectives of the TSP differ from those of TFET, this problem has been avoided.

Currently most donors in Timor-Leste contribute to the TSP while also funding bilateral programs, though the proportion of assistance devoted to the TSP varies among donors.

F. USAID Role

USAID, through the Offices of Disaster Assistance, Food for Peace and Transition Initiatives, provided \$41 million to Timor-Leste following the violence and destruction of September 1999. Subsequently, Congress provided an *annual* earmark of \$25 million, \$4 million of which is committed to the TSP each year for at least three years. The TSP is funded through a Public International Organizational Grant to the World Bank for FYs 2002-2004. As such, the USAID contribution is considered legally to be an activity or project, though in all other respects it is, in effect, a form of program assistance. Apart from the TSP program, the USAID/Timor-Leste program supports the revitalization of

the local economy and democratic institutions. All work is done under USAID's Transition Strategy. A new country strategy will continue providing support for current programs and will also contribute to health services.

G. Japan's Role

Japan does not contribute to the TSP, but it has provided substantial funding since 1999 for post-conflict reconstruction and humanitarian assistance. Its priorities today include infrastructure, agriculture, and human resource development. As one of the largest bilateral donors, it has pledged over \$190 million since 1999.

Japan has funded projects to rehabilitate roads, ports, irrigation systems and water-supply systems. It has also extended technical assistance to improve Timorese capacity to maintain these facilities as well as to increase agricultural production capacity. Japan has also provided training courses for civil servants, engineers and technicians inside and outside of Timor-Leste.

Japan's program assistance provided approximately \$2.4 million in 2003 and approximately \$4.5 million in 2004. The idea is to use grant funds to purchase imported commodities, sell them, and use the proceeds for program purposes.

III. General Budget Support in Timor-Leste

A. Design of the Transition Support Program

1. Country Conditions

Though Timor-Leste is a new, post-conflict country, there is an absence of internal violence, and there is universal support for the government. There is also little political opposition. Because the population has been unified by the struggle for independence, the commitment to development is strong. Despite relying heavily on assistance, an overt mentality of ‘aid dependence’ is not evident. However under both Indonesian and Portuguese rule personal initiative and entrepreneurship were not encouraged. This is made evident by the limited number of Timorese-owned businesses and the under-utilization of fertile farmland. Thus, there isn’t a domestic private sector of significance to generate tax revenues and employment.

The TSP was designed specifically for Timor-Leste. Foremost considerations were Timor-Leste’s low administrative capacity, a weak human resource base, a high incidence of poverty, and the expectation of future oil revenues. Given these considerations, the goals of the TSP are to: (1) provide a temporary source of government revenue until oil and gas revenues are generated; (2) enable implementation of the NDP; and (3) build sufficient government capacity so that future oil and gas revenues will be appropriately managed.

A central feature of its design is the World Bank’s active management and oversight role in program implementation and monitoring, and in the accounting of funds. The relative size of TSP in relation to the overall budget gives the World Bank and other donors sufficient leverage to effectively fulfill this role.

2. Donors

The TSP is coordinated by the World Bank but is funded by both the World Bank and bilateral donors. Bilateral donors include Australia, Canada, Finland, Ireland, New Zealand, Norway, Sweden, the UK, the United States, and Portugal. Unlike the other bilateral donors, Portugal does not contribute funds through the World Bank, but rather directly to the national budget. Despite this, Portugal is engaged in the TSP process and is invited to participate in World Bank missions as a full partner (see figure 3). The donors that choose to contribute funds through the World Bank are charged a 2 percent administrative fee.

Total commitments for the 2002-2005 period were approximately US\$91.0 million, with the UK, Australia, the United States, and Norway being the largest donors respectively (see table 1). The TSP was first implemented in 2002-2003 (known as TSP I) and continued in 2003-2004 (TSP II) and in 2004-2005 (TSP III).⁵ The GOTL has requested that the program be continued until 2007. Given limited data, a short timeframe, and

⁵ The fiscal year in Timor-Leste runs from July 1st to June 30th.

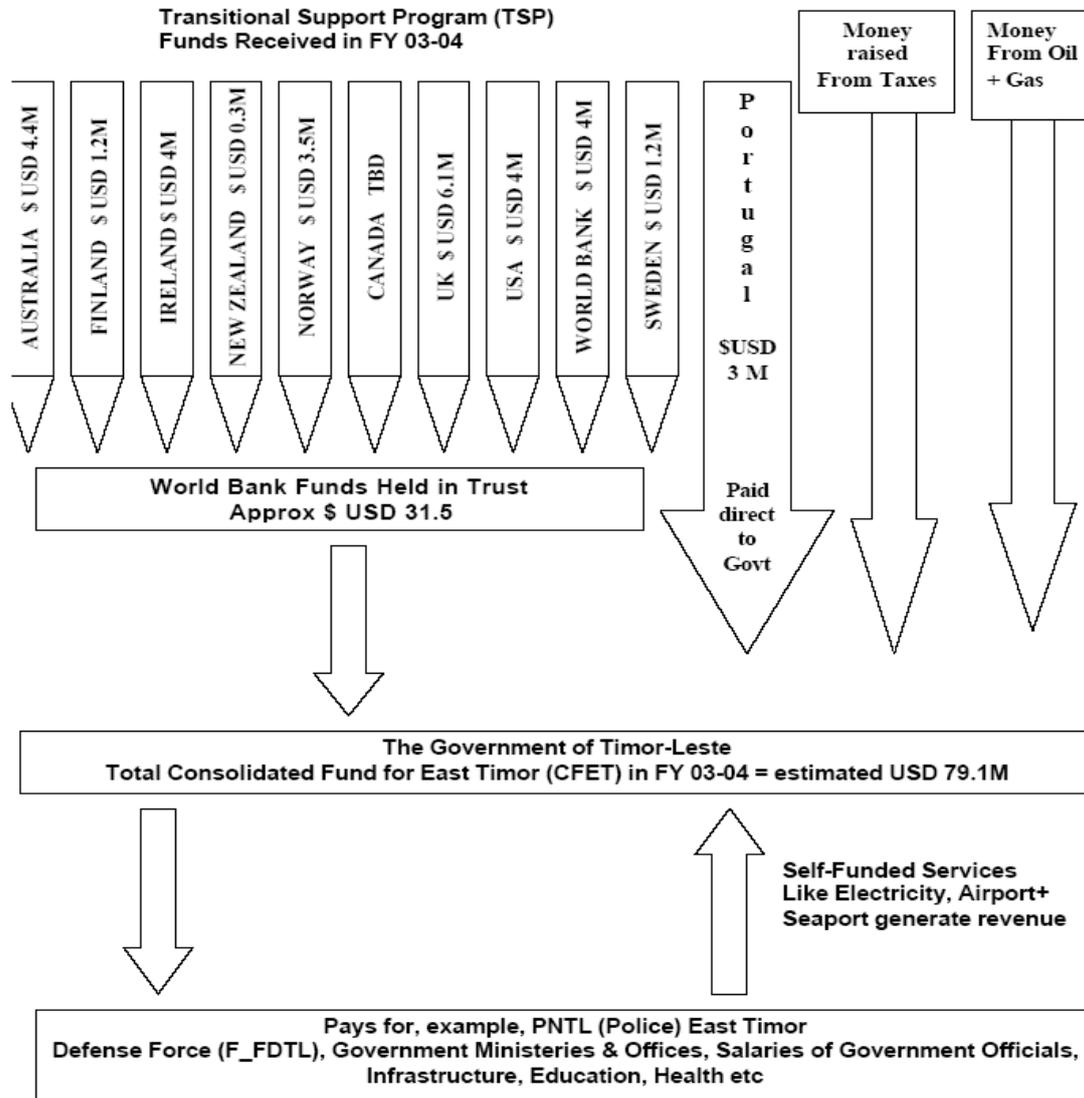
differences between countries in assistance reporting and measurement, it is difficult to identify a discernible trend among donors in the proportion of their assistance devoted to TSP. Sufficient time has not passed for any trends to be discerned.

As is typical of GBS, donors do not designate funds for the TSP for specific purposes. However, they can have a say regarding the use of funds. Preferences for how funds can be used or specific issues of concern may be voiced during the consultation process, which is frequent, comprehensive, and typically focuses on development issues and fiscal policy.

Under the TSP, most bi-lateral donors contribute to a World Bank managed account. After the World Bank, other donors, and the GOTL have officially agreed on goals and priorities for the following fiscal year, and after goals and priorities have been documented in an Action Matrix, the World Bank transfers funds in a single tranche to CFET, which in practice serves as Timor-Leste's national budget (see figure 3). The TSP is a major component of CFET (approximately 40 percent). It is important to note that all donors participate in the TSP process, not just those that provide funding. For example, despite not providing TSP funding, UNICEF and the UNDP were particularly active in the TSP process; and the Japanese are invited as observers.

Figure 3: Timor-Leste's Transition Support Program

FISCAL YEAR 2003-2004



* Caveat-Grants are provided in local country currency so there is some fluctuation relating to currency rates in the exchange to USD.

Table 1: Commitments to the Transition Support Program (2003-2005) *

Donor	Total Contribution (2003-2005), in Million USD
UK	20.0
Australia	16.1
United States	12.0
Norway	11.1
Finland	4.4
Ireland	2.8
Canada	1.7
Sweden	1.4
New Zealand	1.2
Portugal	9.0
Total Bilateral	79.7
World Bank	11.3
Total	91.0

From: International Monetary Fund, Initial Project Information Document, #29039, April 20, 2004.

* Timor-Leste fiscal year: July 1-June 30

3. The Action Matrix

Each fiscal year the GOTL, the World Bank and other TSP donors, agree on specific goals, objectives and measures which will be enacted during the following year. All goals, objectives and measures are included on an Action Matrix.⁶ In effect, the Action Matrix outlines broad policy priorities which will be pursued during the year, as well as very specific actions to be taken and milestones to be met. The Matrix is an effective tool for organizing priorities and serves as a way of tracking TSP progress against agreed policy measures. Targets are organized by sector and are tracked quarterly on a publicly available chart that lists expected outcomes, the host government office responsible for the outcome, and the donor providing appropriate technical assistance. Developing and updating the Action Matrix is an intensive and participatory process involving line ministries.

The World Bank, in collaboration with other donors, conducts two, three-week long missions each year to review the progress of the TSP and to assist the government in setting new priorities for the coming year which are placed on the Action Matrix. Despite contributions from various donors, the World Bank led reviews serve as the only external monitoring framework and reporting mechanism. All reviews are based on the Action Matrix.

Though there is no explicit bi-lateral or multi-lateral conditionality associated with the Action Matrix for the disbursement of funds, this framework provides a single forum where donors and recipient can voice concerns and discuss relevant issues that are important to either party. Using this forum, donors can influence policy decisions. Several donors commented that the most effective way to encourage the host government to take a certain policy measure is to ensure that it is included on the Action Matrix. As such the Action Matrix serves as an understanding between the government and donor and ensures that the objectives of each are similar. Previous research has found that GBS works best in countries where the priorities of donors and recipient are closely aligned (Cordella and Dell'Araccia (2003)).

After donors and Timorese Government officials agree on items in the Action Matrix, the Prime Minister and the Minister of Planning and Finance obtain Parliamentary approval. Once approved, the Office of the Vice Minister of Planning and Finance is responsible for implementation of the TSP and coordinates monitoring and reporting. During implementation, the Vice Minister's office coordinates with line ministries and external partners and supervises a Program Management Team, comprised of officials from various ministries, which play a monitoring role. The Program Management Team prepares quarterly progress reports for the World Bank and other donors. These reports serve as an internal monitoring mechanism.

It is also important to stress that the Action Matrix is entirely transparent. As such, line ministries are able to ascertain the agenda and progress of other line ministries, thus providing a sense of ownership, peer review, and inclusion.

⁶ See annex 2 for examples of Timor-Leste's Action Matrices.

Over time, the Action Matrix has evolved and its preparation has become routine. The first TSP Action Matrix for Timor-Leste's FY2003 (July 1, 2002 to June 30, 2003) stressed the creation of institutions, establishing a legislative and regulatory framework, and strengthening management of core government functions. The TSP II Action Matrix (FY2004) focuses on policy measures in governance, employment creation, private sector development, and improved service delivery for poverty reduction in health and education. The goals of TSP III (FY2005) are to further support policy measures in governance, as well as to improve service delivery, create jobs, private sector development, and improve agricultural production.

Though some donors advocated a more modest program, the GOTL insisted that the specific milestones and actions outlined in TSP I and TSP II be intentionally ambitious in terms of their range, number and timing. Consequently, not all Action Matrix measures could be achieved. But this approach fostered policy dialogue and shifted the emphasis from *achieving* goals to *making progress toward* goals. The donors agreed that if the GOTL did not accomplish a policy measure but made progress toward an objective, policy dialogue would ensue and funds would be released. When engaging in such policy dialogue, the World Bank negotiates with the GOTL through the Minister of Planning and Finance and typically seeks donor support to reinforce its position. In effect, a very intense dialogue with the government and close collaboration with donors is used as a substitute for explicit conditionality. At the urging of the World Bank and other donors, the TSP III measures are less ambitious and are now thought to be attainable.

In addition to closing a finance gap and contributing to implementing the NDP, the TSP also assists the GOTL in building sufficient capacity to effectively and responsibly manage future oil revenues. There has been progress in this regard. The GOTL is in the process of establishing a petroleum fund based on the Norwegian model and has stressed that this fund will be transparent and accountable. In essence, the responsible use of TSP funds serves as an indicator of the GOTL's ability to manage oil wealth, as well as an indicator of the likelihood that a 'resource curse' may be avoided.

Except for the Portuguese, all other TSP donors disburse their funds to a World Bank account from which funds are released to the host government's CFET. CFET funds are used for both recurrent and capital expenditures. Effectively, there is no distinction between government revenue from other sources and the TSP. One underlying strategy of the TSP was to allow recurrent expenditures to remain constant or grow only moderately while capital expenditures grew more quickly. The reason for this is that, if recurrent expenditures were kept low initially, the government would be forced to set priorities and would be less likely to launch unnecessary or unsustainable programs. Under an appropriate framework, resources would not all be spent as they flow in, and any excess could be invested and used in future years. By establishing fiscal discipline in this way, the GOTL would be better prepared to effectively use oil revenues. This is especially important given the fact that Timor-Leste's petroleum fund will not have a built in savings component.

4. Ownership

In part because of the rigorous procedures of the World Bank's intensive monitoring and review process, the GOTL has expressed some concern regarding the matter of ownership. Theoretically, GBS gives the government full ownership over setting its development priorities, but ownership comes at the price of quarterly monitoring that the World Bank requires on behalf of donors, and intensive biannual reviews.

Though biannual reviews are an effective and management efficient way to monitor progress and achieve donor coherence, from the GOTL's perspective, the result is a great deal of external pressure on the government and possibly a perception of diminished sovereignty. In the end, the donor partners and host government interlocutors acknowledge that, though the TSP is not tied to conditionality, quarterly reports, biannual reviews, and a constant focus on the Action Matrix by donors results in a great deal of pressure on the government. But it is also recognized that this is the cost of a predictable flow of funds which finances the budget deficit and helps ensure the success of the TSP and the future of Timor-Leste.

5. Advantages and Shortcomings

Overall, donors agree that the TSP has provided the GOTL with a good approach toward coordinating and monitoring its program, and has served as an effective framework for harmonizing external partner support. For bilateral donors with a minimal staff, the TSP offers an effective method for managing their assistance. Donors find that bi-annual reviews offer a highly effective forum for gaining access to the highest levels of the GOTL and, accordingly, are satisfied with the World Bank led monitoring, reporting and administration process. Additionally, the Action Matrix has proven to be a critical tool for synchronizing donor and recipient priorities, organizing government activities, obtaining donor buy-in, and generating a predictable flow of funds that are necessary for financing a budget deficit, all of which are essential for a new, poor country with minimal experience in managing the institutions of government.

One area of concern among donors and line ministries is the concentration of disbursement authorities in the Ministry of Planning and Finance (MoPF) which also serves as the primary conduit between donors and government. MoPF, however, argues that centralization of resources is preferable and that more decentralized modalities such as SWAps would be inappropriate for Timor-Leste.

Given its design, particularly continual collaboration, quarterly reporting, and semi-annual reviews, the TSP serves as a way in which the World Bank can effectively mobilize resources to assist the Timor-Leste as they prepare for oil revenues. The primary reason TSP has succeeded is likely because the World Bank and the MoPF have been very closely involved in its implementation and monitoring.

B. Implementation of the Transition Support Program

1. Management Implications

Management capacity and government institutions have been areas of concern since Timor-Leste's independence.⁷ Prior to independence about 28,000 high and mid-level civil servants who worked in Timor-Leste were ethnic Indonesians, most of whom fled after independence. Currently, Timorese lack the capacity to fill this gap. Donors and government officials recognize the constraint.

The study team found that low capacity of staff in all ministries, particularly the MoPF, is of great concern to government officials and donors. Because GBS requires that the host government take an active role in its own development, this lack of capacity puts additional pressure on the GOTL and makes implementation of TSP even more challenging. In fact, low capacity is reported by most donors and government officials as the greatest obstacle to long term development.

To supplement Timorese skills while capacity is being built, the United Nations identified critical GOTL posts to be filled by expatriate advisers. From May 20, 2002 to May 20, 2004, UNMISSET identified about 100 stability positions while the UNDP identified about 200 positions related to development. Not all of these have been filled.

Currently UNMISSET has expatriate advisers in 58 critical GOTL posts, of which 19 are allocated to the MoPF, 15 to the Ministry of Justice (MoJ), 16 to other ministries, and 8 to other offices. An additional 102 positions were identified for financing by donors through UNDP, but by end-July 2004, only 33 had been filled and recruitment was underway for an additional seven (United Nations Security Council (2004)). Thus, of 300 positions identified as stability and development oriented only 91, less than a third had been filled. This attests to funding and recruiting problems and the overall shortage of trained staff. There is recognition by both donors and the GOTL that international staff carries out critical technical and line functions and that some of this staff may be needed for the medium to long term. However, some donors and government officials have complained that the quality of advisors is uneven.

The UN and the GOTL initially expected advisors to work closely with counterparts in order to transfer knowledge and foster a type of 'on-the-job' training. Though some advisors were resistant to such duties, others found that the discrepancy between their skill level and that of local counterparts was too great to foster meaningful knowledge transfer and that a number of Timor-Leste counterparts lack the knowledge, skills, and ability necessary to carry out even the most basic duties, making mentoring and training for some positions difficult. But experienced observers of Timor-Leste's capacity stated that in certain ministries standards and procedures may be higher than needed for doing a specific job. If standards were lowered, skill levels could also be lowered, which would easily facilitate training and mentoring.

⁷ For greater detail see Annex 3.

Additionally, donors view Portuguese and Tetum language requirements for advisers as a further obstacle to mentoring. The resistance of the GOTL to permit the use of Bahasa Indonesian (a language commonly spoken in Timor-Leste which, unlike Tetum, is also a written language) as a working language impedes drawing competent but less expensive experts from the region. The use of experts from the region would both lower the cost of advisors and enable communication with counterparts.

2. Staff Intensity and Transaction Costs

Staff intensity and transaction costs refer to the time, manpower, and financial cost it takes to manage, administer, monitor and report on the TSP from both the donor and GOTL perspective. A frequent argument in favor of GBS is that it requires less staff time for the host government than do projects, in part because the government does not have to deal with numerous donor requirements for financial management, reporting and monitoring. In the case of the TSP, the World Bank, donors and host government staff all have a managerial and administrative role, though of the nine donors, the World Bank has the greatest management responsibilities.

a. Donor Perspective

The World Bank administers individual donor grants which are used to channel resources to the TSP. This involves separately tracking the inflow and outflow of funds that each donor transfers to a World Bank account where they remain until transferred to the GOTL Treasury. This is a time-consuming administrative process that is managed by the World Bank and the government; but it is less time consuming than managing the procedures of numerous individual projects.

The World Bank also takes the lead in coordinating bi-annual review missions. These missions include high-level meetings with key representatives of the GOTL, ministries, donors and the local and international NGO community. TSP donors have the option of providing experts for the assessment team, but typically do not have the resources to do so. A function of the review teams is to draft aid memoires that report on the status of actions listed in the Action Matrix. In addition, when the World Bank identifies specific needs of the GOTL, it may organize supplemental missions to address these problem areas. As the lead, the World Bank's role reduces staff intensity and transaction costs for other donors. It charges a flat 2 percent administrative fee of the donor's contributions. Because the TSP does not have a component devoted to measuring transaction costs to donors, it is difficult to assess the degree of cost savings, even accounting for the World Bank's administrative charges. Donors, however, report considerable savings in time.

b. Host Government Perspective

Staff time required of the GOTL to manage the TSP varies by ministry and time of year. It is most intensive for the MoPF in the weeks prior to and during the review missions. The MoPF coordinates meetings at which the review team reviews targets established in the Action Matrix. Because targets are multi-sectoral and World Bank scrutiny is

comprehensive and exhaustive, preparation for these meetings involves gathering materials from different ministries, comparing planned activities to those actually achieved, and carefully reviewing budget execution. The review teams include many specialists (e.g. there were 18 in the May 2004 mission) with expertise in sectors and institutions addressed in the Action Matrix. Accordingly, government officials have noted that their presence can be a bit overwhelming.

In another context, the review missions provide a structured framework which enables the MoPF to fulfill its functions successfully. The TSP process, including quarterly reports, is integrated into the government's own reporting system. From this perspective, line ministers believe that working through the TSP is more time efficient than managing bilateral projects and use the review missions to report on how they have spent funds received from the budget.

One approach that the World Bank has taken to try to lighten the burden for the host government is to program its review missions to correspond with the GOTL budget calendar, which begins in July. Scheduling missions for May feeds into the government's budget planning process. Follow-up missions in November or December facilitate a review of budget execution, accomplishments and shortfalls, which can be addressed during the remainder of the fiscal year. Missions occur after the GOTL prepares quarterly reports. Starting in 2005, the World Bank will initiate a 2-step process: the Task Manager will lead a mission to develop a broad outline for the 2006 fiscal year and the review mission will come two months later to examine progress on the FY2005 Action Matrix.

3. Monitoring and Reporting

Monitoring and reporting are carried out on several levels by donors, the host government as a whole, and individual ministries. The Action Matrix and specific targets serve as a focal point around which monitoring and reporting take place.

The World Bank takes the lead by organizing three-week review missions to review targets on the annual Action Matrix. The mission is organized around a series of meetings with the GOTL, other donors and increasingly with members of civil society. Meetings and agenda are organized by the Ministry of Planning and Finance. The Prime Minister chairs an initial meeting with the mission team members and the host government. This is followed by a series of sector meetings and discussions chaired by the Vice Minister of Finance. Final meetings bring together the GOTL, the review team, development partners, and representatives from civil society.

If donors have issues of interest, they can negotiate with government to have them placed on the Action Matrix. Examples of such issues are those dealing with gender, security, civil society, and subsidies to the power sector. Since ministerial level officials attend these meetings, issues can be addressed effectively. A written report is produced shortly after each mission and is distributed to the donors and the GOTL. This provides a record of on-going monitoring and feeds into the GOTL monitoring and reporting system.

The host government has developed two planning and monitoring tools which feed into the Action Matrix. The first is an Annual Action Plan (AAP) which is formulated by each ministry, specifying planned activities and corresponding expenditures by quarter for the fiscal year. The ministries submit their plans to the MoPF which are then incorporated into an overall GOTL Action Plan. Overall, this system has proven effective, though AAPs are not regularly updated.

Quarterly reports serve as the second monitoring tool. These reports address progress on activities and expenditures presented in the Annual Action Plan and facilitate monitoring of the budget execution process. At the present time the GOTL does not use indicators, although these are being developed. At this point progress towards achieving objectives listed in the AAP and the NDP cannot yet be easily measured. Importantly, the Action Matrix is intentionally developed to be compatible with the AAPs and the Quarterly Reports.

Donors receive AAPs and quarterly reviews directly from the GOTL, both of which facilitate monitoring the use of funds and performance. These tools serve to guide donor decision-making and allow donors to determine which issues are of most importance. As yet, there has been no formal evaluation of the TSP program, however if one does take place AusAID will likely be a key partner. An outside evaluation may be organized at the end of TSP III.

The NGO role in the consultative process for the Action Matrix, let alone in monitoring and evaluation, is not defined and has become an issue of contention with indigenous and international volunteer agencies. NGOs are invited to a separate wrap-up meeting of the review mission but after the major decisions and discussions on progress have occurred, and are provided little opportunity to change what has been decided.

C. Fiduciary Risk

Fiduciary risk is always a concern among donors when providing GBS to a host government. This concern applies to Timor-Leste, particularly since government capacity to manage and account for financial resources is still evolving. The study team focused on two areas where governments with limited capacity may be especially weak: (1) the ability to formulate and execute a budget consistent with national development priorities; and (2) the systems in place to maintain budget discipline and account for funds.

In Timor-Leste, the budget formulation process is led by the Ministry of Planning and Finance (MoPF). It is an open process which calls for input from line ministries and follows the priorities outlined in the National Development Plan. The budget is formulated in January of each year and is then vetted by a Council of Ministers, approved by parliament, and finalized for implementation in July, at the start of the new GOTL fiscal year. The MoPF produces quarterly reports that track expenditures and allows for mid-year adjustments in the event of revenue shortfalls. In addition to informing the

World Bank and other donor partners that the utilization of funds is consistent with budgetary allocations and priorities, quarterly reports also ensure that public funds are used appropriately.

The study team met with seven bilateral donors and the World Bank, all of whom report that the system of public expenditure of public funds is sound. They further report that the core treasury management system is strong, with a centralized payments system that provides for multiple commitment and payment controls supported by an on-line computerized payments tracking system. The books close on time, and quarterly reports are submitted fifteen days after closing.

Currently, the risk of deviating from the intricate system of controls is minimal, owing in large part to: (1) World Bank oversight; (2) a highly centralized and hierarchical internal system of authority; and (3) the presence of 20 to 30 expatriate personnel in the MoPF and expatriate staff in key advisory and line positions in the line ministries.

As the trustee, the World Bank oversees separate donor funds which are disbursed by separate grant agreements into a government account. Funds are then co-mingled by Government in the central treasury account for the purposes of budget execution. The Timorese government published quarterly reports which are reviewed by the World Bank. Annual audits are conducted by a private, independent auditor based in Australia. Audit reports are available six months after the annual close of the books and are publicly available.

Based on interviews and review of documents, there are two potential areas of weaknesses in checks and controls. First, the Banking and Payment Authority (BPA) reports to the MoPF, therefore there is an absence of a check on payments. Second, the auditor reports directly to the Prime Minister, thus affecting the perception that findings are completely independent.

Coupled with the financial management system, there is a centralized system of procurement that is built on competitive bidding, and an open and transparent process of awards to successful bidders. The procurement system is based on procedures put in place under UNTAET. Manuals have been prepared, standard specifications are published, and procurement integrity as an institutional value is gradually finding root.

Ironically, the GOTL's procurement and payments system is so rigorous and centralized that most of the budget execution problems that exist can be attributed to the absence of trained Timorese staff. As a result, surges in procurement activity and spending occur at the end of the fiscal year. To avoid these problems, the government has established a budget execution committee to monitor expenditures and has drafted legislation to delegate procurement and financial authority to line ministries.

The government has learned that it is necessary to strike a balance between control and flexibility, but that this must occur in tandem with an increasing capacity to delegate authority. Trained financial analysts are absent as are staff with the skill and ability to

minimize fiduciary risks. The result is that the MoPF has a tendency to centralize and is reluctant to delegate across line agencies or within its own ministry.

The World Bank is in the process of designing a capacity building program that will emphasize financial and planning skills. This program is expected to have a positive impact on capacity building over the next five years. In a further effort to build capacity, the UNDP is piloting a project that experiments with providing block grants to rural districts where there are no developed banking networks. In the meantime, expenditures tend to be concentrated in Dili, the capital city.

Based on extensive interviews with donors and NGOs, the study team has concluded that there is no credible evidence of systematic, large-scale corruption. The donors acknowledge that there is a potential for corruption, in part because of a value system inherited from the Indonesians which may make the Timorese susceptible to rent seeking behavior, but it is not perceived as a serious problem. It is hoped that the basic systems in place, the presence of a large international staff, and the development dialogue that occurs with the World Bank and other donors during TSP reviews will inculcate a lasting sense of integrity. Though it is too early to tell, the litmus test will lie in the government's management of its off-shore oil revenues scheduled to come on stream in the next two to three years.

D. Results/Impact

Though the TSP has been in place for just over two years, some positive results by way of outputs can be identified rather than impacts or lasting, sustainable results. However, this section provides a representative list of results that can be attributed to TSP I and TSP II.⁸

1. TSP I

TSP I (FY2002-2003) is broad in focus and is primarily concerned with creating institutions, a legislative and regulatory framework, and strengthening core government functions. TSP I addressed these issues by concentrating on four thematic areas: (1) continued poverty reduction planning; (2) governance and private sector development; (3) public expenditure policy and management; and (4) the power sector. Representative results within these areas are as follows:

a. Continued Poverty Reduction Planning

- Authored and published the National Development Plan.
- Restored primary school enrollment rate to 95 percent (48 percent of children enrolled in primary school are girls).
- Restored primary education (7,132 schools in operation and 3,901 teachers).

⁸ Annex 2 presents TSP I, II, and II Action Matrices and detailed results.

- Provided technical assistance and training to key priority ministries (education, health, and justice) in order to improve planning.
- Restored public health network.
- Started to address vulnerable groups by establishing a Social Services Department and by authorizing a Veterans Affairs Unit.

b. Governance and Private Sector Development

- Drafted a commercial code and notary note.
- Finalized a draft investment law.

c. Public Expenditure Policy and Management

- Maintained macro-economic stability.
- Instituted routine reporting on consumer price index.
- Drafted terms of reference for Expenditure Review and launch review.
- Prepared and adopted criteria for prioritizing in-year funds release.

d. The Power Sector

- Reduced subsidy to power sector from \$6.8 million to \$4.0 million.
- Initiated and completed an external audit of the power sector.
- Signed management contract in November 2003 and handed over electricity assets to management contractor.
- Instituted incentives for improved commercial performance within the contract and identified performance indicators.
- Established a system of monitored monthly financial performance of power sector.

2. TSP II⁹

TSP II (FY2003-2004) focuses on governance, service delivery for poverty reduction, and job creation. Within each of these three categories, specific areas are stressed. Improvements in governance focuses on: strengthening oversight institutions, public sector management, strengthening the justice sector, and planning and public expenditure management. Service delivery for poverty reduction focuses on: health, education, and vulnerable groups (i.e. veterans issues). Job creation focuses on: private sector development and agriculture.

Representative results include:

a. Governance

- Established the Office of the Provedor (Ombudsman) in April 2004.
- Prepared a law to establish the Office of the Inspector General

⁹ This section draws heavily on World Bank (September 29, 2004).

- Established the Public Service Statute which was approved by Parliament in April 2004. This statute lays out the framework for public sector personnel management and disciplinary procedures.
- Progress on improving the discipline of the budget process.
- Prepared a draft Budget and Financial Management Law which is expected to be submitted to the Council of Ministers in early 2005.

b. Service Delivery for Poverty Reduction

- Service delivery targets for DPT3 and measles immunization, and for outpatient attendance have been exceeded.
- Established curriculum working groups and prepared a draft curriculum which will be finalized in 2005.
- Completed the identification and registration of veterans.

c. Job Creation

- Made progress in establishing a regulatory framework for development of the private sector and in creating interventions which are intended to create employment opportunities.

IV. Conclusions

As a new nation, Timor-Leste faced the immediate needs of reconstruction and rehabilitation, for which international donors pledged substantial amounts of assistance well before independence, as well as the need to provide social sector services, primarily health and education.

GBS Mechanism

Because Timor-Leste was unable to generate sufficient government revenue, it required assistance in financing its budget deficit. For this reason, and because of unique country conditions, most donors and government officials agree that GBS offers an appropriate way to meet Timor-Leste's short term assistance requirements.

The TSP was designed specifically for Timor-Leste, a country with a new government that possesses a will and commitment to responsibly govern but that is hampered by a lack of capacity. Given these country conditions, it is not surprising that the World Bank assumed a strong oversight role which has imparted to Timorese officials the discipline needed to manage a national budget and account for public funds. In essence, the World Bank has played a positive role in capacity building with the Ministry of Planning and Finance.

Donors report that the World Bank, in implementing and overseeing the TSP, has instilled confidence in the program and has provided sufficient justification to continue funding the program, which ensures a predictable flow of funds to the Timorese government.

With respect to the overall benefits of the TSP with GBS as its principal funding mechanism, government officials and donors alike expressed satisfaction with the ease of management and administration. Like the host government, many bilateral donors are thinly staffed and view the TSP as a useful and effective vehicle for providing assistance to Timor-Leste.

Ownership

The tasks of managing the budget may seem at times overwhelming to the Timorese. Nonetheless, the team did not discern any compromise in Timorese ownership of decisions over major policy items, notwithstanding the rigor of the TSP reporting and review processes. GOTL officials consider the TSP Action Matrix a policy tool which is as much theirs as the donors. This is made evident by the GOTL's active participation in policy discussions. The Matrix also proved to be a highly useful way to engender donor harmony, though there was some indication that donor unity might be perceived as pressure that interfered with a local sense of sovereignty.

Centralizing vs. Delegating

An unintended side effect of the World Bank's active participation in the TSP is the tendency for decision-making power to be centralized in the MoPF is reinforced. This tendency may have grown out of concern for other ministries that weren't capable of sound budgetary and financial management and/or a heightened sense of fiduciary responsibility. While the centralizing impulses might be laudable from a fiduciary perspective, the down side is the government's inability to disburse funds in a timely manner. Since the host government was sensitive to the political ramifications of poor budget execution, it has taken steps to minimize this problem by setting up a committee chaired by the Prime Minister to review budget expenditures periodically through their fiscal year.

Assistance Instruments: Programs and Projects

Interviews with host government officials did not reveal strong opinions regarding the merits of various types of assistance over others. In large part this is because the government has not had much time to experience a variety of strategies and approaches. However, sector support or sector wide assistance approaches (SWAs) were not considered, as the line ministries had yet to develop coherent sector priorities which are now evolving.

The Timorese experience with projects is limited to TFET-financed post-conflict short-term rebuilding efforts. According to a draft European Commission (EC) evaluation, the success of these efforts is mixed. Though the imperatives of short-term objectives were met in some cases, this was done at the expense of local involvement in some instances. Anecdotal evidence suggested that Timorese government officials were dissatisfied with this state of affairs which led the team to conclude initially that projects may not be the preferred mode of assistance. Our initial conclusions were not correct, as the study team also learned that once significant oil and gas revenues are generated, the GOTL intends to phase out of the TSP and opt for project assistance from donors. While this choice may differ from what some in the donor community believe to be preferences of host governments receiving assistance, the Timorese believe that project assistance can address their capacity constraints at the micro level through joint planning and implementation. While this belief may have some merit, if the Timorese learn from the shortcomings of project assistance, the team believes that project assistance is clearly not sufficient to address the capacity constraints throughout the institutions of government.

Conditionality

The literature and donor experience suggest that GBS designs exclude conditionality in the normal sense (i.e. where host governments receive funds in exchange for certain reforms). Though the TSP contains no apparent conditionality, there is a strong incentive for the government to work toward the goals specified in the Action Matrix. Under the TSP donors and recipient agree on policy measures to be taken over the course of the following year. Once agreement on policy measures is reached funds are released. In Timor-Leste there is an implicit understanding that if the government makes less than

satisfactory progress toward measures agreed to on the Action Matrix, donors have the option of withholding funds after the subsequent round of discussions.

Capacity Building

Because Timor-Leste was faced with a new government and fledgling institutions, capacity building was essential. As such, the World Bank and other donors could not “buy-in” to existing capabilities and systems, as may be the case in other countries with a more established history of development. Nonetheless, the Timor-Leste case does suggest that, when GBS constitutes a major component of an assistance strategy, donors should carefully scrutinize a host government’s existing capability to manage its budget processes and, where necessary, incorporate capacity building as a design component. This has worked effectively in Timor-Leste where there is one lead donor who assumes the burdens of leadership, management, and administration.

Exit Strategy

Because government revenue from oil and gas will soon be generated, Timor-Leste has an obvious and natural exit strategy for GBS. In part, the exit strategy is also based on whether the country will have the foundational capacity to manage its budget, albeit with the assistance of expatriate advisors. Though Timor-Leste faces a special circumstance, the notion of an exit strategy is applicable to the design of other host countries’ GBS programs where both capacity and revenue factors play a determining role. This is especially important in cases where GBS comprises a large component of the national budget or is central to donor assistance strategies.

Donor Harmony is Multifaceted

There is a near unanimous view that the TSP has engendered strong donor harmony, beginning with a common set of administrative and reporting procedures which all donors and host government ministries welcomed. At the inception of the TSP, the World Bank insisted on unified procedures that reduced the management burden on donors and host government partners alike.

Given Timor-Leste’s significant development needs, some donors may have found it tempting to impose their particular assistance programs on the GOTL that might have led to minimal concern for overlap, duplication, or conflict with other donor efforts. Largely under the World Bank’s leadership, the TSP has avoided such fragmentation and has achieved unity.

While donor harmony is generally viewed in a positive light, in terms of Timor-Leste’s policy matters it might have negative implications. While donors were unified in their views on key budgetary or policy issues, a positive development from the donors’

perspective, the study team believes the host government may have perceived the pressure of unified donors problematic to contend with. The study team was left with the impression that, partly for this reason, the government is phasing out of the TSP and has opted for project assistance. Clearly, the government feels that it may be easier to deal with the donor community on an individual basis. It is not clear whether the Timorese officials are aware of the potential shortcomings of this approach and the remedies needed to be in place to minimize them.

Fiduciary Risks and Corruption

The GOTL has instituted a sound system of financial controls to manage funds, where decision making is centralized and fiduciary risks are minimal. This provides a measure of comfort to donors. But donors are also interested in seeing that funds are steadily expended. When a financial system is highly centralized the result is poor budget execution which has been the case in Timor-Leste. The tendency towards centralization has gained the attention of donors and was included as an item on a recent Action Matrix. This has resulted in legislative measures to streamline procurement and a UNDP pilot program that tests the viability of decentralizing authority to districts. These are steps that are aimed at striking the right balance between concerns for risks and getting funds flowing through the system to provide necessary services.

Owing to the World Bank's role and to the fact that the importance of wisely managing the country's natural resources has been recognized, the team found no evidence of large scale corruption in government circles.

Annex 1: Non-Project Assistance: Definitions

Balance of Payment Support

Balance of Payments support refers to resource transfers, in either foreign exchange, cash, and/or as a commodity import program. This modality is intended as short-term or medium-term assistance and is used to address immediate gaps in a country's balance of payments. Its primary purpose is to promote economic and political stability.

Sector Program Assistance

This form of assistance focuses on constraints to sustainable growth at the sectoral level and usually refers to a broad area such as agriculture, industry, education, health or exports. This modality supports the implementation of reforms intended to overcome sector development constraints and relies on disbursements based on policy conditionality in separate donor agreements. Sector Program Assistance promotes medium- to long-term increases in production or efficiency in a specific economic sector or sectors.

Sector Wide Approach (SWAp)

A SWAp is an unusual acronym, with capital and lower case letters. It is not the same as sector program assistance. Sector program assistance includes an agreed policy and expenditure plan for a sector. USAID disbursements are dependent upon the government meeting the agreed conditionality. An individual donor usually negotiates its own sector agreement. In contrast, a SWAp aims to coordinate all donor assistance in support of a common sector expenditure program. SWAp financing typically includes a range of donor budget support, project aid and technical assistance, which may or may not be earmarked to specific expenditures or disbursed through the government's own budget process. The defining characteristic of a SWAp is that donor funding for a sector supports a single sector policy and expenditure program. The government provides the leadership and donors adopt a common approach to support the government's effort.

General Budget Support

In the course of preparing this report, we became aware of differences in the international development community regarding the definition of GBS and how GBS may differ from other forms of program assistance. The definitions below attempt to shed some light on the matter and discuss why Timor-Leste's Transition Support Program may be best categorized as GBS, even though Timor-Leste may not be considered a typical GBS-recipient country and why, from a legal perspective, USAID does not regard TSP as GBS but rather as project assistance.¹⁰

¹⁰ USAID transfers TSP funds to the World Bank in the form of a grant. Funds are then placed in a World Bank managed account and later disbursed to the Government of Timor-Leste in the form of general budget support. Because resources are initially in the form of a grant to a multi-lateral institution rather than directly channeled to the recipient government, from USAID's perspective, TSP-funding is categorized as project assistance rather than program assistance. It is important to note that other donors may categorize the TSP differently.

1. USAID Definition

USAID divides foreign assistance into project assistance and program assistance. Program assistance, which is also referred to as non-project assistance, “provides a generalized resource transfer, in the form of foreign exchange or commodities, to the recipient government (USAID, ADS)”. USAID recognizes two types of program assistance: sector program assistance (SPA), and balance of payments and budget support. Though it recognizes that balance of payments support and general budget support are two separate tools, the ADS imply that they are very closely related but do not address them individually.

The objective of balance of payments and budget support is to provide “a generalized resource transfer to the recipient country [and in some cases] is designed to support short- and medium-term economic or political stabilization through measures which address immediate gaps in the country’s balance of payments or budget (USAID (1996, p. 12)).” GBS is usually performance-based, rather than based on ex ante conditions precedent.

One common characteristic of GBS which is agreed on by all development organizations is that funds should not be earmarked. According to USAID, general budget support “implies support to a host government budget at the level of the general fund ... [including] funding host governments budget deficits”, but GBS cannot specify what funds will be used for (USAID, ADS 624). GBS is a mechanism for cash transfer and is distinguished largely by the fact that it is disbursed into the general budget rather than into a segregated account.

2. OECD/DAC Definition

OECD/DAC’s Terms of Reference for the Joint-Evaluation of General Budget Support offers a more specific definition. Unlike USAID, OECD/DAC divides program aid into food aid and financial program aid (see figure 2 above). Financial program aid is further subdivided into budget support, sometimes referred to as ‘direct budget support’, and balance of payments support such as debt relief and import support.¹¹ There are two types of budget support: general budget support and sector budget support. Though not explicitly stated, it is assumed that sector budget support refers to SWAs and sector program support.

OECD/DAC characterizes budget support as a system where funds are channeled directly to recipient governments using the recipient country’s procurement and accounting systems. Budget support entails “a lump sum transfer of foreign exchange, [but there may be differences] on the extent of earmarking and on levels and focus of the policy dialogue and conditionality (OECD/DAC, (2004, p. 3)).” Further, if budget support has

¹¹ It is important to note that USAID offers no official definition for the term ‘direct budget support’.

conditionality, it is usually “focused on improving public financial management and the effectiveness of the overall budget”. Funds are not specifically earmarked.

Table 2.1: Status of TSP II (FY 2004), Programmed Action

TSP II	Output / Indicator and Target	Changes in Programmed Actions	Completed	In Implementation	Re-scheduled to TSP III
GOVERNANCE – STRENGTHENING OVERSIGHT INSTITUTIONS					
A.1.1	Annual Legislative Programme of CoM, (ALP for FY2004); Policy and legislative process	Approved draft TORs. TA under recruitment.			
A.1.2	Office of the Provedor de Direitos Humanos e Justica operationalized	Provedor Law passed April 2004; Provedor to be appointed by September 2004			
A.1.3	Strategy for investigation of complaints regarding civil service; review previous investigations	Program of audits, investigations, reports completed			
GOVERNANCE – PUBLIC SECTOR MANAGEMENT					
A.2.1.a	Legislation on State Administration and Local Government	Pending decisions on Options & Comparative Studies, & policy formulation			
A.2.1.b	Legitimized community authorities in sucos and aldeias according to programme	Legislation on suco councils approved; electoral registration scheduled early FY2005			
A.2.1.c	Strengthen staff capacity to implement the reforms on administrative decentralization and local government	Deleted. Part of NIPA program. Specific actions related to A.2.1.a not foreseen.			
A.2.2.a	Civil Service Statute	Approved April 2004; TSP III will follow up with required supplementary regulations			
A.2.2.b	Disciplinary procedures manual approved and management trained in implementation	Manual drafted. Disciplinary proceedings identified as current priority.			
A.2.3.a	HR Policy addressing, amongst others: recruitment; appraisal and information	No action taken. Pay and career progression, identified as FY07 outcome.			
A.2.3.b	Line agency HR Management Units in all agencies	Gradually on the basis of the organic laws in process of approval by each line agency			
A.2.3.c	25% of permanent staff on payroll registered in CHRIS database with supporting personnel files	Pending decision on options raised by HRMIS. Manual recording ongoing.			
GOVERNANCE – STRENGTHENING THE JUSTICE SECTOR					
A.3.1	Law on Public Prosecutors and Public Defenders	Draft Public Prosecutor Law to be submitted to Parliament; Draft Public Defenders Law under consultation with MoJ.			
A.3.1.a	At least eight sessions of the SCJ conducted				
A.3.1.a	Improved annual ratio of cases taken to courts and cases accepted in courts	Baseline data still to be obtained.			
A.3.1.a	Improve ratio of cases resolved and cases lodged	Baseline data partially available; registration system requires review.			
A.3.1.b	Decree Laws on Notary and Civil Registration Codes, and Laws on Civil Identification and Public Registry Codes; Related systems established and services delivered	Changes from Decree Law (passed by CoM) to Law (enacted by NP) implied rescheduling.			

Table 2.2: *Status of TSP II (FY 2004), Programmed Actions (continued)*

TSP II	Output / Indicator and Target	Changes in Programmed Actions	Completed	In Implement ation	Re-scheduled to TSP III
GOVERNANCE – PLANNING AND PUBLIC EXPENDITURE MANAGEMENT					
A.5.1	Human Resource Development (HRD) strategy in place and is monitored each quarter	Proposed actions shifted to TSP III. Priority given to disciplinary regulation and planning of action required.			
A.5.2.a	Annual and Mid Year Budget Update cycle managed within legislative and administrative timeframes and agreed TSP parameters				
A.5.2.b	Power Management Contract Deliverables	Contract approved, handover March 2004. Monitoring to begin shortly thereafter.			
A.5.3	Government annual planning exercise well understood by ministries and AAPs are consistent with Road Map and annual budgets	Training activities implemented.			
A.5.4	High Level Mechanism (HLM), which represents key stakeholders, able to establish itself as a fully independent body by 31/3/04	Further actions and schedule will be determined by a steering committee.			
A.5.5	Budget support and TA mobilized				
A.5.6	Accurate, comprehensive and timely data on economic and social indicators available to all	Some delays to production of national accounts will now be addressed in Q2			
A.5.7.a	Citizens informed about government revenue, budget and programs	Citizen's guide prepared but not yet distributed. Some urgency given forthcoming MYBU.			
A.5.7.b	Internal and external audits confirm RDTL financial management is compliant with revised Budget and Financial Management Act	Revised budget law still has not been submitted to the CoM by MoPF			
A.5.8.a	Timely completion of procurement requests in line with targets	Reports prepared, but show significant lags in procurement. Expect improvement in Q2 and			
A.5.8.b	FY04 Government procurement strategy in place and efficient delivery of procurement services; Procurement legislation in place by end 2003	Procurement legislation requires further revision.			
A.5.8.c	Agency finance officers able to manage procurement processes; Enhanced capacity of procurement officers	Some training delivered			
SERVICE DELIVERY FOR POVERTY REDUCTION – HEALTH					
B.1.1	9 priority Micro Policies developed	28 micro-policies at various stages, broadly meeting original target			
B.1.2	Hospitals: less than or equal to 40% of core CFET health expenditure	41% - consistent within margin of error			
B.1.3	Children under one year immunized with DPT3: base 58%, target 68% (annual average)	71% at Q3			
B.1.3	Children under one year immunized against Measles: base 49%, target 58% (annual average)	66% at Q3			
B.1.3	Deliveries attended by skilled health staff: base 40%, target 45% (annual average)	43% at Q3, with expectation that annual target will be met			
B.1.3	Outpatient visits per capita per annum: base 1.65, target 1.8 (excluding Dili and Baucau Hospitals)	2.4 at Q3			

Table 2.2: *Status of TSP II (FY 2004), Programmed Actions (continued)*

TSP II	Output / Indicator and Target	Changes in Programmed Actions	Completed	In Implement ation	Re-scheduled to TSP III
B.1.3	District Health Plans in place and monitored in all districts	Planning methodology and tools developed and disseminated; DHPs now produced routinely			
SERVICE DELIVERY FOR POVERTY REDUCTION – EDUCATION					
B.2.1	Approved education policy framework paper Draft National Education Law	Draft policy prepared; approval expected May 2004.			
B.2.2	Overall curriculum framework and program for primary education developed, adopted and implemented	Completion delayed; curriculum to be piloted at start of 2003-4 school year			
B.2.3	D3 Bachelarato program developed and initiated All teachers in pre-secondary education have the D3 as minimum qualification in 3-5 years time	1,000 students enrolled rather than 300; instructors being identified for 2 nd stage			
B.2.4	50 key managers complete educational management training program; Process for channeling funds through School Councils (SCs) piloted	Procurement for course delayed, planned for May 2004; school funds pilot deferred to TSP III.			
SERVICE DELIVERY FOR POVERTY REDUCTION – VULNERABLE GROUPS (VETERANS ISSUES)					
B.3.1	Definition of veterans and ex-combatants criteria; identification & registration; and definition of sustainable policy for veterans and ex-combatants.	Registration and definition completed, with consultation; policy deferred to TSP III.			
JOB CREATION – PRIVATE SECTOR DEVELOPMENT					
C.1.1	Passage of company and investment laws and possibly insurance and bankruptcy laws	Company law passed; 2 laws on investment reviewed; investment and bankruptcy laws in draft			
C.1.2	Decree laws: land administration, mediation, land cadastre/registration system and management of state owned properties				
C.1.3	2,762km of roads maintained; 122 working days created per km per annum	On schedule through December 2003; stopped pending budget reallocation			
C.1.4	Commitment from Timor Sea operating companies to invest onshore, preparation of onshore investment and development plan, and commencement of				
C.1.5	Commitments from sponsoring firms approved, 500 overseas jobs created	1 st group of workers to be sent overseas in early FY2005			
JOB CREATION – AGRICULTURE					
C.2.1	Policy adviser and 4 local staff recruited; Training program of MAFF Policy and Planning Unit staff offered; MAFF Policy Framework developed	Unit created, staffed, with some training; policy framework to be presented to CoM in May 2004			
C.2.2	New Fisheries Law and regulations, Licensing system for offshore fisheries; Community-based management legislation for near-shore fisheries	Fisheries and Licensing Laws completed; community-based management to start in Q4			
C.2.3	Six communities in six different districts assisted in integrated farming	On schedule for annual completion			
C.2.4	Pilot project completed and recommendations made for expansion (cocomut/candlenut oil processing)				
C.2.5	3 community-managed reforested areas successfully maintained 90% survival rate for planted trees	On schedule			

Table 2.3: Draft FY 2005 Action Matrix for TSP III

Program Component: (NDP Goal, Ministry AAP)	Expected Output: and Outcomes: (FY04-05)	Performance Indicators: and Targets: (FY04-05)	Expected Outcomes: (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
SECTION A.1: GOVERNANCE – STRENGTHENING OVERSIGHT INSTITUTIONS								
A.1.1: Raise awareness of citizens' rights and respect for rule of law, defend citizens from abuse of power by public administration; and safeguard against corruption and nepotism. (NDP pages 109 and 111-112)	(Provider appointed). Office of Provider established, equipped, and staffed. Annual report submitted to Parliament		Office of the Provider established and functioning. Public educated on rights and redress mechanisms.	Office of the Provider de Director Humano e Justicia (WB; UNDP)		• Provider recruited, and office established		• Annual report submitted to Parliament
SECTION A.2: GOVERNANCE – CORE GOVERNMENT FUNCTIONS								
A.1.1: Ensure implementation of annual legislative program (NDP page 119)	Policy and legislative process approved		Policy and legislative process followed by	SoSCoM (UNDP)	• Draft proposal for policy and legislative process submitted to CoM		• Policy and legislative process approved by CoM	
A.1.2: Create a lean, effective, and efficient civil service free of corruption and nepotism. (NDP pages 21, 107, 138)	Summary reports on investigation and corrective measures published (pending discussion). Organic Law on Office of the Inspector General passed	16 reports on investigations completed.	OIG reinforces accountability, through inspections and investigations, recommendations are implemented and reports are published.	Office of Inspector General (WB, UN/MISET)	• Organic Law of Office of Inspector General approved, including competencies, division reporting requirements and referral of criminal cases.	• Summary reports on investigations and corrective measures published (pending discussion)	• Webpage launched	• Summary reports investigation and corrective measures published (pending discussion)
	Options study on income and asset register		System for income and asset declaration established and enforced	MSA			• Income and asset register options study submitted to CoM	
A.1.3: Ensuring adequate oversight over public funds through independent audit (NDP pages 5, 24, 39-43)	Options study on transitional arrangements for independent audit		Transitional independent audit arrangements in place	PMO, COA			• Options study submitted to CoM	

Program Component: (NDP Goal, Ministry AAP)	Expected Output: and Outcomes: (FY04-05)	Performance Indicators: and Targets: (FY04-05)	Expected Outcomes: (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
A.1.4 Effectively manage oil and gas revenues and savings to benefit present and future generations. (NDP pages 7, 24, 30, 67, 76-79, 88-91, 213)	Draft Petroleum Fund Law, saving policy EFTI plan and report		Petroleum Fund established, savings policy implemented Reporting to EFTI standards	PMO, TSO		• Draft Petroleum Fund and savings policy published and commitments launched		• Draft Petroleum Fund Law submitted to Parliament • Assessment of progress on EFTI in 2004 and implementation plans
SECTION A.3: GOVERNANCE – PUBLIC SECTOR MANAGEMENT								
A.3.1: Decentralize government and empower communities to manage their local affairs (NDP pages 40, 44 and 138)	Draft Policy and implementation plan for Local Administration		Legislation Local Government approved and on implemented, with transfer of resources to local administration	MSA,NDTA (Beland, UNDP)	• Selection of Local Administration option		• Draft Policy for Local Administration and implementation plan subject to consultation	• Draft Policy for Local Administration and implementation plan submitted to CoM
A.3.2: Development of the legal and regulatory framework for the civil service	Plan for Public Service Statute complementary legislation and regulations Disciplinary Regulation	Disciplinary proceedings conducted as per regulation	Legislative and regulatory framework for civil service in place and applied	MSA/NDPS (UNDP)	• Civil Service Act and Ethics Code, and disciplinary procedure disseminated	• Plan for complementary legislation and regulation of Public Service Statute approved by MSA	• Draft Disciplinary Regulation submitted to CoM	• Disciplinary Regulation approved by CoM
A.3.3: Development of human resources management system	Plan for personnel filing system for Public Servants approved, funded, and implemented	Coverage of personnel filing system (baseline 3,000 employees)	100% of public servants with up-to-date personnel files	MSA / all government departments / institutions (UNDP)		• Plan for implementation of a manual and computerized filing system approved		• Report on progress in implementation of filing system
SECTION A.4: GOVERNANCE – STRENGTHENING THE JUSTICE SECTOR								
A.4.1: Administer justice of technical quality independently, with respect for citizenship rights.	Public Prosecutor Organic Law approved	and Public Prosecutors Superior Council (PPSC) meetings	Public Prosecutor Organic Law enforced	MoJ/ PPO (UN/MISET)	• Public Prosecutor Organic Law submitted to Parliament	• Implementation program for Organic Law approved	• PPSC members appointed and regulations and procedures approved	• PPSC operates as per the regulations and procedures

Table 2.3: Draft FY 2005 Action Matrix for TSP III (continued)

Program Component: (NDP Goal, Ministry AAP)	Expected Output and Outcome: (FY04-05)	Performance Indicators and Targets: (FY04-05)	Expected Outcomes: (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
Secretary to cultural values and popular participation and involvement (NDP pages 21 and 108)	Public Defender Office Organic Law approved	Public Defender Superior Council (PDSC) meetings	Organic Law of Public Defender and Public Prosecutors enforced	Mo/PDCC (UNMSET)	• Public Defender Organic Law submitted to the CoM	• Public Defender Organic Law approved by the CoM • Implementation program for Organic Law approved	• PDSC operates as per the regulations and procedures approved • All 14 Timorese public defenders appointed, 13 paralegals at national level and in all districts	• PDSC operates as per the regulations and procedures
	Notary and registrations delivery systems implemented Public Registrations Decree Law approved	Birth, marriages and dead certificates issued within 30 days of request	Notary and registrations delivery systems extended to 8 districts, issuing identity cards on request	Mo/NDNR (UNICEF)		• Public Registration Decree law submitted to CoM	• Budget includes rehabilitation of premises and acquisition of required equipment	• Public Registration Decree law approved by CoM
	Law on domestic violence submitted to Parliament	Cases of domestic violence resolved according to the law	Law on domestic violence enforced by PNTL, PPO, judiciary and local authorities	OPE, MoI, PNTL, PPO, PDO (UNFPA, UNMSET)	• Draft harmonised with penal code and consultation undertaken	• Draft submitted and approved by the CoM	• Draft submitted to Parliament	
	SCJ inspections started and enforcement of decisions on disciplinary cases among judges and court staff	At least two inspections conducted and resolved	SCJ management and disciplinary authority enforced, disciplinary cases resolved and SCJ resolutions published	SCJ (UNDP, UNMSET, AusAID, Norway)	• SCJ resolves inspection reports on disciplinary cases among judges and court staff, and assures recording in personal files	• Enforcement of the SCJ resolutions on disciplinary cases brought up by inspection reports		• Resolutions of the SCJ published in the Official Gazette
	Back log reduced across the system (prison, investigation, public prosecution and trial)	80% fewer cases under trial in CoA (48 in March 2004) 60% fewer cases under trial in District Courts (200 in December 2003) 20% fewer cases under trial where accused is in prison	Reduction of backlog of cases, reduction of cases under trial where accused is in prison, with no cases exceeding 72 hr preventive detention	SCJ, CoA, District Courts, CoC, MoI/PNTL, Criminal Investigation/ Police (UNMSET, UNDP, USAID)	• Key staff for SCJ, CoA and Offices of Public Prosecutors recruited and offices equipped • At least 50% of international and Timorese judges, & staff recruited	• Back log cases analyzed and measures to reduce them taken by CoA, District Courts • Review of case filing, statistics, reporting, monitoring and management for consideration by CoA with PPO/ PNTL and CoC	• Occusal and Soni District Courts reopened and operating • Assistance on budget preparation and human resources management provided by MoPF and MSA	• Proposal on case filing, statistics, reporting, monitoring and management agreed by CoC meetings and in implementation • At least 30% of remaining international and Timorese judges, & staff recruited

Program Component: (NDP Goal, Ministry AAP)	Expected Output and Outcome: (FY04-05)	Performance Indicators and Targets: (FY04-05)	Expected Outcomes: (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
	Back log reduced across the system (prison, investigation, public prosecution and trial)	80% fewer cases under prosecution (1,803 registered cases in Dili by 23.12.2003)	Reduction of backlog of cases, reduction of cases under prosecution where accused is in prison	PPO, PFC (UNMSET, UNDP, USAID, UNICEF)	• 3 international and 7 Timorese public prosecutors recruited • Analysis of cases of violence against women and proposals for action made	• Back log cases analyzed and measures to reduce them taken by PPO • Review of case filing, statistics, reporting, monitoring and management for consideration by PPO with CoC/ PNTL	• Occusal and Soni District PPOs reopened and operating • Assistance on budget preparation and human resources management provided by MoPF and MSA	• Proposal on case filing, statistics, reporting, monitoring and management agreed by CoC meetings and in implementation • At least 30% of remaining international and Timorese judges, & staff recruited

SECTION A.5: GOVERNANCE – STRENGTHENING THE POLICE SERVICES

A.5.1: Strengthening the capacities of the institutions responsible for internal and external security (NDP pages 109, and 111-113, 117) a) Service Delivery	Enhancement of the relationship between the police and the community	Community oriented policing principles and gender sensitivity are included in all police policies, procedures and training courses	Responsiveness to community needs and concerns in PNTL service delivery	MOI – PNTL (AusAID, UK, UN, UNICEF, others to be confirmed)	• Training strategy includes gender sensitivity and community oriented principles	• Evaluation and revision of training courses, policies, and procedures	• Evaluation and revision of training courses, policies, and procedures	• Evaluation and revision of training courses, policies, and procedures
		Community awareness programs and community consultation mechanisms are established at district and sub- district level including specific programs on domestic violence	Greater engagement with the community by the PNTL and improved responsiveness to the needs of women	MOI – PNTL (AusAID, UK, UN, others to be confirmed)	• Pilot awareness programs including domestic violence have been developed • Community consultation mechanisms under development	• Pilot awareness programs including domestic violence are being delivered at 4 pilot sites • Community consultation mechanisms in place at each of the pilot sites	• Evaluation of the 4 pilot sites	• National strategy developed for community awareness program and community consultation developed including monitoring and evaluation
A.5.2: Raise awareness of citizens' rights and respect for rule of law, defend citizens from abuse of power by public administration, and safeguard against corruption and nepotism (NDP pages 109, and 111-112)	Independent review commission for police discipline (complaints) is established	Investigations into complaints against police are subject to an independent review Independent commission has the capacity to initiate investigations into complaints	Increase confidence and trust in the PNTL and confirmed refinement of the complaint investigation and independent review process	MOI – PNTL (UNMSET, AusAID, UK, UN, others to be confirmed)	• Promulgation of the law on police discipline • Stakeholder consultation on the independent review commission, including civil society and the Provider • Professional Standards unit of	• Independent review commission is established and includes representative/s from civil society • PSU staffing and training requirements identified and documented • PSU policies and	• Effective review of investigations into complaints about police • Investigations being initiated by the independent commission where appropriate • Liaison with Provider where necessary	• Evaluation of independent review commission including stakeholder consultation • On going training for PNTL PSU members

Table 2.3: Draft FY 2005 Action Matrix for TSP III (continued)

Program Component: (NDP Goals, Ministry AAP)	Expected Output and Outcomes (FY04-05)	Performance Indicators and Targets (FY04-05)	Expected Outcomes (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
a) Oversight mechanisms					PNTL procedures and policies under review to reflect the law on discipline	procedures review completed	• On going training for PNTL PSU members	
b) Policy and coordination	Agreed G-RDTL policy on policing in Tumor-Leste	Policy document drafted and approved by G-RDTL	Clear definition of police role and approach for all stakeholders	MOI - PNTL (UNMSET, AusAID, UK, UN, others to be confirmed)	• The G-RDTL develop a policy on policing for consultation with all stakeholders	• Stakeholder consultation is occurring	• Stakeholder consultation is occurring	• Policy is agreed and ready for promulgation
	Liaison mechanism with the public prosecutor established	Reduction in backlog of investigations	Improved standard and timeliness of investigations	MOI - PNTL (UNMSET, AusAID, UK, UN, others to be confirmed)	• Identification of most appropriate liaison and coordination approach	• Mechanism established	• Evaluation and review of mechanism	• Effective mechanism in place
SECTION A.6: GOVERNANCE – PLANNING AND PUBLIC EXPENDITURE MANAGEMENT								
A.6.1: Strengthen the capacity of the MoPF to manage public finance. (NDP pages 24 and 63) (EM pages 9 and 26)	MoPF and financial management cadre training program for FY05 implemented	MoPF and financial management cadre training program for FY05	Financial management system staffed by personnel trained and proficient in GTL procedures	MoPF -DAF (WB, AusAID, UNMSET, Portugal)	• FY05 MoPF training program for budget, expenditure management and procurement prepared	• Succession plans for all MoPF UN funded posts approved	• Report on MoPF training program implementation	• Report on MoPF training program and succession plan implementation
A.6.2: Implementation of efficient procurement and delivery of goods to line agencies in line with established rules and regulations. (NDP pages 43, 49-56, 22, 59, 63, 263, 268, 281, and 282-284) (EM page 9 and 26)	FY05 budget execution in line with appropriations schedule and agency procurement plans	Budget execution v. appropriations and authorization notices for education, health and roads. Procurement processing schedule	Budget execution in line with appropriations schedule (10% carryover against new wage appropriations)	MoPF (Treasury) MoH, MoECYS, MoPWT	• FY05 expenditure and procurement plan for education, health and roads approved by MPF	• FY05 MYBU submitted to Parliament	• Report on procurement processing against targets	• Report on procurement processing against targets
A.6.3: Implementation of a prudent, pro-poor expenditure policy. (NDP page 52-56, 62, 284-287) (EM pages 9, 12 and 26)	Combined Sources Budget (CSB) framework finalized. Published FY06 Annual Budget and MTEF	FY06 budget with CFET allocations for health, education, agriculture and roads taking into account CSB framework	Comprehensive budget and MTEF published, with allocations consistent with NDP priorities, and taking into account CSB framework	MoPF (NFD and BO) (WB, AusAID)		• MYBU completed taking into account CSB processes	• FY06 Budget Circular with hard limits which take into account CSB framework	• FY06 Budget finalized taking CSB into account
A.6.4: Ensuring transparency and accountability to the legislature in public	Timely and comprehensive financial reporting, and external audit of	Timely publication of Financial Statements and quarterly execution	Timely and comprehensive financial reporting, and independent	MoPF (Treasury)	• FY05 Financial Statement submitted to auditor	• FY05 Audit Statement and Management Letter submitted to	• Q2 Execution Report	• Q3 Execution Report

Program Component: (NDP Goals, Ministry AAP)	Expected Output and Outcomes (FY04-05)	Performance Indicators and Targets (FY04-05)	Expected Outcomes (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
expenditure management (NDP pages 24, and 67-69) (EM pages 9 and 25-26)	state accounts	Reports, Audit Statement and Management Letter	audit of state accounts			Parliament	• Q1 Execution Report	
A.6.5: Promotion of gender equality in all aspects of public administration. (NDP pages 26, 113, 116, 149, 154, 169)	Gender sensitive planning integrated into AAPs of MoH, MoE, MoI, PNTL for FY 2006	Action plans incorporating gender sensitive responses with matching budget available for next year	All ministries have incorporated gender sensitive actions into their plans and programs	OPE, with MPF and MoE, MoH, MoI, PNTL (Ireland)	• Gender perspective situational analysis completed in 3 ministries	• Gender analysis of the SIPs (OPE/GFP line ministries)	• Monitoring progress in mainstreaming gender into AAPs in 4 agencies completed (OPE w/ministry)	• Integrating gender sensitive responses into AAPs for next fiscal year (OPE w/ministry)
SECTION B.1: SERVICE DELIVERY FOR POVERTY REDUCTION – HEALTH								
B.1.1: Development of health policy	Improved cohesancy and direction for health interventions	4 health policies/ strategies developed and approved: Primary Health care, Maternal health, Child Health, Communicable disease	Established process for monitoring and identifying constraints in policy implementation	MOH (TFET, WHO, UNICEF, EU)	2 drafts developed	2 drafts developed 1 policy approved	1 policy approved	2 policies approved
B.1.2: Strengthen planning and resource allocation to improve service delivery	Effective resource allocation, leading to continued emphasis on Primary Health Care	Hospital expenditure less than or equal to 40% of CFET recurrent budget	Hospital expenditure less than or equal to 40% of CFET recurrent budget, and reported routinely in budget reports	MOH, MOPF	≤ 40%	≤ 40%	≤ 40%	≤ 40%
	Introduction of management tools to improve performance of hospitals within established resource constraint	Hospital Annual Activity Plans disseminated	Hospital Activity Plans are prepared on routine basis and are used to guide resource allocation and budget monitoring	MOH (TFET)	• Draft process prepared	• Internal and external consultation completed, with agreement on draft process	• Hospital Annual Activity Plans developed for FY05-06 year	• Dissemination of Hospital Annual Activity Plans to key stakeholders (internal and external)
	Introduction of effective prioritization of district activities and resource allocation, including inter-sectoral coordination and gender focus	Six monthly report prepared for all districts focusing on service indicators, analyzed and discussed with districts	Multi-annual implementation reports to monitor DHP implementation are prepared and used to improve district-level outcomes	MOH (TFET, UNICEF)	• Tools for six-monthly reporting designed and disseminated	• Follow-up of DHP implementation and identification and support for implementation issues	• First six-monthly implementation reports prepared in all districts and reviewed by MOH	• Six-monthly district implementation reports discussed with district

Table 2.3: Draft FY 2005 Action Matrix for TSP III (continued)

Program Component: (NDP Goal, Ministry AAP)	Expected Output and Outcomes (FY04-05)	Performance Indicators and Targets (FY04-05)	Expected Outcomes (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
B.1.3: Improve delivery of health services	Reduced child morbidity through immunization	DPT3 rate: 72% and Measles rate: 70%	DPT3: 80% and Measles: 80%	MOH	DPT3: 69% Measles: 68%	DPT3: 70% Measles: 68%	DPT3: 71% Measles: 69%	DPT3: 72% Measles: 70%
	Improved maternal and neo-natal health	Percent of deliveries attended by skilled health staff, 50%	Percent of deliveries attended by skilled health staff, 60%	MOH	47%	48%	49%	50%
	Increased utilization of services	Outpatient visits per capita 2.4	Outpatient visits per capita 2.7	MOH	2.3	2.35	2.35	2.4
SECTION B.2: SERVICE DELIVERY FOR POVERTY REDUCTION – EDUCATION								
B.2.1: Establish the policy and legislative framework for the educational sector (NDP pages 2, 6, 31, 152-157, and 160-162)	Basic Law on Education Organic Law Draft laws on private schooling, secondary institutions	Laws completed and submitted to appropriate bodies	Institutional structure and expenditure aligned with policy objectives	MoECYS DG, Planning; Tertiary; (Brazil Portugal TFET/FSQP UNICEF)	• Basic and Organic Laws submitted to CoM • Regulations drafted on tertiary education and private schools	• Basic education law submitted to Parliament • Organic law approved by CoM • Consultation on tertiary education and private schools regulations	• Regulations on tertiary education and private schools issued	
B.2.2: Improving access and efficiency in basic education (NDP pages 152, 160, 162)	Improved internal efficiency of primary and pre- secondary schools	Enrollment, completion, repetition and dropouts, by grade and gender, as collected in EMIS	Improvements in monitored efficiency indicators for basic education	MoECYS Primary, Planning (TFET/FSQP UNDP UNICEF)	• Study of main causes of dropout and repetition	• Action plans for repetition and drop out reduction prepared	• Implementation of action plans	• Evaluation of initial results prepared
B.2.3: Improving the quality of education (NDP pages 9, 44, 133- 137, 152-157 and 160- 162)	Distribution of teaching materials and guides to all 650 primary schools Adoption of new primary education syllabuses	Proportion of Grade 3-5 students pass standard tests Piloting of new primary school syllabuses in 32 school clusters	Improved student achievement	MoECYS Curriculum; Finance/Adm. (Portugal Australia TFET UNICEF)	• Distribution of math and science materials • Begin pilot of new syllabuses (6-8 subjects) • Teachers for pilot trained	• Distribution of health and physical education materials (grade 2)	• Distribution of health and physical education materials (grade 3)	• Distribution of health and physical education materials (grade 4) • New syllabuses revised and approved
B.2.4: Improving the educational, financial and administrative management capacity through training of educational managers (NDP pages 9, 44, 133)	Pilot grant mechanism in primary schools implemented and decision made on future follow-up	System for channeling funds to schools decided and adopted	Improved availability of resources for primary school operation and maintenance	MoECYS Finance/Adm. (UNICEF MPP)	• Training for pilot completed • Funds distributed to District Finance officers	• Schools have completed pilot and submitted liquidations	• Report on pilot received and decisions made on recommendations	

Program Component: (NDP Goal, Ministry AAP)	Expected Output and Outcomes (FY04-05)	Performance Indicators and Targets (FY04-05)	Expected Outcomes (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved : by 31 March 2005	Achieved by 30 June 2005
133, 152-157 and 160- 162)	MoECYS divisions provide monthly financial management reports and senior MoECYS staff initiate appropriate actions	Total amount spent by quarter (cash basis) on goods and services for primary, pre-secondary and technical-vocational education	Improved management of the education sector, through improved budget execution	MoECYS Finance/Adm. MPP (UNMISSET TFET/FSQP)	• 1st Q budget execution report; commitments in line with EANs • Procurement plan for FY05 prepared	• 2nd Q budget execution report; commitments in line with EANs	• 3rd Q budget execution report; commitments in line with EANs	• Full year analysis of budget execution; commitments in line with EANs

SECTION B.3: SERVICE DELIVERY FOR POVERTY REDUCTION – VULNERABLE GROUPS (VETERANS ISSUES)

B.3.1: Recognize veterans of the resistance. (NDP page 132)	Veterans Policy approved Veterans legislation submitted to Parliament	Veterans policy finalized	Veterans recognized in accordance with law, and Government, NGO, and donors follow national policy in efforts to assist veterans	SLSV VAU (SET/ENV) Office of the President (WB, USAID)	• Decision regarding use of database	• Draft policy completed and public consultations undertaken	• Policy finalized • Draft legislation submitted to CoM	• Recognition measures as defined by law commenced • Decision on registration of quidro-civil and Chadoninos by President • Legislation submitted to Parliament
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SECTION C.1: JOB CREATION - PRIVATE SECTOR DEVELOPMENT

C.1.1: Emigrant Workers Program (NDP pages 26, 27 114, 226, 227)	An operational emigrant workers program for men and women, reduced supply of labor locally, foreign exchange earnings	Number of workers sent overseas – 500	Reducing supply of labor locally by exporting 1000 workers; Earning \$2m in foreign exchange	SLS (UNDP, Ireland)	• Employment agreements with Malaysian companies and preparatory training of initial batch of workers	• Sign MOU with Malaysia • Renew reporting of numbers of workers, work sector details	• With BPA, measure value of remittances, from overseas workers	• 500 workers sent to Malaysia and First batch of workers to South Korea • Implementation of monitoring program
C.1.2: Private Sector Regulatory Development: bankruptcy; leasing; insurance; collateral; cooperative; contract; credit and collateral registry, (NDP p 24, 26-29, 66, 119, 230- 232)	Improved private sector enabling environment which has created greater regulatory certainty for investors	Laws passed on bankruptcy, insurance, collateral, leasing and contract	Strengthened private sector enabling environment that has led to increased levels of investment, trade and business activity, up from baseline GDP	MDE, STL, MoI, BPA (WB, UN, Portugal, DMF, USAID)	• CoM approval of bankruptcy and cooperative laws; drafting of laws on contract and collateral; approval of policy on credit and collateral registry	• CoM approval of draft contract and collateral laws • Drafting of law on leasing • Development of combined credit and collateral registry	• Commencement of operations of credit and collateral registry • CoM approval of draft leasing law	• Commencement of operations of collateral registry
C.1.3: National Program for Entrepreneurship (NDP pages 242, 243, 233, 237)	Greater public awareness of the scope for employment through entrepreneurial activities	National Forum on entrepreneurship conducted. Dedicated know- how programs – 10 courses 300 participants New entrepreneurs –	Contribution to the economy through creation of 200 entrepreneurial jobs	MDE, STL, MECYS (WB, USAID, UNIDO)	• Building on success of small business and entrepreneur training, conduct national forum on entrepreneurship	• Ongoing entrepreneurship programs, inclusion in secondary and tertiary business studies curriculum	• Public awareness campaign and building focus on entrepreneurial activity as substitute for job	• Continuing structured training in entrepreneurship through BDCs and encouragement of such training by private orgs

Table 2.3: Draft FY 2005 Action Matrix for TSP III (continued)

Program Component (NDP Goals, Ministry AAP)	Expected Output and Outcomes (FY04-05)	Performance Indicators and Targets (FY04-05)	Expected Outcomes (FY06-07)	Agency/ Donor Responsible	Achieved by 30 Sept 2004	Achieved by 31 Dec 2004	Achieved by 31 March 2005	Achieved by 30 June 2005
		100						
C.1.4: Investment and Export Promotion Agency (NDP pages 242, 243, 246)	An effective FDI promotion body, successfully attracting new investment and creating jobs	New FDI - \$2m New jobs - 200	New FDI attracted and improved export levels - Target of \$10m in FDI, \$20m in exports, 1,000 new jobs	MDE (WB, USAID)	<ul style="list-style-type: none"> Staffing of IEPA commenced Appointments to IEPA Board Operational arrangements of IEPA confirmed 	<ul style="list-style-type: none"> IEPA strategy prepared and approved Investment Information management system set up 	<ul style="list-style-type: none"> Investment and sectoral promotional materials prepared 	<ul style="list-style-type: none"> Ongoing operations established Transfer of skills and capacity to counterparts
C.1.5: Community-Based Maintenance of Roads (NDP pages 27, 132-134, 137, 230-231, 272 and 273)	1,000 annualized jobs created and programmed road maintenance completed	2,762 km of roads maintained 122 working days created per km per annum (1,000 annualized job)	Road maintenance maximizing labor output	MITCPW	<ul style="list-style-type: none"> Implementation of CBM roads program, reports recording job creation statistics 	<ul style="list-style-type: none"> Implementation of CBM roads program and capturing and recording job creation statistics 	<ul style="list-style-type: none"> Implementation of CBM roads program and capturing and recording job creation statistics 	<ul style="list-style-type: none"> Implementation of CBM roads program and capturing and recording job creation statistics
SECTION C.2: JOB CREATION - AGRICULTURE								
C.2.1: Policy and Planning Development (NDP pages 174, 176 and 186-197) AAP: Policy and planning PC 1 and 3	Target for sub-sector action plans set and first batch completed MAFF Database and MIS system initiated	Four sub-sector action plans completed Development targets set for database and MIS systems	12 sub-sector action plans completed; policy capacity increased MAFF database and MIS system fully operational	MAFF Div. of Policy and Planning Services (ARP, FAC, USAID)	<ul style="list-style-type: none"> Develop timetable for departmental and sub-sector action plans Design overall DPPPS MIS and stats database 	<ul style="list-style-type: none"> With MAFF depts, complete sub-sector action plans 	<ul style="list-style-type: none"> Complete plan for MAFF statistical database Link database and MIS to ALGES 	<ul style="list-style-type: none"> Complete four sub-sector action plans Have operational MIS that meets design specifications
C.2.2: Sustainable Marine Fisheries (NDP pages 187-188, 191-192, and 206) AAP: Fisheries and Aquaculture Development PC 2	Development of offshore marine fisheries industries initiated	Evaluate the results of licenses for Skipjack Tuna (where there is first resource management plan).	Phase I of the development of offshore marine fisheries industries achieved	MAFF Dept. of Fisheries and Aquaculture (AusAID)	<ul style="list-style-type: none"> Implementation action plan for licensing 	<ul style="list-style-type: none"> Begin to issue licenses and design monitoring database 	<ul style="list-style-type: none"> Establish monitoring for offshore fishing 	<ul style="list-style-type: none"> Produce evaluation report on the first year of offshore licensing
C.2.3 Food Production and Food Security (NDP pages 171-209) Irrigated Rice (PC 3); and Rain-fed upland food crops (PC 1)	Irrigated rice economics assessed Irrigated water policy completed Action plan for food crop seed and tuber multiplication developed	Baseline yields for irrigated rice, upland maize, and bean established	Sustainable irrigated rice systems identified Food crop seed and tuber multiplication and distribution system established (indicators: yield increase for rice and maize)	MAFF Division of Irrigation and Water Mgmt., Division of Food Crops (ADB, GTZ, ACTAR, UNDP)	<ul style="list-style-type: none"> Evaluate rice yield reports and adjust methods as needed Begin seed and tuber multiplication system planning 	<ul style="list-style-type: none"> Final Report on Agricultural Water Policy 	<ul style="list-style-type: none"> Evaluate rice yields for 1st crop 	<ul style="list-style-type: none"> Begin to establish regulations for agricultural water policy National plan for upland seed & tuber multiplication and distribution completed

Annex 3: Management Capacity of Timor-Leste Government

Management capacity and institutional strengthening have been ongoing issues since the independence of Timor-Leste. Prior to that time, the civil service in Timor-Leste employed approximately 28,000 people, most of whom were Indonesian. After independence many of the Indonesians left and new institutions had to be established. Both bilateral and multilateral donors as well as Timor-Leste government officials recognize the importance of strengthening staff in all ministries, especially the Ministry of Planning and Finance (MoPF).

a. Donor Perspective

Capacity building is directly linked to the TSP program. Managing the budget under TSP is in itself a type of on-the-job-training, capacity-building mechanism. Using this method, it is hoped that Timorese will eventually learn to manage their own governmental affairs. Accordingly, capacity building is an inherent objective of the TSP and its provision has been a critical element to the smooth functioning of the program.

Currently, 58 critical GOTL posts are filled with UNMISSET II expatriate advisers. These are allocated to the MoPF (19), MoJ (15), other ministries (16), and other GOTL offices (8). An additional 102 positions were identified for financing by donors through UNDP, but by end-July 2004, only 33 had been filled and recruitment was underway for an additional seven.¹² Both donors and the GOTL recognize that international staff carries out critical technical and line functions and that some of this staff may be needed for the medium to long term.

A further problem is the discrepancy between skill levels of advisers and local counterparts, or in some cases the lack of a local counterpart due to delays in recruitment. Standards and procedures may be higher than needed for jobs in certain ministries. If standards were lowered, skill levels could also be lowered which may facilitate training. Donors view the Portuguese and Tetum language requirements for advisers as an obstacle. It impedes drawing experts from the region and drives up costs.

The World Bank is keenly aware of the ongoing need to strengthen management and technical capabilities of Timorese staff. The TSP Review Mission in May 2004 designated capacity building in the MoPF and line agency financial management as a high-risk area. To address this issue the World Bank prepared a concept paper for a program to strengthen local personnel skills. Training would be directed at both the MoPF and line ministries and focus on: 1) the ability to link budget allocation decisions to spending priorities; 2) the ability to carry out efficient and accountable budget execution; 3) strengthening skills in macro-economic forecasting which would facilitate predicting and managing oil and gas revenues. Training would be implemented using on-the-job international advisers and local facilities in Timor-Leste to minimize the time that

¹² United Nations Security Council, "Progress Report of the Secretary-General on the UNMISSET," S/2004/669, New York, 13 August 2004.

key staff members are away from their jobs. It would be directed towards ten offices in the MoPF and other ministries targeted in the NDP. In some offices language training will be a priority. A proposal is to fund this program with a multi-donor trust fund for capacity building.

TSP Review Missions recognize that developing a personnel management system is also critical to improving skills of government staff. This would include a central registry of personnel, position descriptions and standards, a performance evaluation system and salary levels within each of the seven grades delineated for civil service personnel. This has been included in the TSP Action Matrix. When this system is functioning, it will be easier to match skills with job requirements and, fill positions with competent people.

b. Host Government Perspective

The GOTL also recognizes that a critical component of effective government is personnel with competent management and technical skills. The GOTL would like the TSP to finance more projects and to strengthen Timorese capabilities in project design and management. They would like to have experts available in this process to offer advice when requested, but they want personnel to learn by doing as opposed to watching others do the work.

Expatriate technical advisers currently have key roles in the GOTL in the MoPF as well as line ministries and often have dual roles: carrying out government functions and training their Timor-Leste counterparts. In some offices where local staff has little on-the-job tenure, advisers are critical to operations and ministers rely extensively on them. In worst-case scenarios advisers have sufficient power to determine the course for specific offices. The Prime Minister recognizes this and has been critical of international advisers who make themselves indispensable rather than transferring skills to Timorese.

Foreign advisers are frequently paired with local counterparts to facilitate and encourage on-the-job training. The GOTL and donors collaboratively identify positions for foreign advisers and work together to develop terms-of-reference. Some advisers have been more effective than others and well developed, specific terms-of-reference can contribute to their effectiveness.

Other modes of training may take place in local facilities or off-shore. For example, personnel may be sent to the National Academy of Civil Service or trained at the Ministry of State Administration. Bilateral donors also provide training. The Japanese JICA sent GOTL staff to Malaysia for courses as well as to Japan.

Language is an issue with respect to training. The GOTL prefers advisers who speak Portuguese or Tetum, but English has become a working language. However, most Timorese who were educated after 1977 speak Bahasa Indonesian rather than Portuguese. Some ministries take a practical approach to this problem. For example, the Ministry of Health recognizes that there may be a compromise between GOTL preferred languages and the need to efficiently impart knowledge. Accordingly, they may hire experts who

speak English, and they offer English language courses for counterparts working with these experts. The Japanese found that when Timorese were trained in Malaysian (which is similar to Bahasa Indonesian) questions were more forthcoming than when the training was in English.

Government leaders would like their staff to have the capacity to develop and run a much larger capital investment program. They would like all donor activities to include a training component aimed at training staff in both the MoPF and in line-ministries. The government believes that once its staff learns how to design and manage projects, they can then progress into sector investment programs. Bilateral assistance provides TA, but often donors are more interested in completing their projects than in teaching Timor-Leste. Donors are apt to send technical specialists who design a project and implement it, but without significant impact on the Timor-Leste. The GOTL desires effective TA in which skills are transferred to Timor-Leste.

Annex 4: Organizations and Individuals Interviewed

MULTILATERAL DONORS

Asian Development Bank (ADB)

Helen Baxter, Social Protection Specialist, Pacific Department
Lacarias da Costa, Inter-Agency Coordinator

European Commission (EC)

Guglielmo Colombo, Representative in Timor-Leste

International Monetary Fund (IMF)

Insu Kim, Resident Representative

United Nations Development Programme (UNDP)

Naoki Takyo, Assistant Resident Representative and Chief of Poverty Reduction
& Community Development Unit
Janne Niemi, Programme Officer

World Bank/ Timor-Leste

Kathy Khoo, Public Sector/ Private Sector Development Specialist

World Bank/ Washington, DC

Adrian Fozzard, Senior Public Sector Specialist and Task Team Leader
Helen Sutch, Sector Manager, Public Sector Governance
Rosa Maria Alonso i Terme, Senior Public Sector Specialist

BILATERAL DONORS

Australia: Australian Agency for International Development (AusAID)

Peter Ellis, Counselor (Development Cooperation)

Canada: Canadian International Development Agency (CIDA)

Melanie Alton, First Secretary (Development), Embassy of Canada in Indonesia
Oscar da Costa Belo, Director, Program Support Unit, Timor-Leste

Germany: German Technical Cooperation (GTZ)

Günther Kohl, Team Leader, Food Security Programme, Baucau and Viqueque

Ireland: Embassy of Ireland/ Development Cooperation Ireland

Carol Hannon, Chargé d' Affaires

Japan: Embassy of Japan

Hideaki Asahi, Ambassador of Japan, Timor-Leste
Toshimichi Koga, Second Secretary
Kanao Nozawa, Second Secretary
Yukako Sakabe, Researcher

Japan International Cooperation Agency (JICA)

Toshiaki Tanaka, Resident Representative
Yoshikazu Wada, Assistant Resident Representative

New Zealand: Consulate-General of New Zealand

Peter Guinness, Consul-General

Portugal: Embassy of Portugal

Isabel Brilhante Pedrosa, Counselor
Marta Garcia Ribeiro, Secretary

United Kingdom: Embassy of the United Kingdom

Tina Redshaw, Ambassador of the United Kingdom, Timor-Leste

United States of America: Embassy of the United States of America

Grover Joseph Rees, Ambassador of the United States of America, Timor-Leste
Myrna F. Farmer, Secretary to the Ambassador

USAID/Timor-Leste

Charles Oliver, Senior Program Manager
Nicole Seibel, Program Manager, Democracy and Governance
Kimberly Jones, Team Leader, Economic Growth Program

Maria Isabel Ximenes, Project Management Specialist,
Democracy and Governance
Sidonio Freitas, Program Manager, Democracy and Governance

USAID/Washington, DC

Robert Dakan, USAID consultant
David Schroder, Indonesia and Timor-Leste Desk Officer

GOVERNMENT OF TIMOR-LESTE

Banking and Payments Authority

Abraão de Vasconcelos, General Manager
Maria Jose Sarmento, Deputy General Manager for Supervision
Samuel V. Robinson, Deputy General Manager for Payments

Embassy of the Democratic Republic of Timor-Leste, United States

Constancio Pinto, Minister-counselor/DCM

Office of Prime Minister

Jose Medrano, Senior Economic Advisor

Ministry of Development and Environment

Abel da Costa Freitas Ximenes, Vice Minister
Cosme F. B. da Silva, Director, Development Support Division
Carlos Ximenes
Raimundo Gusmão
Bonifácio Correia

Ministry of Education, Culture, Youth and Sports

Armindo Maia, Minister of Education, Culture, Youth and Sports
Marcial Salvatierra, Senior Education Advisor

Ministry of Foreign Affairs and Cooperation

José Ramos-Horta, Minister of Foreign Affairs and Cooperation

Ministry of Health

Rui Maria de Araujo, Minister of Health
Feliciano da C.A. Pinto, Director General
Erling Larson, Senior Advisor

Ministry of Planning and Finance

Aicha Basserawan, Vice-Minister of Planning and Finance

Gregorio Ferreira da Silva, Chief Procurement Officer

Russell J. Cheetham, Senior Advisor

Takeshi Watanabe, Advisor, National Directorate for
Planning and External Assistance Cooperation

LOCAL NGOS AND INSTITUTIONS

ALOLA Foundation

Kirsty Sword Gusmão, Founding Director and First Lady of Timor-Leste

Toola Andrianopoulos, Office Manager

Lao Hamutuk

Charles Scheiner

Simon Foster

Cassia Bechara

Tomas Freitas

NGO Forum

Dinorah Granadeiro, Deputy Director, NGO Forum

James Nowlan, NGO Forum Advisor, UNDP

Timor Institute of Development Studies

João M. Saldanha, Executive Director, Fellow in Economics and Politics

INTERNATIONAL NGOS

CARE

Jill Umbach, Timor-Leste Country Director & Asia Regional Manager

H. K. Banskota, Medical/ Nutrition Advisor

Oxfam

Keryn Clark, Country Program Manager, Timor-Leste Program

Frank Elvy

Pacific Asia Resource Center (PARC)

Junko Ito, Timor-Leste Office

OTHER INDIVIDUALS

Bishop Ricardo, Archdiocese of Dili

Father Locatelli, Salesian Missions

Annex 5: Scope of Work

SCOPE OF WORK TIMOR-LESTE COUNTRY STUDY ON NON PROJECT ASSISTANCE

I. Background

A developing country's economic and political environment determines what type of assistance best fits its needs. For example, when USAID designs an aid program it identifies development constraints such as low literacy, poor health or inadequate transportation and works with host country institutions to design appropriate development interventions such as training, technical assistance, construction or the provision of needed commodities. In addition to determining what type of assistance a country requires, a donor also needs to identify the best way to deliver assistance.

Donors can deliver aid in one of two ways: project assistance and/or non project assistance (NPA). Project assistance directly funds specific projects whereas non project assistance involves the transfer of foreign exchange resources to a host country government. NPA may take several forms, including General Budget Support (GBS), Sector Program Assistance, Sector Wide Approach (SWAp), Policy Reform Cash Transfers, loan guarantees, endowments, Commodity Import Programs, food aid, or debt relief. General Budget Support, the most common form of NPA, is commonly linked to conditions which may include a program agreed upon by the host government and donors, and evidence that the recipient government is able to manage money.

This evaluation will focus on the NPA experience of Timor-Leste. The primary objective of this study is to determine whether NPA serves as an effective mechanism for delivering aid and, if so, the factors that contribute to its success. This study will also identify the country conditions that contribute to or hinder the success of different NPA approaches.

II. Discussion

A. The Case for Non Project Assistance

Previous research has determined that non project assistance (also referred to as program assistance) may be appropriate when a country has a sound financial management system, budget execution capacity, planning and staff capability, and is committed to a development strategy (such as a poverty reduction strategy or development plan). Typically, the host country and donors should agree both on priorities and expected

results, and assistance is linked to performance. This is especially relevant when there is an Annual Plan which outlines past performance and future expectations.

Proponents of non project assistance have argued that it lowers transaction costs, leads to better donor coordination, greater host country ownership, government accountability and capacity, improved public financial management, and strengthened local institutions. It also permits the country and donors to monitor strategic outcomes and assure transparency.

B. Drawbacks of Non Project Assistance

Though NPA has many advantages, it is not appropriate in all cases. Developing countries may lack the necessary prerequisites for successful NPA. Additionally, because developing countries often have weak monitoring and evaluation, and audit agencies, corruption and misappropriation of funds as well as fungibility may become a serious problem. Furthermore, if expected results are not achieved by the government, donors may delay disbursements making it difficult for the government to plan and execute programs. Another common difficulty is that some forms of NPA, such as general budget support, deal primarily with finance ministries, and do not encourage participation by Parliament, the private sector, civil society, and non-governmental donors. This may result in greater centralization of resources which can potentially harm local, grassroots development.

III. Objectives of the Study

This study will review Timor-Leste's experience with NPA and determine whether NPA has been an effective and appropriate method of disbursing aid there. This issue will be evaluated from the perspectives of the donors, the GOTL and overall impact of the assistance. Assuming NPA is effective in the Timor-Leste context, the factors that contributed its success will be examined.

Specifically, four questions will be addressed:

1. What was the rationale for selecting NPA and why were specific NPA modalities selected?
2. Why were specific conditions and policies incorporated into the NPA design?
3. What issues related to planning, financial management, and implementation, have arisen in Timor-Leste's NPA?
4. How effective and appropriate has NPA been in Timor-Leste?

IV. Methodology

The primary method of collecting relevant information will be through extensive interviews with Timor-Leste government officials, United States government officials, and bilateral and multilateral donors, as well as a review of publicly available resources.

Interviews will be conducted in Dili and, where appropriate, in Washington DC. A series of illustrative questions designed to address these issues is presented in the Appendix.

V. Level of Effort by USAID for Timor-Leste Field Study

Activity	Expertise	LOE (days)*
Conceptual and Eval. Design	Completed by DEI/ESPA	
Country Brief Data Collection	Sr-level Analyst	15
In-country logistics	Foreign National Adm. Assistant	25
Country Field Analysis	Foreign National Sr.-level Analyst	21
Country Field Analysis	Sr-level Analyst	21
Country Field Analysis	Sr.-level Analyst	21
Country Field Analysis	Senior-level Team Leader	21
Final Report Preparation	Sr-Level Analyst	10
Final Report Preparation	Sr. Analyst	10
Final Report Preparation	Sr.-level Analyst	10
Final Report Preparation	Sr.-level Team Leader	10

* Assumes three 6-day work weeks and 4 travel days

VI. Deliverables:

A. General Outline for the Deliverable

This report should have an executive summary, a table of contents and include an annex listing resources consulted, persons interviewed and organizations visited.

It is expected that the main body of the study will take the following form:

- I. Brief History of NPA in Timor-Leste *3 pages*
- II. The Impact of NPA Programs in Timor-Leste *3 pages*
- III. Dissecting the NPA Programs *12 pages*
 - Appropriateness of the designs (objectives, instruments, project component, management)
 - Program implementation (donor and GOTL) strengths and weaknesses
 - Financial management of the programs
- IV. The choice of NPA instrument in hindsight *3 pages*
- V. Conclusion *3 pages*

It will include findings, conclusions and lessons learned from the experience in Timor-Leste which may be useful in the design of future non project assistance programs.

B. Timetable

1. A draft report will be submitted no later than October 12, 2004 to USAID/PPC/DEI which will review it over ten working days.
2. A final report which addresses the questions Section II above and incorporates comments and suggestions from USAID staff will be submitted within ten working days after the draft is reviewed.

Scope of Work Appendix – Illustrative Questions

A. Selection of NPA Mode

1. How did country circumstances affect the selection of specific modes?
2. What modes of non project assistance have been used and what was the rationale for selecting specific modes?
3. How much has been disbursed under each mode and how have the funds been used?
4. Were assistance modalities used to support sectors? If so, how were the sectors selected?
5. How did donors collaborate when establishing NPA?
6. What implications does the use of NPA modes have on the way donors usually do business (e.g. personnel requirements, logistics)?
7. What is required of the GOTL in order to implement NPA?

B. Conditionality and Policies

1. What conditionalities and policy dialogue have been linked to the NPA?
2. Has the government of Timor-Leste (GOTL) accepted the conditionalities?
3. How is the policy dialogue carried-out, and what are the issues?
4. Does the GOTL take ownership of the policy issues and agree with the actions needed?
5. Have donors worked together to agree on conditionalities and policies? If so, how?
6. What determines the sequencing of policy issues?

C. Planning, financial management and implementation of the NPA

1. Are critical development issues (i.e. child survival, HIV/AIDS, education, democracy, governance, civil society, private sector development, trade, investment) included in Timor-Leste's National Development Plan?
2. How do donors and the GOTL plan what supporting assistance is necessary?
3. What proportion of GOTL programs are funded by donor financing what proportion is funded with GOTL revenues? Are the funds intermingled and how are they accounted for?
4. Does the GOTL have staff with appropriate financial management and budget capabilities to implement NPA programs? What skills are needed and is TA being provided to develop the skills?
5. What audit and financial controls are in place?
6. What is the level of financial transparency? Are there appropriate indicators to measure whether or not there is corruption or misappropriation of funds?
7. What are the strengths and weaknesses of the GOTL in managing and implementing program assistance?

8. Are the flows of resources from donors consistent and predictable? If not, what measures can be taken to enhance the predictability of aid resource flow?
9. Does the GOTL have the technical skills to manage a broad range of development programs? How will transition occur from the UNTAET to the GOTL?
10. What is the role of technical assistance in facilitating the transition of the program management to the GOTL? How do donors and the GOTL determine what technical assistance is needed?

D. Effectiveness and Appropriateness of NPA in Timor-Leste

1. What were the benefits and drawbacks of specific NPA approaches?
2. Which country conditions contributed to the success of NPA?
3. Have the modalities of NPA been appropriate for delivering donor assistance in Timor-Leste?
4. How do the GOTL and donors monitor and evaluate the results of program assistance and is it effective according to those criteria? How is country commitment measured? How is the impact of assistance on standards of living measured?
5. Do GOTL organizations effectively deliver services to the people? Do they work with NGOs?
6. How is the GOTL encouraging private sector development?
7. As donor revenues diminish, how will these revenues be replaced and over what time period?

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