

The Democratic Republic of Timor-Leste

**Transition Support Program II (FY2004)
Appraisal Mission**

Draft Aide Memoire

Dili, May 9, 2003



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OVERVIEW

1. The Transition Support Program (TSP) missionⁱ, comprising representatives of the World Bank, AusAID, USAID, and DFID, visited Timor-Leste from April 21st to May 3rd to review progress on the FY2003 program (TSP I) and appraise the program for FY2004 (TSP II). The TSP mission team received wide-ranging and comprehensive support for its work from throughout Government and expresses particular appreciation for the contribution and assistance provided by the Vice-Minister for Planning and Finance, Aicha Bassarewan, and the team from the Planning and External Assistance Management Division (PEAMD).
2. The Mission benefited from the active participation of the representatives of development partners (including Australia, Canada, Ireland, Japan, New Zealand, Norway, Portugal, United Kingdom, United States of America, IMF, UNICEF, and UNDP) in plenary and donor meetings on the Transition Support Program for FY2004.
3. The purpose of the mission was to work with Government to:
 - a) Assess *progress in implementation* of the Government's FY2003 Transition Support Program.
 - b) Assist Government in *identifying priority actions and in assessing their consistency* with the Road Map (including the Stability Program) and agencies' Annual Action Plans.
 - c) Assess the *implementation requirements* of the FY2004 program.
 - d) Assist Government in drawing up its Letter of Development Policy and the *FY2004 Action Matrix*.
4. This draft Aide Memoire provides an overview of the Mission's assessment of progress in implementation of the first Transition Support Program for FY2003 and appraisal of the second Transition Support Program for FY2004.
5. The TSP Appraisal Mission Team would like to congratulate the Government on their commitment to implementation of the National Development Plan and progress made in implementation of the program for FY2003. Significant progress has been made in most areas of the program and, where progress has been slower than anticipated, Government has identified and sought to address the causes of delays. The overall progress made under TSP I provides a sound foundation for the subsequent program.
6. The TSP Appraisal Mission Team has been particularly impressed by the quality of the planning process and outputs: the Road Map (including the Stability Program), and the Annual Action Plans and Quarterly Reporting Matrices of Government agencies.

ⁱ The Mission was led by Adrian Fozzard (World Bank, Senior Public Sector Specialist, Task Team Leader), and comprised: from the World Bank, Elizabeth Huybens (Senior Economist and Country Manager), Ian Morris (Health), Ian Collingwood (Education), Andrew Laing (Public Sector), Jorge Graca (Governance), and Russell Craig (Service Delivery); from AusAID, James Gilling (Public Finance) and Robert Jarman (Power); from USAID, Craig Wilson (Job Creation and Private Sector Development) and Richard Bowen (Agriculture); and from DFID, Peter Reed (Public Sector and Capacity Building). The TSP mission collaborated with Bernice Masterson (DFID) consultant working with Government on law and order issues.

Considerable thought and work has gone into the planning exercise, involving political leadership, agencies' senior management and individual line departments. There is a broad awareness of national development priorities and a growing understanding of implementation requirements. The various Government agencies have demonstrated commitment, ownership and confidence in presenting their program during the course of the Mission. It is extraordinary that so much progress has been made in just one year.

TSP I REPORTING

7. At the Government's suggestion, detailed quarterly sequencing was agreed for each of the program components, allowing the TSP Action Matrix to be used as a working tool. As provided for in TSP Grant Agreements, Government has presented comprehensive quarterly reports within three weeks of the first, second and third quarters. The mission found these reports to be an accurate presentation of the progress made to date. TSP progress reports have been integrated into the Government's internal reporting system against agencies' Annual Action Plans and Quarterly Reporting Matrixes. This is an important development, since these Annual Action Plans and Quarterly Reporting Matrixes are the basis of Government's performance management system. In addition to the formal quarterly reports, Government continues to monitor and report on implementation in concert with development partners through the monthly donor meetings.

TSP II PREPARATION AND APPRAISAL PROCESS

8. The Government's program for FY2004 has been prepared through a prioritizing and sequencing exercise which will guide the implementation of the National Development Plan and address the immediate priorities laid out in the Government's Stability Program. The results of this process are reflected in the Road Map. The FY2004 Annual Action Plans and Quarterly Reporting Matrixes, together with the FY2004 budget, operationalize the program laid out in the Road Map.

9. The TSP Appraisal Mission was timed to coincide with the final stage of the Government's internal planning process. The TSP presents a sub-set of the highest priorities presented in the Road Map and the agency's Annual Action Plans. Government agencies have identified their TSP priorities, working in collaboration with the Ministry of Planning and Finance focal points and the TSP Appraisal Mission. The Appraisal Mission has critically assessed the full range of planned actions, seeking to focus attention on a limited number of actions and targets. Much of the discussion has focused on implementation requirements and definition of realistic targets and milestones for TSP II (FY2004). The output of these discussions was presented in draft TSP II Action Matrixes, which served as the basis for consultations with development partners during the second week of the Mission. The Mission worked with PEAMD to prepare a preliminary listing of technical assistance inputs supporting TSP implementation and identifying where additional assistance may be needed.

KEY OUTPUTS OF THE TSP II (FY2004) PROGRAM

10. The attached Action Matrix provides the framework for monitoring of progress in implementation of the Government's FY2004 program, based on the priority outputs

identified by the agencies in collaboration with the Ministry of Planning and Finance. Key outputs by program component are:

11. Governance

(a) *Local Government.*

- Approval of Legislation on State Local Administration and Local Authority, together with implementation strategy
- Draft proposal on funding mechanism for local authorities, including support framework from development partners
- Strategy on community authorities in sucos and villages

(b) *Public Sector Management.*

- Finalization of Civil Service Statute and Disciplinary Regulation, together with dissemination and training of senior management in application of disciplinary procedures
- Draft Human Resources Strategy addressing, recruitment, appraisal and information
- Establishment and training of Human Resource Units in line agencies
- Implementation of personnel registry in priority institutions

(c) *Poverty Reduction Planning and Public Expenditure Management.*

- Consolidation of the annual planning cycle, including updating of prioritizing and sequence exercise and preparation of annual action plans
- Formulation of FY2005 budget in line with national priorities
- Monitoring implementation of Power Sector Management Contract
- Development of Human Resource Development strategy for financial management functions
- Promotion of a high-level consultative mechanism as a fully independent body
- Submission of revised Budget and Financial Management Act to CoM and revision of Treasury Manuals in line with Act
- Improvements in the timeliness of procurement, through development of procurement strategy, training of procurement staff and submission of revised Procurement Law.

(d) *Oversight Institutions.*

- Strategy for investigation of complaints regarding civil service by Inspector General, together with review of status of previous investigations
- Establishment of Office the Ombudsman (Provedor de Direitos Humanos e da Justica)
- Implementation of a campaign on payment of fees and fines for basic public services by Provedor
- Development of guidelines on the policy and legislative process

(e) *Law and Order.* These issues are addressed in the Aide Memoire prepared by Bernice Masterson (DFID Consultant).

(f) *Justice Sector.*

- Finalization of legislation on Public Prosecutors and Defenders
- Realization of sessions in the Superior Council for the Judiciary
- Improvement in the ratio of cases taken to court to cases brought to trial.
- Establishment of systems for registration and delivery of registration services, including: notary; civil identification; and state property administration.

12. Service Delivery

(g) *Education.*

- Preparation and approval of an education sector policy framework and draft education law
- Development of a primary education curriculum and distribution of supporting teaching guides to all primary schools
- Development and implementation of D3 Bacherlato program for pre-secondary education teachers
- Training of senior management and district personnel in financial management procedures
- Development and piloting of mechanism for channeling funds through School Councils

(h) *Health.*

- Improvement of service delivery, meeting targets for delivery of DPT3 and Measles vaccination, attended deliveries, outpatient visits
- Formulation of District Health Plans
- Formulation of micro-policies operationalizing sector program for: EPI, MCI and nutrition; Health Promotion, Maternal Health, Malaria, TB, Other Communicable Diseases, Non Communicable Diseases, and Human Resources

13. Job Creation, Private Sector Development and Agriculture

(a) *Job Creation and Private Sector Development.*

- Private Sector Enabling Legislation
- Land Law, Administration and Cadastre
- Community-Based Road Maintenance Roads Program
- Backward Linkages to Onshore Investments from the Timor Sea
- Sending Labor Abroad Program

(b) *Agriculture.*

- Development of policy framework for agriculture sector

- Development of regulatory framework and strategy for fisheries
- Implementation of pilot activities in support of introduction of commercial crops, agricultural product processing and watershed management.

FIDUCIARY ISSUES

14. The expenditure management system is sound. However, the integrity of the system requires rigorous application of both expenditure management and procurement procedures. The recent interim-audit report and the present mission highlight a number of areas that require attention. These include:

- (a) *Purchasing.* The interim audit report notes: the occurrence of duplicate and rounded payments; use of manual journals and reversal entries; and extensive use of the “no vendor” code. All of these suggest the need for close control of purchasing. Use of emergency procurement clearances also requires review.
- (b) *Revenue retention.* Revenue retention at the University and possibly other institutions was identified in the Progress Mission report. The Appraisal Mission understands that an internal audit report has been prepared on the University and that Treasury has advised that revenues should be surrendered to the Consolidated Fund. It is important that this procedure is applied across government, other than in those cases where revenue retention is specifically provided for by law.
- (c) *Complimentary period.* Efforts need to be made to close accounts promptly at the end of the fiscal year. Use of letters of credit and other devices to “close” accounts needs to be reviewed.
- (d) *Payroll.* The underlying problem remains the lack of supporting personnel registry. However, the interim audit also notes delays in reconciliation of personnel payments and delays in the presentation of attendance records.

15. It should be stressed that MPF has already taken action to address audit observations. An extensive training program on expenditure management and procurement procedures and practices will complement these management actions. Follow-up and enforcement will be needed to ensure that procedures are applied.

16. The Government’s external auditor will undertake an audit of TSP I (FY2003) contributions as part of the audit of the Government’s FY2003 budget. Terms of Reference for the audit of TSP I contributions have been agreed with Treasury. The external audit report will be presented within six months of the end of the fiscal year.

KEY ISSUES BEFORE NEGOTIATION

17. The Mission has discussed the broad structure of the FY2004 budget with the Ministry of Planning and Finance. The Mission understands that the Ministry intends to finalize a FY2004 budget that meets the following parameters: total permanent staff <17,200, payroll < \$30 million; defense and police spending <25% of CFET; education

and health $\geq 32\%$ of CFET; primary education $\geq 45\%$ of CFET education spending; hospitals $\leq 40\%$ of CFET health spending.

18. The Mission notes that the negotiation of the Power Sector Management Contract, scheduled to take place in July, will establish the basis of the sector's medium-term expenditure framework. It is critical that the Government has access to the necessary technical advice to ensure a successful outcome to these negotiations.

NEXT STEPS

19. The Ministry of Planning and Finance has provided a draft Letter of Development Policy. This provides an excellent overview of the Government's broad development and poverty reduction objectives based on the National Development Plan as well as the priorities reflected in the Road Map (including Stability Program) and TSP II (FY2004) Action Matrix. The Letter is addressed to the Bank's President, reflecting those elements of the overall program that the Bank would be expected to finance and monitor. The Mission has shared comments with the Ministry with a view to including the key actions identified by Government, especially in those areas where the Government is seeking additional support from development partners.

20. The Letter of Development Policy and the TSP II (FY2003) Action Matrix will be presented to the Bank's Board, together with the Memorandum of the President, which provides the Appraisal Mission's assessment of the TSP II (FY2004).

21. The Mission requests the Ministry of Planning and Finance's cooperation in reviewing and commenting on the Aide Memoire and its attachments, by May 20, 2003, so that the negotiations package can be prepared.

22. The Mission informed the Ministry of Planning and Finance that supporting documentation is required by the Bank to demonstrate the range of prior actions undertaken by the Government during FY2003. Most of this documentation has been collected during the course of the Mission. The Mission kindly requests the Ministry's assistance in providing copies of the following documents to the Bank as soon as they become available: a) the FY2004 Budget submission to Parliament; b) the invitation to negotiation for the Power Sector Management contract.

23. Negotiations are scheduled for June, 2003. Board presentation is scheduled for July 17th.

TSP II (FY2004) IMPLEMENTATION

24. The grant agreement for the Bank's contribution to TSP II (FY2004) may be signed after Board approval. Grant agreements for Bank administered Trust Funds may be signed after Bank approval of the TSP II (FY2004), signature of Administration Agreements in the case of annual bilateral contributions, and the receipt of funds by the Bank.

25. The Appraisal Mission requests assistance of the TSP partners in informing Government and the Bank as early as possible regarding the amount of their TSP II (FY2004) contributions and its expected timing. Given the size of the contribution in

relation to total expenditure, it is critical that a substantial part of the TSP II contributions be disbursed within the first quarter of the fiscal year.

26. The Appraisal Mission discussed TSP II reporting requirements with the Ministry of Planning and Finance. The Ministry indicated that Government will present Quarterly Progress Reports within three weeks of the end of each quarter, as has been the practice under TSP I (FY2003).

TSP MISSION SCHEDULE FOR FY2004

27. The Appraisal Mission has also discussed the scheduling of TSP missions during FY2004. Given the progress made in the Government's internal planning process, the Appraisal Mission shares the Government's view that initiating and preparation missions will not be necessary for TSP III (FY2003). Consequently, only two TSP missions are currently envisaged for FY2004: a Progress Mission provisionally scheduled for October 20th to November 1st 2003; and TSP III (FY2005) Appraisal Mission, provisionally scheduled for April 19th to May 1st 2004.

28. The Appraisal Mission believes that TSP Missions should be used to reinforce and add value to the Government's internal planning and decision-making process. Progress missions should reflect Government's efforts to reprogram activities, prior to preparation of the Mid-Year Budget Update. Similarly, the TSP III Appraisal Mission should work with Government to define its FY2005 program, on the basis of the priorities and programs defined through the annual review of the Road Map and agencies' Annual Action Plans and Quarterly Reporting Matrices. For this approach to succeed, Government will continue to need technical assistance inputs to support its planning exercise at the agency level. Ideally, this support would be provided through a mixture of resident experts working with agency planning teams, complemented by short-term consultants, working under the supervision of the Ministry of Planning and Finance.

29. The Appraisal Mission recognizes the importance of involving a wide range of donors in TSP Missions. The composition of the TSP teams will be discussed with Government and development partners prior to the missions. This Mission believes that team would be strengthened by including specialists in: judicial systems and management, with experience of lusophone countries; power sector management and regulation; and rural development and agricultural sector policy and planning.

30. The Appraisal Mission recognizes the importance of reducing the administrative burden on Government. In this context, every effort will be made to synchronize TSP and TFET missions should this be helpful to Government. Certainly, the Bank will try to avoid fielding missions during January to February, so as to allow Government to concentrate on its internal planning and budgeting process, other than assistance to this process if expressly requested by Government.

FINANCING STATUS

31. Table 1 below provides the current status of TSP World Bank Administered Trust Fund agreements. The amount of Sweden's contribution is yet to be confirmed. The

Grant Agreement for Canada's contribution and amendment to the Grant Agreement for Finland's contribution have yet to be signed.

ATTACHMENTS

32. **Annex A** presents the Transition Support Program II (FY2004) Action Matrix, incorporating alterations in scheduling and content agreed during the plenary meetings with representatives of the implementing agencies and development partners. The Mission would appreciate the Ministry of Planning and Finance's assistance in verifying that the attached Matrix is a faithful presentation of the program. The Ministry may also wish to ensure that the agencies have updated their Annual Action Plans and Quarterly Reporting Matrixes to reflect the discussions held during the Appraisal Mission.

33. **Annex B** presents a summary of progress in implementation of TSP I (FY2003).

34. **Annexes C to L** provide a brief commentary on progress made in implementation of the TSP I (FY2003), the rationale of actions programmed under TSP II (FY2004) and implementation considerations, together with a brief overview of some emerging issues in each area of the program.

Table 1: Transition Support Program: Current Status of World Bank Administered and Parallel Financing

Donor	Trust Fund	Holding Currency	Commitment Currency Gross				Commitment Currency Net			
			FY03-FY05	FY2003	FY2004	FY2005	FY03-FY05	FY2003	FY2004	FY2005
Australia	TF050765	AUD	24,500,000	10,210,000	8,165,000	6,125,000	24,010,000	10,005,800	8,001,700	6,002,500
Canada	TF052011	CAN	1,000,000	1,000,000	.		980,000	980,000	-	-
Finland	TF051725	EUR	3,647,592	1,447,592	1,100,000	1,100,000	3,574,640	1,418,640	1,078,000	1,078,000
Ireland	TF050752	USD	1,000,000	1,000,000			980,000	980,000	-	-
New Zealand	TF050777	NZD	500,000	500,000			490,000	490,000	-	-
Norway	TF051365	NOK	75,000,000	25,412,000	24,588,000	25,000,000	73,500,000	24,903,760	24,096,240	24,500,000
Sweden			-				-	-	-	-
UK	TF050766	UKP	12,000,000	4,000,000	4,000,000	4,000,000	11,760,000	3,920,000	3,920,000	3,920,000
USA	TF051461	USD	12,000,000	4,000,000	4,000,000	4,000,000	11,760,000	3,920,000	3,920,000	3,920,000
WB-IDA		SDR					2,900,000	-	2,900,000	-
WB-PCF		USD					5,000,000	5,000,000	-	-
Portugal		USD					9,000,000	3,000,000	3,000,000	3,000,000

ANNEX A: TSP II (FY2004) ACTION MATRIX

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
SECTION A.1: GOVERNANCE – STRENGTHENING OVERSIGHT INSTITUTIONS						
A.1.1: Ensure implementation of annual legislative program (NDP page 119) (RM pages 8-9, 17 and 25)	Secretaries of State for CoM and Parliamentary Affairs (TA: UNDP, NZ)	Annual Legislative Programme of CoM (ALP for FY 03-04) Policy and legislative process	<ul style="list-style-type: none"> • Implement ALP • Approve Directive on process policy and legislation at the Government level (TA: UNDP, NZ) 	<ul style="list-style-type: none"> • Assess the execution in the first semester of ALP 03-04 and review it, if necessary 		<ul style="list-style-type: none"> • Assess annual execution on ALP 03-04 • Draft, discuss and approve ALP 04-05
A.1.2: Raise awareness of citizen's rights and respect for law, defend citizens from abuse of power by public administration; and safeguard against corruption and nepotism (NDP pages 109 and 111-112) (RM pages 9 and 32)	Office of the Provedor de Direitos Humanos e Justica, HR adviser (TA: UNDP, USAID, WB, UN, UNOHCHR, UNICEF, NZ?)	Office of the Provedor de Direitos Humanos e Justica operationalised		<ul style="list-style-type: none"> • Finalise recruitment of staff • Commence capacity building of staff • Commence socialization of Organic Law (TA: UNDP, WB) • Design fees and fines information campaign (TA: WB?) 	<ul style="list-style-type: none"> • Commence monthly reporting of activities • Launch campaign on the payment of fines and fees for basic public services (TA: WB) • Launch media and information campaign (TA: UNDP, WB) 	<ul style="list-style-type: none"> • Finalise annual report in accordance with relevant provisions of the Organic Law (TA: WB?)
A.1.3: Create a lean, effective and efficient civil service free of corruption and nepotism (NDP pages 21, 107 and 138) (RM pages 9 and 32)	Inspector General (TA: UNDP, USAID?)	Strategy for the investigation of complaints regarding civil service Review previous investigations	<ul style="list-style-type: none"> • Finalize the strategy for the investigation of complaints 	<ul style="list-style-type: none"> • Commence review of investigations addressing results of recommendations and investigation procedures 	<ul style="list-style-type: none"> • Finalise review of anti-corruption and integrity promotion campaign in the Public Sector 	
SECTION A.2: GOVERNANCE – PUBLIC SECTOR MANAGEMENT						
A.2.1: Decentralize government and empower communities to manage their local affairs	MSA-ALGD (TA: UNDP and Ireland Aid)	Legislation on State Administration and Local Government	<ul style="list-style-type: none"> • Finalise Options Study for State Administrative Decentralization and Local Government, submit recommendations of Inter Ministerial Technical Group to CoM and prepare technical/ policy document on decisions of CoM and Study 	<ul style="list-style-type: none"> • Draft legislation and regulation on State and Local Government including administrative decentralization • Submit projects to CoM 	<ul style="list-style-type: none"> • Prepare strategy and implementation plan for the legislation • Draft proposal on funding through budget (transfers) and other methods, including the support framework from development partners in the implementation phase 	<ul style="list-style-type: none"> • CoM approves strategy, plan and funding • Phased implementation of legislation, strategy and approved plans (TA: TBC)
a) State Administration and Local Government						
b) Legitimize community authorities	MSA-ALGD (TA: UNDP, Ireland Aid to clarify)	Legitimized community authorities in sucos and aldeias according to programme	<ul style="list-style-type: none"> • Draft legislation on community authorities (sucos and aldeias) and discuss with stakeholders (TA: TBC) • Submit to CoM 	<ul style="list-style-type: none"> • Submit to National Parliament 	<ul style="list-style-type: none"> • Phased census • Phased elections (conducted in 3 districts) 	<ul style="list-style-type: none"> • Phased elections (conducted in 4 districts)

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
c) Capacity building <i>(NDP pages 40,44 and 138)</i> <i>(RM pages 9, 21-23)</i>	MSA-ALGD (TA: UNDP, NZ and development partners, GPSM))	Strengthen staff capacity to implement the reforms on administrative decentralization and local government	• Formulate and discuss programme (TA: GPSM)	• MSA approves programme • Start capacity building activities (TA: GPSM)	• Continue capacity building	• Continue capacity building
A.2.2: Development of the legal and regulatory framework for the civil service a) Civil service statute	MSA-NDPS (TA: UNDP)	Civil Service Statute	• Civil Service Statute submitted to National Parliament			
b) Disciplinary manual <i>(NDP page 139)</i> <i>(RM pages 8-9)</i>	MSA-NDPS (TA: UNDP)	Disciplinary procedures manual approved and management trained in implementation	• Consultations on draft disciplinary procedures manual conducted in central agencies and at least four districts	• Disciplinary procedures manual submitted to CoM for approval	• Dissemination and training of management in implementation of disciplinary procedures manual (TA: UNDP)	
A.2.3: Development of human resources management system a) Development of human resource policy	MSA-NDPS (TA: UNDP)	HR Policy addressing, amongst others: recruitment; appraisal and information	• ToR and schedule for formulation of HR Policy (TA: UNDP)		• Draft HR Policy circulated for discussion	• HR Policy submitted to COM for approval
b) Implementation of Line Agency HR Management units	MSA-NDPS Line Agencies (TA: UNDP)	Line agency HR Management Units in all agencies	• Draft guidelines on functions of HR Units in key line Ministries prepared and circulated (TA: UNDP)	• Guidelines on functions of key line Ministry HR Units submitted to COM	• Line agency staff for HR Management nominated	
c) Alignment of payroll and personnel records <i>(NDP pages 43 and 139)</i> <i>(RM pages 8-9)</i>	MSA-NDPS MoPF – Treasury (Payroll) (TA: UNDP, WB?)	25% of permanent staff on payroll registered in CHRIS database with supporting personnel files	• Definition of personnel registry, forms and supporting information system (TA: UNDP)	• Training of NDPS staff in registry administration • Program for rolling out registration and information system (TA consultation needed)	• Key line agency HR unit staff trained in key personnel register management	• 25% of permanent staff on payroll registered in CHRIS with supporting personnel files
SECTION A.3: GOVERNANCE – STRENGTHENING THE JUSTICE SECTOR						
A.3.1: Administer justice of technical quality independently, with respect for citizenship rights, sensitivity to cultural values and popular participation and involvement	Public Prosecution Office (PPO) Public Defenders Office (PDO) MOJ	Law on Public Prosecutors and Public Defenders	• Consultation conducted and law proposals drafted (judicial magistrates, prosecutors, defenders; judiciary staff, civil society) (TA: Australia et al to discuss)	• Law proposals reviewed and submitted to the CoM for approval	• Law proposals transmitted to National Parliament	

Program Component / Objective	Agency Responsible	Output / Indicator and Target	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	By 30 June 2004	By 31 March 2004	By 31 December 2003	By 30 September 2003	By 30 June 2004
a) Legal framework for Public Prosecutors and Public Defenders and Court of Appeal cases accepted in courts	Superior Council for the Judiciary (SCJ) and Court of Appeal (TA: UNDP?)	Improve ratio of cases taken to courts and cases accepted in courts	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted
b) Notary and Registration service delivery systems (NDP pages 21 and 108) (RM pages 9, 24-25)	MOJ/ Directorate for Notary and Registry (DNR) (TA: UNDP, UNICEF)	MOJ resolved and cases lodged CA/PO/PDO/ Improve ratio of cases resolved and cases lodged	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted	At least two sessions of the SCI conducted
SECTION A.4: GOVERNANCE - STRENGTHENING THE POLICE SERVICES												
A.4.1: Strengthening the capacities of the internal and external security..... a) Transition Strategy	MOI - PNTL (TA: UNDP, UNMISSET to ASASID, UNMISSET to coordinate)	Strategy for transition from and long-term institutional development PNTL	• Transition Strategy approved by CoM • Liaison mechanisms between PNTL, MOI and UNMISSET are established • Formal mechanism established for stakeholder consultation including other RIDTL Dept's, civil society and development partners	• Handover of executive authority for policing from UNMISSET to PNTL can proceed on 1/1/04 • Regular meetings with development partners on continuing transition strategy • Capacity building needs assessment and program design completed	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway	• Capacity building programs with development partners are agreed • Capacity building UNPOL resources are met with existing UNPOL resources • Capacity building programs are underway

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
b) Establishment of effective support functions	MOI - PNTL (TA: UNMISSET, UK AusAID, NZ, UNICEF to coordinate)	Human Resource Management, Finance, Logistics and Management Information and Planning Departments established and staffed	<ul style="list-style-type: none"> • Position descriptions for civilian staff prepared by PNTL and approved by MOI • Recruitment processes underway 	<ul style="list-style-type: none"> • All civilian staff in place • Professional development needs of civilian staff identified and short-term training program prepared and approved by PNTL • Civilian staff receiving on the job training and mentoring by technical advisers • Mid-Year Budget Update for PNTL and QRM submitted 	<ul style="list-style-type: none"> • PNTL QRM, FY2005, AAPs and budget completed by PNTL executive and civilian staff and submitted to MOI • Long-term training program for civilian staff prepared and approved by PNTL 	<ul style="list-style-type: none"> • QRM completed and submitted
c) Capacity building (NDP pages 21, 29, 107,117 and 127) (RM pages 9 and 26) (Stability Program Point 3, page 9)	MOI - PNTL (TA: UNMISSET, UK AusAID, NZ, UNICEF, UNFPA to coordinate)	Operating Procedures Manual for PNTL	<ul style="list-style-type: none"> • PNTL Operating Procedures review committee established • Draft Manual submitted to PNTL, MoJ and MoI for review and consultation with all stakeholders 	<ul style="list-style-type: none"> • Field training schedule developed for Operating Procedures • Information sessions on Operating Procedures with senior and middle management of PNTL 	<ul style="list-style-type: none"> • Implementation of field training schedule for Operating Procedures 	<ul style="list-style-type: none"> • Review progress on training and finalize schedule and budget for FY2005
A.4.2: A Police Act for the PNTL is ready for consideration by the RDTL (NDP page 28) (RM page 8)	MOI - PNTL (TA: UK, AusAID, NZ to coordinate)	Legislation for the PNTL	<ul style="list-style-type: none"> • Policy statement on Police drafted and circulated for discussion 	<ul style="list-style-type: none"> • Consultation with all stakeholders on policy statement undertaken 	<ul style="list-style-type: none"> • Policy statement submitted to CoM for approval, indicating legislative requirements 	<ul style="list-style-type: none"> • First draft of Police Act submitted to CoM

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
SECTION A.5: GOVERNANCE – PLANNING AND PUBLIC EXPENDITURE MANAGEMENT						
A.5.1: Strengthen the capacity of the MoPF to manage public finances (NDP pages 24 and 62) (RM pages 9 and 26)	MoPF - Admin & IT and all MoPF agencies (TA: AusAID, UN, Portugal, WB)	Human Resource Development (HRD) strategy in place and is monitored each quarter	<ul style="list-style-type: none"> Develop a consolidated HRD plan for the Ministry, based on Capacity Building Strategy (TA: Portugal?) 	<ul style="list-style-type: none"> First quarter report on training plan targets and succession plans for international staff 	<ul style="list-style-type: none"> Second quarter report on training plan targets 	<ul style="list-style-type: none"> First annual report on progress on HRD strategy sent to the Minister for Planning and Finance
A.5.2: Implementation of a prudent, pro-poor expenditure policy a) Contribute to sound financial management by Government b) Improve power sector management and cost recovery (NDP page 52, -56, 62, 284-287) (RM pages 9, 12 and 26)	MoPF - Budget Division (TA: AusAID, UN, Portugal, WB) MoPF / MTCPW (TA: ADB?)	Annual and Mid Year Budget Update cycle managed within legislative and administrative timeframes and agreed TSP parameters ¹ Power Management Contract Deliverables	<ul style="list-style-type: none"> Publish and distribute FY04 annual budget papers Training on budget and financial management to finance staff in other departments on FY04 budget papers (TA: WB) 	<ul style="list-style-type: none"> Establishment of Power Sector Transition Committee (PSTC) Performance reports to PSTC, independent auditor and certification entity 	<ul style="list-style-type: none"> Issue FY 05 budget circular with hard expenditure limits in line with resource envelope and TSP parameters Publish and transmit FY04 Mid-Year Budget Update and Revised Appropriation Law 	<ul style="list-style-type: none"> Prepare comprehensive FY05 budget, with agency spending by district and comprehensive list of externally financed projects by program FY 04 budget executed in line with appropriations and TSP parameters
A.5.3: Better defined AAPs and QRMs with realistic and achievable performance indicators which are submitted on time (NDP pages 15 and 55) (RM pages 8- 12 and 26)	MoPF – PEAMD (TA: AusAID, UN, UK, USAID, WB, UNICEF, UNDP)	Government annual planning exercise well understood by ministries and AAPs are consistent with Road Map and annual budgets	<ul style="list-style-type: none"> Revise AAPs to reflect FY04 budget 	<ul style="list-style-type: none"> Informal workshop to review experience of P&S, AAPs and QRMs Refresher courses on AAP process for ministries : (TA: AusAID, UN, UK, USAID, WB, UNICEF, UNDP) 	<ul style="list-style-type: none"> Prepare instructions on FY05 P&S/AAPs in light of budget circulars Ministries submit AAPs & QRMs (drafts complete by mid-February) 	
A.5.4: A stronger working relationship with key stakeholders (NDP pages 15 and 55) (RM pages 8- 12 and 26)	MoPF – PEAMD (TA: UNDP Ireland)	High Level Mechanism (HLM), which represents key stakeholders, able to establish itself as a fully independent body by 31/3/04	<ul style="list-style-type: none"> Draft action plan, based on stakeholder reflections from June 2003 workshop translated and disseminated to key stakeholders (TA to be continued) 	<ul style="list-style-type: none"> Stakeholder preferences for membership and governance for HLM members and mode of operation discussed 	<ul style="list-style-type: none"> If stakeholders have agreed on process, HLM membership and status confirmed and HLM established by stakeholders (TA:TBC) 	<ul style="list-style-type: none"> If stakeholders have established HLM, first meeting of HLM

¹ Parameters – total permanent staff <17,200, payroll < \$30 million; defence and police spending <25% of core CFET; education and health ≥32% of core CFET; primary education > 45% of core CFET education spending; hospitals ≤40% of core CFET health spending

TSP II (FY2004) Appraisal Mission Aide Memoire
Annex A: TSP II (FY2004) Action Matrix

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
A.5.5: Smooth implementation of all government programs (NDP pages 15 and 55) (RM pages 8- 12 and 26)	MoPF – PEAMD (TA: UNDP, WB)	Budget support and TA mobilized		<ul style="list-style-type: none"> • In week prior to TSP progress mission, meet with focal points in ministries to determine progress 		<ul style="list-style-type: none"> • Raise with TSP missions if necessary
A.5.6: Reliable database on economic and social indicators	MoPF – Statistics Division (TA: NZ, ADB?)	Accurate, comprehensive and timely data on economic and social indicators available to all	<ul style="list-style-type: none"> • Inform the people about the imminent Census • Enter trade data in Statistics Division database • Produce national accounts for 2001/02 and projections (TA: WB) 		<ul style="list-style-type: none"> • Regular surveys initiated to collect GDP data (TA: NZ) • Trade statistics produced by Statistics Division using data from ASYCUDA 	
A.5.7: Ensuring transparency and accountability to the legislature in public expenditure management a) Development of annual citizens' guide to the Budget	MoPF, Budget Division (TA: UNDP?)	Citizens informed about government revenue, budget and programs		<ul style="list-style-type: none"> • Prepare and distribute Citizens' Guide to the FY04 Budget and explanation of tax laws 		
b) Internal and external audit (NDP pages 24, and 67-69) (RM pages 9 and 25-26)	MoPF Treasury (TA?: UN, WB, IMF)	Internal and external audits confirm RDTL financial management is compliant with revised Budget and Financial Management Act	<ul style="list-style-type: none"> • Submit proposed revisions to Budget and Financial Management Law to CoM 			<ul style="list-style-type: none"> • Treasury Manual revised to reflect revised Budget and Financial Management Law
A.5.8: Implementation of efficient procurement services and delivery of goods to line agencies in accordance with established rules and regulations a) Timely completion of procurement requests	MoPF Procurement Division (TA: UN)	Timely completion of procurement requests in line with targets ⁱⁱ	<ul style="list-style-type: none"> • Commence monthly procurement management reports 		<ul style="list-style-type: none"> • Mid-year report on progress against interim targets 	<ul style="list-style-type: none"> • Completion of procurement requests in line with targets

ⁱⁱ Targets: ≤\$15,000: 90% ≤ 30 days, between \$15,000 & \$100,000: 85% ≤ 60 days, and >\$100,000: 80% ≤ 90 days

*TSP II (FY2004) Appraisal Mission Aide Memoire
Annex A: TSP II (FY2004) Action Matrix*

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
b) FY04 Whole of Government procurement strategy	MoPF Procurement and Budget Divisions and all agencies (TA: UN, WB, ADB)	FY04 WoG procurement strategy in place and efficient delivery of procurement services Procurement legislation in place by end 2003	<ul style="list-style-type: none"> • Delivery of agency Capital Expenditure Plans and Procurement Plans • Prepare first draft of standard specification handbook of common goods and services 	<ul style="list-style-type: none"> • Standard specifications database and handbook finalized • Procurement strategy finalized • Procurement legislation submitted to National Parliament 	<ul style="list-style-type: none"> • Standard specifications handbook distributed to all agencies • Procurement manual completed and distributed 	
c) Capacity Building <i>(NDP pages 43, 49-56, 52, 59, 63, 265, 268, 281, and 283-284) (RM page 9 and 26)</i>	MoPF – Procurement Division, all agencies (TA: UN, WB, ADB)	Agency finance officers able to manage procurement processes Enhanced capacity of procurement officers	<ul style="list-style-type: none"> • Training delivered to all new central procurement officers 	<ul style="list-style-type: none"> • Professional development courses delivered to existing and new central procurement officers 	<ul style="list-style-type: none"> • All agency and district finance officers trained in procurement processes 	

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
SECTION B.1: SERVICE DELIVERY FOR POVERTY REDUCTION - HEALTH						
B.1.1: Development of health policy (NDP pages 22, 31 and 45) (RM pages 10 and 21)	MOH	9 priority Micro Policies developed	<ul style="list-style-type: none"> EPI Child health (IMCI) 	<ul style="list-style-type: none"> Health Promotion Maternal Health 	<ul style="list-style-type: none"> Malaria TB 	<ul style="list-style-type: none"> Human Resources Other Communicable diseases Non communicable disease
B.1.2: Delivery of efficient health services (NDP pages 22, 163-165, 168-169) (RM pages 10 and 21)	MOH (TA: TFET, UNDP/NZ)	Hospitals: less than or equal to 40% of core CFET health expenditure	• ≤40%	• ≤40%	• ≤40%	• ≤40%
B.1.3: Improve delivery of health services (NDP pages 22, 163-165, 168-169)- (RM pages 10 and 21)	MOH	<p>Children under one year immunized with DPT3: base 58%, target 68% (annual average)</p> <p>Children under one year immunized against Measles: base 49%, target 58% (annual average)</p> <p>Deliveries attended by skilled health staff: base 40%, target 45% (annual average)</p> <p>Outpatient visits per capita per annum: base 1.65, target 1.8 (excluding Dili and Baucau Hospitals)</p> <p>District Health Plans in place and monitored in all districts</p>	<ul style="list-style-type: none"> 60% 50% 41% 1.7 DHP in place in all districts 	<ul style="list-style-type: none"> 62% 52% 42% 1.7 	<ul style="list-style-type: none"> 64% 54% 43% 1.8 DHP evaluated in all districts 	<ul style="list-style-type: none"> 68% 58% 45% 1.8
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) (RM pages 8, 10 and 18-20)	MoECYS - PDD (TA: TFET, UNICEF, Brazil, Portugal, NZ)	Approved education policy framework paper Draft National Education Law	<ul style="list-style-type: none"> Policy coordination committee and technical working groups organized and mobilized Draft policy and positions paper prepared (TA: TFET, UNICEF) 	<ul style="list-style-type: none"> National consultative congress on educational policy conducted Draft educational policy framework paper submitted to CoM 	<ul style="list-style-type: none"> Educational Policy Framework approved by CoM Draft national education law submitted to CoM (TA: Portugal?, UNDP/NZ) 	<ul style="list-style-type: none"> Draft national education law transmitted to National Parliament

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
B.2.2: Improving the quality of primary education through curriculum revision and development (NDP pages 9, 44, 135-137, 152-157 and 160-162) (RM pages 10 and 18-20)	MoECYS - CD/ICE (TA: WB, UNICEF; TFET)	Overall curriculum framework and program for primary education developed, adopted and implemented	<ul style="list-style-type: none"> Curriculum working groups continuing Draft overall primary education curriculum framework and structure developed (TA: TFET, UNICEF) 	<ul style="list-style-type: none"> Teaching program based on curriculum framework adopted Piloting of new curriculum launched at start of the school year 	<ul style="list-style-type: none"> Approved curriculum framework/ teaching program printed and distributed to all primary schools 	<ul style="list-style-type: none"> Training of teachers in new curriculum commenced (TA: UNICEF)
B.2.3: Improving the quality of pre-secondary education by upgrading of teacher qualifications (Aquisicao do Diploma 3, Bachelarato) (NDP pages 9, 44, 135-137, 152-157 and 160-162) (RM pages 10 and 18-20)	MoECYS – Institute for Continuing Education (ICE)/University (TA: Bilaterals; TFET?)	D3 Bachelarato program developed and initiated All teachers in pre-secondary education have the D3 as minimum qualification in 3-5 years time	<ul style="list-style-type: none"> D3 program started with 300 students 	<ul style="list-style-type: none"> Course continues 	<ul style="list-style-type: none"> Course continues 	<ul style="list-style-type: none"> First year of program completed
B.2.4: Improving the educational, financial and administrative management capacity through training of educational managers (NDP pages 9, 44, 135-137, 152-157 and 160-162) (RM pages 10 and 18-20)	MoECYS - ICE/FAD/ MoPF (TA: UNICEF; WB)	50 key managers complete educational management training program Process for channeling funds through School Councils (SCs) piloted (TA: UNICEF?)	<ul style="list-style-type: none"> Financial model for decentralized funds management by schools/PTAs designed in accordance with standard government procedures 	<ul style="list-style-type: none"> 50 key managers complete educational management training program (TA: WB, UNICEF) Field testing and design of monitoring system for decentralized financial model commenced 	<ul style="list-style-type: none"> School financial management system approved by MoPF Design of financial process for channeling funds through SCs approved by Treasury 	<ul style="list-style-type: none"> System for channeling funds through schools/PTA/SCs implemented
SECTION B.3: SERVICE DELIVERY FOR POVERTY REDUCTION – VULNERABLE GROUPS (VETERANS ISSUES)						
B.3.1: Define and locate vulnerable groups - clarify definitions and identify veterans (1981-99), ex-combatants (1975-79) and other victims of the resistance (NDP page 132) (RM pages 8-9, 23, 29)	Veterans Commissions / SSLs – VAU (TA: UNDP, WB, USAID)	Policy for veterans and ex-combatants: definition of veterans and ex-combatants criteria, identification and registration of veterans and ex-combatants and definition of sustainable policy for veterans and ex-combatants	<ul style="list-style-type: none"> Registration process of veterans and ex-combatants completed (CAAC and CAVF) Recruitment of VAU staff completed (SSLs) 	<ul style="list-style-type: none"> Verification process of veterans and ex-combatants completed (CAAC and CAVF) Technical support identified to draft policy legislation (SSLs-VAU) 	<ul style="list-style-type: none"> Decision on the future use of the CAAC/CAVF database and equipment taken (Office of the President) Public consultations and seminar on international experience regarding veterans criteria and policy held (CAAC and CAVF) 	<ul style="list-style-type: none"> Final report on criteria and policy recommendations submitted (CAAC and CAVF) Process of drafting policy legislation commenced (SSLs) (TA: WB)

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
SECTION C.1: JOB CREATION - PRIVATE SECTOR DEVELOPMENT						
C.1.1: Private sector enabling legislation (NDP pages 24, 28-29, 66, 119, 224-225 and 230-232) (RM pages 8-10, 17, 25)	MDE, STI, BPA, MoJ, and PSD ministerial committee	Passage of company and investment laws and possibly insurance and bankruptcy laws	<ul style="list-style-type: none"> Supporting policy adopted and public consultations completed - for passage of company law 	<ul style="list-style-type: none"> Supporting policy adopted and public consultations completed - for passage of investment law 	<ul style="list-style-type: none"> Subject to progress of company and investment laws, passage of insurance law 	<ul style="list-style-type: none"> Subject to progress of company and investment laws, passage of bankruptcy law
C.1.2: Land law, administration and cadastre (NDP pages 61, 66, 196, 226, 243) (RM pages 8-10, 17, 25)	LPU and MoJ (TA: USAID)	Decree laws: land administration, mediation, land cadastre/registration system and management of state owned properties	<ul style="list-style-type: none"> Installation and development of cadastre system; aerial photograph delivery; preparation of registration system; policy document on registration (TA: USAID) 	<ul style="list-style-type: none"> Approval of decree laws: on cadastre and registration (TA: USAID); and mediation (TA: USAID, CIDA) Training of surveyors Further development of registration and titling systems 	<ul style="list-style-type: none"> Commencement of cadastre mediation (surveying on site; end of land claims period on 10 March); commencement of preliminary mediation processes as required, Management of state owned properties implemented 	<ul style="list-style-type: none"> Issuance of first registrations; where possible preparation of policy on public sales of Government land
C.1.3: Community-Based Maintenance Roads Project (NDP pages 37, 133-134, 137, 230-231, 273, and 275) (RM pages 8-10 23, 17 and 27)	MTCPW (TA: UNMISSET)	2,762km of roads maintained; 122 working days created per km per annum	<ul style="list-style-type: none"> Initiation of expanded Community Based Maintenance (CBM) roads project and preparation of job creation statistics 	<ul style="list-style-type: none"> Implementation of CBM roads project and capturing and recording of job creation statistics 	<ul style="list-style-type: none"> Continued implementation of CBM roads project 	<ul style="list-style-type: none"> Implementation of CBM roads project, ensuring full execution of budget appropriation Record of number of jobs created
C.1.4: Backward linkages to onshore investments from the Timor Sea (NDP pages 20, 28, 31, 37) (RM pages 8-9 and 17-18)	MDE, Timor Sea Office (TA: WB, UNMISSET)	Commitment from Timor Sea operating companies to invest onshore, preparation of onshore investment and development plan, and commencement of investment program	<ul style="list-style-type: none"> Discussions with investor company representatives setting out Government expectations 	<ul style="list-style-type: none"> Government framework determining areas of preferred commercial investment with focus on job creation and benefits for rural areas 	<ul style="list-style-type: none"> Commencement of feasibility studies and pre-investment with due diligence 	<ul style="list-style-type: none"> Completion of company onshore investment plans
C.1.5: Sending Labor Abroad Program (NDP pages 114, 244, 293, and 295) (RM pages 9, 19, 21, 25 and 28-29)	SSLS (TA: ILO, UNDP, Philippines?)	Commitments from sponsoring firms approved, 500 overseas jobs created	<ul style="list-style-type: none"> Contact with foreign government/company representatives; criteria for and conditions of overseas employment set Criteria for and conditions of overseas employment set 	<ul style="list-style-type: none"> Preparation and finalization of cooperative arrangements with foreign employers 	<ul style="list-style-type: none"> Interviews and registration of candidates for overseas employment and initial training 	<ul style="list-style-type: none"> Departure of workers and monitoring of their arrangements, benefits and conditions

Program Component / Objective	Agency Responsible	Output / Indicator and Target	By 30 September 2003	By 31 December 2003	By 31 March 2004	By 30 June 2004
SECTION C.2: JOB CREATION - AGRICULTURE						
C.2.1: Policy and Planning Unit (NDP pages 174, 176 and 196-197) (RM pages 9 and 16-17)	MAFF (TA: TFET, AusAID, EU, UNDP/NZ))	Policy adviser and 4 local staff recruited Training program of MAFF Policy and Planning Unit staff offered MAFF Policy Framework developed; planning and policy reports	<ul style="list-style-type: none"> • Terms of reference for policy adviser prepared • Policy Adviser recruited and appointed (TA: TFET, AusAID?) 	<ul style="list-style-type: none"> • MAFF Policy Framework process initiated • 4 local staff recruited • Training program in planning and evaluation methods 	<ul style="list-style-type: none"> • FY05 Budget submitted in line with proposed FY05 AAP 	<ul style="list-style-type: none"> • Draft MAFF Policy Framework completed
C.2.2: Fisheries regulatory enforcement support (NDP pages 39, 136, 175, 178, 187-188, 191-192, and 206) (RM pages 8-9 and 16-17)	MAFF (TA: AusAID)	New Fisheries Law and regulations Licensing system for offshore fisheries Community-based management legislation for near-shore fisheries developed	<ul style="list-style-type: none"> • Review of fisheries laws in small island nations • Baseline assessment for coastal resources completed 	<ul style="list-style-type: none"> • Existing legal framework, policy, international obligations reviewed 	<ul style="list-style-type: none"> • Training in fisheries legislation and monitoring (observer program) completed 	<ul style="list-style-type: none"> • Legislation to address priority issues prepared and discussed with key stakeholders • Development of community-based management approach initiated • Interim or final licensing system approved
C.2.3: Support to communities for Integrated Farming Systems - commercial and industrial crops (NDP pages 175-176, 178-183) (RM pages 8-9 and 16-17)	MAFF (TA: USAID)	Six communities in 6 different districts assisted in integrated farming systems	<ul style="list-style-type: none"> • Collection of materials (seeds & seedlings) 	<ul style="list-style-type: none"> • 3,000 coconut seeds collected • Assistance to farmers in major rehabilitated irrigated areas in diversifying farming systems provided 	<ul style="list-style-type: none"> • Six locations in 6 different districts identified 	<ul style="list-style-type: none"> • All planting materials distributed
C.2.4: Industrial value-added - coconut/candlenut oil processing (NDP pages 175-176, 178-183) (RM pages 8-9 and 16-17)	MAFF (TA: EU)	Pilot project completed and recommendations made for expansion		<ul style="list-style-type: none"> • Four projects in 2 districts initiated • Training program for farmer groups implemented 	<ul style="list-style-type: none"> • Assistance to farmers groups in marketing provided 	<ul style="list-style-type: none"> • Evaluation of projects and recommendations for expansion made
C.2.5: Integrated Watershed Management (NDP pages 175-176, 178-183) (RM pages 8-9 and 16-17)	MAFF (TA: TFET?, USAID, AusAID)	3 community-managed reforested areas successfully maintained 90% survival rate for planted trees	<ul style="list-style-type: none"> • Three locations identified and agreements reached with community leaders 	<ul style="list-style-type: none"> • Training workshops for all 3 locations completed 	<ul style="list-style-type: none"> • Replanting in all 3 locations 	<ul style="list-style-type: none"> • Report on project implementation • 90% of planted trees surviving

ANNEX B: TSP I (FY2003) STATUS OF KEY ACTIONS

Programmed Action	CHANGES IN PROGRAMMED ACTIONS	FY2003 Completed	FY2003 In Course	Rescheduled to FY2004
A. CONTINUED POVERTY REDUCTION PLANNING				
<i>1. NDP Reference: Operationalizing and updating the National Development Plan and Poverty Reduction Strategy</i>				
Economic Planning and Project Assessment Unit in the Ministry of Planning and Finance, assumes routine planning and monitoring functions		█		
Nomination of planning focal points in each line agency				
Creation of a high level coordination structure for participative implementation and monitoring of NDP and subsequent planning exercises	Concept Note in preparation		█	█
Preparation of agency action plans for FY2003, particularly for key poverty reduction sectors (education, health and justice).	Completed for all sectors	█		
Preparation of rolling action plans for FY2004 –FY2006 presented with budget submissions			█	
Preparation of a road map for operationalization of the NDP beyond FY2003, identifying gaps in current policy and strategic framework and consultation strategy.		█		
<i>2. NDP Reference: Expansion of access to primary and junior secondary education, whilst improving efficiency and quality, and creating incentives for partnerships with communities, NGOs and the private sector</i>				
Adoption of a National Education Policy, focusing on primary and secondary education, and rolling plan for FYs 2004-06.	Education congress rescheduled for Oct 2003 Manual produced. Piloting in school year 2003/4.		█	█
Piloting of a program to enhance the role of parents' associations in school management.				
<i>3. NDP Reference: Targeting of health care to achieve the greatest impact on mothers and children, by emphasizing promotive and preventive health care close to the community</i>				
Adoption of a Health Policy Framework and rolling plan for FYs 04-06.	Completed and approved by CoM	█		
Expansion of the coverage of basic mother and child services, including an increase in the number of trained midwives from 135 to 327, and increase in DPT3 coverage from 51 percent to 60 percent	Expected to meet target by June 2003	█		
<i>4. Define and locate vulnerable groups and assist through targeted training and financial support.</i>				
Establishment and staffing of a veterans unit.			█	
Strengthening of working and policy groups on veterans affairs involving stakeholders.	Two presidential commissions established	█		
Preparation of a policy and institutional framework and medium-term action plans for veterans programs.	Policy definition postponed till after registration			█
B. GOVERNANCE AND PRIVATE SECTOR DEVELOPMENT				
<i>1. Implementation of an annual legislative program</i>				
Legislative program adopted		█		
<i>2. Establishing an independent judiciary with technical quality, respect for citizenship rights, sensitivity to cultural values and popular participation and involvement.</i>				
Finalization and submission of judicial magistrates' code and submission to Parliament.		█		
Drafting of legislation on public prosecutors and public defenders		█		█
Nomination of the Superior Council for the Judiciary.		█		
<i>3. Creation of an enabling environment for the private sector</i>				
Finalization and submission of the Commercial Code, and Investment and Public Notary to Parliament.	Package redesigned.; notary code to be under decree law		█	█
Issuing of Ministerial Decree to clarify the status of abandoned property.	Law passed	█		

Programmed Action	CHANGES IN PROGRAMMED ACTIONS	FY2003 Completed	FY2003 In Course	Rescheduled to FY2004
4. Raise awareness of citizens' rights, defend citizens against abuse of power and safeguard them against corruption.				
Finalization and submission of organic law on Ombudsman to Parliament		█		
Implementation of a pilot information campaign on the role and functions of the Ombudsman's office.			█	
5. Creation of a lean, efficient and transparent civil service, free of nepotism and corruption.				
Publishing of an Interim-Ministerial Decree on civil service discipline.	Awaiting civil service statute.			█
Finalization and submission of civil service statute to Parliament			█	
Compilation and making public information on complaints, investigations and actions taken by concerned Ministries and Inspector General's Office	No action taken.			█
6. Provide the enclave District of Oecussi with a special status reflecting its particular circumstances and needs				
Preparation of report and draft legislation.	Suspended pending decentralization study.			
7. Decentralize Government and empower communities to manage their local affairs.				
Study on decentralization options, covering fiscal, service delivery and governance issues.			█	
C. PUBLIC EXPENDITURE POLICY AND MANAGEMENT				
1. Strengthen capacity in core financial management functions.				
Finalization and MPF approval of a capacity building plan and contract long-term technical support and training in those areas where gaps identified.	Draft strategy prepared, limited follow-up to date.		█	█
2. Promote stable, sustainable economic growth and monitor economic and social progress.				
Approval of a medium-term program for the development of statistical reporting systems.	No substantive work undertaken.			
Improvement in compilation of trade and price statistics, including implementation of the automated system for customs data (ASYCUDA).			█	
3. Implementation of a prudent, pro-poor expenditure policies.				
Execution of the FY2003 budget with total permanent staff less than 16,400; current pay policy, maintained; defense and police spending less than 20 % core CFET; education and health greater than 35 % of core CFET spending; primary education greater than 45 % of core CFET education spending; and hospitals less than 40 % of core CFET health spending.	On target to-date.		█	
Completion of review of public sector pay policy, together with proposals for their implementation, with results submitted to the Council of Minister.			█	
4. Ensure transparency and accountability to the legislature in public expenditure management.				
Submitting Report of independent auditor on FY2002 financial statements submitted to Parliament with Management Letter and Response.		█		
Establishing a working group to review requirements for independent audit function (Tribunal das Contas), prepare TOR and contract consultants	Postponed at Mid-Year Supervision Mission.			
Citizens Guide to the budget published	Awaits MPF approval.		█	
5. Improve the policy consistency, efficiency and effectiveness of public spending, by ensuring a disciplined, open and consultative budget process				
Presentation of a revised Budget Framework Law to Parliament	Drafts prepared but review likely to be postponed.		█	█
Development project appraisal, tracking and reporting system established, with project portfolio appraised and approved for FY2003.	Integrated with external assistance management.		█	
Public Expenditure Review focusing on poverty reduction sectors launched and preliminary results used in			█	

Programmed Action	CHANGES IN PROGRAMMED ACTIONS	FY2003 Completed	FY2003 In Course	Rescheduled to FY2004
FY2004 budget process. Preparation of a comprehensive FY2004 budget, including presentation of agency spending by district and a comprehensive list of development projects				
6. Ensure compliance with expenditure policy and legislation by strengthening expenditure controls and information systems Implementation of management information systems for asset management, procurement tracking and integration of personnel and payroll systems.	Integration of payroll and personnel systems awaits Civil Service Statute. No substantive work undertaken			
Approval and publication of policy on vehicle procurement and directive on temporary public sector employees.				
7. Ensure that oil and gas revenues are used productively, transparently and accountably to benefit present and future generations. Legal framework for Timor Sea Fund submitted to Parliament end FY03	Proposal prepared.			
D. POWER SECTOR				
1. Establish appropriate, adequately staffed and motivated management structure of East Timor Electricity Appointment of new management, either through a management contract or a management team .	Tenders for management contract under review.			
2. Improve cost recovery Contracting out of meter installation in Dili with 2,500 meters installed Approval of amended tariff directive with provision for enforcement Tariff analysis and targets for cost recovery set	Some progress. Will require revision after management contract issued.			
Monthly reports on performance, including billing errors				
3. Establish appropriate institutional structure for an autonomous power authority A draft legal framework for a autonomous power authority will be submitted to parliament	Framework legislation submitted to CoM			

ANNEX C: GOVERNANCE – OVERSIGHT INSTITUTIONS

PROVEDOR DE DIREITOS HUMANOS E JUSTICA, INSPECTOR GENERAL AND COUNCIL OF MINISTERS

TSP I (FY2003) IMPLEMENTATION ISSUES

TSP I B-1 Ensure implementation of annual legislative program

- ***Draft FY03 draft legislative program.*** The legislative effort of Government during the first year has been enormous. Twenty-nine out of forty planned draft laws and decree laws in the FY03 Legislative Program have been approved by the Council of Ministers, thirteen of which are bills submitted to Parliament and sixteen are decree laws passed by the Council of Ministers itself. Additional legislation regarded as urgent was also approved. Preparation of the legislative program has contributed to a clearer understanding of the status of legislation in preparation. However, information on available or proposed technical assistance for drafting is not always shared among the main actors and there is not as yet a standardized legislative process. In some cases there was wide involvement of the stakeholders, while in others only those directly involved participated. Creation of an Inter-Ministerial Committee headed by the Senior Minister at the Presidency to oversee drafting of the legislation on the private sector (law on contracts, company law, bankruptcy law, notary code and registrar of corporations) marks an important step-forward in addressing the need for institutional coordination. While it is clear that the format and requirements for consultation may differ according to urgency and complexity of the proposed legislation, experience has shown that policy documents are often the most effective basis for consultations and to guide subsequent legislative drafting. Definition by the Council of Ministers of the process, responsibilities and mechanisms of coordination and monitoring in legislative drafting and policy formulation would provide a useful framework for the design of the legislative program in the future.

TSP I B-4 Raise awareness of citizen's rights and respect for law, defend citizens from abuse of power by public administration; and safeguard against corruption and nepotism

- ***Organic law on the Provedor de Direitos Humanos e Justica.*** The draft organic law on the Provedor de Direitos Humanos e Justica has been submitted to the Prime Minister for his final consideration prior to submission to the Council of Ministers. The draft was prepared through an open consultative process, in which the broad policy principles were presented, discussed and revised before launching into legislative drafting. It is envisaged that transmittal of the final draft law to the National Parliament will occur before the end of the current fiscal year. Due to the appointment provisions contained in the draft law, which reflects the special

relationship that the Provedor will have with National Parliament, it is anticipated that the Provedor will be in office by September 2003.

- **Information campaign on the role of the Office of the Provedor de Direitos Humanos e Justica.** The information campaign was delivered over four months between December 2002 and April 2003. The campaign involved visits to thirteen districts and three sub-districts and regular meetings with eight community groups. Media coverage included most of the meetings in the districts, sub-districts and Dili as well as two talk shows aired on TV and radio. Positive feedback on the meeting content and process was received from participants during district visits. The information campaign was designed to be open and inclusive and could serve as a useful model for other information campaigns in Timor-Leste.
- **Staff the Office of the Provedor de Direitos Humanos e Justica.** The recruitment of staff will be overseen by the Provedor in accordance with the draft Organic Law. As such, national staffing arrangements are expected to be finalized before the end of the calendar year. The selection of the senior adviser for human rights has been completed and it is anticipated that the adviser will be deployed before the end of the fiscal year.
- **Information campaign on fees for basic public services.** The information campaign will take place following the establishment of the Provedor's office.

TSP I B-5 Create a lean, effective and efficient civil service free of corruption and nepotism.

- **Operation of the Office of the Inspector General.** The recruitment freeze and the uncertain status of the office and its relationship with the Office of the Provedor de Direitos Humanos e Justica had an impact on the capacity of the Office of the Inspector General to undertake planned activities during the year. The TSP action item for the compilation and publication of complaints of absenteeism, irregularities and corruption among civil servants was not implemented. The status of the Office has now been clarified with the approval of the Organic Law. The Office of the Inspector General is to be an internal oversight body reporting to the Prime Minister whereas the Office of the Provedor de Direitos Humanos e Justica is to be an oversight body that receives complaints from citizens and reports directly to the National Parliament. The key activity for the Office of the Inspector General for the remainder of FY2003 is to finalize recruitment of vacant positions.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A.1.1: Ensure Implementation of Annual Legislative Program

- **Drafting of the Legislative Program.** Careful prioritization is needed to ensure that legislative program proposed by line agencies reflects priorities for the whole of Government. Prioritization, scheduling and tracking might be facilitated if agencies were required to present the following information, for consolidation by the Secretariat: (a) an operational plan, including schedule for preparation, technical

assistance, financing, and an indication of the stakeholders to be consulted; and (b) terms of reference for each piece of legislation to be drafted.

- ***Directive on the Legislative Process.*** The intention is to define the policy and legislative process, establish the relationship between the key participants, the options as regards procedures and the key steps for different types of policies and legislation, by directive/resolution from the Council of Ministers. This might address: (a) the roles and functions of the line agencies, Senior Minister at the State Presidency, the Ministry of Justice, the Secretary of State of the Council of Ministers and the Secretary of State for Parliament Affairs regarding the legislative process; (b) the process for legislative drafting, moving from a policy or an issues statement through to formal drafting; (c) assessment of financial/budgeting and social/economic implications of proposals; and (d) the selection of different legislative instruments.

TSP II A.1.2: Provedor - Raise Awareness of Citizen's Rights and Respect for Law

- ***Operationalize the Office of the Provedor de Direitos Humanos e Justica.*** Socialization of the Organic Law, the information campaign on the payments of fees and fines and a general media campaign are key priorities for the Office during the later half of FY2004. For the Office of the Provedor to be in a position to deliver the campaign on fees and fines, support will need to be provided by all revenue collecting agencies and the Ministry of Planning and Finance (Macroeconomic and Tax Policy). A key deliverable will be the production of annual report (calendar year) provided for under the draft organic law.

TSP II A.1.3 Create a lean, effective and efficient civil service free of corruption and nepotism.

- ***Strategy for investigation of complaints and review of investigations.*** The overall strategy for targeting of investigations and associated processes will be undertaken in the first quarter of FY2004 once recruitment arrangements have been completed. Within this context, a review of the forty previous investigations will be carried out in the second quarter. The review will focus on assessing the outcomes and follow up actions of previous recommendations as well as evaluating investigation techniques that were used. In addition, the overall strategy could address the following: prioritization criteria for annual planning of investigations; referral processes for receipt of complaints, publication of planned investigations; criteria for publication of information in the public interest; and scope of investigations including procurement, supply, financial management, asset management, service delivery in the districts, payroll and human resource management, incorporating attendance and personnel audit.

TSP II (FY2004) TECHNICAL ASSISTANCE

- ***Legislative Program FY 2004 and Legislative Process.*** Short-term technical assistance is required to assist in designing of the framework and instruments, including templates for legislative drafting and monitoring/review of legislative

programs, and the Directive on the Legislative Process. Technical assistance for drafting of specific legislation can be coordinated on the basis of a comprehensive, prioritized legislative program for the year ahead.

- **Office of the Provedor.** A number of donors are providing or are considering support to the Office of the Provedor. It will be important to coordinate development partners' assistance in a systematic way to ensure the highest priority inputs are made available to the Provedor on timely basis. The Government is in the process of finalizing arrangements with the World Bank for support for institutional development of the Office of the Provedor. The current legal and policy advisor's position, currently funded by Ireland through UNDP, is due to conclude at the end of October 2003. However, now that the Provedor is not expected to be in office before September 2003, transitional arrangements for the provision of legal and policy advice to the Provedor will need to be finalized by the end of the first quarter FY2003. Currently, funding through UNDP is secured for an adviser for both good governance and anti-corruption activities. The Office has indicated that separate advisors may be needed to support these areas.
- **Inspector General.** While there is considerable interest in providing technical assistance to the Provedor's office, the current assistance to the Inspector General's office is winding down. Some short-term assistance is likely to be needed to assist the Inspector General implement its FY2004 work program, particularly in the development of its strategy for investigating complaints.

EMERGING ISSUES

- **Internal accountability mechanisms.** High profile anti-corruption and integrity promotion campaigns need to be backed up by broad awareness of procedures, agency level accountability mechanisms and the sanctions to be applied according to legislation and administrative instructions. In particular, sanctions provided under the proposed the Civil Service Discipline Regulation and the Budget and Financial Management Law will need to be communicated to civil servants and the community. Communications strategies will need to be integrated in the follow-up work programs as legislation is approved.

ANNEX D: GOVERNANCE - PUBLIC SECTOR MANAGEMENT

TSP I (FY2003) IMPLEMENTATION

B-5 Create a lean, effective and efficient civil service free of corruption and nepotism

- **Government Organic Decree.** FY2004 budget documents have been adjusted to reflect the institutional structure of Organic Decree-Law. Ministries are currently preparing Organic Decrees for approval by the Council of Ministers.
- **Civil Service Statute.** Finalization of the draft Civil Service Statute has been delayed owing to the need to have a more extensive discussion among the core team members and within Government, with the support of UNDP technical assistance. This resulted in a Government decision to adopt a career system based on merit and the preparation of a revised Civil Service Statute, which is presently under review by the Minister of State Administration.
- **Pay Policy.** MPF Budget Office has contracted a study on civil service pay. This will be finalized following policy decisions on compression rates, grade structure and allowances. A review of pensions policy has been undertaken. This advocated postponement of decision regarding the introduction of civil service pensions, to allow the Government to concentrate on more pressing issues in the Civil Service Statute. In order not to delay finalization of the Civil Service Statute, the Ministry of State Administration may proceed on the basis of the current pay and grading structure, with provision for the presentation of revised policies through subordinate legislation or administrative regulations.

TSP I B-6 Provide special status for Oecussi

- **Special status for Oecussi.** During the November 2002 Progress Mission, Government rescheduled deadlines for consultation and preparation of the policy paper to follow the decentralization study.

TSP I B-7 Decentralize government and empower communities to manage their local affairs

- **Decentralization Study.** The study was launched in April 2003. An Inception Report was presented to the Minister of State Administration in the last week of April, following work with the advisory team members and discussions at the Ministry of State Administration. It is expected that the draft final report will be submitted to an Inter-Ministerial Technical Group for review by end of June 2003. This body will recommend to the Council of Ministers on the options regarding layers of administrative and territorial organization, decentralization of public administration and community empowerment structures.

TSP I C-6 Ensure compliance with expenditure policy and legislation, by strengthening expenditure controls and information systems.

- **Personnel Database.** The Ministry of State Administration recently began preparation of hard copy personnel files of its Ministry staff. The Human Resource Management modules of Treasury's CHRIS system, used for payroll, were installed in the MSA-NDPS and one staff member trained in their use. However, the staff member departed shortly afterwards and the application is no longer available. Without such a registry, it is impossible to record basic personnel transactions (such as recruitment, appointment, transfer, promotion, retirement, and disciplinary action), let alone develop more advanced human resource management functions (such as staff appraisal, training and personnel management policies and strategies). Lack of a personnel registry constitutes a serious fiduciary risk, not least because payroll registers are difficult to reconcile without identification and contractual records.
- **Temporary employees.** Government currently has 538 temporary employees out of a total payroll of 14,512. Employment conditions continue to be determined on a contractual basis. Limitations on the duration of temporary employment have yet to be applied systematically. The regulation on the terms, conditions and duration of temporary contracts, originally scheduled for FY2003, has not been prepared.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A.2.1: Decentralize Government and empower communities to manage their local affairs

- **Legislation on State Administration and Local Government.** Following recommendations on the decentralization options study, policy documents will be drafted and discussed and a proposal submitted to the Council of Ministers. As currently scheduled, legislation is expected to be finalized by the end of FY2004. As part of this process, the Ministry intends to assess options for a fiscal transfer mechanism to support locally identified development initiatives. External assistance may be sought to develop appropriate transfer and accountability mechanisms. In this context, the mission referred to the experience of UNCDF (United Nations Capital Development Fund) Local Development Funds in, amongst others, Malawi, Mozambique, Cambodia and Uganda, as a possible model that could be adapted to local requirements.
- **Legitimization of Local Authorities.** The Ministry of State Administration is currently reviewing options for the establishment of community empowerment structures at the village and suco level. This is likely to entail phased elections, starting in the third quarter of 2004.

TSP II A.2.2: Development of the legal and regulatory framework for the civil service

- **Civil Service Statute.** The Ministry of State Administration is currently finalizing the Civil Service Statute, which it intends to submit to the Council of Ministers early in FY2004. Implementation of the Statute will require a large number of subsidiary regulations. Priority has been given to the preparation of regulations on discipline, included in the program below, and the appraisal and promotion of staff, so as to allow differentiation between employees on the basis of responsibility, qualifications and performance. Supplementary regulations will also be needed if Government decides to proceed with a revision in the grading structure, so as to allow for within grade progression and promotion. So far, the Budget Office has taken an active role in the assessment of the financial implications of alternative pay and grading structures. Ideally, continued collaboration between the Ministry of State Administration and Ministry of Planning and Finance in this area would be formalized so as to reduce the risk of pay reforms having an adverse impact on the budget. However, implementation of a revised grading structure would require the personnel registry to be in place. Careful sequencing of the subsidiary regulations will be needed to allow adequate time for review and ensure that the supporting information systems are in place. Support for these activities is to be provided under a UNDP project.
- **Disciplinary Regulation.** MSA-NPSD has prepared a draft disciplinary regulation and circulated it to line agencies for review. The Regulation defines the disciplinary measures for infractions of the code and the disciplinary process. MSA intends to present the regulation at four regional workshops in first quarter and submit the regulation to the Council of Ministers by December 2003. Printing and training activities for managers have been scheduled for third quarter FY2004. Particular attention should be paid to the definition of procedures and training of MSA staff, senior line agency managers and managers in districts in the requirements of the disciplinary regulation. Support for these activities is to be provided under a UNDP project.

TSP II A.2.3: Development of the human resources management system.

- **Human Resource Policy & Strategy.** There is, as yet, no Human Resources Policy to define the responsibilities of the key players (Ministry of State Administration, Ministry of Planning and Finance and line agencies) and guide the implementation of the Civil Service Statute. In this context, preparation of a basic Human Resource Policy is considered a priority. In the longer term, the HR Policy would cover a wide range of human resource management issues, such as: recruitment; succession planning; staff welfare and working conditions; pay policy; pensions policy; staff and management training and development; performance review and appraisal; personal development plans; discipline; capacity building; and information systems. Obviously, it would be impossible to address all these issues simultaneously. Ideally, the HR Policy prepared in FY2004 would identify the range of issues to be covered in the longer-term, setting out a program of work over

several years to address aspects of human resource management systematically. Priority areas for policy development identified by the Ministry of State Administration include: recruitment; information systems; pay policy; and appraisal and promotion.

- **Establishment of line agency Human Resource Management units.** The recent delegation of the recruitment process to line agencies underlines the need for a human resource management capacity at agency level. In the larger Ministries – education and health for instance – this may entail the creation of dedicated units. In the smaller Ministries, personnel working on broader administrative and financial management tasks could assume this function. In the near future, these units' principal tasks are expected to be recruitment and the establishment and management of personnel registries.
- **Personnel Registry.** Establishment of a personnel registry for nearly 15,000 public sector employees, together with the systems to ensure that the registry is regularly updated and used for management purposes, is an urgent task. The essential requirement of such a registry is a paper based filing system, supported by clear procedures for tracking personnel transactions throughout the system and between institutions. Ideally, paper based files would be backed up by an electronic registry, linked to the payroll, which would facilitate tracking of personnel transactions between the key agencies. However, it should be stressed that an electronic database is an ideal, not a necessity: paper based systems can function adequately if there is adequate supervision of registry procedures. Given the large number of personnel registers that will have to be created, it is unlikely that the Ministry of State Administration would be able to put in place a comprehensive personnel registry in the near future: a team of fifteen personnel officers, for instance, preparing two files per day, would take a year to complete the registers for the Ministry of Education, Culture, Youth and Sports alone. On this basis, the target of completing personnel registers for 25% of personnel by end of June 2004 is extremely optimistic. In order to accelerate the process, the Ministry of State Administration is considering the viability of contracting out the establishment of the personnel registry and training MSA-NPSD and line agency staff in registry maintenance. For this to proceed, the Ministry of State Administration would need to undertake a scoping study to define the structure of the personnel registry information, supporting computerized information systems (if any) and institutional arrangements, together with an assessment of the likely cost and timeframe for establishing a comprehensive personnel registry. UNDP may provide financing for this scoping study. On the basis of the scoping study, the Ministry of State Administration would be able to issue a call for proposals from contractors. Contract implementation would require bilateral financing. Ideally, this would be linked to and supervised by the on-going UNDP project.

TECHNICAL ASSISTANCE

- **National Public Service Directorate.** NPSD currently benefits from assistance from UNDP covering the key activities in the TSP II (FY2004) matrix. Additional

assistance will be needed to support implementation of the personnel registry. Costings for this activity will only be available once a scoping study has been undertaken.

EMERGING ISSUES

- ***Recruitment freeze and recruitment procedures.*** The Government has acted decisively to address the problems caused by the recruitment freeze, putting in place procedures that facilitate recruitment whilst ensuring adequate oversight and fiduciary controls. The recruitment freeze was lifted in January 2003. A total of 531 permanent staff and 68 temporary staff have been recruited since November 2002, bringing total payroll to 13,974 permanent employees and 538 temporary employees. Revised procedures are presented in Instruction 1/GVM/MAI/2003 issued by the Vice-Minister of Internal Administration. This delegates responsibility for recruitment to the respective line agency, providing detailed instructions on the basis, method and procedures for recruitment and selection. The Ministry of State Administration is to oversee recruitment by: i) authorizing agency initiation of the recruitment process; ii) participating in selection panels for levels 5 to 7; and iii) centralizing all documentation on recruitment processes and personnel files. Staff are registered on payroll on the basis of an authorization signed by MSA-NDPS and the respective line agency. Oversight of the recruitment process is hampered by the lack of an up-to-date personnel registry. These issues are addressed by the Ministry of State Administration's annual action plan.

ANNEX E: GOVERNANCE - JUSTICE SECTOR

TSP I (FY2003) IMPLEMENTATION ISSUES

TSP I B-2 Administer justice of technical quality independently, with respect for citizenship rights, sensitivity to cultural values and popular participation and involvement (NDP pages 21 and 108)

- ***Judicial Magistrates Code.*** The Judicial Magistrates Code has been approved by the Parliament and the Superior Council for Judicial Magistrates established, with representatives appointed by the President, Parliament, Government and Judicial Magistrates. The Council has yet to meet formally.
- ***Court of Appeal.*** The Court of Appeal (*tribunal superior de recurso*) has been established and its President appointed by the President of the Republic, pending confirmation by the Parliament. The Court of Appeals is an interim mechanism. Later on, the Supreme Court of Justice (*tribunal supremo de justiça*) will be constituted as the highest court in the hierarchy of the judicial system.
- ***Public Prosecutors and Defenders.*** Enabling legislation for public prosecutors and public defenders to operate under a proper legal and institutional framework, as laid down in the Constitution, is being drafted.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A.3.1: Administration of Justice

- ***Laws on Public Prosecutors and Public Defenders.*** Draft legislation is expected to be presented to the Council of Ministers by December 2003. Appointment of the Public Prosecutors' Superior Council simultaneously with the approval by the Parliament of the Law on Public Prosecutors would speed implementation.
- ***Strengthening the Judiciary.*** The judicial courts, the public prosecutors and the public defenders are the pillars of the judiciary system. Performance has been hindered by: understaffing due to recruitment restrictions (which have only recently been lifted); the need for training; poor case management; and weak administrative support services and lack of a management information system. Training of judges, public prosecutors and public defenders, while essential, will aggravate staffing constraints since those selected for training will be taken away from their duties for periods of one year or more. The FY2004 program seeks to address these problems by:
 - a) *promoting regular meetings of the Judiciary for the Superior Council* to enable its members to jointly resolve problems in the judicial system, such as recruitment of national and international judges, strengthening of case

- management, administrative support services, and training of judges and judicial and administrative officials.
- b) *accelerating recruitment of national and international personnel*, the Court of Appeals plans to recruit 5 judges from the district courts to constitute the college of judges (panel) together with the President, and 2 to 3 international judges to act as mentors and 8 court clerks; the General Public Prosecutor Office plans to recruit 4 prosecutors and 4 to 5 international prosecutors to act as mentors; the Public Defenders Office plans to recruit 4 public defenders, 13 legal assistants and 10 administrative and clerk staff members, together with up to 10 international public defenders to act as mentors. The Ministry of Justice has voiced concerns regarding the recruitment of international judges as mentors, since this might hinder effective skills transfer and would not reduce workloads in the judiciary.
 - c) *building a consensus on mechanisms to establish administrative support, capacity building and information systems*. The Ministry of Justice plays a supporting role in the creation of the independent (courts and public prosecutors) and autonomous (public defenders) institutions of the judiciary. Fulfillment of this supporting role requires agreement from independent and autonomous institutions. One critical area is the development of information systems to track the judicial process and identify backlogs. At present, the Ministry of Justice collects information on the situation of the cases under prosecution and/or judgment indirectly, from the prisons, which are directly under Ministry control. Agreement between the Ministry of Justice, the Court of Appeal, Public Prosecutors and Public Defenders systems is needed to define information requirements and establish standardized reports. Similarly, agreement between these institutions will be needed on the organization of the administrative services and capacity building initiatives. This will entail a distinction between administrative support and management functions and those of the clerks (technical secretariat). However, a transitional administrative support unit may be installed at the Ministry of Justice for the judiciary.
- *Establishment of notary and registration systems*. The Ministry of Justice is responsible for the delivery of notary and registration services. The technical and organizational part of establishing these systems can be undertaken simultaneously with the preparation of the legal and regulatory framework. The Notary Code, Public Registration Code, Land and Property Cadastre and Registration Law, Mediation of Disputes on Land and Property and State Property Management regulation are currently being drafted and are expected to be approved by the Council of Ministers during FY2004.

TECHNICAL ASSISTANCE

- *Support to the Judiciary and the Ministry of Justice*. A UNDP Program prepared with the participation of the various stakeholders is under consideration. The program will provide technical assistance as well as recruiting international judges, prosecutors and defenders. International Development Law Organization (IDLO),

Lawyers without Frontiers and bilateral cooperation, including Portugal, Brazil and Mozambique are also indicated as to provide technical assistance in the training of judges, public prosecutors and public defenders. The Ministry has indicated that it needs technical assistance to support work on the legislative drafting methodology, government owned buildings rental contract management and management of revenues resulting from such contracts.

ANNEX F: GOVERNANCE - PLANNING AND PUBLIC EXPENDITURE MANAGEMENT

TSP I (FY2003) IMPLEMENTATION

TSP I A-1 Keep the vision alive and operationalize the National Development Plan and adopt permanent institutional arrangements for routine planning, regular consultation and revision of the Plan as required

- **Road Map.** The prioritizing and sequencing exercise undertaken across Government in the first three months of 2003 has led to the presentation of a draft Road Map (including the Stability Program). This provides a guide to the implementation of the National Development Plan and a framework for the negotiation of external assistance based on Government's priorities. This has been an extraordinary achievement. The challenge is now to translate the priorities into action on the ground and to maintain the vision alive by updating the program in line with implementation and experience. This challenge is addressed in the FY2004 program.
- **Annual Action Plans and Quarterly Reporting Matrixes.** PEAMD has expressed satisfaction with the majority of AAPs received. Clearly the training has been effective, with successive refinements of AAPs (e.g. as a result of the mid-year budget update) showing a significantly greater understanding of the need for SMART indicators and targets that can be realistically linked to budgeting. Inevitably the quality of annual action plans varies among Ministries. An assessment of this year's planning exercise might provide a useful starting point for the identification of technical assistance requirements for the FY2005 cycle. PEAMD has already started on this process by undertaking a skills-gaps analysis across government to identify the training requirements needed to support implementation of the annual action plans.
- **High level monitoring mechanism.** The government is keen to help create opportunities for broad-based participation by stakeholders throughout Timor Leste in planning and monitoring of development performance. In this way it hopes to build on the extensive participation in creating the National Development Plan. A workshop is scheduled for June 2003 to promote a forum for stakeholders from all parts of Timor-Leste, which will discuss whether such a High Level Mechanism would be appropriate and, if so, how it might be structured. Throughout this process, the government will act only as a facilitator and will be careful not to dominate. In a similar vein, donors will be expected to play only a facilitating role.

TSP I C-1 Strengthen Capacity in Core Financial Management functions

- **Capacity Building Strategy and Plan.** A draft Capacity Building Strategy was prepared in November 2002 and circulated within the Ministry. This has yet to be

formally reviewed, adopted and translated into capacity building plan. Nevertheless, good progress has been made in all areas of the MoPF on strengthening capacity at an operational level, in Treasury, in the Budget Office and in PEAMD, with local staff playing an increasingly important and effective role. Since the ministry is highly vulnerable to the withdrawal of personnel occupying UN positions, and to delays in the arrival of replacement TA, especially from Australia and Portugal, formulation of a capacity building plan remains a priority for FY2004. The comprehensive handover notes prepared by the recently departed Head of Treasury provide a model that could usefully be applied by other technical assistance staff. This includes a list of all staff – national and international – working in the department, together with a list of the core skills requirements for their positions, existing skills and qualifications and skills development options

TSP I C-2 Promote stable, sustainable economic growth

- **Statistics Law.** The draft statistics law has yet to be approved by the Minister for Finance and Planning and to be submitted to the CoM. This remains an important step in regulating access to information from the people of Timor-Leste, particularly in light of the proposed census, which will be in the field in FY2004.

TSP I C-3 Implement prudent, pro-poor expenditure policy

- **Budget Execution.** MYBU revised appropriations and FY2003 spending are broadly in line with the parameters agreed under TSP I (see Table 1 below). Appropriations for police and defense are currently 17.7% of total revised appropriations and 18.0% of spending (as compared with a target of <20% of expenditure). Appropriations for health and education are 34.3% of total revised appropriations and 35.8% of spending (as compared with a target of >35%). Primary education spending is 48% of education sector spending and hospital spending at approximately 40% of health spending.
- **Budget Execution.** Low levels of execution in the priority service delivery sectors during the first half of FY2003 appears to be attributable to poor understanding and implementation of financial and procurement regulations by line agencies, restrictive petty cash allocations, and delays in presentation of procurement plans for the capital budget. The third quarter budget execution report shows that service delivery agencies have made significant progress in accelerating the pace of spending.
- **Power Sector.** Expenditures on the power sector remain an area of concern. While there has recently been some improvement in collections, the overall financial position of the sector has been adversely affected by: reductions in tariff rates; continued poor coverage of the metering system and errors in the billing system; a 23.5% increase in fuel unit costs; and increases in monthly operating expenditures to \$720,000/month as compared with \$550,00/month in FY2002, following restoration of 24 hour supply. To address additional financing requirements, the MYBU increased appropriations for operations from \$4.0 million to \$6.5 million. This should be sufficient to cover operations to the end of fiscal year, if collections

are maintained at current levels. However, the mission notes with concern the departure of the EDTL Commercial Manager, since this may have an immediate impact on the level of cost recovery. Should the sector's financial situation deteriorate still further during FY2003, supplementary appropriations could only be mobilized by diverting resources from other sectors.

Table 1: Budget Performance and Structure, FY2003 (to end March)

Agency	Total CFET USD '000	Execution End March USD '000	Core CFET USD '000	Core CFET Execution End March USD '000	Budget Structure % (Total)		Budget Structure % (Core)	
					Bud	Exec	Bud	Exec
Office of the President	361.0	232.5	361.0	232.5	0.5	0.5	0.5	0.5
National Parliament	858.0	513.0	858.0	513.0	1.2	1.0	1.3	1.1
Government Structures	6,981.0	5,208.4	6,338.0	5,208.4	9.4	10.3	9.4	11.0
<i>Of which defense</i>	<i>4,950.0</i>	<i>3,667.9</i>	<i>4,307.0</i>	<i>3,667.9</i>	<i>6.7</i>	<i>7.3</i>	<i>6.4</i>	<i>7.8</i>
State Administration	3,192.0	1,343.5	2,581.0	1,311.5	4.3	2.7	3.8	2.8
Interior	9,568.0	6,300.6	9,058.0	6,300.6	12.9	12.5	13.5	13.4
<i>Of which police</i>	<i>8,182.0</i>	<i>5,413.2</i>	<i>7,697.0</i>	<i>5,413.2</i>	<i>11.0</i>	<i>10.7</i>	<i>11.4</i>	<i>11.5</i>
Justice	2,415.0	1,564.1	2,145.0	1,564.1	3.3	3.1	3.2	3.3
Development and Environment	341.0	188.8	341.0	188.8	0.5	0.4	0.5	0.4
Trade and Industry	210.0	107.2	210.0	107.2	0.3	0.2	0.3	0.2
Agriculture, Fisheries & Forestry	1,569.0	981.8	1,432.0	981.8	2.1	1.9	2.1	2.1
Education, Culture, Youth & Sports	17,713.0	11,693.5	17,663.0	11,693.5	23.8	23.2	26.2	24.8
<i>Of which primary</i>	<i>8,283.0</i>	<i>5,559.0</i>	<i>8,283.0</i>	<i>5,559.0</i>	<i>11.2</i>	<i>11.0</i>	<i>12.3</i>	<i>11.8</i>
Health	7,775.0	6,372.9	7,125.0	5,722.2	10.5	12.6	10.6	12.1
<i>Of which hospitals</i>	<i>2,850.0</i>	<i>2,117.2</i>	<i>2,850.0</i>	<i>2,117.2</i>	<i>3.8</i>	<i>4.2</i>	<i>4.2</i>	<i>4.5</i>
Employment and Solidarity	718.0	274.4	583.0	274.4	1.0	0.5	0.9	0.6
Foreign Affairs and Cooperation	1,259.0	705.5	1,259.0	705.5	1.7	1.4	1.9	1.5
Planning and Finance	4,526.0	2,480.6	3,986.0	2,268.0	6.1	4.9	5.9	4.8
Transport, Communications & PW	16,785.0	12,470.1	13,385.0	10,102.4	22.6	24.7	19.9	21.4
<i>Of which, EDTL</i>	<i>8,442.0</i>	<i>7,856.7</i>	<i>6,542.0</i>	<i>5,956.7</i>	<i>11.4</i>	<i>15.6</i>	<i>9.7</i>	<i>12.6</i>
Total	74,271.0	50,436.9	67,325.0	47,173.9	100.0	100.0	100.0	100.0

TSP I C-4 Ensuring transparency and accountability to the legislature

- **Public Expenditure Review.** A public expenditure review process was undertaken early in 2003 to assist the government to prepare the macro-economic framework for the FY2004 budget and analyze the policy consistency and efficiency of spending in the roads, health, education and law and order sectors. Costing models were prepared to support the preparation of budget estimates. This exercise appears to have been most useful in the education and health sectors. Follow-up activities by Budget Office and PEAMD may focus on assessments of service delivery at the field level.

TSP I C-5 Improve policy consistency, efficiency and effectiveness

- ***Revision of the Budget and Finance Law (Regulation 2001/13).*** The revised Law has been prepared with the support of the IMF. Comments on the first draft report from MPF departments have been incorporated into the Act, but two issues still need to be addressed:
 - a) ***Section 41 Independent Audit.*** This section defines audit arrangements pending creation of the Audit Court foreseen in the Constitution. The transitional nature of these arrangements should be made explicit.
 - b) ***Part X Foreign Aid and Foreign Donor Projects.*** The current drafting does not include a requirement for Ministry of Planning and Finance approval of all cash and in-kind grants. This is desirable to ensure that the domestic financing implications and consistency with Government-wide priorities are taken into consideration before such grants are approved. Furthermore, while the treatment of grant contributions as public money is appropriate, it may not always be practicable for grants to be administered following Treasury procedures or for projects to present monthly expenditure reports. In this context, it would be helpful to clarify that the provisions of the Act should be applied, unless otherwise stipulated by agreement between the Government and the financing partner.

TSP I C-6 Ensure compliance with expenditure policy and legislation, by strengthening expenditure controls and information systems.

- ***Vehicle standardization policy.*** Little substantial progress appears to have been made on standardizing vehicle policy. With vehicle operating costs already approaching an annual total of \$5 million, this area provides an important opportunity for the government to ensure that future spending commitments are appropriate.

TSP I C-7 Productive use of oil and gas revenues

- ***Institutional arrangements for Timor Sea revenues.*** A study on the institutional arrangements for Timor Sea Revenues was presented in late 2002 and is under consideration. While the management of Timor Sea revenues is of critical importance for the future, the Mission does not consider the definition of institutional arrangements for oil revenue management as urgent. The Mission notes that the draft Budget and Financial Management Law provides adequate transparency safeguards for the management of Timor-Sea revenues and that some flexibility in the application of the savings policy may be necessary in the coming three to four years. Nevertheless, this is an issue that Government may want to consider before substantial Timor Sea revenues are on stream.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A.5.1: Strengthen the capacity of MoPF to manage public finances

- ***Human Resource Development strategy.*** Almost all of the departments in the MoPF identified capacity building as their main priority in their annual planning exercises. This reflects two issues; the increasing precision with which local staff, now more familiar with the demands of their positions, are able to specify their training needs, and imminent changes in TA staffing anticipated for FY2003 as a result of the departure of Australian teams from Budget Office and ETRS and the winding-down of UN positions. During the first quarter of FY2004, the Administration and IT department of the MoPF has undertaken to compile an agency-wide Human Resource Development (HRD) strategy. This will be based on feedback on the draft Capacity Building Strategy, and the P&S and AAPs from the separate departments. It would also be helpful to refer to the succession strategy prepared by Treasury and two ongoing activities: UNDP work on capacity building and succession planning, which is looking at strategies in the light of the withdrawal of UN 100 and 200 positions, and AusAID work on translating AAPs into individual staff action plans.

TSP II A.5.2: Implementation of a prudent, pro-poor expenditure policy

- ***FY2004 Budget.*** The Ministry of Planning and Finance has indicated that it intends to present a FY2004 budget that meets the following parameters: total permanent staff <17,200, payroll < \$30 million; defense and police spending <25% of CFET; education and health ≥32% of CFET; primary education > 45% of CFET education spending; hospitals ≤40% of CFET health spending.
- ***Power Sector Management Contract.*** Poor cost recovery in the power sector remains the principal threat to the implementation of a pro-poor budget in the short-term. Implementation of the Management Contract and installation of pre-payment meters are seen as the principal mechanisms for bringing power subsidies under control. In this context, the successful conclusion of negotiations with the successful bidder is critical in establishing the medium-term expenditure path for the sector. The Mission understands that an appropriately qualified power sector specialist will be available to assist in negotiations. Government has agreed that the reports of the Power Sector Transition and Supervisory Committees, together with the reports of the Independent Audit and Certification entity, will be made available to TSP partners.
- ***Budget Process and Capacity Building.*** Achievements in FY2003 suggest that the Budget Office will meet administrative deadlines for the FY2004 and FY2005 budget cycles. Particular attention will be given the early definition of expenditure limits at the start of the FY2005 budget process, ideally covering both domestic and external financing. The Budget Office has also indicated that it intends to present a Combined Sources FY2005 budget and an indicative breakdown of expenditures by district. A key part of the Budget Office's work in FY2004 will be to train finance staff in other ministries on budget and financial management. Despite

improvements in expenditure performance in the second half of FY2003, refresher training is needed to ensure that line agencies maintain this improvement. In view of the need to internalize the budget process, so that a wider range of tasks can be assumed by national personnel, the Budget Office may simplify the presentation of budget documentation, whilst retaining the critical quantitative information.

TSP II A.5.3: Better defined AAPs and QRMs with realistic and achievable performance indicators

- **Preparation of AAPs and QRMs.** There has been considerable effort across government in undertaking the prioritization and sequencing exercise, formulating Annual Action Plans (AAPs) and developing quarterly review matrices (QRMs). The challenge for FY2004 is to embed these planning tasks and to extend awareness and participation throughout government. As in FY2003, close monitoring of the agency programs by MPF will be critical in keeping the planning process alive, linked to implementation, so that it is used as a management tool. The outcomes of the FY2004 budget process, for instance, will require ministries to adapt AAPs where allocations are not in line. Work supported by AusAID in translating agency AAPs into individual work plans has helped identify training requirements. In the FY2005 planning cycle, it is important to keep the process as consistent and predictable as possible. It is the Mission's view that there is no need for changes in the broad format for AAP and QRMs. Nevertheless, improvements to individual AAPs can be made, particularly as regards the formulation of *SMART* (specific, measurable, agreed and achievable, realistic, and time-bound) indicators and targets. Ideally, these would be linked to the higher level Millennium Development Goals that the Government intends to track. PEAMD intends to conduct an informal review of the FY2004 planning exercise to support improvements in the subsequent round and target assistance to the weaker institutions.

TSP II A.5.4: A stronger working relationship with key stakeholders

- **High level mechanism.** The Ministry of Planning and Finance has proposed a timeframe and key steps in the establishment of the high level mechanism that will monitor implementation of the National Development Plan. The Ministry has indicated that high level mechanism will be an independent body and so this program should be considered indicative.

TSP II A.5.5: Smooth implementation of all Government programs

- **Mobilize budget support and TA.** With the threat of significant funding gaps in FY2004 and FY2005, PEAMD is keen to ensure that the necessary external financial support and TA is delivered on time and to specification. To that end, it will be tasking ministry focal points to report regularly on performance.

TSP II A.5.6: Reliable database on economic and social indicators

- *Accurate, comprehensive and timely data on economic and social indicators.* Building on efforts during FY2003, the Statistics Division will administer the census and the development of national accounts and trade statistics.

TSP II A.5.7: Ensuring transparency and accountability to the legislature

- *Implementation of revised Budget and Financial Management Law.* The draft Law provides formal basis for expenditure management practices currently established by Treasury. Nevertheless, the Treasury Manual will have to be revised to ensure consistency between the legal framework and internal procedures.
- *Audit.* The existing external audit arrangements will be maintained. It is critical that the auditors debrief the Ministers and senior management on the contents of their interim and final management reports.

TSP II A.5.8: Implementation of efficient procurement services

- *Timely completion of procurement requests.* Timor Leste's poor budget execution rate has often been attributed to slow processing of Commitment Payment Vouchers (CPV) and procurement requests. Third quarter data obtained from Treasury indicates that 97% of CPVs are processed within a day and that delays experienced are primarily due to inaccurate completion of the CPV form (3% of all CPVs require clarification and take around nine days to finalize). Procurement processing data indicates the central procurement unit is completing 80% procurement requests within 45 days, which is an acceptable level of performance. However, further improvements can be achieved. A measure to be implemented by the Procurement Unit will be the publication of monthly procurement reports to focus attention on performance improvement efforts.
- *FY2004 Whole of Government procurement strategy.* A second key performance initiative is the Whole of Government (WoG) procurement strategy. The Procurement Unit receives procurement requests for similar items from many different agencies. A key component of the FY2004 WoG procurement strategy will be the timely development and delivery of agency capital, expenditure and procurement plans. This will allow the consolidation of similar procurement requests to reduce the number of procurement processes to be undertaken. This will also facilitate the development of a set of standards for common goods and services. A supporting database and handbook will be developed to assist agencies produce accurate specifications.
- *Procurement legislation.* Draft procurement legislation to replace Regulation 2000/10 is being finalized and is to be submitted to the Council of Ministers before the end of the fiscal FY2003 year. The following additional measures are presented for consideration: a provision for external procurement auditing; international tender process to be mandatory for the procurement of works, goods and consulting services for over \$1,000,000, \$250,000 and \$150,000 respectively (or inclusion of

provisions outlining processes where international tendering requirements above these thresholds are waived); margin of preference threshold for domestic tenders to be specified; clarification of procurement decentralization provisions for medical related goods that are of an urgent nature (currently provided under single source provisions, and is normally dependent on effective inventory management procedures); the Procurement Policy Committee to impose sanctions and black-listing process to be specified; removal of Articles 20 and 53 on competitive negotiations; and further review of comments on the draft law already provided by international experts.

- **Capacity Building.** Line agency training is needed to ensure that all relevant officials have a sound understanding of procurement and financial management processes, such as accurate specification of goods and service requirements in procurement requests and development of agency procurement plans. A phased program will be implemented by the first quarter. This will build on the training currently being delivered, which was identified by Government as an urgent need at the recent Development Partners Conference in December 2002.

TECHNICAL ASSISTANCE ISSUES

- **Replacement AusAID teams in Budget and Revenue.** The AusAID project should begin implementation in July or August 2003. It is likely that there will be no overlap between the existing and the new teams. MoPF might consider making arrangements for an effective overlap with the new project team, even if this is only possible for the new team leader.
- **HR Management.** An important appointment over the first months of FY2004 will be the TA in the area of HR Management. This position has been supported by the Prime Minister in a letter dated 24th January 2003. A number of bilateral agencies have been approached to fund this position, but clarification will need to be sought to ensure that the position is filled.
- **Capacity Building in Procurement.** Technical assistance and capacity building is currently being provided through the UN central procurement advisers, the Economic Institutions Capacity Building Project training component (EICBP), the administrative Service Capacity Building project and the ADB. Additional financing is being sought from the World Bank for capacity building targeted at line agencies and the ADB for specific capacity building of central procurement officials.

EMERGING ISSUES

- **Retention of revenues by fully funded agencies.** Concerns have already been raised about the failure of some agencies to surrender revenues to the Consolidated Fund, notably in the case of the University. Close attention needs to be given to ensure that this requirement is fulfilled, since the creation of off-budget funds represents a serious fiduciary risk.

- **Internal Audit.** Follow-up of audit report recommendations is needed. In principle, the auditors are supposed to revisit investigated ministries and agencies six months after the initial audit. In practice, this has not been done. A new head of internal audit is revising guidelines to ensure that these practices are complied with. In the Mission's view, it is important that the Minister and Vice-Minister are debriefed on the results of each internal audit.
- **Interim Audit Report.** The recent interim-audit report highlights a number of areas that require attention. MPF has already taken action to address these audit observations. An extensive training program on expenditure management and procurement procedures and practices will complement these management actions. Follow-up and enforcement will be needed to ensure that procedures are followed. Among the issues raised by the report are:
 - (a) **Purchasing.** The report notes: the occurrence of duplicate and rounded payments; use of manual journals and reversal entries; and extensive use of the "no vendor" code. All of these suggest the need for close control of purchasing. Use of emergency procurement clearances also requires review.
 - (b) **Complimentary period.** Efforts need to be made to close accounts promptly at the end of the fiscal year. Use of letters of credit and other devices to "close" accounts needs to be reviewed.
 - (c) **Payroll.** The underlying problem remains the lack of supporting personnel registry. However, the interim audit also notes delays in reconciliation of personnel payments and delays in the presentation of attendance records.
- **Combined sources budget.** The Road Map and the associated Stability Program raise new challenges for the development and management of the combined sources budget. With a heavy reliance on bilateral projects, it is more important than ever that the budget process can at the least track the status and spending of projects. The newly designed external assistance management database, currently being compiled by PEAMD, will assist PEAMD and the Budget Office to track external financing and manage external assistance. However, this system will only work effectively if external partners cooperate in presenting accurate and comprehensive information on actual disbursements and programmed commitments, in line with the Ministry's information requirements. The degree to which this has been achieved can be assessed from the FY2004 budget papers. Particular attention is needed in definition of rules by which external project financing is captured in budget documentation. As a general rule, budget documents include only projects for which there is confirmed financing, as evidenced by signed financing agreements. Pipeline projects, for which financing is not guaranteed, are not usually included.
- **Accurate, comprehensive and timely indicators.** As Timor Leste develops more effective, pro-poor budgeting processes, the demand for good quality statistics about social conditions will increase. The Ministry of Planning and Finance recognizes the importance of tracking progress in implementation of the Road Map, improving costings and quantitative indicators in subsequent planning exercises.

Given the Government's commitment to the Millennium Development Goals, some consideration might be given to the integration of relevant national indicators and targets in subsequent planning cycles.

ANNEX G: SERVICE DELIVERY FOR POVERTY REDUCTION – HEALTH

TSP I (FY2003) IMPLEMENTATION

TSP I A-1 Emphasize preventive and promotive health care provided close to the community. Target groups to achieve greater impact by emphasizing mother and child health care (NDP page 22)

- ***Health Policy Framework submitted and approved by CoM.*** The policy was developed after widespread consultations, and submitted to the Council of Ministers. It was formally approved in January 2003
- ***Hospital Expenditure (recurrent costs) to be less than 40% of overall health recurrent costs.*** Recurrent costs for the hospital were 37% of CFET health recurrent costs for the period ending March 2003. This was achieved notwithstanding significant pressures to increase hospital expenditures.
- ***Percent of children immunized with DPT 3*** (i.e. third dose of Diptheria, Pertussis and Tetanus). Coverage according to MOH Service Statistics was 59% end March 2003 as compared with a target of 58% by end June 2003. It is unlikely that this absolute measure is correct. The MOH has collected data on immunization coverage of DPT and measles for two years. To estimate the number of births expected it used a CBR (Crude Birth Rate) of 29.3 – the rate pertaining in 1999 – and a population figure of just under 850,000 – the figure derived from the CNRT census and recommended as the official figure for use throughout Government in March 2001. If, however, fertility is as high as that indicated by the recent Multi-Indicator Cluster Survey (MICS), the CBR used in the service statistics is too low. Therefore the estimated number of births is too low, i.e. the denominator used to calculate the coverage of immunizations among children under 1 year of age, (and to calculate coverage of skilled attendance at birth). Nevertheless, the upward trend shown by MOH statistics remains valid. Once firm estimates of fertility and population are obtained from the ongoing Demographic and Health Survey, and from the 2004 Census, the absolute levels of the MOH statistics may be revised downward substantially.
- ***Number of midwives trained.*** The original target was for 214 trained mid-wives by end June 2003. The target was revised downwards in January 2003 to 194 from 214 because of difficulties in taking midwives out of the health centers for training. The revised target was achieved by end March 2003.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A-1. Emphasize preventive and promotive health care provided close to the community. Target groups to achieve greater impact by emphasizing mother and child health care (NDP page 22)

- ***Health Policy Development and Planning Program.*** Continued policy development focused on developing technical and implementation guidelines - the “micro-policies” – to further define priorities outlined in the policy framework. In the first quarter (by end September 2003) micro-policies will be developed for EPI, Child Health and IMCI (Integrated Management of Childhood Illness); in the second quarter for Health Promotion and Maternal Health; the third quarter for Malaria and TB, and by end June 2003, for Human Resources, Other Communicable Diseases, and for Non-Communicable Disease
- ***Hospital Recurrent Costs to be kept below 40% of total health recurrent costs.*** In line with the target set in Health Policy Framework, continued efforts will be made to contain recurrent costs in the hospital sector to no more than 40% of health recurrent costs. In the re-organized structure of the MOH, hospitals are now part of Specialized Services, which also include such support services as the Central Laboratory, and the Training Center (NCHET). The hospital expenditures will be distinguished from the other specialized services in the budget format.
- ***Child Health.*** There will be continued emphasis on child health and maternal health as major priority areas: DPT3 coverage to reach 68% of children under 1 year of age by June 2004 (up from 51% in June 2002); Measles coverage to reach 58% of children under 1 year of age by 2003 (up from 49% in June 2002).
- ***Maternal Health.*** The Ministry will move in maternal health from measurement of inputs (midwives trained) to outcomes (skilled attendance at birth). Percent of deliveries attended by skilled health staff to reach 45%, by June 2003, compared with 40% in March 2003.
- ***District Health Services.*** The Ministry will increase efforts to strengthen service delivery at the district level through increased access and utilization of outpatient services; and implementation of district health plans. Concern at low levels of utilization of health services has led MOH to propose as an indicator the number of outpatient visits per population per year, and as a milestone, putting in place and evaluating the District Health Plans currently being prepared – using the DHPs as the framework in which service delivery at the district level is strengthened. Outpatient visits per capita per year to number 1.8, up from 1.65 in March 2003. District Health Plans in place by end September 2003, and implementation evaluated in all districts by March 31, 2004.

TSP II (FY2004) TECHNICAL ASSISTANCE

- ***Software for monitoring and tracking of hospital expenditures.*** This task is currently done manually, involving a painstaking process of separating expenditure

items – e.g. pharmaceuticals or transport expenditures – that have supported hospital services. The revised budget structure for the MOH is divided into three programs: District Services; Specialized Services (including hospitals); and Administration with the objective to better allocate and track expenditures and to align budget to the organizational structure of the Ministry. Furthermore, there is currently no way to track expenditures on hospitals under the Free Balance system, which does not differentiate between expenditures incurred in the districts, the hospitals, or for MOH administration. The MOH intends that the budget system should monitor and report on hospital (and all other) expenditures from all sources – CFET, TFET, bilateral, multilateral, and in-kind assistance. This is particularly important for assessing the long-term financial implications of assistance to specialized medical personnel.

EMERGING ISSUES

- ***Access and Utilization.*** The scattered population – following a return to traditional lands following the vote for independence in 1999 – and the difficulties of reaching some areas in the rainy season, is presenting a challenge to health services in ensuring access. In addition, utilization of health facilities is low. This could be due to difficulties in access – or to community perception and acceptance of MOH services and priorities. The number of outpatient visits per capita per year in rural areas – i.e. excluding Dili and Baucau – is only 0.7. This means that in rural areas the average health worker only sees 4 or 5 patients a day – a very low level of efficiency. In order to address these concerns, and also to respond to the suggestions for strengthening outreach made by the MOFP in the context of the Road Map, the MOH is establishing a Working Group, comprising senior managers, to study options for outreach and sustainable access.
- ***Epidemics.*** The MOH has expressed concern at the potential of epidemics to lead to immediate diversion of resources from Priority Programs, and it is clear that some response capacity and planning that does not divert the limited resources of the MOH would be a useful development.
- ***Failure to recruit Key Staff.*** A substantial number of key positions in the Ministry of Health have yet to be filled, and this is causing uncertainty, and heavy work loads for existing staff.

ANNEX H: SERVICE DELIVERY FOR POVERTY REDUCTION - EDUCATION

TSP I (FY2003) IMPLEMENTATION

TSP I A-2 Prepare FY03 Ministry action plan.

- *Review the implementation of the FY03 Ministry action plan (MECYS).* The Ministry developed complete action plans for primary and junior secondary education as well as all other sub-sectors of education. The action plans were updated and refined by Ministry staff in collaboration with colleagues from PEAMD and the Budget Office.
- *Draft FY04-06 Ministry Plan (MECYS).* As part of the prioritization and sequencing exercise in February 2003, the draft Ministry plan for FY04-06 was prepared. This included notional costs of programs and projects in the NDP as well as current and ongoing programs.

TSP I A-2 Prepare TORs and launch development of national education policy, institutional framework, and medium-term action plan for primary and secondary education, including partnership with private schools, religious organizations, NGOs, and parents, focusing on expanding access, improving internal efficiency, and quality.

- *Discuss draft policy, institutional framework and action plan for primary and secondary education with stakeholders (MECYS).* This activity could not be completed as scheduled as preparatory work on the policy development is still not finalized. The Ministry has drafted ToRs setting out the objectives, process, and outputs of a national consultative education congress that will consider the Policy. The Ministry has postponed the National Consultative Congress on Education Policy, which is the culmination of stakeholder consultation scheduled for late April 2003 until October 2003. Timing on this activity is becoming critical as the policy will influence the development of the legislation for the sector, the manner in which instructional languages are introduced, and the development of a curriculum appropriate to Timor Leste. It will remain a high priority in the TSP matrix

TSP I A-2 Prepare an options paper on the role of parents' associations in primary school management.

- *Pilot parents' association program in selected primary schools (MECYS).* A draft PTA Operations Manual was completed and circulated in the districts and schools for comments and recommendations. The Ministry convened consultations with representatives of the central ministries, donors in the education sector, and the Church on the draft charter for parent-teacher organizations. The Parent Teacher

Association (PTA) is being piloted in six primary school clusters in five districts, and will expand to a further 13 clusters for the next school year. Cluster School Councils will be formed with school principals from all schools in the cluster, plus one elected teacher and one elected parent representative from each cluster school.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II B.2.1: Establishing the policy and legislative framework for the educational sector

- ***Education Policy Framework.*** The Ministry has had considerable difficulty in meeting its own deadlines to produce and discuss the Education Policy Framework. It has now mapped out the process, including the formation of working groups by May 16 and consultations with stakeholders in a National Congress in October; however lack of progress in the past has resulted in constant rescheduling of the dates for this activity. One way forward would be for the Policy Coordination Committee to agree that each of the technical working groups produces a short paper on their section of the outline within a month of inception, if necessary seeking TA inputs to assist this. A number of donor sourced TA inputs are already scheduled for sector policy development, including the Ministry based policy advisor. As in some other areas, such as curriculum development, the policy coordination committee will need to ensure that these inputs are coordinated and timely if they are to be effective.
- ***Education Law.*** There is some concern that the Ministry is under pressure to work on the legislation before the policy is drafted let alone finalized. If there are TA in country to work on legislation then they could provide assistance by listing and advising on key areas of policy that need to be settled in order to provide inputs to the legislation. This would help ensure that sector policy is agreed before legislation is finalized.

TSP II B.2.2: Improving the quality of primary education through curriculum revision and development

- ***Curriculum framework and program for primary education.*** The program for developing primary curriculum is ambitious and the time frames suggested are very tight. However some curriculum activities are already underway and provided that the process is well managed it will be possible to have a draft framework and structure for the new school year to pilot in selected schools. Because there are a number of donors involved and to be involved in curriculum development it is particularly important that the development of the curriculum, the framework which provides inter-subject time weightings, the sequenced topics by subject, and the teachers' guides and student materials are well coordinated. It would be helpful if the coordinating committee (National Curriculum Task Force) recommended in the FSQP mid-term review and set up under the Director General is used to bring together departments, internal TA and donors. It could also ensure that the whole range of materials is prepared, printed, distributed and implemented efficiently and

effectively. While it will not be possible to prepare new texts based on the curriculum in this TSP time frame the Ministry is confident that some materials will reach children in schools soon, from current procurement processes.

- ***Guidelines for primary teachers.*** Many primary teachers lack qualifications, training and are uncertain therefore on the best sequencing and methods for topic presentation in individual subjects. The teachers programs to be printed and distributed in early 2004 will need to give clear and helpful guidelines to the teachers on this.
- ***Coordination of curriculum development and training.*** The action plans for curriculum development do not include teacher training in the use of the new curriculum because this is the responsibility of the teacher training program. Discussions on the TSP II matrix enabled coordination issues to be addressed for curriculum development at primary level. Teacher training will include a program to induct teachers to the new curriculum. However the broad issue of coordination of action plans needs to be considered by the Ministry as a general need following the completion of individual Program Action Plans in future years. It is suggested that the Department of Planning as coordinator of the process compare plans and ensure linkages in future years, in accordance with the sector policy and strategic plan.

TSP II B.2.3: Improving the quality of pre-secondary education by upgrading of teacher qualifications (Aquisicao do Diploma 3, Bachelarato)

- ***Need to meet future deadline for teaching in Portuguese.*** In three years time the system will have students entering the second stage of Basic Education with no knowledge of Bahasa Indonesia, which is the current language of instruction and materials at this level. Moreover, a large proportion of teachers at this level have little or no teacher training [many have one or two years of University training but including no pedagogical subjects]. It is therefore urgent that both this and the need for Portuguese language training for lower secondary teachers be addressed from this year if there is not to be a major disruption to students' progress.
- ***Decisions on initial and later participation by teachers.*** The initial intention for this teaching qualification, which will be presented by the University in conjunction with the Institute for Continuing Education (ICE), is for lectures in the afternoon and evening. This will enable teachers in Dili to attend without interrupting their presentation of lessons. However, this does not appear to cover the 80 per cent of teachers outside of Dili, nor does it suggest how to cope when the course is in full swing. There are about 850 junior secondary teachers in government schools which is the target group and three years presentation of the course would see nearly all of them enrolled. Some of the implementation issues to be considered include: Will some or the entire course be available as a distance learning opportunity, or as an accelerated program using vacation periods? Will teachers be rotated in their posting to enable teachers in distant parts of the country [and their students] to benefit from the course?

TSP II B.2.4: Improving the educational, financial and administrative management capacity through training of educational managers

- ***Development of financial management systems.*** The low expenditure by the Ministry on Goods and Services, and Capital was the result of a number of factors, including unfamiliarity with the system, lack of training, difficulties with approval of the revised Budget. It was compounded by the lack of a financial system with regular reporting to senior Ministry staff. Even without a ministry system it would be possible to alert senior staff through the Free Balance reports with some analysis. It would be useful to set up such a reporting system on a monthly basis to alert the Ministers, Director General and Vice Director General to areas of lower than planned expenditure. A financial control system, preferably simple and computer based for Districts and the Center is a necessity if budget execution is to be effective and efficient. Attention should be given to scheduling Action Plans and budgets, so as to avoid, for instance, planning to distribute school materials during the wet season from January to March. It is important to ensure that annual action plans address budget allocations for Goods and Services, and Capital allocations. Implementation would be facilitated by development of a single procurement plan for the Ministry.
- ***Developing the course content for middle management training through needs analysis.*** There are serious deficiencies in the capacity of the Ministry to manage and expend the budget in a timely, efficient manner and to meet accounting and financial reporting requirements. Training needs to address these deficiencies directly, rather than providing a general course on management and finance. This can be achieved in part, through training activities scheduled by the Ministry of Planning and Finance, which covers government-wide expenditure and procurement procedures. Additional modules relating government-wide procedures to the specific needs of the education sector, may need to be prepared by the Ministry of Education. As currently planned, all L5 and L6 staff in the central Ministry and the districts will undertake training. Courses may need to be presented more than once to cope with the absence of managerial staff. In addition administrative staff from institutions such as the University could participate. Provision has been made for staff at L4 level to participate to reach the target number, and these will be chosen from key areas with high levels of budget funding.
- ***Development and approval of financial systems for schools.*** The decision to decentralize some budget finance for expenditure through the newly developed School Councils is an important outcome of the PTA program, as well as an important step in improving budget expenditure by removing the centralized bottlenecks. The Ministry will need to resolve a number of policy issues before detailed planning for implementation: these include such questions as ‘Will funds be provided as block grants or on a revolving imprest basis? Will all funds for areas such as maintenance be distributed or will a reserve for contingencies be kept at the center or the District? Will funds go directly to school councils or via District accounts?’. It is important to ensure that the financial system developed for school

councils is consistent with and based on current government financial regulations and that adequate transparency safeguards are provided. Ministry of Finance and Planning approval of procedures will be needed if it is to be part of the budget expenditure process. There are strong indications of donor support for the principle and the process of school level expenditure.

TSP II (FY2004) TECHNICAL ASSISTANCE

- ***Policy development.*** TFET, UNICEF and some bilateral (i.e. Brazil) commitments have been programmed. The Ministry may need additional TA such as support for specific TWGs (i.e. tech/voc education; education finance, etc.).support for strengthening the secretariat of the policy coordination committee, support for a legislative specialist during the drafting of the basic education law, support for language translation of key policy discussion papers and during the Congress;
- ***Curriculum Development.*** TFET, UNICEF and some bilateral assistance currently provides adequate funding for on-going curriculum development. However, the Ministry may need additional TA from other donors (such as the development of subject specific teaching guides/manuals as needed
- ***Upgrading of secondary school teacher qualifications.*** Some bilateral assistance (i.e., Brazil) is in place. The Ministry may need additional TA and direct assistance, particularly for faculty members to augment those in the university;
- ***Improving financial/administrative implementation capacity.*** UNICEF has committed assistance for the development of school-based management and finance. The Ministry may need other short-term donor assistance in specific areas such as the preparation of the management course..

ANNEX I: SERVICE DELIVERY FOR POVERTY REDUCTION - VULNERABLE GROUPS (VETERANS ISSUES)

TSP I (FY2003): REVIEW OF IMPLEMENTATION ISSUES

TSP I A-4: Define and locate vulnerable groups. Clarify definitions and identify veterans, clandestine movement members and other victims of the Resistance. Assist these groups through access to training, referral and community action.

- **Working and policy groups on veterans.** Remarkable progress has been achieved. In particular, the field work was launched throughout the country after an extensive sensitization effort. The offices of the national commissions (CAAC and CAVF) have been rehabilitated and better equipped. Training in data collection methods was carried out for district and sub-district commissioners. The database was designed and installed, and data entry has commenced. Despite these positive developments, delays have been substantial; they can be attributed first and foremost to the complexities in terms of logistics and communications faced during the data collection process.
- **Veterans Affairs Unit.** Progress has been steady. The structure of the Veterans Affairs Unit (VAU) within the Secretary of State for Labor and Solidarity has been determined; it consists of three groups. Six staff have been recruited. Furthermore, the VAU has been allocated US\$98,000 for FY2004 for staff and minimal assistance (approx. 10%).

TSP I (FY2003): REVIEW OF EMERGING ISSUES

TSP II B.3.1: Define and locate vulnerable groups - clarify definitions and identify veterans (1981-99), ex-combatants (1975-79) and other victims of the resistance

- **Veterans criteria.** As planned, no discussion on veterans criteria has so far been carried out. District and national consultations are now planned for January-March 2004.
- **Veterans associations.** Veterans associations remain involved in the process through membership in the CAAC/CAVF.
- **Intra-governmental coordination.** Cooperation between the CAAC/CAVF and the VAU has been strengthened. Complementarity is assured by the CAAC/CAVF focusing on registration and policy recommendations with the Secretary of State for Labor and Solidarity in charge of developing and implementing relevant legislation.

TSP I (FY2003): REVIEW OF TECHNICAL ASSISTANCE NEEDS

- **Survey management and data collection.** A survey specialist has been recruited. He developed the database and continues to provide back-up support to the national commissions.
- **Institutional development.** No institutional development specialist was provided. An appropriate structure of the VAU has been determined nonetheless.

TSP II (FY2004): IMPLEMENTATION ISSUES

- **Conclusion of veterans data collection and policy debate.** Accompanied by continuous sensitization activities, the registration process is expected to be completed in September 2003, the verification process in December 2003, and the public consultation process (including a lessons learned seminar) in March 2004. The final report with recommendations on criteria and policy is expected to be issued in March 2004, paving the way for action by the Government and the National Parliament as required.
- **Strengthening of the VAU.** The VAU needs to prepare itself for the implementation of an eventual veterans policy and requires strengthening in areas such as: staffing (four additional staff are envisaged), database management and equipment, sub-contracting with service providers (e.g., vocational training centers, micro-credit institutions, employers), defining and applying vulnerability criteria, and drafting veterans policy legislation.

TSP II (FY2004): EMERGING ISSUES

- **Policy and institutional framework and medium-term action plans.** Development partners need to communicate clearly to the population that an individual is not eligible for project support by sole virtue of being an ex-combatant or veteran, before veterans policy has been discussed and legislated. The Government should keep targeted activities at a minimum until such date. Continuous sensitization is necessary to this end.
- **Vulnerability criteria.** There is a growing understanding that assistance in Timor-Leste needs to be provided to communities and individuals on the basis of vulnerability rather than for belonging to one group or another. In this respect, the definition of clear and implementable criteria of vulnerability is paramount. Such would fall under the responsibility of the Secretary of State for Labor and Solidarity.

TSP II (FY2004): TECHNICAL ASSISTANCE NEEDS

- **Veterans data collection and policy debate.** With the arrival shortly of the office manager, there is currently no immediate need for technical assistance for the

CAAC/CAVF beyond the Management Adviser, Financial Management Specialist, and Survey Specialist.

- **Veterans policy legislation.** The VAU would require support to draft veterans policy legislation, including study tours abroad, participation in the lessons learned seminar (planned for March 2004), and the provision of a short-term veterans policy specialist.

ANNEX J: JOB CREATION – PRIVATE SECTOR DEVELOPMENT

TSP I (FY2003) IMPLEMENTATION ISSUES

TSP I: B-3 Provide enabling environment for the private sector: commercial code, notary code, investment law, bankruptcy law, and land law.

- Government took the decision in early 2003 to revisit the form and content of earlier draft policies and laws relating to commerce and investment. As a result, the Government formed a ministerial committee on private sector development (PSD), headed by the Senior Minister, to take the lead on these issues. A draft company law was submitted to the Council of Ministers for consideration in April 2003. Preparation of the new draft investment law, and supporting policy, is still underway. The first land law was passed in early 2003, and the first decree law supporting administration of this law is currently under consideration by the Council of Ministers. There has been less progress on the bankruptcy law. Drafting of the notary code is underway.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II C.1.1: Private Sector Enabling Legislation

- The Government has committed to completing a package of policies and laws, which are most crucial to supporting the creation of a private sector enabling environment. The most critical subset of these includes the company, investment, insurance and bankruptcy laws. The ministerial committee for PSD will maintain overall responsibility for advancing preparation of these although individual agencies will also play a key role, notably the Ministry of Justice, the Ministry of Development and Environment (MDE), the Secretariat of Trade and Industry (STI), and the Banking and Payments Authority (BPA). The first two laws (company and investment) will take top priority, and preparation of the subsequent laws (insurance and bankruptcy) will then be pursued subject to Government resources and capacity. The new company law will be important in regularizing company operations. It is important that the new law on investment underpins and enhances Government's ongoing efforts to attract and retain maximum levels of foreign investment.

TSP II C.1.2: Land Law, Administration and Cadastre

- The Land and Property Unit (LPU) of the Ministry of Justice has prepared a program of activities covering regulatory development and implementation of land and property issues. There is strong interdependence between the first land law and the proposed subordinate decree law on land administration. The successful implementation of these legal instruments will be closely tied to the upcoming work

on cadastral systems and the administration of the land law, including the ending of the land and property claims period in March 2004 and the subsequent commencement of land registration process. The recent passage of the first land law presents a good chance to facilitate and strengthen the private land market, especially through the (future) lease and sale of Government properties (the titles of which were established by the first land law). This requires early steps to prepare for the titling and registration process, accompanied by the necessary dispute mediation arrangements.

TSP II C.1.3: Community-Based Roads Maintenance Project

- This project, the responsibility of the Ministry of Transport, Communications and Public Works (MTCPW), is an ongoing project that is maintaining national, district, urban and rural roads using community-based labor. The project is supported by the various district administrations and funded under CFET. During FY03 50 percent of the \$2.056m budget was allocated for execution using CBM. In FY04 50 percent of the proposed budget of \$2.255 budget will be used for CBM. (The remaining 50 percent is executed using private (30 percent) and depot (20 percent) contracts.) Experience in FY03 has shown that depot contracts also produce considerable community and rural employment, and that the CBM contracts take longer to execute. Although there is a need to invest in a small amount of handheld equipment, evidence in FY03 suggests that 90 percent of the CBM budget is paid in local wages. This program generates a considerable number of jobs in rural areas (an estimate of job creation pending), is consistent with the Government's efforts to outsource as much of its public sector work program as possible, and is directly improving rural livelihoods. The Government continues to give high priority to this project, especially to maximizing the CBM proportion of the overall national road maintenance program. The key areas of likely constraint with this project are in preparation of contracts, via regional engineering depots and district administration offices, with community groups, and in timely payment for services. Although no separate TA is required, continued monitoring by Government will be needed to ensure timely implementation.

TSP II C.1.4: Backward Linkages to Onshore Investments from the Timor Sea

- The conclusion of the production sharing contract (PSC) with Phillips Petroleum is nearing. Following the recent ratification of the Timor Sea Treaty, conclusion of the PSC will provide a clearer picture of the level of investment that will occur in the Timor Sea in the near term. Most of this investment will occur offshore, although there will be some supporting onshore investment in infrastructure such as port facilities and helicopter facilities. The Government, through the Division of Investment within MDE and the Timor Sea Office, has recognized the need to encourage the multinational corporations investing in the Timor Sea to make every effort to invest onshore in non-petroleum sectors on a commercial and sustainable basis. The Division of Investment will work with Timor-Leste's major corporate partners operating in the Timor Sea to expand their investments to onshore Timor-Leste in order to help broaden the economic base and create sustainable jobs.

TSP II C.1.5: “Sending Labor Abroad” Program

- The Secretariat of Labor and Solidarity (SLS) is pursuing a project which will help facilitate the temporary emigration of Timor-Leste labor to overseas countries interested in providing them with temporary employment. Earlier TA from ILO/UNDP supported the preparation of this SLS project. The draft Labor Law on Foreign and Emigrant Workers is likely to be enacted shortly. This law sets out procedures to be followed by emigrant workers and their sponsoring overseas employers. The law also sets out rights, entitlements and other measures such as health checks to ensure that the welfare of the emigrant workers is protected. For example, where there are more than 300 emigrant workers in one country a labor attaché is to be appointed to the accredited Timor-Leste mission. Discussions have already been held with potential employers from South Korea, Singapore and Malaysia who are interested in contracting Timor-Leste labor. Rapid implementation of this project will have a strong and near-term impact on sustainable job creation, reduction of unemployment, foreign exchange earnings, and skills enhancement.

TSP II (FY2004) TECHNICAL ASSISTANCE

- **Private Sector Enabling Legislation:** There is some existing TFET and bilateral support for this process. The TFET-funded Small Enterprises Project II (SEP II) has a component providing technical assistance for business regulatory environment development, which is soon to commence. USAID has also been providing support to The Asia Foundation to help with public consultation of these laws. Additional short-term technical assistance is required to help guide and support the work of the PSD ministerial committee.
- **Land Law, Administration and Cadastre:** Timely provision of approved TA from USAID (land studies and database technical assistance) and AusAID (cadastral information) will be critical in ensuring the Government’s success against this activity. Continued donor attention to, and support for, this TSP II action item will help Government make progress in this area.
- **Backward Linkages to Onshore Investments from the Timor Sea:** The Government has committed itself to this project through the AAP of the Division of Investment and the Timor Sea Office using CFET resources. The USAID-funded adviser to the Director of Investment will soon be available and will be asked to support the implementation of this project.
- **Sending Labor Abroad Program:** This project has been developed with previous ILO/UNDP support and the current AAP of SLS confirms that the staff of the Division of Employment Skills will commit their resources to its implementation. However, additional minor technical assistance may be helpful, especially with: a) preparatory training of emigrant workers; b) TA from countries with relevant experience, for example, the Philippines, and c) TA to help establish a framework

for contracts with certified foreign employers. UNDP has indicated its interest in supporting this project further.

EMERGING PRIVATE SECTOR DEVELOPMENT ISSUES

- **Availability of bank credit:** The availability of credit for SMEs and micro-enterprises remains low. The BPA has recently licensed a third bank, Bank Mandiri of Indonesia, which will begin operations within several months. Initial indications are that, at least initially, this bank proposes to offer a similar range of services as those of the existing two fully licensed banks in Timor-Leste. The extension of microfinance services remains limited. Independent microfinance providers are active, but on a small scale, and their operations are subject to significant capacity constraints. Far fewer credit unions than were originally envisaged under the ADB Microfinance Project have been rehabilitated. There are no Government, donor or NGO programs promoting rural finance. Government has no comprehensive policy regarding the nature and level of nation-wide credit facilities and services requirements. Although there were reviews undertaken of the financial sector in 1999 it may be timely for there to be further examination of its current situation and future structure.
- **Licensing and Permits:** Systems for licenses and permits need to be established and regularized, with a view to formalizing arrangements for businesses operating in sectors that require, or might require, particular licensing, for example, fisheries. Ideally, information on licensing and permits would be consolidated so to improve transparency. Perhaps pursuant to the business registration requirements of the proposed company and investment laws, the Government will be able to renew its efforts in this area.
- **Industrial Zone:** A consultant was contracted by STI late in FY03 to undertake a pre-feasibility and feasibility study of the preferred nature and scope of an industrial zone in Timor-Leste at this stage of development. The delay in contracting and implementing the necessary preliminary TA comes at the expense of job creation and additional investment. A small amount of additional donor attention during the current financial year, as highlighted during TSP I, will help Government implement this project. However, additional TA support to Government might be required in FY04 as it is not clear that the STI will be able to execute the budget for this component in FY03 and no CFET funds are likely to be allocated to this task in FY04.
- **Extra-official barriers to business:** The mission identified several instances where extra-official barriers to business and foreign investment have emerged. Although no law is in place, the Ministry of Transport, Communication and Public Works (MTCPW) has adopted administrative guidelines that require foreign construction firms to have compulsorily entered into joint ventures before they are eligible to receive pre-qualification status for public works contracts. Separately, the Ministry of Agriculture, Forestry and Fisheries (MAFF) advised that “licenses” are being

required by that Ministry and the STI to allow trade (importation) in agricultural products, for example, rice. These practices may discourage foreign investment. Enactment of an investment law which explicitly prohibits compulsory joint ventures would help to reduce these kinds of extra-official barriers to business.

- ***Investment Promotion Center:*** The establishment of the Investment Promotion Center (IPC) was included as a provision in the previous draft investment law. Sometimes known as the “One-Stop Shop” the Investment Promotion Center is intended to help facilitate the entry of foreign and domestic investors into the Timor-Leste market. The IPC has been included in the Annual Action Plan and proposed budget of the Division of Investment. In relation to investment, it was reported to the mission that a basic guideline document advising new investors on procedures was not available. The Division of Investment has undertaken to remedy this.
- ***Credit Registry:*** There has been some progress in establishing a preliminary form of credit registry in recent months. The Banking and Payments Authority (BPA) has recently started creation of a credit registry, using a basic Microsoft Excel format. For the time being, the simple model of credit registry that is being developed will be adequate to at least start the process of recording bad debtors, to check on borrower credit worthiness and to signal to the borrower market that such a monitoring device exists.
- ***Private rent agreements:*** In advance of the passage of the first land law in early 2003, the Land and Property Unit (LPU) noted the need to develop a framework for facilitation of private rent agreements. The LPU reported during this mission that there had been no progress on this area but agreed that there was scope to help regularize private rental contracts as part of their ongoing work program.
- ***Public landholdings:*** The recent passage of the first land law conferred ownership of a large number of buildings to the Government (all buildings that were previously the property of the Portuguese and Indonesian administrations). Since some of this property is commercially let to private businesses, the Government has become a large-scale landlord. Gradual sale of this property by public sale to private interests would help support the development of a private market in land and property. Private buyers of land previously belonging to Government would have a high level of certainty. Kick-starting private transactions in land in this way would provide extra security to the first buyers and help get the private market in land started.
- ***Cooperatives:*** MDE, along with MAFF, are planning to develop frameworks to allow for greater reliance on the use of cooperatives in Timor-Leste. The term “cooperative”, in this context, seems to mean both production and trade cooperatives, as well as savings cooperatives. The Annual Action Plans of both ministries refer to projects that will develop cooperatives. It is not clear whether this necessarily means providing a framework for individuals and enterprises to

unilaterally establish their own cooperatives as they deem necessary, or whether the Government proposes to establish cooperatives on particular sectors, say, crops. Separately, the Government confirmed to the mission that it intends to draft a law on the broad range of cooperatives although the precise scope of such a law remains unclear.

- ***Development of Tourism:*** The April 2003 tourism summit was an excellent Government initiative directly linked to the attraction of new investment and promotion of job creation. The summit, which built on the recent establishment of a private sector-led National Tourism Association, enabled a broad range of public sector stakeholders and private sector tourism investors to come together to discuss current conditions and future opportunities for the tourism sector in Timor-Leste. The moderate opportunities for employment creation and foreign exchange attraction likely to accrue from development of the tourism sector should continue to be pursued by Government initiatives such as this. The summit resulted in free membership for one year to the World Tourism Organization (WTO) and the Pacific Asia Travel Association, and commitments of financial support for upcoming tourism promotion events in Singapore and London. The WTO has also committed to fielding an international taskforce to Timor-Leste in the immediate future, perhaps June 2003, to investigate, first, near-term tourism investment opportunities and, second, appropriate long-term tourism strategies.
- ***Government joint ventures:*** The Government has taken a minor equity stake in Timor Telecom, in compensation for the Government-owned telecommunications sector assets which were taken over by Timor Telecom. During mission meetings, the Government expressed interest in developing legislation that provided for Government-owned corporations. The Government also mentioned the need for technical assistance that would help with the drafting of legislation providing for private joint ventures.
- ***Foreign trade policy:*** Formulation a foreign trade policy would help identify ways of contributing to economic growth and poverty reduction, and have an impact on governance. Consideration of foreign trade policy, and the impact on customs and border management, will become increasingly important as the UN peacekeeping forces along Timor-Leste's land borders downsize further. Foreign trade policy will have particular implications for Oecussi, as well as those districts bordering West Timor. A foreign trade policy study, funded by the Swedish aid agency, Sida, was commenced in mid 2002 and is due to be continued shortly. It is important that, along with STI, MDE, the Ministry of Foreign Affairs and Cooperation (MFAC) and Customs be fully involved in the preparation of this study, ideally through the formation of a working group.
- ***Business and employment statistics:*** The inability to properly estimate the level of unemployment, underemployment and employment hinders efforts to determine the full scope of the employment problem and to properly frame solutions. Efforts to better understand the full scope of the employment market will be worthwhile.

Several interim estimates of these variables have been compiled by ILO and UNDP but it does not seem that these reckonings have yet properly informed broader Government planning.

- ***National labor and employment policy:*** The SLS plans to develop a national policy on employment. Presently SLS seems to retain a keen focus on establishing a minimum wage level. To this end, the Secretariat is commencing a survey which will seek to establish a minimum cost of living index using a pre-set basket of goods. Although still unclear, it seems that the results of this survey will inform any future decision on a minimum wage level. There are considerable risks inherent in setting a minimum wage level in general and in adopting this approach, particularly where prices are still distorted and inflated, statistical collection systems are weak, purchasing power varies widely across the country, and current wage-levels are uncompetitive when compared to Indonesia and other low-income Asian countries.
- ***Business Development Centers:*** The construction of the Business Development Centers (BDCs) has been completed. These are the only platform within or outside Government that provides for the throughput of business development services (BDS) to small business people in Timor-Leste. The SEP II-funded contract to manage the BDC network and facilitate delivery of SEP II and other BDS is nearing finalization. The earliest possible implementation of this activity is encouraged.

ANNEX K: JOB CREATION – AGRICULTURE

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II C.2.1 Policy and Planning Unit

- **Draft MAFF Policy Framework.** While the Road Map constitutes an important step forward, identifying many of the areas where MAFF would like to intervene and develop project initiatives, the Ministry has yet to develop a policy framework to guide its role in the sector. Most of the funding of MAFF activities comes through projects financed by bilateral donors and NGO's. Inevitably, this leads to fragmentation of the Ministry's program, as well as difficulties in coordinating at an operational level. Some of the policy issues to be addressed include: how can the Ministry respond to the needs of communities and clients with the limited resources at its disposal? should the Ministry move toward a more integrated rural development framework and away from the focus on planning of component industries (agriculture, forestry, fisheries)? What is the appropriate role for the Ministry in regulation of the agriculture, forestry and fisheries? How can MAFF coordinate effectively across government, with donors and with civil society organizations in delivering services? MAFF has proposed the creation of a Policy and Planning Unit in its Organic Law, pending approval by the Council of Ministers, comprising five functions: Regulation, Legislative, Bilateral and Multilateral Coordination; Statistics Development & Management in Information Systems; Program Benefits, Monitoring and Evaluation System; Policy Analysis and Special Studies; and Project Development.

TSP II C.2.2 Fisheries Regulatory Enforcement Support

- **Fisheries Regulation.** Lack of a fisheries law impedes the ability of the government to license foreign fishing vessels. Over 40 proposals have been received regarding commercial fishing ventures in Timor Leste's Exclusive Economic Zone (EEZ), which has yet to be mapped. A consortium of 3 fishing companies has an agreement with the government allowing fishing in off-shore waters for a year, in order to gather data on fisheries stocks and fishing. The consortium has told the government that they are interested in operating 3 boats, with each boat employing 6 Timor residents. This will generate some land processing jobs and Government will receive a 50% share of the sales proceeds. The agreement with government does not allow the consortium to fish within 6 miles of the coast, to prevent conflict with traditional fishers. A community-based management approach is being taken in regulating the near-shore fisheries and environment because government does not have the resources to enforce rules and regulations throughout its coastal zone. Regulations are needed to prevent over fishing, dynamiting of the reef, cutting of mangroves and other practices destructive to the environment. Membership of the Foreign Fishing Agency of the South Pacific Commission, which involves about 20 small Pacific island nations, would

allow MAFF fisheries staff to benefit from a variety of programs in both regulating/monitoring and in promoting the development of the fisheries sector.

TSP II C.2.3 Support to Communities for Integrated Farming Systems – Commercial and Industrial Crops

- ***Piloting commercial crops.*** This program is a pilot program to provide improved seed for crops with commercial and industrial potential. There will be pilot plantings of improved varieties of coconuts, coffee, and vegetables. Modernization of coconut production for copra and oil production will include planting of high-yielding hybrid dwarf varieties, to be obtained from Malaysia. The development of an organic system of production will be investigated to achieve a price premium for the extracted oil.

TSP II C.2.4 Industrial Value-Added: Coconut/Candlenut Oil Processing

- ***Piloting small-scale processing.*** This pilot project will test the feasibility of processing coconuts and candlenuts to produce high value oils. Three Direct Micro Expelling (DME) machines will be provided to entice farmers, traders and investors to produce, consume and mainly export high value coconut oil, exploring the possibilities for producing higher valued Virgin and/or organic oils. The same expellers will be used to produce candlenut oil, probably for local use. Three pilot projects will be implemented in the Baucau and Viqueque Districts.

TSP II C.2.5 Integrated Watershed Management

- ***Piloting Community Watershed Management.*** In the last two years, MAFF has involved communities in protecting the watershed from deforestation. Community agreements are negotiated whereby villages are provided funding for nurseries, and planting of trees. In return the community agrees to reforest and protect at least one area. People from the community are hired to carry out the reforestation activities. The project addresses the Stability Plan's goal of creating more employment in rural areas.

TSP II (FY2004) TECHNICAL ASSISTANCE

- ***Policy and Planning Unit, MAFF.*** The Ministry's Annual Action Plan programs the recruitment of a senior policy expert, with expertise and experience in planning and policy analysis. The Ministry will need to define more clearly which activities (policy analysis and development, planning and donor-coordination) are priority for the position and the needed skills in order recruiting the senior policy analyst. This position is critical to the setting up of the Policy and Planning Unit, which has been postponed because of insufficient financing. At least two other donor projects are providing technical assistance related to policy and planning. A legal expert from Cape Verdes Islands, funded by the European Union, will arrive soon to help develop the legal structure for MAFF. New Zealand has agreed to provide the funding for recruitment of a Water Policy Adviser.

- **Fisheries Regulatory Enforcement Support.** AusAID has recently tendered out the “Fisheries Management Capacity Building Project.” This three-year project will provide a Fisheries Management Adviser for 32 months and Legal Adviser for 9 months and is expected to start in July 2003.
- **Support to Communities for Integrated Farming Systems – Commercial and Industrial Crops.** EU may provide technical assistance via FAO, pending decision during an upcoming mission. USAID is supporting the development of vanilla in conjunction with its support of the coffee industry. Related current assistance projects are the ACIAR Seeds of Life project, the MAPTL Community based coffee fields replanting project, and the USAID Support and Development Coffee Cooperatives project.
- **Industrial Value-Added: Coconut/Candlenut Oil Processing:** UNDP is a potential donor for conducting the feasibility studies but funding has not yet been secured. GTZ has agreed to fund the purchase of equipment.
- **Integrated Watershed Management:** A small amount of TFET funding is requested in the budget. EU is committed to funding this program. Related bilateral funded projects are an AusAID Community Based Watershed Management project and a USAID project with the University of Hawaii involving participatory watershed management approaches.

EMERGING ISSUES

- **Rural Marketing.** Marketing is a continuing concern voiced in rural areas. The marketing network that existed prior to 1999 was largely managed by Indonesians, who have left. MAFF is having to define its role in revitalizing a marketing network without undermining private sector initiatives. Small, subsistence farmers are finding it difficult to compete with imports in terms of both price and quality, particularly farmers living farther away from Dili, who must also cope with a poor rural roads and a poorly developed marketing network. MAFF is questioning how much to emphasize assistance to farmers to become more competitive in traditional commodities versus putting more resources in developing high valued niche products for both domestic and export markets.

ANNEX L: POWER SECTOR

TSP I (FY2003) IMPLEMENTATION

TSP I D-1 Establish Appropriate Adequately Staffed and Motivated Management Structure for East Timor Electricity (EDTL)

- **Implementation of Management Contract.** Under TFET, support was provided for the preparation of the tender and contract documentation for the Management Contract, including assistance for the technical and financial evaluation of the bids received. Bids have been received and the National Monitoring and Evaluation Committee plan to submit their evaluation to the Minister of Finance (The Client) for determination of the selected contractor by the Council of Ministers. A decision on the selected Management Contractor is expected during the first week in May 2003 followed by a period of contractual negotiations before a contract is signed late May 2003. Mobilization of the Contractor is planned for mid June 2003 and takeover of EDTL assets and staff in July 2003.
- **Intermediate Management Contract.** The Government has arranged an intermediate management contract funded by NORAD for a Norwegian Contractor to manage the operations of the Comoro Power Station and the Dili distribution network. The contact for the Comoro Power Station will expire on May 20, 2003 and the contract for the Dili distribution network on June 12, 2003.

TSP I D-2 Improve Cost Recovery

- **Cost Recovery.** While there are signs of improvement in cost recovery since FY2001, the power sector is still heavily dependent on subsidies from the Consolidated Fund. Cost recovery of revenues has not significantly improved over this financial year with the exception for April 2003 when \$599,478 was received, though a large part of this increase was accounted for by payments by the public sector. Despite the significant increase in revenue collection for April the average collection rate up to the end of April 2003 remains low at 36% of total recurrent and minor capital expenditure. Whilst it is recognized that errors in the billing system provide erroneous invoices EDTL records show that at the end of April 2003 the total invoices issued for the financial year amount to \$11,015,299 against receipts of \$1,868,375 representing a collection rate of 17%.
- **Operating Costs.** The increase in generating capacity has allowed a reliable supply on a 24-hour basis. However, fuel consumption has increased by 27% since the December 2003. As a result, operating costs have risen to an average of \$720,000/month compared with an average of \$550,000/month for the FY 2001/02. Operating costs have also increased owing to increases in fuel unit costs. Additional fuel stocks for May and June 2003 have been purchased at \$0.383/litre, as compared with \$0.31/litre for the previous purchase of fuel stocks.

- **Overall financial position.** The overall financial performance of the sector demonstrates some improvement in cost recovery since FY2002, though this improvement fell far below the ambitious targets set in June 2002. Consequently, operating subsidies – excluding provision of \$1.9 million for prepayment meters – were increased by \$2.5 million in the Mid-Year Budget Update to \$6.5 million, amounting to 8.8% of total appropriations (as compared with subsidies of \$6.8 million in FY2002, amounting to 12.8% of total appropriated expenditures). There is some risk that further supplementary appropriations may be made in FY2003 if there no improvement in revenue collections and current levels of output are sustained. If this is the case, it is important that additional subsidies to the sector are appropriated rather than allowing the sector to exceed voted expenditures.

Table 1: Power Sector Financial Position

Power Sector	Actual FY2001	Actual FY2002	Budget FY2003	MYBU FY2003	As at end Mar 03	Est. Actual FY2003
Own Source Revenue	258.4*	2,110.2	5,000.0	2,500.0	1,722.0	2,774.7
Appropriations	8,379.4	6,751.0	4,044.0	6,542.0	6,542.0	6,542.0
Expenditure	8,379.4	8,852.5	9,044.0	9,042.0	7,678.7	9,316.7
Balance	-	8.7	8.7	8.7	594.0	-
Cost Recovery/Expenditure (%)	3.1	23.8	55.3	27.6	22.4	29.8
Appropriation./Total Appropriation (%)	16.3	12.8	5.2	8.8	13.0	8.8

* Power did not have authority to retain own source revenues in FY01

- **Energy Tariffs.** New tariffs for electricity, applicable nationally, were implemented in February 2003 lowering the charge from \$0.237/kWh to \$0.16/kWh for domestic and social customers and \$0.20 / kWh for government and commercial customers. The lifeline tariff that had been a part of the tariff since July 2001 was eliminated. This reduction in the electricity charges has obviously reduced revenue potential for the sector.
- **Metering Installations.** In December 2003 a program to increase meter installations on un-metered premises and replace faulty meters was launched by the engagement of a number of local contractors using meters available in EDTL stores. Due to reported difficulties in the performance of contractors the programmed was suspended. Failure to rectify the metering problems continues to effect the overall collection of revenues. The customer base in Dili comprises over 20,000 customers of which some 70% have meters that function properly and are identified, 20% are un-metered or have faulty meters and 10% have informal or illegal connections that have not been identified. By customer category almost 50% of government, 39% of commercial and 28% of domestic customers are un-metered, informal connections or have faulty meters. The combined technical and non-technical losses for the generation and the distribution system currently exceed 50% of the energy produced. Improvement in the recovery of revenues is dependent on a rigorous program to ensure all customers are identified and metered, the disconnection of informal and/or illegal connections, the strategic installation of prepayment meters and the application of an aggressive disconnection policy for nonpayment of invoices.

- **Media Campaign.** The media campaign continues to be largely ineffective contributing very little to an improvement in revenues.
- **Billing and Billing Errors.** The software deficiencies of the PIMS billing system established under a TFET funded program and incorrect meter readings continue to be a significant problem that result in incorrect billings needing manual checking and correction. This causes delays in issuing of correct bills and has the overall effect of limiting cost recovery.

TSP I D-3 Establish appropriate institutional structure for an autonomous power authority

- **Sector Legal Framework.** A “Basic Electricity Law” that sets the framework for the establishment of a Power Sector Regulator and an autonomous power authority has been passed by the Council of Ministers.

TSP I D-4 Prepare Long Term National Power Development Plan

- **National Power Development Plan.** The Asian Development Bank is providing technical assistance (TA3748-ETM) for preparation of a National Power Development Plan. An interim report of 27 March 2003 has been submitted to the Government outlining previous studies or energy sources that may offer alternative opportunities for power generation.
- **Mini-Hydro Renewable Generation Schemes.** The Government is presently considering proposals for a feasibility study into the development of mini hydro generation at Baucau. It is anticipated that the study will commence in May 2003.

TSP II (FY2004) IMPLEMENTATION ISSUES

TSP II A.5.2 Improve Power Sector Management and Cost Recovery

- **Power Sector Transition and Supervisory Committees.** The Management Contract requires the establishment of a “Transition Committee” to monitor the mobilization of the Management Contractor and the handover of EDTL assets and staff. Following the transition period a “Power Sector Supervisory Committee” (PSCC) will be established and take over the monitoring activities from the Transition Committee for the remainder of the Contract. The Management Contractor will report to the Government through Transition and Supervisory Committee on a monthly basis on progress and the performance of the Contract. To assist the Committees with their monitoring and review of the Contract a vital element will be access by the Committees to technical assistance provided by an experienced power sector financial management and regulation specialist. Government has agreed to make the reports of the Transition and Supervisory Committees available to TSP financing partners.
- **Independent Audit and Certification Entity.** The Management Contract requires the establishment on an “Independent Auditor and Certification Entity” to be established by agreement between the Government and the selected Management

- Contractor. This “*Independent Audit and Certification Entity*” is required to audit the performance of the Management Contractor against agreed key performance indicators and certify payments to the Contractor. No arrangements for establishing or funding the “*Independent Audit and Certification Entity*” have been made at this stage. It is strongly recommended that the independent auditor be appointed as soon as possible. Government has agreed to make the audit and certification reports available to TSP financing partners.
- **Monitoring implementation of the Management Contract.** Tender documentation for the management contract specified the key indicators for monitoring contract performance (which will be linked to remuneration). Parameters and targets for the performance indicators will be fixed during contract negotiations. The key performance indicators are:
 - (a) *Revenue Collection Index:* The total value of invoices paid over a monthly or quarterly period to the total value of invoices issued. This measures the performance of the billing system in collecting revenue from normal meters. (Total value of invoices paid / total value of invoices issued over a period of a month / quarter / annum).
 - (b) *Distribution Efficiency Index:* This is the difference between the energy supplied into the system and the energy measured at the customers’ premises and billed. It is a measure of the efficiency of the technical and non-technical losses in the distribution system. Technical losses relate to the inefficient operating practices, the system design and configuration of the system. (Total energy (kWhs) billed / total energy (kWhs) generated over a period of a month / quarter / annum).
 - (c) *Generation Efficiency Index:* Energy generated by the power station compared with the energy in fuel supplied to the power station. (kWhs generated / volume of fuel used over a period of a month / quarter / annum).
 - (d) *Reliability of Supply Index.* This is a measure of the proportion of the total load that is actually supplied. It is derived by dividing the actual energy supplied by an estimate of the total energy that could have been supplied if the capacity of the system was adequate. (Total energy supplied per month or quarter / estimated energy unserved over a period of a month / quarter / annum.)

TSP II (FY2004) TECHNICAL ASSISTANCE

- **Commercial and Metering Adviser.** The contracts of these TFET funded advisors have expired and the advisors have departed. The operation of EDTL’s commercial section is considered critical to ensuring cost recovery strategies continue over the remainder of the financial year and during the transition period when the Management Contractor takes over EDTL’s commercial operations. Renewal of the Commercial Advisers’ contract up to 30 September 2003 would help ensure a

smooth transition of commercial operations to the Management Contractor and sustain cost recovery until the contractor is in place.

- **Power Sector Steering Committee (PSSC).** It is recommended that consideration be given to the funding and appointment of an international consultant experienced in power system regulation and management to assist the Power Sector Steering Committee fulfill its functions as the focal point between the Management Contractor and the Government.

EMERGING ISSUES

- **FY2004 Budget.** EDTL has prepared a budget submission for FY2004 that significantly increased revenues (to \$5 million), expenditures (to \$12.637 million) and subsidies (to just over \$7 million). Budget scenarios are still under discussion and may be influenced by the cost and impact of the Management Contract to be negotiated shortly, effect of the prepayment meter program on revenues, possible reduction in operating costs due to lower energy consumption and variations in oil prices. The selected management contractor will need to focus rigorously on increasing revenues through the implementation meter installation program, aggressive cost recovery through application of a disconnection policy and a targeted media campaign comprising all strategies for increasing revenue collections.
- **Prepayment Meters.** The Management Contract was predicated on the inclusion of prepayment meters. However, following the issue of the Tender in December 2003 a separate contract was subsequently arranged with a Contractor for the procurement and installation of 10,000 meters (1,000 three phase and 9,000 single phase). The contract includes the establishment of prepayment facilities, training of staff, revision of the billing system and the implementation of a media campaign. NORAD has provided funding of \$750,000 with the remaining \$1.7 million from CFET Capital and Development appropriation. Meters are due for delivery in June 2003 and installation is planned for completion over a four to six month period. Once a significant number of meters are installed it is expected that energy consumption will decline resulting in reduced generation operating costs. A reduction in energy consumption of up to 30% has been experienced in other countries using prepayment meters. On completion of the prepayment meter contract it is intended that the Management Contractor will take over the remainder of the installation program of an additional 10,000 meters. Ultimately, the Management Contractor will determine the extent of the installation program.
- **Establishment of Power Sector Regulator.** The Government, through their legislation program proposes to establish a Power Sector Regulator during the Management Contract. The Regulator's powers and functions will require careful consideration to ensure appropriate incentives are in place for contract compliance and performance.

- ***Establishment of an autonomous or privatized power sector.*** Any actions by the Government to create an autonomous power sector or the privatization of the sector should be carefully considered to ensure that Government proposals do not impact on the successful implementation of the Management Contract.
- ***Comoro Power Station Reliability.*** The financing of maintenance for the generators and ancillaries at the power station needs careful consideration by the Management Contractor and the Government to ensure that vital maintenance and the procurement of spare parts is funded to the degree that the station can maintain a high level of reliability. Failure to fund and implement the necessary programmed maintenance could lead to failure of generating units and the return to load shedding particularly as the demand for energy has increased since the installation of the additional capacity.