

## TECHNICAL ASSISTANCE COMPLETION REPORT<sup>1</sup>

Division: SOTL

TA No., Country and Name		Amount Approved: \$250,000	
TA 4519-TIM: Strengthening Financial Management Capacity		Revised Amount: not applicable	
Executing Agency: Ministry of Planning and Finance	Source of Funding: TASF	Amount Undisbursed: \$1,910.61	Amount Utilized: \$248,089.39
TA Approval Date: 21 Dec 2004	TA Signing Date: 7 Feb 2005	Fielding of First Consultant: 31 Oct 2005	TA Completion Date Original: 31 Jan 2007      Actual: 31 Dec 2008
			Account Closing Date Original: 31 Jan 2007      Actual: 31 Dec 2008
<b>Description</b>			
<p>By mid-2004, just 2 years after the restoration of Independence, the Government of the Democratic Republic of Timor-Leste (the Government) had made considerable progress in economic and financial management. Three key planning and budgeting instruments were in place and functioning: (i) a long-term National Development Plan (NDP) and a medium-term 5-year NDP; (ii) annual sector investment programs (SIPs); and (iii) annual action plans (AAPs). The National Directorate of Planning and External Assistance Coordination (NDPEAC) in the Ministry of Planning and Finance (MoPF) was the lead unit for supervising national planning and for overall coordination of external assistance to Timor-Leste. The Government was also well-advanced with establishing a best practice' fiscal regime for managing its potential petroleum wealth from the Timor Sea reserves. The Government had benefited from Asian Development Bank (ADB) technical assistance (TA) in these areas since 2001, implemented through NDPEAC and the Office of the Prime Minister (OPM). TA consultants and Government officials agreed that additional support would be required to entrench the capacity so far developed. In March 2004, the MoPF requested a follow-on TA which was approved in December that year.</p>			
<b>Expected Impact, Outcome and Outputs</b>			
<p>The impact of the TA was to achieve competent public administration and effective government. The TA was to improve government capacity for economic and financial planning and management. To develop capacity in implementing the NDP, the TA intended to provide consultants to: (i) support NDPEAC officials in finalizing SIPs for the 2005 Timor-Leste and Development Partners Meeting (TLDPM); (ii) prepare user guidelines and training materials for implementation of the Government's reporting and information management system (GRIMS); (iii) design, develop, and implement a train-the-trainer program for NDPEAC staff responsible for support line ministry focal points; and (iv) advise on preliminary preparations for the next 5-year NDP. It was further intended that TA consultants would advise on a range of petroleum fiscal regime matters including, valuations, sovereign financial interests, regulatory and fiscal provisions, and revenue management and modeling. The consultants would participate in petroleum negotiations and would promote awareness of petroleum fiscal issues.</p>			
<b>Delivery of Inputs and Conduct of Activities</b>			
<p>The TA was adequately formulated and the inputs were high quality. The TA terms of reference (TOR) provided for an international public financial management (PFM) and budget planning consultant (2 person months) and an international petroleum fiscal management consultant (1.5 months). Short-term consultants would be recruited in line with the capacity development program (4 person months, total). Through the TA, ADB recruited and fielded a senior PFM and budget planning consultant who had helped conceptualize and prepare the Government's SIP process and who was therefore able to immediately provide highly effective support for the 2005 round. The TA funded 2.16 person months of inputs by this key consultant, which were supplemented by inputs from the same consultant funded by the Australian Agency for International Development (AusAID) and by the Government. This parallel funding and inputs were closely coordinated, thus achieving continuity and sufficiency of inputs required to steer the SIP process. The TA also funded short-term inputs by sector specialists responsible for helping sector line ministries prepare annual SIP Updates for Water Supply and Sanitation (1.49 person months), Housing and Urban Planning (0.5 person months), and Private Sector Development (0.87 person months). These SIPs were consistent with ADB's TIM country program focus. Most consultants had worked previously in Timor-Leste and were able to efficiently help their respective ministries update their SIP.</p>			

<sup>1</sup> In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

The TA funded the continued contribution of a world class petroleum fiscal advisor (2.72 person-months) who had been highly effective in helping the Government's establish a 'best practice' fiscal regime and negotiate favorable arrangements with oil companies developing the *Bayu Undan* oil and gas field in the Timor Sea.

Following an extension of the TA closing date, the TA funded inputs requested by the Government for a Development Assistance Programming Specialist (10 person months approx.). The consultant was a highly experienced Timorese national able to quickly and efficiently support the Ministry of Finance (MoF), particularly in programming negotiations with major development partners such as the MCC.

All TA inputs were suspended for a period leading up to and following the 2006 national crisis. All planned 2006 SIP updates were successfully completed, but there were no further inputs from May 2006 until March 2007. The TA funded the 2007 SIP Updates for Water Supply and Sanitation and Private Sector Development, as requested by the Government. The new Government after August 2007 suspended the updating of SIPs. There were no further inputs by the Petroleum Fiscal Advisor after November 2005. Fiscal issues relating to *Bayu Undan* had been accomplished and OPM submitted no follow-up requests.

The performance of the TA experts is rated as highly satisfactory; since 2007 the government of Timor Leste has now a favorable renegotiated arrangement with the oil companies. The Government's MCC proposal was evaluated has a very comprehensive proposal by the Millenium Challenge Corporation. The ownership of the Governments during the input of all consultants was very strong and rated as satisfactory. Under difficult conditions ADB was able to show flexibility, adaptability and its performance is rated as satisfactory.

#### **Evaluation of Outputs and Achievement of Outcome**

The TA's PFM and budget planning focus intensified around the SIPs. With support from the TA and other partners, and using its own resources, the Government produced good quality SIP updates in time for the Timor-Leste and Development Partner Meetings (TLDPM) in 2005 and 2007 (the TA target was only for 2005). Since the SIPs were the Government's principal program budgeting tool, and as per the TA "purpose" target, TA inputs are considered effective in achieving the "purpose" of "improving Government capacity for economic and financial planning and management." Some technical line ministries either chose not to or were unable to adequately engage in the SIP update process, and hence relied overly on MoPF and consultants. NDPEAC was strengthened, but less so the planning units within line ministries. The TA helped NDPEAC prepare training materials and deliver training, but more time and resources are needed to build line ministry capacity. The TA did not prepare user guidelines and training materials for the Government Reporting and Information System (GRIMS) because of continuing uncertainties about the final configuration of GRIMS. This was beyond the control if the TA. GRIMS is in any case supported by the AusAID-funded MoPF Capacity Building Project (MPFCBP). NDPEAC postponed preparations for a 2<sup>nd</sup> medium-term NDP, so this planned support from the TA was not required.

Together with advisor support funded by the Norwegian Government, the International Monetary Fund, the World Bank, and AusAID, the TA fully achieved the petroleum fiscal regime targets set in the TA (para. 2 above). Development commitments for the Greater Sunrise gas field were not sufficiently advanced to require petroleum fiscal support from the TA.

#### **Overall Assessment and Rating**

The TA is rated as successful. The new Government since August 2007 has been reviewing the SIP and the NDP process, but it is likely that SIPs will be reintroduced in a similar form and that the Government will complete a new mid-term NDP during 2008. National planning functions have been split between OPM, MoF, and the Ministry of Economy and Development, but NDPEAC will be responsible for supporting sector-specific program budgeting as part of the annual national budgeting cycle.

#### **Major Lessons**

First, more time and resources are needed to build program budgeting capacity in technical line ministries, particularly in young, low capacity ministries such as in Timor-Leste. Secondly, short-term consultants should assist line ministry staff and long-term advisors, rather than visa versa. Long-term advisors located in line ministries should have primary responsibility for supporting SIP preparation, with TA-funded short-term specialists backing up this process.

#### **Recommendations and Follow-Up Actions**

The Government should be encouraged to clarify and re-introduce a SIP-type process for the 2010 budget cycle; and development partners with continuing PFM and budget planning support programs, notably AusAID and the World Bank should be encouraged to support the process.