



# Timor-Leste Governance for Development Program Review

Department of Foreign Affairs and Trade

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# Acronyms and abbreviations

|               |   |
|---------------|---|
| <b>AAA</b>    | Analytic and Advisory Assistance (by the World Bank)              |
| <b>AusAid</b> | Australian Aid  |
| <b>ABS</b>    | Australian Bureau of Statistics                                   |
| <b>AACTL</b>  | Autoridade da Aviação Civil de Timor-Leste                        |
| <b>ADB</b>    | Asia Development Bank   |
| <b>AUD</b>    | Australian dollars  |
| <b>BNCTL</b>  | Banco Nacional de Comércio de Timor-Leste                         |
| <b>CSC</b>    | Civil Service Commission  |
| <b>CSO</b>    | Civil Society Organisation  |
| <b>DBFTL</b>  | Dalan Ba Futuru Timor-Leste                                       |
| <b>DFAT</b>   | Australian Department of Foreign Affairs and Trade                |
| <b>DBS</b>    | Direct budget support   |
| <b>EOPO</b>   | End of program outcome  |
| <b>FM</b>     | Fundasaun Mahein  |
| <b>FMIS</b>   | Financial Management Information System                           |
| <b>GfD</b>    | Governance for Development  |
| <b>GoTL</b>   | Government of Timor-Leste   |
| <b>IFC</b>    | International Finance Corporation                                 |
| <b>IRI</b>    | International Republican Institute                                |
| <b>JSMP</b>   | Judicial System Monitoring Program                                |
| <b>KRQ</b>    | Key Review Question   |
| <b>KIF</b>    | Kaebauk Investimentu no Finansas                                  |
| <b>MCAE</b>   | Ministry for MCAE, MoF and MRLAP                                  |
| <b>MDF</b>    | Market Development Facility                                       |
| <b>MEL</b>    | Monitoring, evaluation and learning                               |
| <b>MoF</b>    | Ministry/Minister of Finance                                      |
| <b>MRLAP</b>  | Ministry/Minister of Legislative Reform and Parliamentary Affairs |
| <b>NGO</b>    | Non-government organisation                                       |
| <b>OECD</b>   | Organisation for Economic Co-operation and Development            |
| <b>OPM</b>    | Office of the Prime Minister                                      |
| <b>PEA</b>    | Political economy analysis  |
| <b>PBB</b>    | Program-based budgeting   |
| <b>PEFA</b>   | Public Expenditure and Financial Accountability                   |

|                  |   |
|------------------|---|
| <b>PETS</b>      | Public Expenditure Tracking Surveys                             |
| <b>PFM</b>       | Public financial management                                     |
| <b>PHD</b>       | Partnership for Human Development                               |
| <b>PMIS</b>      | Personnel Management Information System                         |
| <b>PMO</b>       | Prime Minister's Office   |
| <b>R4D</b>       | Roads for Development program                                   |
| <b>SDP</b>       | GoTL Strategic Development Plan                                 |
| <b>SEFOPE</b>    | State Secretariat for Vocational Training and Employment Policy |
| <b>SERVE</b>     | Servico de Registro e Verificacaun                              |
| <b>TAF</b>       | The Asia Foundation   |
| <b>TIC TIMOR</b> | GoTL Information and Communications Technology agency           |
| <b>ToC</b>       | Theory of change  |
| <b>TOMAK</b>     | To'os Ba Moris Diak (Farming for Prosperity) Program            |
| <b>TWP</b>       | Thinking and working politically                                |
| <b>UPMA</b>      | Planning, Monitoring and Evaluation Unit                        |
| <b>VfM</b>       | Value for money   |
| <b>WDTPL</b>     | Workforce Development Program in Timor-Leste                    |

# Executive summary

## Introduction

The Governance for Development (GfD) program is the Australian Department of Foreign Affairs and Trade's (DFAT) main program with which to engage central ministries and agencies of the Government of Timor-Leste (GoTL). The program was designed during 2011–13. An interim phase started in 2013, followed by Phase 1 (2014–2017) and Phase 2 (2017–2021). Its approved budget is AUD 72 million. It is led by the Australian Embassy in Dili with implementation support from a managing contractor (Cardno Emerging Markets).

**GfD has two end of program outcomes (EOPOs):**

- government makes evidence-based decisions and policy; and
- improved implementation of policy and service delivery.

**GfD covers four work areas and two cross-cutting themes:**

- public financial management (PFM);
- public administration reform;
- economic development;
- 'Other Voices' to influence policy; as well as
- gender and disability mainstreaming.

## Review purpose and methodology

**This is the first external review of the GfD Program**, two years before it is due to end. There was no independent mid-term review before its second phase started in 2017.

**The review examines GfD's effectiveness, relevance and efficiency, and provides recommendations** for the current program and design of any future Australian governance investments. It comprised a review of 230 documents and a context analysis; interviews with 124 people before and during fieldwork in Timor-Leste in September and October 2019; and two workshops to test preliminary findings with the steering committee and GoTL officials.

## Program context

**Timor-Leste is one of the world's poorest countries:** 30% of the population live on under \$1.90 a day (the international poverty line) and more than 40% are not able to meet their basic needs. Timor-Leste's oil resources have provided it with an independent source of financing for development. At its peak, oil represented 90% of exports and 95% of government revenues.

**GfD was designed to accompany GoTL continued improvements of service delivery and economic development** in line with its 2030 Strategic Development Plan. As a newly independent country, Timor-Leste has had to develop new institutions. Public service capacity, particularly PFM and human resources, started from a very low base, but is fundamental to ensure that limited resources are used towards GoTL objectives.



GfD's effectiveness and efficiency during the course of implementation have been affected by three main factors.

**First, Timor-Leste's domestic context changed.** GfD initially operated during a period of political stability, with a 2015–2017 'informal grand coalition' among politicians who had led the 1975–1999 resistance against Indonesian rule. GfD was well positioned to support the Prime Minister's agenda of reforming PFM, public administration and service delivery, and improving economic policy-making. Since the 2017 and 2018 elections, Timor-Leste has suffered from political instability. The current President of the Republic is yet to swear in nine ministers and vice-ministers proposed by the coalition government. This political stalemate has made GfD assistance more complex to deliver.

**Second, the maritime boundary between Timor-Leste and Australia has been the focus of protracted negotiations.** At times these hindered GfD's operations (for example, in some cases, the Australian Embassy had more limited access to senior counterparts and foreign advisers have been rejected). In March 2018, the boundary was settled along the median line. The Maritime Boundary Treaty between the two governments was ratified on 30 August 2019.

**Third, GfD was designed as a flagship Australian Aid (AusAid) program, with an ambitious scope and flexible approach** that would rely on continuous engagement from senior DFAT staff. The significant transformation of Australian development cooperation (as AusAid integrated into DFAT in 2014) has limited the program's ability to operate as originally envisaged. Resources for GfD were reduced, including the number and mix of Australian and Timorese staff from DFAT working on GfD. This contributed to some of the management challenges the review has documented.

## Overall program findings

### What did the program achieve?

GfD was designed to influence selected policy areas relevant to service delivery and economic development by identifying reform opportunities, putting in place relationships with key decision-makers and influential stakeholders, and involving them in 'technically sound and politically possible' solutions.

**Overall, GfD has achieved reasonable progress in developing new laws, policies and systems (EOPO 1) but less on their implementation (EOPO 2).** GfD was more effective under the 2015–2017 VI<sup>th</sup> Constitutional Government of national unity because the Prime Minister was better able to steer a reform agenda, including with a Coordinating Ministry with authority over the key economic ministries.

Achievements include:

**The PFM work area** (57% of GfD work area spend to date, or AUD 21.9 million) has delivered:

- the introduction of budget classification as a first step towards program-based budgeting (PBB);
- an automated budget formulation tool;
- gender-responsive budgeting that more systematically takes into account the priorities of women in budget allocation, implementation and monitoring; and
- improvements in the capacity of the General Directorate of Statistics to provide reliable and timely key data sets to inform budgeting and policymaking.

**Public administration reform** (11% of work area spend, or AUD 4.4 million):

- New human resources management laws, policies and systems (eg to introduce merit-based recruitment and promotion; tackle sexual harassment; promote affirmative action for women; and increase awareness of disability issues in the public service).

**Economic development** (17% of work area spend, or AUD 6.4 million):

- greater use of evidence in economic policymaking based on high quality academic reports;
- improved access to finance through Timor-Leste's commercial bank and microfinance bank; and
- new aviation policy and improved capacity of the aviation regulator (AACTL).

**'Other Voices'** (15% of work area spend to date, or AUD 6 million):

- A Policy Leaders Group that aims to bring together young like-minded reformers, activists, 'progressive' politicians, policy makers and academics to discuss issues facing the country.
- Support to two highly respected local non-government organisations, Fundasaun Mahein (FM) on security and the Judicial Sector Monitoring Program (JSMP) on justice, which were at risk of closing without Australian support.

## **Was the program relevant?**

**Economic development and service delivery, the high-level program objectives, are relevant to the Timor-Leste national context** and adapted to Timor-Leste/Australia diplomatic relationships.

GfD was designed to respond to Timor-Leste's nationally determined priorities, in particular Timor-Leste's Strategic Development Plan (SDP) 2011–2030, which plots a path for Timor-Leste to leverage its oil and gas resource wealth to bring about equitable development for all Timorese.

As examined below, while the GfD four work areas are relevant at a high level given the context, specific work area priorities have, at times, been less relevant, either because of how they were designed and delivered, or because the context evolved.

## **How did the program operate and was it efficient?**

**GfD was conceived as a developmental facility, with specific initiatives meant to be designed during the course of implementation within the framework of a broad theory of change (ToC).** The review team could not find evidence that the program's ToCs have guided implementation strategically by helping GfD management make rigorous investment decisions. The early GfD reports were written by GfD advisers and were mostly descriptive, rather than rigorously assessing progress by testing assumptions and causal pathways between interventions and outcomes. Most significantly, there was no independent review at the end of Phase 1 in 2016, which would have provided an evidence base to inform the design of Phase 2. Since late 2018, GfD management has invested more in monitoring, evaluation and learning (MEL). The review team notes these improvements (such as an updated ToC and higher quality reporting) but finds that continued efforts are needed to ensure the ToC and MEL guide program implementation strategically.

**The program was designed to ‘think and work politically’ (TWP).** In a volatile political context, GfD has been strongest in its flexibility (starting or ending interventions with partners, scaling up or down budgets) and its ability to adapt to the changing political environment in Timor-Leste, and Australian-Timorese relationships. It identified new GoTL partners and, at their request, deployed advisers; or funded new grantees as opportunities emerged. DFAT interviewees consider this one of the program’s strengths.

**However, TWP is much more than adaptation; it requires a rigorous analysis of the context and testing of strategies to effect long-term change.** GfD did not always use rigorous processes to ‘think politically’. While the program is to be commended for drawing on the informal political understanding of Australian Embassy national staff and national advisers, it did not use more formal political economy analysis (PEA) in a systematic way to identify the most appropriate interventions; test how an intervention might lead to broader change; or assess new proposals during regular review and redesign workshops. The review team was only provided with a limited number of documented PEAs and cannot evidence the reported regular Australian Embassy/Cardno discussions. Review and reflection workshops usually took place annually, but there was no workshop between 2016 and 2018, a critical period during which Phase 2 started and the Timor-Leste political context became more unstable.

**Sometimes GfD’s approach tended to be more ‘reactive’ rather than responsive.** That is, in the absence of more rigorous and systematic analysis of the options available to it, GfD interpreted ‘working politically’ as being aware of the latest daily and weekly changes in, and conflicts between, government actors, and did its best to respond to GoTL requests. While this ensured activities were consistent with the immediate political context, it tended to skew them away from proactively exploring alternative voices and initiatives that might help to construct coalitions in favour of different approaches in the medium to longer term.

**GfD was designed to be led from the Australian Embassy,** with a Counsellor as the Program Director supported by a managing contractor. Since 2014, following the integration of AusAid into DFAT, Embassy staff have been given additional responsibilities that have reduced their capacity for strategic direction, oversight and management of DFAT-led grants and programs. In 2019, Cardno’s Operations Director was replaced by an international Team Leader and a second international position (Program Coordinator) was created.

**The reallocation of responsibilities from DFAT to Cardno as a Team Leader, with greater involvement in strategy, has been appropriate and more efficient.** It increased Cardno’s capacity for strategic as well as operational support. The review team has received positive feedback on the effectiveness of Cardno’s leadership team from GoTL counterparts, and the Australian Embassy is pleased with the support it receives from the managing contractor.

**Although GfD does not have a steering committee with GoTL representation, this suits Timor-Leste’s current political environment.** GfD would nonetheless benefit from more regular and in-depth technical oversight and advice across all work areas, to provide a sounding board and impartial assessment for DFAT and Cardno managers.

**GfD is an ambitious program, better described as a ‘developmental facility’.**

Each work area could be a distinct program in its own right. GfD has supported many reforms (in particular in the economic development work area) across 35 partners and grantees. Some of the reforms were complex and took longer than expected to make progress. On occasion, it is clear that GoTL did not have the ability to absorb GfD assistance.

**GfD has facilitated a number of cross-program working groups** (on decentralisation, private sector development and ICT). There is room for further linkages between GfD and other Australian programs, to leverage GfD’s access and ability to engage with central GoTL agencies.

**Technical advisers represent 80% of GfD expenditure.** Cardno has directly managed 166 advisers since the start of the program, both long- and short-term. There has been an appropriate shift from international towards more national advisers, with international advisers justified only when rare skills are needed. The review team heard repeated evidence that the efficiency of Cardno’s delivery has been high and its professionalism appreciated by GoTL. Advisers have been identified, appointed and placed reasonably quickly and generally to the satisfaction of counterparts.

**The quality of the relationships and degree of trust between GfD advisers and their GoTL counterparts have been significant success factors.** Advisers have helped GoTL develop new policies, laws and systems and contributed to some improved individual skills and competencies. However, they have not always developed sustainable system or agency-wide organisational capacity in the public service or private sector.

**Grants represent 29% of the program to date**, although this varies year-on-year with 43% grant funding in financial year 2018/2019. Grantees include Australian organisations (the Australian Bureau of Statistics (ABS) and Monash University); international organisations (World Bank, Asia Development Bank (ADB), International Finance Corporation (ICF), Organisation for Economic Co-operation and Development (OECD)); international non-governmental organisations (The Asia Foundation (TAF), Oxfam, the International Republican Institute); and national non-government organisations.

**Grants have been in general an appropriate modality to deliver more arm’s length support while drawing on the technical expertise and relationships of the grantees.** However, the drawback of grants is that they also reduce GfD’s direct influence and complicate coordination across GfD’s many interventions.

**Overall, GfD is assessed as representing ‘adequate’ value for money (VfM).**

Its three main work areas (PFM, public administration and economic development) are also assessed as ‘adequate’ VfM. As described below, some individual interventions delivered good results for reasonable financial costs but across the board, there are fewer activities with ‘good’ VfM ratings than those with ‘adequate’ or ‘poor’ VfM. Given the large number of individual activities initiated during GfD, this finding suggests a less effective activity selection and implementation methodology. The ‘Other Voices’ cross-cutting work area is assessed as ‘good’ VfM due to the performance of TAF in supporting the Policy Leaders Group.

**The costs associated with the managing contractor represent AUD 9.7 million or 21% of the program budget.** While they are considered efficient, with improvement reported in the last year, this cost is consistent with management of similar technical assistance programs, and represents ‘adequate’ VfM.

## Public financial management

**GfD support to PFM has had two distinct phases. During 2013–2016, GfD provided direct budget support (DBS) to the Ministry of Finance (MoF) to manage all PFM reforms.** GfD advisers were placed in the Ministries of Finance, Education, Health and the Office of the Prime Minister (OPM). GfD also funded World Bank analytical and advisory assistance (AAA). This package of support was stopped in 2015 in response to a changed political and institutional context (including reduced trust between Australia and Timor-Leste during the Maritime Boundary Treaty negotiations); performance concerns in MoF's use of DBS and with World Bank outputs; as well as GfD budget cuts. This was GfD's most significant response to a changed political and institutional context. This first PFM phase contributed to a limited degree to evidence-based policies, and is not judged to have been efficient, delivering 'poor' VfM as a result.

**Since 2016, GfD has supported the policy of replacing conventional budgeting with PBB,** associated with a transfer of budget responsibilities from the MoF to OPM's Planning, Monitoring and Evaluation Unit (UPMA). Support through the PMO was the more politically feasible option for DFAT to stay involved in PFM reform at a tactical level. Considering this decision from a program-management perspective, the team was not able to find evidence of a strategic assessment of technical or allocative efficiency, sustainability of the long-term PBB initiative or the opportunity cost of this decision. The absence of a formal record of the decision to reorient PFM inputs contravenes the GfD Investment Design Document and represents a weakness in both GfD program documentation and management.

**Critically, the 'pivot' had an important effect on DFAT partnerships.** The termination of DBS and AAA in 2015 led to DFAT's effective withdrawal from the MoF and a damaged relationship with the World Bank (both traditional PFM leads). GfD, and any future DFAT investments in PFM, will need to rebuild these relationships to sustain the work needed to implement PBB fully over the next decade.

**In the PFM second phase (2016–2021), GfD is contributing to evidence-based policies as well as to the implementation of new systems** by supporting OPM to introduce: a budget classification for GoTL budgeting as a first step towards PBB; an automated budget formulation tool; and gender-responsive budgeting. Advisory support to UPMA was an appropriate modality, demonstrating greater efficiency and effectiveness than previous PFM initiatives, and 'good' VfM. GfD also funded the OECD to inform GoTL policy and decision-making on PBB, which resulted in a GoTL Roadmap of Budgetary Governance Reform. PBB is relevant, but effective implementation will require long-term GoTL-wide commitment in a frequently changing political-institutional context. To remain sustainable, the PBB initiative will require more effective collaboration between GfD, DFAT and MoF, as responsibility for this long-term initiative moves from UPMA to MoF in 2019.

**The MoF Directorate General of Statistics has received continuous GfD support through the ABS since 2014.** This support was relevant given the poor quality of Timor-Leste statistical data on which policies and resource allocations should be based. Alongside other donors, GfD support has resulted in sustainable in-house capacities to provide reliable and timely key data sets. For example, the directorate has the capacity to produce quarterly consumer price index and business activity statements. It can prepare national accounts with limited annual oversight from the ABS. Further, gender, disability and inclusion monographs are now being prepared using GoTL census and demographic

survey data, with editorial support from a range of donors, including the ABS, UN Women and the UN Washington Group on Disability Statistics. The ABS helped GfD arrive at a workable approach to mapping disability across the civil service.

The ABS grant modality to support the Directorate General of Statistics, with pragmatic ambitions linked to well-defined needs, provided 'good' VfM.

## Public administration

**Since 2014, GfD has placed advisers within the Civil Service Commission (CSC)** to introduce new human resources management policies and systems across the public service. CSC support represents 94% of expenditure to date under this work area.

**In 2018, GfD broadened its approach** by providing advisers to the Ministry of Legislative Reform and Parliamentary Affairs (MRLAP) to prepare a comprehensive Public Administration Reform strategy, and in 2019 it agreed to provide advisers to GoTL central ICT unit responsible for e-governance.

**Support for a meritocratic and better performing public service is absolutely an appropriate policy objective** in any polity, and especially so in a capacity-constrained environment. However, in the context of a patronage-based political economy relying on oil and gas, this focus on human resources management alone was not the most relevant. The CSC, which Australia has been assisting since 2009, faces strong political incentives for the politicisation of the civil service, use of GoTL advisers (in addition to permanent civil servants) and continued resistance from line ministries. The GoTL's draft Public Administration Reform plan threatens the CSC mandate, and, in the view of this review team, is over-ambitious. GfD could have targeted 'Other Voices' grants around a common strategy to improve public service responsiveness, transparency and accountability, as well as capacity.

**GfD has contributed to new human resources management laws, policies and systems.** The first centralised merit-based promotion process for permanent civil servants covering 10,000 candidates took place during 2018–2019. A workforce planning policy process continues. Sexual harassment in the public service is being tackled with a manual, reporting and disciplinary measures, in collaboration with UN Women. In 2019, GfD increased awareness of disability issues.

**Implementation has been uneven in the face of institutional resistance.** Overall, there is a lack of evidence that GfD investments since 2014 have resulted in improved public service performance or that they are addressing the main public administration barriers to service delivery. It should be noted that such whole-of-government reforms are notoriously difficult to achieve.

**GfD public administration advisers are valued by their counterparts. GfD needs to manage the risk that its advisers do not build either individual competencies and skills or organisational capacity** and can pull in different directions (providing inconsistent advice to MRLAP and the CSC for example). Overall, the work area is considered to have delivered 'adequate' value for money, comparing costs to results.

## Economic development

**GfD has worked across several areas of economic development.** In 2015, GfD provided the Coordinating Economic Ministry with advisers that enabled progress on a range of reform initiatives and to devise a strategy for economic reform. However, progress in several areas has been affected by the political uncertainty since 2017.

**In terms of relevance, GfD chose not to address some of the most critical economic challenges.** For example, it has not been able to contribute to oil and gas policy, because assistance from Australia was neither sought, nor would likely be welcomed. However, experience from other programs suggests it is possible to engage in sensitive sectors, such as oil and gas, if an arm's length approach is taken. This may be something that DFAT may wish to consider. GfD has also elected not to work on some economic issues that are known to be binding constraints on growth (such as human capital, infrastructure or land). This may reflect the existence of other DFAT programs working in these areas (eg the Workforce Development Program (WFDP) and the Roads for Development (R4D) program). GfD has focused its efforts on some areas (business licensing, access to finance and aviation), which, while undoubtedly important, are less critical constraints for Timor-Leste's growth. GfD support for evidence in economic policy has undoubtedly been relevant.

**Overall, GfD has facilitated the use of evidence in economic policymaking.** Several respondents stated that the high-quality Monash University reports have been influential. GfD has contributed to improved access to finance: capacity building and regulatory technical assistance for the commercial bank BNCTL (provided through the ADB) and for the microfinance bank KIF (provided by the IFC) have helped in the expansion of both banks, and improved the ability to provide finance to customers. GfD has also contributed to a new aviation policy and has improved the capacity of the aviation regulator (AACTL).

**There have been fewer improvements in investment or the ease of doing business.** The business registration and licensing agency, SERVE, has become an autonomous one-stop shop, but still lacks control over the issuance of many licences. The investment promotion authority, Tradelvest, has created an Investment Reform Roadmap, but this had not been approved by the Council of Ministers at the time of fieldwork.

**The review team concludes that the economic work area attempted to push through too many reforms simultaneously, and made less progress when the political situation changed after 2017.** While some economic laws were promulgated and an economic modelling tool for agricultural products developed, other economic or agriculture policy initiatives could not be continued after the end of the VI<sup>th</sup> Constitutional Government.

**GfD has used an appropriate mix of advisers, grants and funding to international financial institutions. Despite this, the review team concludes that greater engagement with non-government actors might have allowed the program to be more effective and efficient** (eg think tanks generating knowledge products, media engagement, links to scholarships, private sector links, and support to parliamentarians and parliamentary committees). Moreover, neither GfD nor the Australian Embassy had access to ongoing technical economic expertise to maintain a strategic approach.

**The overall VfM for this work area is judged ‘adequate’.** In the team's view, the Monash University and aviation work represented ‘excellent’ VfM and SERVE was ‘good’ VfM, while the other initiatives in the economic development area represented ‘adequate VfM’.

## **‘Other Voices’ and cross-cutting issues**

**GfD has supported ‘Other Voices’ mostly through grants to influence policymaking.** These ‘voices’ include research institutions in Australia, young politicians and GoTL advisers, national NGOs (eg FM, JSMP) and international NGOs (eg TAF, Oxfam).

**‘Other Voices’ support, mostly limited to economic development, has been relevant in the Timorese national context** as there is a lack of wider analysis, discussion and debate on economic issues. The Policy Leaders Group, supported through TAF, aims to bring young like-minded reformers, activists, progressive politicians, policy makers and academics to discuss various issues facing the country from a public policy perspective. This appears to have been quietly effective. Numerous respondents endorse the idea of DFAT supporting the creation of a ‘think tank’ or some other mechanism of facilitating serious Timorese investigation and research into key policy issues to fill the gaps in evidence-based policy debate in Timor-Leste. This grant is assessed as ‘good’ VfM.

**Beyond the Policy Leaders Group, the program does not have a strategy for engagement with a wider range of Timorese stakeholders** who could influence policy, monitor and demand improved services. National thematic NGO networks, social media, the church, private sector organisations, journalists and parliamentarians are all significant Timorese influencers with whom GfD could more deeply engage.

**DFAT seems to have treated this cross-cutting work area as a facility for other Australian priorities that could not be funded through other channels.** ‘Other Voices’ seem to have been interpreted to cover any issue potentially relevant to policymaking or service delivery and of interest to the Australian Embassy. For example, support to two local NGOs on security and justice (24% of total ‘Other Voices’ spend) falls outside the main GfD thematic priorities but reflect Embassy priorities. GfD also funded support to elections (which was not reviewed). This work area would benefit from a strategic framework for prioritisation. Funding Embassy priorities beyond GfD core themes may reduce its VfM as management time and financial resources are redirected.

**GfD has prioritised gender as cross-cutting issue, and later on disability.** Using advisers for cross-cutting issues has been appropriate to avoid a siloed approach. Gender and disability have been addressed unevenly, in particular under economic development interventions, with clearer results in PFM (such as gender-responsive budgeting) and public administration (measures against sexual harassment, disability awareness in the public service). GfD has not adequately addressed rural or youth inclusion, which are highly relevant. A new AUD 200,000 Oxfam grant will address these issues (the grant has not been reviewed as it was too new at the time of fieldwork).



# Main recommendations

**Overall, GfD’s objectives remain relevant to promote economic development and improved service delivery in Timor-Leste.**

- Despite improvements in PFM and statistical capacity as a result of GfD, GoTL’s skill base remains low. PBB will require another decade to be embedded, and gains could be lost if the transition to the MoF does not succeed.
- Significant issues remain with the civil service to improve meritocracy and address the ‘parallel’ civil service constituted by national advisers. Controlling the number and salaries of public servants is politically and fiscally important, as the public service is Timor-Leste’s largest employer.
- Whether and how Timor-Leste uses its petroleum wealth – to invest in a diversified private sector-led economy, or to double-down on oil and gas exploration, or some combination of the two – is the single critical determinant of the country’s future.

Based on the findings and lessons identified in the main report, the review team makes the following recommendations to improve the performance of the program in its remaining 18 months (at both strategic and implementation levels) and to design a potential successor program (in terms of the approach to design and suggestions for thematic priorities).

## What to do in the short term (18 months)?

These recommendations are all addressed to GfD management (in DFAT and Cardno).

### a. Strategic level

#### **R1 Prepare work area strategies, in particular on economic development and cross-cutting issues.**

- Draw on the excellent existing analysis and an assessment of what other development partners are doing to produce a short economic development strategy to guide programming and to link GfD to other DFAT economic programs.
- Develop a strategy, consolidate activities and identify lessons to date on gender and disability to target priorities in the last phase of the program and inform a follow-on program and other DFAT investments.
- Review the best way to support in-country high quality, well evidenced research about key policy issues of importance (through helping the Policy Leaders Group to become a think tank or other options).

#### **R2 Support the transition of program-based budgeting (PBB) from the Prime Minister’s Office to the Ministry of Finance (MoF), and coordinate support with other development partners.**

- PBB is still in its infancy and MoF lacks the skills and capacity to reinforce and enhance PBB across government. A political economy analysis (PEA) should be undertaken to inform any future decisions around delivering MoF guidance materials and skills transfers to take on annual PBB responsibilities.

- Liaise with the European Commission and World Bank on cost-sharing of MoF PFM reforms. The major cost of implementing MoF performance management reforms and special career regime may need support from a World Bank PFM and fiscal sustainability development policy loan. It is not recommended that DFAT fund any development policy loan.

### **R3 Assess GfD's impact on the Civil Service Commission (CSC) capacity as well as on the overall performance of the public service.**

- After 10 years of DFAT support to the CSC, and as the CSC Commissioners' mandate comes to an end (in May 2020), GfD should consolidate CSC initiatives and avoid new public administration reform activities.
- GfD should assess its impacts on the CSC and wider civil service capacity in a way that builds the CSC's ability to do further assessments independently. This analysis will also inform a potential successor program.
- GfD should ensure all its advisers shift to a capacity development approach in the last 18 months of the program. While this is included in their responsibilities and reporting requirement, advisers may require additional encouragement and full support from their GoTL line managers. Additional modalities could be used to complement advisers.

## **b. Implementation**

### **R4 Strengthen GfD's ability to think and work politically.**

- **Use review and reflection workshops more strategically.**  
These should be more regular, targeted to shape decisions, with a limited number of stakeholders and 'critical friends'. The next workshop could be held when the review team leader returns to Timor-Leste (February 2020) to draw on the review findings. These should not be the main way of engaging with GoTL stakeholders, which requires a blend of formal and informal approaches.
- **Commission political economy analyses as inputs for the review and reflection workshops or to inform other strategy development.**  
They would examine how the political circumstances are shifting and how this is likely to influence programming. They should cover GfD's different sectoral themes. They should be documented and updated regularly (eg as written reports, PowerPoint presentations, notes of meetings, cables) to inform program adaptation.
- **Continue to improve monitoring, evaluation and learning.**  
GfD management should select the most relevant anticipated results in the different work areas by the end of the program in 2021; develop mini ToCs for each initiative within the work areas showing causal chains and hypotheses towards these results; and track progress and monitor hypotheses with quantitative and qualitative data to inform management decisions and ongoing program adaptation.

### **R5 Strengthen GfD's technical management and external challenge.**

- **Appoint three Cardno-based 'technical work area managers'.**  
They would be responsible for developing strategies for PFM, economic development, public administration, as well as integrating 'Other Voices' and cross-cutting issues more systematically; monitoring progress; and managing advisers and grants. These posts should be filled as soon as realistically feasible.

- **Establish ‘independent technical sounding boards’.** These would be made up of independent individuals with strong expertise in the area, who would be able to advise GfD on whether proposed new initiatives are sound and help assess progress. They would advise on how best to engage with GoTL stakeholders.

## **R6 Improve collaboration between DFAT investments.**

- DFAT should ensure GfD and other DFAT programs that collaborate with central agencies and on economic development have a shared understanding of their division of labour and how to rely on GfD, particularly with:
  - Partnership for Human Development (PHD) and PARTISIPA on PFM and civil service capacity in relation to central barriers to education, health, social protection; how to ensure accountable service delivery and feedback loops from citizens; and decentralisation division of labour.
  - *To’os Ba Moris Diak* – Farming for Prosperity Program (TOMAK), Roads for Development (R4D), Workforce Development Program in Timor-Leste (WDPTL) and Market Development Facility (MDF) on an economic development strategy and collaboration on agriculture.
- Jointly commission an updated study on the barriers to service delivery.

## **What to do for a future program?**

These recommendations are all addressed to DFAT.

### **a. Overall program approach**

#### **R7 Start designing the next GfD phase or successor program now, linking the approach to a strategy.**

- Base the design on this review and PEAs for different sectors.
- Consider designing a separate economic development program, so that GfD can remain more focused.

#### **R8 Ensure accountability, gender and inclusion are central to both the design process and program implementation.**

- Consider state accountability, responsiveness and transparency – not just state capacity.
- Analyse the ways in which women, people living with disabilities, the young and rural populations are marginalised or excluded from economic activities and service delivery, and fashion interventions to specifically address this.
- Assess DFAT wider support to civil society and the specific role of a successor GfD program by rigorously assessing (across DFAT programs) how DFAT can support ‘Other Voices’ and civil society organisations’ advocacy across the sectors it supports. DFAT would then identify what would best be covered from a GfD successor program (eg the enabling environment for CSOs).
- Consider a PFM accountability feedback loop: GfD and the OPM Social Audit Unit could explore ways to develop an accountability feedback loop that informs OPM of progress with PBB implementation and its impact on services delivery.

## **R9 Consider a broader range of modalities to address specific ‘problems’.**

A new program should include a richer blend of modalities beyond mostly relying on advisers and grants.

- Design specific GfD initiatives around a clear problem that GfD could help address (rather than a GoTL organisation it should support).
- Map the different strategies that could be adopted and select relevant modalities (eg packaged as a small project).
- Facilitate networking.
- Fund public campaigns as well as technical advice or training/mentoring/coaching.
- Engage with more stakeholders (including beyond GoTL) to achieve more sustainable change.

## **b. Program focus suggestions** (subject to PEAs or other design studies)

### **R10 Target barriers to service delivery.**

The design for a follow-on program should clearly identify what are the barriers to service delivery at the local level that would benefit from PFM and public administration reforms. This should be done jointly with other relevant DFAT programs. Responses are likely to require strategies to improve accountability, transparency and responsiveness.

- Commission a repeat of the 2010 Kathy Wimp barriers to service delivery study.
- On that basis, address the central barriers to service delivery through a GfD successor.
- Ensure ongoing feedback from the sub-national level to the national level (including through other Australian-funded programs such as PARTISIPA).
- Scope the next stage of DFAT PFM support at the sub-national level to complement central PFM initiatives.

### **R11 Assess political commitment to public administration reforms, and in the absence of such commitment devise a new approach.**

In principle, it is important for GfD to remain engaged, as any public service is only as good as its people. The issue is whether DFAT judges there is sufficient political commitment to a meritocratic and accountable public service. In the absence of such commitment, GfD should reduce the scope, objectives, modalities and scale of assistance. It should reduce its reliance on long-term advisers, and instead support a much smaller-scale organisational improvement plan for selected departments. Support would address specific issues, track success/challenges and more quickly adjust (rather than follow a linear policy cycle).

### **R12 Give serious thought to how DFAT might support efforts to address critical, but sensitive, policy challenges, eg in the oil and gas sector and on land rights. It is important to be able to engage on oil and gas beyond diplomatic and commercial conversations.**

Similarly, property rights, particularly around land, appear to be one of the most important constraints to investment – making progress in this sensitive area could be transformative. In both areas, there are ways in which DFAT might provide indirect support, either through international partners, or by supporting Timorese-led dissemination and debate on evidence using an arm's length approach.

**R13 Focus more on youth employment.**

The provision of jobs will be the central economic challenge facing Timor-Leste's growing young population. A successor could play a role in supporting government strategies to link work on education and training to sectoral interventions designed to stimulate private sector-led growth.

**R14 Do not include security, justice and elections within the scope of a successor program.**

These issues could not be managed strategically within GfD. Following sector assessments (starting with strategic Australian objectives and what other development partners are doing), DFAT may decide to address these issues through another program or not at all.

# 1. Introduction

## 1.1 Background

Australia is Timor-Leste's largest bilateral development partner, and provides assistance around three themes: the economy, people and society.

The Governance for Development (GfD) program is the Australian Department of Foreign Affairs and Trade's (DFAT) main program with which to engage central ministries and agencies of the Government of Timor-Leste (GoTL). It is the latest in a series of Australian public administration and PFM programs in Timor-Leste since 1999, and was designed during 2011–13. An interim phase started in 2013, followed by Phase 1 (2014–2017) and Phase 2 (2017–2021). Its approved budget is AUD 72 million.

**The program is managed by the Australian Embassy in Dili**, supported by a managing contractor (Cardno Emerging Markets). The Program Director is the DFAT Counsellor for Governance and Rural Development, supported by a First Secretary and three locally-engaged work area coordinators within the Embassy. The Program Team Leader, contracted by Cardno, is also involved in strategy, overseas program delivery and line manages 47 GfD staff and advisers.

**It has two end-of-program outcomes (EOPOs):**

- government makes evidence-based decisions and policy; and
- improved implementation of policy and service delivery.

**The program collaborates with at least 35 institutional partners** (see **Box 1**) through four work areas as well as two cross-cutting themes:

- public financial management (PFM);
- economic development;
- public administration reform;
- strengthening 'Other Voices' to engage with government policymaking; and
- gender equality and social inclusion.

### BOX 1: GFD PARTNERS AND GRANTEES SINCE 2013

**21 GoTL partners:** Civil Service Commission (CSC), the Economic Coordination Ministry (MCAE), Ministry of Public Works, Transport and Communication, Ministry of Agriculture and Fisheries, AACTL (Timor-Leste's civil aviation agency), Ministry of Transport and Communications, Office of the Prime Minister (OPM), State Secretariat for Vocational Training and Employment Policy (SEFOPE), business registration agency (SERVE), TIC TIMOR (ICT agency in PMO), Minister of Legislative Reform and Parliamentary Affairs (MRLAP), National Communication Agency, Ministry of State Administration, Ministry of Social Security, Ministry of Health, Law Reform Commission, Fiscal Reform Commission, Ministry of Finance (MoF), Secretary of State for Equity and Inclusion, Telecommunication Regulatory Body, and the Planning, Monitoring and Evaluation Unit in OPM (UPMA).

**12 GfD grantees and two bank partners:** Judicial System Monitoring Program (JSPM), Fundasaun Mahein (FM), Oxfam, The Asia Foundation (TAF), International Republican Institute (IRI), Asia Development Bank (ADB), Australia Bureau of Statistics (ABS), International Finance Corporation (IFC), Australian National University, Monash University, Organisation for Economic Co-operation and Development (OECD), World Bank. Indirect partners are Timor-Leste's commercial bank (BNCTL) and Timor-Leste's microfinance bank (Kaebauk Investimentu no Finansas – KIF).

**Table 1: GfD objectives and work areas under its two phases**

|                                    | PHASE 1 (2014–2017) <sup>1</sup>   | PHASE 2 (2017–2021) <sup>2</sup>  |
|------------------------------------|--|---|
| <b>Goal</b>                        | Poverty reduction in Timor-Leste through economic development and delivery of services.  | A stable and prosperous Timor-Leste, characterised by economic development and better service delivery.   |
| <b>Purpose/<br/>EOPO</b>           | <ul style="list-style-type: none"> <li>■ To support the GoTL to make decisions about economic and fiscal policy.</li> <li>■ To help improve services for Timorese people by supporting central agencies of the GoTL to deliver on their respective mandates through development of their capacity over the long term.</li> </ul> | EOPO 1: government makes evidence-based decisions and policy.<br><br>EOPO2: improved implementation of policy and service delivery.   |
| <b>Pillars/<br/>work<br/>areas</b> | <ul style="list-style-type: none"> <li>■ economic and fiscal policy;</li> <li>■ improvements in basic services (PFM, sub-national governance, human resources management); and</li> <li>■ supporting demand for improved economic and fiscal policy and improved basic services.</li> </ul>                                      | <ul style="list-style-type: none"> <li>■ public financial management;</li> <li>■ economic development;</li> <li>■ public service administration; and</li> <li>■ 'Other Voices' to engage in government policymaking.</li> </ul> |
| <b>Budget<sup>3</sup></b>          | Reduced from AUD 61.8 million to AUD36.6 million, with AUD37.6 million expended  | AUD 32 million, with AUD 10.2 million spent to August 2019  |

## 1.2 Review purpose and scope

The Australian Embassy in Dili has commissioned the first external review of the GfD program two years before it is due to finish. The purpose of the program review is threefold:

**Prove (30%):** assess the effectiveness of GfD in achieving progress towards its EOPOs.

**Knowledge (30%):** identify the key features of the GfD approach and model that contributed to its impact, and could inform good practice in Timor-Leste and other contexts.

**Improve (40%):** identify key lessons from the program to date, and provide recommendations for the current program and design of any future Australian investments in governance programming.

The program review has considered how GfD evolved from its design, and through both Phase 1 (2014–2017) and Phase 2 (2017–2021). The review has prioritised results and ways of working under Phase 2 (since 2017), with the exception of the PFM work area, which started in 2013.

1 GfD. (2013). *Timor-Leste Governance for Development Design*.

2 GfD. (2019d). *Monitoring, Evaluation and Learning Plan*.

3 Review team analysis based on DFAT and Cardno financial data.

The review has examined four **Key Review Questions** (KRQs).

**Table 2: Key Review Questions and sub-questions**

| KEY REVIEW QUESTION  | SUB-QUESTIONS  |
|--|--|
| <p><b>Effectiveness KRQ 1</b></p> <p>In what ways has the GfD program worked to achieve progress towards its EOPOs?</p>                  | <p><b>1.1</b> What is GfD's <b>Theory of Change</b>?</p> <p><b>1.2</b> What is GfD's approach to <b>Thinking and Working Politically (TWP)</b> and to adaptive management?</p> <p><b>1.3</b> What is GfD's approach to the <b>sustainability</b> of reforms it has assisted?</p> <p><b>1.4</b> What is GfD's approach to cross-cutting issues (<b>'Other Voices'</b>, <b>gender equality</b> and women's empowerment, and <b>social inclusion</b>)?</p>  |
| <p><b>Effectiveness KRQ2</b></p> <p>To what extent has the GfD program achieved progress towards its EOPOs?</p>                          | <p><b>2.1</b> What is the extent of GfD progress towards <b>EOPO #1</b> (policy, law and systems development) and <b>EOPO #2</b> (policy, law and systems implementation) in the <b>PFM work area</b> (including cross-cutting issues of 'Other Voices', gender equality, women's empowerment and social inclusion)?</p> <p><b>2.2</b> What is the extent of GfD progress towards <b>EOPO #1</b> (policy, law and systems development) and <b>EOPO #2</b> (policy, law and systems implementation) in the <b>economic development</b> work area (including cross-cutting issues of 'Other Voices', gender equality, women's empowerment and social inclusion)?</p> <p><b>2.3</b> What is the extent of GfD progress towards <b>EOPO #1</b> (policy, law and systems development) and <b>EOPO #2</b> (policy, law and systems implementation) in the <b>public administration</b> work area (including cross-cutting issues of 'Other Voices', gender equality, women's empowerment and social inclusion)?</p> <p><b>2.4</b> What are the main <b>lessons</b> in terms of achieving progress towards its EOPOs?</p> <p><b>2.5</b> What are the main <b>recommendations</b> to inform current and future programming based on these lessons learned?</p> |
| <p><b>Relevance KRQ3</b></p> <p>To what extent are the GfD program's objectives and focus areas relevant to the Timor-Leste context?</p> | <p><b>3.1</b> How relevant are GfD's objectives, focus areas and adaptations given the evolving <b>Timor-Leste political, economic and social context and partnership with Australia</b>?</p> <p><b>3.2</b> How relevant are the <b>PFM</b> objectives?</p> <p><b>3.3</b> How relevant are the <b>economic development</b> objectives?</p> <p><b>3.4</b> How relevant are the <b>public administration</b> objectives?</p> <p><b>3.5</b> How relevant are the <b>cross-cutting</b> objectives?</p> <p><b>3.6</b> What are the main <b>lessons learned</b> in terms of relevance of objectives and focus areas?</p> <p><b>3.7</b> What are the main <b>recommendations</b> to inform current and future programming based on these lessons learned?</p>   |
| <p><b>Efficiency KRQ4</b></p> <p>To what extent has the GfD approach and model been appropriate and efficient?</p>                       | <p><b>4.1</b> How appropriate and efficient are the <b>GfD TWP approach, delivery model and governance arrangements</b>?</p> <p><b>4.2</b> How appropriate and efficient are <b>the different GfD delivery modalities</b> in terms of value for money and time and resources used to achieve outcomes (eg budget support, grants, advisers)?</p> <p><b>4.3</b> How appropriate and efficient are GfD's <b>level of ambition</b>, depth and spread of reforms it has supported?</p> <p><b>4.4</b> How appropriate and efficient are the <b>links</b> between GfD and <b>other Australian development programs</b>?</p> <p><b>4.5</b> What are the main <b>lessons</b> in terms of the appropriateness and efficiency of the GfD approach and model?</p> <p><b>4.6</b> What are the main <b>recommendations</b> to inform current and future programming based on these lessons learned?</p>   |



## 2. Methodology

### 2.1 Methods

The review uses a mixed-method approach and multiple data sources to provide reliable findings.

**A document review analysed 230 GfD program documents**, GfD progress reports, research and other documents produced by GfD, DFAT, GoTL, international organisations and academics. The desk review provided initial evidence or identified topics to be investigated under each KRQ, and ensured that gender and inclusion were properly covered. It helped to focus the field visit.

**A desk-based political economy analysis (PEA)** reviewed the factors that influence GfD's work areas and cross-cutting issues, drawing on existing available studies, with a focus on the nature of Timor-Leste's political settlement and its impact on state-building and growth. It ensured all the review team members had a shared understanding of Timor-Leste's reform context.

**The team interviewed 124 people through 80 semi-structured interviews** between July and October 2019. This included DFAT staff, GfD staff (national and international), GoTL counterparts, other Timorese partners, GfD grantees (both national and international) as well as independent voices (politicians, CSOs, private sector, academia and the media) to put review findings in a broader context. Interviews were confidential.

**The team did preliminary data analysis while in Dili. It presented preliminary findings to the review steering committee on 7 October and to GoTL stakeholders on 8 October 2019.** It also tested preliminary recommendations during the steering committee workshop. A preliminary findings report was submitted on 14 October 2019. The final report incorporates further analysis following fieldwork (including additional interviews related to budget support and with the World Bank and additional project documents sent to the team) and responds to feedback received from the steering committee. The team made final evaluative judgements.

## 2.2 Limitations of the methods

The main limitations were:

- The main review risk was its level of ambition, as GfD has been active since its interim phase in 2013. The PFM and economic development work areas were reviewed in more depth.
- The team was not always provided with the necessary documentation to assess certain initiatives (because documents were not produced at the time, could no longer be found or were not declassified so the review team could analyse them). This was particularly the case for the redesign of the PFM work area in 2016 or evidence to confirm the use and methodology for PEAs.
- The purposive sampling process is not immune to possible selection bias. The team aimed to hear different political perspectives for government and non-government actors.
- As the team did not review GfD's decentralisation work, it did not undertake a field visit outside Dili. The team compensated by meeting with CSOs working with rural populations and church representatives who do not collaborate regularly with GfD.
- Semi-structured interviews and framing open questions cannot prevent possible response biases or factual errors on the part of respondents. Triangulation (across different categories of respondents and with varied documented sources) aims to minimise bias.

## 2.3 Report structure

Following an introduction (**Chapter 1**) and the methodology (**Chapter 2**), the report provides overall program-level findings against the four KRQs (**Chapter 3**). The following chapters then assess each of GfD's work areas: PFM (**Chapter 4**); public administration (**Chapter 5**); and economic development (**Chapter 6**). The cross-cutting work area ('Other Voices') and the two cross-cutting themes (gender and disability) are examined in **Chapter 7**. The annexes contain the bibliography (**Annex A**), the list of interviews (**Annex B**) and a more detailed assessment of the PFM work area (**Annex C**).

# 3. Overall program findings

## 3.1 Context

**Finding:** The GfD program has been operating in a highly politicised and fluid environment. In Timor-Leste's post-independence and post-conflict context, leaders of the 1975 generation who fought for independence and resisted Indonesian occupation dominate politics and policymaking. An 'informal grand coalition' between 2012 and 2017 was conducive for reforms, but political instability and uncertainty since the 2017 and 2018 elections has created a more challenging context for GfD.

**Timor-Leste is one of the world's poorest countries.** It ranks 132 out of 189 countries in the 2018 United Nations Development Program Human Development Index and has one of the highest levels of childhood stunting.<sup>4</sup> 30% of the population live under \$1.90 a day (the international poverty line) and more than 40% are not able to meet their basic needs.<sup>5</sup>

**Thanks to its oil and gas resources, Timor-Leste has progressed from a low-income country to a lower middle-income country** according to the World Bank's classification. At its peak, oil represented 90% of exports and 95% of government revenues.<sup>6</sup> To manage these resources responsibly and transparently for the benefit of current and future generations, Timor-Leste established a sovereign wealth fund in 2005 (the Petroleum Fund), designed as a perpetual fund to contain the surplus of Timor-Leste's oil and gas income, with the government supposed to only draw 3% of the Estimated Sustainable Income each year.

Since the restoration of independence in May 2002 and the adoption of a semi-presidential political system, Timor-Leste has made significant institutional achievements. The 2018 Democracy Index put Timor-Leste in a much better position, not only compared to most post-conflict countries, but even more established developing countries.<sup>7</sup> Timor-Leste has held several consecutive general elections freely and fairly.

**Three factors influence Timor-Leste's political settlement** and the incentives of the country's elites to promote economic development and improve service delivery, GfD's objectives.

- **As a small post-conflict country of just over 1 million inhabitants**, political power is highly personalised, in particular around the leaders of the 1975–1979 resistance. Rivalries are mainly based on personal factors rather than ideology or significant differences of development strategy and policy.<sup>8</sup> Independence from Indonesia has raised popular expectations about what the new state owed its citizenry, which suffered during occupation, giving prominence to the demands of veteran groups.

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4 International Food Policy Research Institute (2016). *Global Nutrition Report 2016: From Promise to Impact: Ending Malnutrition by 2030*. Washington, DC. Provo, A., Atwood, S., Sullivan, E. B. & Mbuya, N. (2017). *Malnutrition in Timor-Leste: A Review of the Burden, Drivers, and Potential Response*. World Bank, Washington, DC.

5 Data cited in World Bank. (2018). *Timor-Leste Systematic Country Diagnostic: Pathways For A New Economy And Sustainable Livelihoods*.

6 World Bank (2018) *ibid*.

7 [www.eiu.com/topic/democracy-index](http://www.eiu.com/topic/democracy-index)

8 Kammen, D. (2019). *Independent Timor-Leste: Between Coercion and Consent*. Cambridge. Cambridge University Press, and 'Fundasaun Mahein Political Deadlock Reflects Politicians' Ego', 24 January 2018, [www.laohamutuk.org/misc/gov7/MaheinEgos24Jan2018en.pdf](http://www.laohamutuk.org/misc/gov7/MaheinEgos24Jan2018en.pdf)

Timor's political parties remain weak, both organisationally and financially. Patron-client relationships mean that party members rely on their party leaders to access jobs and other benefits. Party leaders depend on business leaders, who themselves rely on government contracts. Timor-Leste's very weak private sector relies heavily on government projects such as infrastructure.<sup>9</sup>

- **In a post-independence context**, new administrative and security forces have been established to govern Timor-Leste, taking over from Indonesian-era civil servants and in the recent period from United Nations and other international advisors. Public service capacity, in particular in terms of public financial management and human resources, started from a very low base, but is fundamental to ensure that limited resources are used in line with GoTL objectives.
- **The dependence on oil is the most significant economic factor to understand Timor-Leste's political economy.** Oil resources have been used to provide an 'independence dividend' and buy social peace; they dominate the interests of the political elite, and have hindered efforts towards economic diversification.

**The period of GfD's design and the first phase of implementation (2012–2017) saw a détente among resistance leaders who collaborated in 'informal grand coalition'**. Gusmão's National Congress for the Reconstruction of Timor-Leste (Congresso Nacional para a Reconstituição de Timor-Leste, CNRT) had won the 2012 parliamentary election, and had formed a coalition government with two other small parties. In 2015, Dr Rui Araújo, a much younger leader from the Revolutionary Front for an Independent East Timor (FRETILIN) was appointed Prime Minister. While former President Gusmão, Timor-Leste's de facto leader, focused on the issue of the Maritime Boundary with Australia, Araújo, a capable administrator and well-respected Health Minister, tried to introduce more evidence-based policymaking in government planning and programs. This brief CNRT-FRETILIN honeymoon resulted in quite a stable government, with reforms to PFM, public administration and service delivery.<sup>10</sup>

**Timor-Leste has suffered political instability and uncertainty since the 2017 elections.** FRETILIN won the parliamentary election but failed to form a majority government. Tensions rose; political negotiations were deadlocked; and, ultimately, FRETILIN only governed for a couple of months. Parliament was dissolved and a new election was held in May 2018. This peaceful and constitutional resolution is significant; in other post-conflict countries, opposing factions might have turned to violence.

Gusmão formed the Alliance for Change and Progress' (Aliansa Mudansa ba Progresu, AMP), and nominated the former 2012 President of the Republic, Taur Matan Ruak, as Prime Minister, while he continued to address the Maritime Boundary. Under this new cohabitation, despite AMP's parliamentary majority, President Lu-Olo, a former FRETILIN party president, has declined to swear-in nine ministers and vice-ministers proposed by the AMP government. This has left a vacuum for several key ministries, and as a consequence, two senior Ministers have accumulated several major portfolios (in particular the Minister of Legislative Reform and Parliamentary Affairs). The political stalemate has affected the implementation of government programs, including those developed during the honeymoon period (2015–2017) with development partners.

9 See for example World Bank. (2019). *A Comparative analysis of public service reform trajectories in post-conflict countries* and Akmeemana, S. and Porter, D. (2015). Securing a new ordering of power in Timor Leste: the role of sub-national spending, in Ingram, S., Kent, L. & McWilliam, A. (eds). *A new era? Timor-Leste after the UN*.

10 World Bank. (2019). pp. 355–393.

Although the AMP government is led by Prime Minister Taur Matan Ruak, Gusmão retains a significant hold on policymaking and its implementation, in particular as Timor-Leste's special petroleum representative. At the time of fieldwork, the coalition government was operating with a number of vacancies, with a number of acting ministers and powerful senior advisers. Different political parties 'control' different ministries. Ministers are able to appoint senior officials in line with their political allegiances and party priorities, and intra-governmental coordination is challenging. This fluid context has been much more challenging for GfD than the 2015–2017 'grand coalition' period.

**Finding: Sensitive bilateral negotiations between Australia and Timor-Leste, and a significant transformation of the Australian development cooperation delivery (as Australian Aid (AusAid) was integrated into DFAT), have limited the program's ability to operate as had been initially envisaged.**

While Timor-Leste was extremely aid-dependent at independence time, its oil resources have provided it with an independent source of financing for its development. According to some analysts, this has reduced the influence of development partners over government policymaking and implementation.<sup>11</sup> Criticism against international interference in domestic political affairs increased, including a series of protests directed at Australia in 2013 and 2016.<sup>12</sup>

**The maritime boundary between Timor-Leste and Australia has been the focus of protracted international negotiations.** The negotiations have at times hindered GfD's operations (for example, in some cases, the Australian Embassy had more limited access to senior counterparts and foreign advisers have been rejected). In March 2018, the boundary was settled along the median line (with most of Greater Sunrise oil and gas fields going to Timor-Leste), paving the way for commercial agreements. The Maritime Boundary Treaty between the two governments was ratified on 30 August 2019.

The Tasi Mane and Greater Sunrise projects must be considered not just from an economic development perspective, but also as a state-building initiative in the context of asserting national sovereignty vis-à-vis Timor-Leste's neighbours, and providing a source of domestic legitimacy for the political elite. The GoTL push to have the oil and gas processed visibly inland, linked to the development of Timor's south coast, and not off-shore nor in Australia, even at a significantly higher cost, can be "understood as a nationalist project that appeals to popular desires for a strong state capable of managing the nation independent of foreign powers", including its natural resources.<sup>13</sup>

**Finally, GfD was designed as a flagship AusAid program, with an ambitious scope and flexible approach** that would rely on senior DFAT staff continuous engagement. In particular, the GfD Program Director was the DFAT development councillor, supported by Australian Embassy staff. In September 2013, the incoming Australian government decided to abolish AusAid, and in July 2014 it was integrated within DFAT.

An independent assessment found that the integration has by now bedded down, but that it was accompanied by a "pronounced deterioration in skills and systems for preparing and managing bilateral activities".<sup>14</sup> DFAT has also been relying on large 'facilities'; another

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11 Rosser, A., & Bremner, S., (2015). The World Bank's Health Projects in Timor-Leste: The Political Economy of Effective Aid, *International Peacekeeping*, 22:4, 435–451, DOI: 10.1080/13533312.2015.1059731

12 Bovensiepen, J., & Maj Nygaard-Christensen, M. (2018). Petroleum Planning as State Building in Timor-Leste, *The Asia Pacific Journal of Anthropology*, DOI: 10.1080/14442213.2018.1513060

13 *ibid.* pp.9.

14 Moore, R. (2019). 'Strategic Choice. A future-focused review of the DFAT-AusAid integration', pp. i.

independent review concluded they were relevant to manage a AUD 4 billion aid program, but they “require intensive and ongoing DFAT oversight, engagement and management of both the development content and the delivery process” and “tend to be especially complex (because of the degree of flexibility that needs to be shaped and managed; the likely need to oversee activity programming and design during implementation; and, in some cases, the higher visibility and political sensitivity that comes with large size)”.<sup>15</sup>

**Australia’s development program in Timor-Leste was affected by this integration process.** Following the change in the Australian government, the overall development assistance budget for Timor-Leste was cut from AUD 108 million in 2013/2014 to AUD 92.7 million in 2016/2017.<sup>16</sup> GfD had to absorb an AUD 10.5 million budget reduction in January 2016, reducing the Phase 1 budget from AUD 23.3 million to AUD 12.8 million.<sup>17</sup> Staffing within the Australian Embassy was reduced and restructured. DFAT management notes it was hard to retain the appropriate mix of skills and number of Australian and Timorese to manage the program as originally envisaged.<sup>18</sup> The integration process contributed to some of the management challenges that the review documents in the following sections.

## 3.2 In what ways has the program worked to achieve progress towards its EPOs?

**Finding:** GfD was conceived as a developmental facility, with specific initiatives designed during the course of implementation within the framework of a broad theory of change (ToC). GfD management has invested more in monitoring, evaluation and learning (MEL) since late 2018. The review team finds that continued efforts are needed to ensure that the ToC and MEL guide program implementation strategically.

GfD’s Investment Design’s ToC aimed to see improved delivery of services, economic policy and economic development through (i) new ways of working and (ii) more influential central agencies in policy decisions. GfD was to influence selected policy areas relevant to service delivery, fiscal and economic policy by identifying reform opportunities, putting in place relationships with key decision-makers and influential stakeholders, and involving them in finding ‘technically sound and politically possible’ solutions. The ToC also depended on AusAid’s own credibility and its influence with policy decisions.

The ToC set out assumptions to explain the causal chain from GfD activities to outcomes (see **Table 6** below for an assessment of how these assumptions have held).<sup>19</sup>

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15 Pieper, L. (2018). ‘Review of Selected DFAT Facilities. Independent Consultant Report to DFAT. Key Findings’, pp. 1.

16 Data provided by DFAT, December 2019.

17 These are annual budget figures. GfD. (2019). *Program Amendment Summary*. (GfD financial information shared with the review team).

18 GfD. (2013). The Investment Design Document Annex K anticipated seven Dili-based AusAid staff, supported by 21 contracted positions (with a policy and program co-ordination team, operations team, PFM team, public administration team, fiscal and economic policy team), as well as a Canberra-based program enabling team with four AusAid staff. The current DFAT complement includes a part-time Program Director and part-time Program Manager (both Australian), two full-time and one part-time work area coordinators (locally-engaged), all in Dili.

19 GfD. (2013). *Timor-Leste Governance for Development Design*.

**As originally set out, the ToC was broad;** specific policy areas were to be identified and specific interventions designed during implementation. GfD has had several ToCs during its two phases. A rigorous ToC needs to be complemented by high-quality progress reporting on the ToC's indicators and assumptions. This would provide GfD management with the information needed to assess progress against expected results, and decide whether to continue, adjust or suspend activities, supported by ongoing high-quality monitoring, evaluation and learning (MEL). The review team could not find evidence that the ToCs have guided implementation strategically by helping GfD management make rigorous investment decisions. The early GfD reports were written by GfD advisers and were mostly descriptive, rather than rigorously assessing progress by testing assumptions and causal pathways between interventions and outcomes.

**Most significantly, there was no independent review at the end of Phase 1 in 2016 that would have provided an evidence base to inform the design of Phase 2.**

The main change happened in 2015, when the PFM work area was radically changed, with DFAT ending direct budget support (DBS) to the Ministry of Finance (MoF) and reducing the overall Phase 1 GfD budget by AUD 25.2 million or 41%.

**The review team has found that GfD management's approach to MEL has improved in the last two years.**

GfD management consider that the March 2019 overall GfD ToC (**diagram 1**) brought more coherence to the program.<sup>20</sup> From the point of view of the review team, the ToC nonetheless remains highly complex, with broad language for its two EOPOs, seven intermediate and eight immediate outcomes, which are meant to be relevant across work areas, as opposed to more technically relevant and specific outcomes, with tailored activities, assumptions, baselines, and qualitative and quantitative indicators. The 2019 ToC does not make explicit the hypothesised causal pathways from specific interventions towards different work area results ('if-then-because' logic: *why* these particular GfD activities in the given context would be likely to yield specified outcomes). Continued efforts are recommended to improve the ToC.

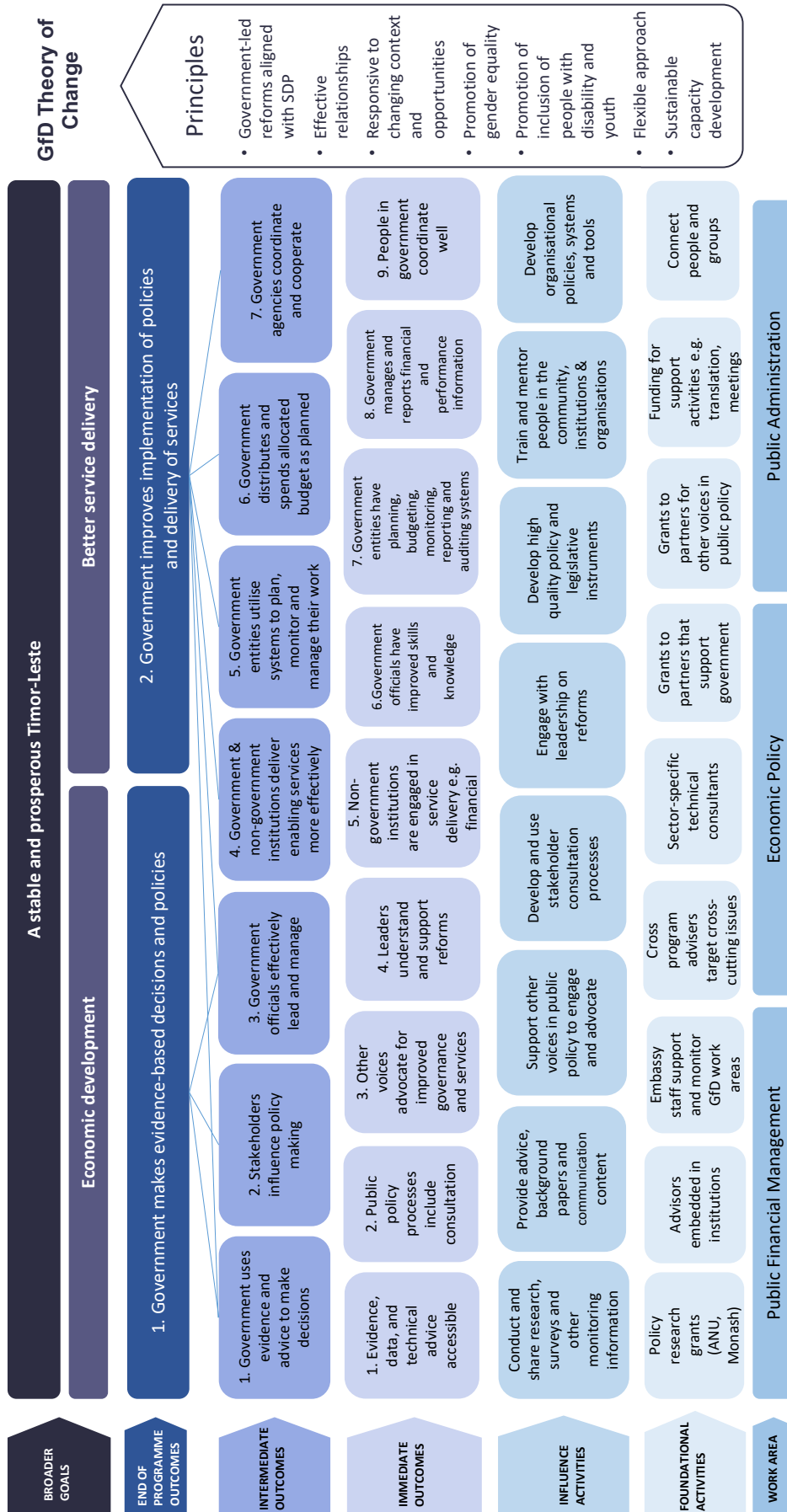
The GfD work area chapters of this review therefore present 'inferred' ToCs, to make more explicit the logic behind the choice of partners and interventions, as well as their assumptions and the context. This provides a better basis to assess GfD progress to date and could inform GfD's development of more specific ToCs for its most significant initiatives.

**The review team also notes improvements in GfD's MEL reporting.** The July 2019 progress report is of higher quality and examines progress against 'desired outcomes'. Further improvements would be beneficial as it still covers 29 evaluation questions, which is too large to inform strategic decision-making, mostly focuses on activities, and was finalised several months after the period it reviews (the July 2019 report covered November 2018–April 2019).

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<sup>20</sup> Interviews with M&E House staff and with GfD management.

**Diagram 1: GfD 2019 Theory of Change**





**Finding:** GfD has been a flexible and adaptive program operating in a volatile political context. It has interpreted ‘thinking and working politically’ (TWP) narrowly, as reacting to requests from GoTL reform champions, rather than using it to rigorously prioritise the reform areas it would support and developing broader coalitions.

**GfD was designed to be a TWP program, focused on ‘technically appropriate, politically feasible’ interventions,** based on a solid understanding of the context, strong local partnerships, and adapting as the context changes.<sup>21</sup> AusAid staff involved in the design reported they had been inspired by the DFAT Vanuatu Governance for Growth program, which had adopted a TWP approach.

**Table 3** summarises our assessment of GfD’s approach to TWP. GfD has been strongest in its flexibility and its ability to adapt to the changing political environment in Timor-Leste, and Australian-Timorese relationships; identifying new GoTL partners and deploying advisers at their request or funding new grantees as opportunities emerged. DFAT interviewees consider this one of the program’s strengths. GoTL counterparts value GfD’s ability to recruit high quality advisers.

**However, TWP is much more than adaptation; it requires a rigorous analysis of the context and testing of strategies to effect long-term change.**<sup>22</sup> A rigorous PEA would include looking at the longer-term structural and institutional factors (in addition to the immediate political situation), consulting multiple sources of information (including independent individuals with no stake in the outcome of the assessment, and ensuring various perspectives are represented); and documenting the analysis, evidence and conclusions, so the logic chain is explicit and there is an audit trail of decision-making.

Using this definition, GfD did not always use rigorous processes to ‘think politically’. While the program is to be commended for drawing on the informal political understanding of national Australian Embassy staff and national advisers among other, it did not systematically use more formal PEA to identify the most appropriate interventions; test how an intervention might lead to broader change; or assess new proposals during regular review and redesign workshops. The review team was only provided with few documented PEAs and cannot evidence the reported regular Australian Embassy /Cardno discussions and stakeholder consultations.

**Sometimes GfD’s approach tended to be more ‘reactive’ rather than responsive.** That is, in the absence of more rigorous and systematic analysis of the options available to it, GfD interpreted ‘working politically’ as being aware of the latest daily and weekly changes in, and conflicts between, government actors, and did their best to respond to GoTL requests.<sup>23</sup> While this ensured activities were consistent with the immediate political context, it tended to skew activities away from pro-actively exploring alternative voices and initiatives that might help to construct coalitions in favour of different approaches in the medium to longer term.

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21 GfD. (2013); Wilson, Bu. (2019). *Governance for Development in Timor-Leste: the unseen successes of a partnership approach to governance reforms*. GfD and Cardno. Interviews with DFAT and GfD management and staff.

22 See the excellent blog by Prof. Heather Marquette explaining the distinctions <https://oxfamblogs.org/fp2p/what-were-missing-by-not-getting-our-twp-alphabet-straight/>

23 This important finding is supported by interviews with DFAT and GfD staff, as well as a number of statements from the DFAT annual Aid Quality Checks: “GfD ensures relevance at an activity level by taking a flexible approach that is able to respond quickly to identified areas of demand and opportunity. This ability to react quickly means GfD can make the most of moments of opportunity for reform.” DFAT. (2016). *GfD Aid Quality Check*. “GfD identifies and supports reform champions from the political leadership whose policy agenda aligns with the country’s goals”. DFAT. (2017). *GfD Aid Quality Check*. “GfD partners with institutions at their request. This is consistent with GfD’s principle of being flexible and responsive to GoTL needs, and supporting Government-led priorities.” DFAT. (2018). *GfD Aid Quality Check*.

**Table 3: GfD’s Approach to thinking and working politically**

| TWP ELEMENT <sup>24</sup>  | GFD OVERALL ASSESSMENT  |
|--|---|
| <p>Being more critical, thoughtful and <b>analytical at the selection stage</b> (thinking about what is both technically appropriate and what is politically feasible).</p>  | <p>The GfD design included good processes, some of which do not seem to have been followed during the entire implementation period. The 2012 design was based on in-depth context analyses. Six-monthly review and redesign workshops were envisaged to respond to changing context and progress with interventions. Rigorous workshops took place annually in the early years of the program, but none took place between November 2016 and August 2018 whereas in 2017 the political situation became very fluid and the program moved into Phase 2. The document review and interviews with those that participated suggest that these became communication and planning events with a large number of participants rather than spaces for genuine review and reflection. The review team was not shown written PEAs to justify new interventions. Phase 2 started in 2017 without a documented redesign process or an external mid-term review. The early termination of direct budget support and the separate decision to support program-based budgeting has not been well documented (see <b>Chapter 4</b> and <b>Annex C</b>).</p> |
| <p>Supporting <b>locally-led initiatives</b> and maintaining strong <b>relationships</b>, while keeping a focus on longer-term impacts on <b>service delivery</b> improvements and <b>capacity development</b> (for sustainability).</p> | <p>A GfD strength is it is focused on supporting GoTL reforms, in line with the GoTL Strategic Development Plan (SDP). National work area coordinators from the Australian Embassy monitor the context and manage relationships with GoTL. Advisers are placed in influential positions at the requests of ministers. However, given the number of reforms GoTL leaders want to pursue, and political divisions within many ministries, GoTL ownership is not a sufficient criterion. The potential impact on economic development and service delivery improvements, GoTL absorptive capacity and sustainable capacity development could have been considered more systematically and documented.</p>  |
| <p>Being <b>more rigorous about how change may happen</b> and how/ why the interventions will make a difference.</p>   | <p>GfD has struggled to explain how the reforms it supports will lead to sustained change. Current ToCs for the three main work areas are still too generic to serve as the basis to assess specific interventions. Assumptions are not explicit and do not seem regularly tested. GfD progress reports (in particular in earlier years) were written by GfD advisers describing their activities, rather than reflecting on how GfD collective efforts in an area were contributing to higher results, and how strategies should be adapted. Progress reports did not explain why certain initiatives were ended; termination is only evident because the following report no longer mentions the initiative. DFAT-managed activities and grants were not included in early reporting.</p>   |
| <p>Privileging the ability to <b>work flexibly</b>: respond to changing policy priorities and contexts; <b>adapting implementation</b> as we go.</p>   | <p>GfD has been able to work extremely flexibly, starting or ending interventions with partners, scaling up or down budgets. The review team’s assessment is that GfD has been mostly ‘reactive’ to changes in GoTL leaders and policies, responding to requests for assistance, rather than prosecuting a forward-looking strategy in different work areas. <b>Chapter 5</b> on economic development provides several examples. MEL and adaptation should happen at the same time, not sequentially, for programs to be responsive.</p>  |
| <p>The ability actively to <b>intervene alongside, and support, social groups and coalitions advocating the specific reform</b> in question.</p>   | <p>The GfD design privileged support to GoTL central agencies. There has not been a considered effort systematically to build broader coalitions around all the major reforms GfD has been supporting, though some examples are available. ‘Other Voices’ interventions have mostly focused on economic development and are not always connected to GfD policy priorities. <b>Chapters 5</b> and <b>7</b> provide more analysis.</p>  |

24 Based on ‘The Case for Thinking and Working Politically’ <https://twpcommunity.org/wp-content/uploads/2018/02/the-case-for-thinking-and-working-politically.pdf>

## Lesson 1: TWP ≠ Responsiveness

Thinking and working politically is more than responsiveness to opportunities. GfD's strengths (flexibility and adaptability) are not a substitute for the need to examine more comprehensively the underlying drivers of the context in which it operates or to explore alternative modalities that might be more effective in achieving the program's objective.

### 3.3 How relevant is the program?

**Finding:** High level program objectives are relevant to the Timor-Leste national context and adapted to the Timor-Leste/Australia diplomatic relationships. However, the relevance of specific interventions is mixed due to political sensitivities and weaknesses in GfD's systems for ensuring the continued relevance of its interventions, rather than reacting to GoTL changes.

**The program was designed to respond to Timor-Leste's nationally determined priorities**, in particular Timor-Leste's Strategic Development Plan (SDP) 2011–2030, which plots a path for Timor-Leste to leverage its oil and gas resource wealth to bring about equitable development for all Timorese.

GfD was developed as part of the 2011 Strategic Planning Agreement for Development between Australia and Timor-Leste, which signalled Australia's intention to support the SDP. GfD has remained well aligned with Australia's objectives in Timor-Leste, including as set out in DFAT's 2017 Foreign Policy White Paper and the 2015 Timor-Leste Aid Investment Plan.

GfD was able to continue to operate even when diplomatic relations between Timor-Leste and Australia became fraught during the Timor Sea Maritime Boundary Treaty negotiations. However, given Australia's national interest in oil and gas, GfD has not been able to work on that issue, despite it being the most important economic challenge facing the country (see **Chapter 6**).

While the GfD four work areas are relevant at a high level given the context, specific work area priorities have at times been less relevant. Weaknesses in GfD's management systems, noted in the previous section, mean that GfD cannot be sure that its interventions remain continuously relevant.

**Table 4: Summary of work areas relevance (chapters 4-7)**

| WORK AREA                    | RELEVANCE ASSESSMENT   |
|------------------------------|--|
| <b>PFM</b>                   | The PFM and statistics objectives were relevant given the GoTL low-skills base, the need to improve financial flows for service delivery and statistical data for policymaking. The PFM work area was redesigned in 2015 as relationships between DFAT and GoTL changed.                                   |
| <b>Public administration</b> | The objective of supporting improved civil service performance was relevant but the narrower focus on human resources management less so.  |
| <b>Economic development</b>  | GfD is not addressing the most important economic challenges in Timor-Leste (including oil and gas, human capital, infrastructure, land). Instead GfD has focused on areas that, although important, are probably less critical constraints to growth (business environment, access to finance, aviation). |
| <b>Cross-cutting issues</b>  | Supporting 'Other Voices', gender and disability is highly relevant to the Timorese context, but the program does not engage with a wide enough range of partners, nor enough on some of the most important cross-cutting issues, such as youth and rural development.                                     |

# 3.4 To what extent has the program achieved progress towards its EPOs?

**Finding:** Overall, GfD has achieved reasonable progress in developing new policies, laws and systems, but has achieved less progress on their implementation.

**This finding is unsurprising: implementation is always challenging** as more conflicting interests come into play than when drafting policies or designing new systems. In addition, there is an implicit, but untested, assumption in GfD's approach that policy precedes implementation. In fact, in many countries, for the most important reforms, implementation comes first with policy amended *ex post* to justify implementation. GfD has not analysed the policy processes in Timor-Leste to test whether its assumption about policy-driven change is accurate.

**GfD's 'reactive' approach provides a further explanation:** when asked by new GoTL partners, GfD was able to assist the development of new policies, laws and systems. However, as individuals moved on and governments changed, GfD was not able to influence their implementation significantly. Implementation requires working with a range of partners to address specific service delivery problems over a longer period. In some sectors, GfD was able to achieve this. For example, program-based budgeting (PBB) continued after the 2015–2017 Prime Minister who had championed it moved on. GfD contributed to this continued implementation through adept influencing<sup>25</sup> and also because of the amount of technical resources it provided (13 GfD advisers out of 17 staff in the unit from the Prime Minister's Office (PMO) directing its implementation).

**Table 5: Summary of work areas results (chapters 4–7)**

| WORK AREA                    | RESULTS ASSESSMENT   |
|------------------------------|--|
| <b>PFM</b>                   | GfD contributed to a limited degree to PFM evidence-based decisions and policies by GoTL through DBS, GfD technical advisers or the World Bank Analytic and Advisory Assistance (AAA) during the first phase of PFM assistance (2013–2016). GfD contributed to evidence-based policies as well as implementation of Program-Based Budgeting (PBB) by linking resource allocations to line ministries and agencies mandates and physical performance indicators, an automated budget formulation tool, and gender-responsive budgeting requirements during the second stage of PFM assistance (2016–2019). GfD has contributed to improved statistical capacities that better inform policymaking since 2014. |
| <b>Public administration</b> | New human resources management laws, policies and systems have been introduced (eg national staffing diagnostic, workforce planning, merit based promotion), including related to gender (affirmative action measures, and the development of a sexual harassment policy). A comprehensive Public Administration Reform Plan has been prepared. However, the impact of GfD activities on civil service performance has not been evidenced.   |
| <b>Economic development</b>  | Considerably more progress has been made towards the use of evidence in policymaking (eg passage of the new Aviation Policy, Private Investment Law, creation of SERVE) than in implementation (ie actual improvements in investment or ease of doing business).   |
| <b>Cross-cutting issues</b>  | Support for 'Other Voices' in the economic development area has been very effective but results on gender and other forms of inclusion have been weak. By contrast, gender-mainstreaming in PFM and public administration has been stronger but 'Other Voices' less supported.   |

25 Interviews with GfD staff.

Effectiveness factors can be identified by looking at the assumptions that underpinned GfD’s original design (see **Table 6**). The first assumption of the initial ToC was ‘GoTL service delivery and policies are significant determinants for poverty reduction’. It is the only one that held throughout the implementation period. The other assumptions, about the context being conducive to change and AusAid’s (later DFAT) ability to influence, were not consistently valid. As a result, the program’s effectiveness varied as the context changed.

**Table 6: Assessment of GfD high-level design phase assumptions**

| GFD DESIGN ASSUMPTIONS   | HAS THE ASSUMPTION HELD?   |
|--|--|
| <p><b>1.</b> Government of Timor-Leste service delivery programming and fiscal and economic policy are significant determinants for poverty alleviation in the country.</p>                    | <p><b>Valid.</b> GoTL expenditure (from oil and gas resources) dominates the economy and access to services. Its political economy based on natural resources influence access to decision-making and services (see context section 3.1).</p>  |
| <p><b>2.</b> The current context in Timor-Leste, in particular the current GoTL, is conducive to changes in government policy and programming that will contribute to poverty alleviation.</p> | <p><b>Varied over the period.</b> More progress was achieved under the VI<sup>th</sup> Constitutional Government (2015–17). During periods of political instability, GfD struggled to make significant headway (but not across the board).</p> |
| <p><b>3.</b> AusAid is currently well positioned to contribute to improvements in both the area of service delivery and fiscal and economic policy.</p>  | <p><b>Varied over the period.</b> Relationships between Timor-Leste and Australia have been influenced by international negotiations and at times trust was low. GfD was able to recruit technical experts but this is not enough.</p>         |
| <p><b>4.</b> AusAid has the capabilities, management commitment, resourcing, and policy commitments to make this contribution.</p>   | <p><b>Varied over the period.</b> The AusAid integration into DFAT was accompanied by budget cuts for Timor-Leste, broader responsibilities as well as fewer technical skills within the Embassy, which reduced GfD effectiveness.</p>         |
| <p><b>5.</b> AusAid has been able to identify the most significant barriers to change and has a range of reasonable points for engagement to support change.</p>                               | <p><b>Varied over the period.</b> GfD was not able systematically to identify barriers to change, and had reduced points for engagement over the period.</p>   |

**Lesson 2: Broader coalitions, rather than relying on individual change champions, can be more effective.**

GfD specific interventions have often relied on individual reform champions (eg Prime Ministerial support for PBB; MCAE (Coordinating Economic Ministry) Minister interested in economic policy; or the President of the Civil Service Commission). This is a high-risk strategy, as the reform may stall or stop depending on that person’s interests and influence, and their ability to institutionalise the reform. Many of the economic policies developed under MCAE during 2015–17 have not been taken forward. PBB was sustained after a change of Prime Minister but may not survive if the MoF decides not to continue with the approach once it is transferred from the PMO. Broader coalitions, with multiple stakeholders interested in a reform, might have been more likely to succeed. For example, the Policy Leaders Group brought together leaders across parties and discipline to explore how to tackle challenging issues. The introduction of gender-responsive budgeting also involved a range of actors across GoTL, civil society and the international community.

## 3.5 How efficient is the program?

**Finding:** Given the Embassy's broader range of responsibilities following the integration of AusAid into DFAT and GfD's breadth of activities, the reallocation of responsibilities from DFAT to Cardno as a Team Leader, with greater involvement in strategy, has been appropriate and more efficient. Continuing this evolution, GfD would now benefit from more capacity to provide technical directions to the different work areas, through technical managers and external sounding boards.

**GfD is an ambitious program** given the breadth of its agenda (four different work areas, which could each be a standalone program in its own right), the number of initiatives it is supporting (in particular in the economic development work area and within the civil service reform agenda), the number of partners it has to manage as a result, the technical challenge of some of these reforms (such as PBB) and the expected time-frames. At the same time, GfD was not ambitious enough in the narrow role it has assigned to 'Other Voices'; and uneven in its approach to gender and inclusion. GfD was not able to engage with some of the more contentious areas of economic reforms.

**Overall, GfD has become challenging to manage as a coherent program.**

On occasion, it is clear that GoTL did not have the ability to absorb GfD assistance. Several interviews noted how GfD was trying to do too many things at the same time, with limited counterparts.<sup>26</sup> This finding is consistent with an independent review of DFAT facilities, of which GfD is an example, which concludes that facilities are highly complex to manage, and coherence is not always demonstrated.<sup>27</sup>

GfD was designed to be led from the Australian Embassy, with a Counsellor as the Program Director supported by a managing contractor. Since 2014, following the integration of AusAid into DFAT, Embassy staff have been given broader responsibilities beyond GfD that have reduced their capacity for strategic direction and oversight as well as management of DFAT-led grants. This has affected GfD-wide coherence. For example, DFAT-led activities or strategic assessments were not always included in GfD MEL reports. In 2019, Cardno's Operations Director was replaced by an international Team Leader and a second international position (Program Coordinator) was created. This is a welcome development: it increased Cardno's capacity for strategic as well as operational support, in close coordination with the Embassy, which retains overall strategic direction.

The review team has received positive feedback on the effectiveness of Cardno's leadership team from GoTL counterparts and the Embassy is pleased with the support it receives from the managing contractor.

**Continuing this evolution, GfD's wide range of partners and activities requires even greater technical and middle-management capacity** so that interventions contribute to GfD strategic objectives, and GfD adds up to more than the sum of its parts. In addition, while GfD is valued by other DFAT programs as a potential source of advice on central GoTL policies and agencies, some collaboration opportunities have been missed. Large DFAT facilities in other countries, such as PROSPERA in Indonesia, have full-time specialists leading on program areas, a model GfD could follow.

**In addition, GfD does not have a GfD Steering Committee** with GoTL representation, as is usually the case in DFAT development programs. GoTL and civil society

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26 Interviews with GoTL and GfD program staff.

27 Pieper, L. (2018). 'Review of Selected DFAT Facilities. Independent Consultant Report to DFAT. Key Findings'.

representatives have been invited to review and reflections workshops, but do not have institutional decision-making or steering roles over the program. GfD have explained this structure suits Timor-Leste's current political environment, in particular during the current coalition government. GfD would nonetheless benefit from more regular and in-depth technical oversight and advice across all work areas, to provide a sounding board and impartial assessment for DFAT and Cardno managers.

**Finding: There is room for further links between GfD and other Australian development programs, to leverage GfD's access and ability to engage with central GoTL agencies.**

**GfD is relevant for almost all DFAT investments in Timor-Leste** as it deals with central policies and systems that potentially affect all line ministries (eg ICT and e-government, civil service recruitment/promotion and roll-out of PBB). Interviews with other DFAT programs show they value GfD advice on central systems issues (eg budget advocacy, how to report sexual harassment issues).<sup>28</sup> It is particularly important for DFAT's economic investments that address a number of cross-cutting issues, such as the business enabling environment. Links appear to have been limited (with some interaction with the To'os Ba Moris Diak – Farming for Prosperity Program (TOMAK), Roads for Development (R4D), and particularly Workforce Development Program in Timor-Leste (WDPTL) around labour statistics but almost no contact with Partnership for Human Development (PHD) and Market Development Facility (MDF).

**GfD has facilitated a number of cross-program working groups (on decentralisation, private sector development and ICT). Building on this, there is room for further linkages**, which DFAT could facilitate.

**A first priority would be more systematic collaboration** on how to address barriers to service delivery across DFAT programs that GfD could have spearheaded given its design investment mandate. GfD should develop a shared understanding and division of labour with PHD that supports education, health and social protection.

**A second opportunity concerns how to promote accountable service delivery and feedback loops** from citizens to GoTL policymaking (eg social audits) through the PFM and public administration work areas in collaboration with other DFAT programs. A 2019 DFAT study did not sufficiently analyse GfD's role and potential contributions.<sup>29</sup>

**Third, an agreement is needed on the division of labour around decentralisation** between GfD (which maintains a watching brief on it) and the newly designed PARTISIPA program (which will have staff at the municipal level). DFAT should not anticipate rapid progress in this area, and should be careful not to overload GfD with more responsibilities. The 2010 high quality study on the barriers to delivery<sup>30</sup> should be repeated as it is now out of date.

**Fourth, the creation of the Private Sector Development Working Group and GfD support** for the formulation a Private Sector Development Strategy is a welcome development, though a combined economic (as opposed to just a private sector development) strategy might be more valuable.

**Fifth, improved agriculture coordination is needed.**

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28 Interviews with team leaders and staff from other DFAT programs in Timor-Leste.

29 DFAT. (2019g). *Rapid review of Australian investment in demand-side accountability (Draft)*. January.

30 Whimp, Kathy. (2010). *Report of Preliminary Observation on Service Delivery Bottlenecks in East Timor*. AUSAID.

**Finding: Advisers have been able to assist GoTL develop new systems and contribute to individual skills and competencies. However, this modality has not always been used to develop more sustainable organisational capacity given the pressure to deliver short-term results.**

GfD has used three main modalities: advisers, grants (to multilaterals, CSOs and for Australian institutional partnerships) and DBS.

**The majority of spending goes to (long term/short term/international/national) advisers** placed in different GoTL institutions (80% of the activities budget)<sup>31</sup>, totalling around 166 since the start of the program in 2014.<sup>32</sup> The quality of the relationships and degree of trust between GfD advisers and their GoTL counterparts have been significant GfD success factors. The shift to more national advisers and fewer internationals has been appropriate, both in terms of greater understanding of the local context and for cost reasons, with international advisers justified only when rare skills are needed. The review team heard repeated evidence that the efficiency of Cardno's delivery has been high and its professionalism appreciated by GoTL. Advisers have been identified, appointed and placed reasonably quickly and generally to the satisfaction of counterparts.

**This modality was certainly appropriate for building the short-term capability of ministries and agencies**, who were able to attempt a wide variety of reforms that would have been impossible without such assistance. However, at times, the provision of advisers has been challenging; some have pursued agendas without taking into account wider GfD objectives, resulting in GfD dispersion of efforts, internal GfD contradictions or even loss of DFAT trust (see **chapters 4–6** for examples).

**GfD's approach to sustainability has been to build the capacity of the organisations in which advisers are operating as well as the individual skills and competencies of the individuals** with whom advisers are working.<sup>33</sup>

The use of advisers to improve system capability (eg for business licensing, financial or human resources management) is intended to generate a set of processes and systems that will outlast the assistance.<sup>34</sup> While this aim has been met for some reforms (eg changing core banking systems, introducing program budgeting classification, improving the quality of statistics), some of the tasks that GfD national advisers are performing will not take place if GfD support was withdrawn, unless they are moved to GoTL payroll. The ongoing challenge associated with the politicisation of the civil service also makes it difficult to ensure sustainability since there is no guarantee, even where well trained and competent officials occupy the roles, that these officials will remain in post if the political environment changes.<sup>35</sup>

**While capacity supplementation can deliver sustainable capacity improvements if well designed, there are also numerous example of less sustainable activities**, with GfD advisers taking in-line functions, particularly national advisers because of the immediate demands placed on them by their GoTL managers.<sup>36</sup> As one adviser put it,

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31 Review team calculation over the life of the program, including an estimate of 70% of grant-funded activities.

32 GfD. (2019j). *GfD list of contract staff*, October.

33 "We judge sustainability by monitoring the likelihood that system-level reforms will continue through successive governments, and the development of policy and leadership skills of Timorese nationals" DFAT (2018). *GfD Aid Quality*.

34 Interviews with GfD staff and GfD management; GfD. (2013). *GfD Investment Design*.

35 Interviews with GoTL.

36 Interview with DFAT staff.



“sometimes we move from advising to implementing – now is not the time for observing”.<sup>37</sup> This diminishes the sustainability effect of the advisory modality.

**Lesson 3: The adviser-driven approach works well when government has a coherent plan but not when it does not.**

GfD has contributed significantly to developing capacity in some organisations. However, the placement of advisers is most effective when government itself has a coherent plan and can use such assistance well. In some areas this is the case (notably the Prime Minister’s Office (PMO) for program-based budgeting (PBB), but also some agencies such as SERVE – the business registration agency – and AACTL – the civil aviation authority). However, when political changes make government policy contested and fragmented, the adviser-driven approach is less effective since it is not always clear what they are supposed to be building the capacity to do. In the area of public administration reform, it has led to inconsistent GfD advice.

**Lesson 4: It’s all about trust.**

The single most common characteristic associated with successful reforms appears to be the presence of trust between those supplying the support and the leadership of the organisation being supported (for example, the success of the reforms in aviation and statistics illustrate this). This has been found in several other contexts internationally (see McCulloch and Piron, 2019). Interviews with DFAT and GfD staff suggest that significant effort is taken to try and ensure that advisers possess not only the necessary technical skills, but also are able to build relationships of trust with their counterparts. Since most successes and failures relate to issues of trust, we encourage GfD to continue with this approach.

**Finding: Grants to national and international organisations have been an efficient modality to deliver, building on the grantees reputations and technical skills. Direct budget support (DBS) to the Ministry of Finance during 2013–2015 was not efficient and was terminated early.**

**Nearly a third of GfD is delivered through grant partners:** 29% of the program to date, although this varies year-on-year (about 43% of total GfD funding in the 2018/19 financial year). Grant partners are selected on the basis of their technical expertise, strategic fit with GfD’s priorities, and their ability to engage with GoTL and civil society in Timor-Leste.

**Grants have been in general an appropriate modality to deliver more arm’s length support** while drawing on the technical expertise and relationships of the grantees (national or international non-governmental organisations – NGOs) and international organisations (Asia Development Bank – ADB, International Finance Corporation – IFC, Organisation for Economic Co-operation and Development – OECD). The OECD support to the GoTL Budgetary Roadmap, for example, provided greater international legitimacy to PBB than DFAT. Australian grantees have delivered high quality assistance (ABS) or technical contributions (Monash University). However, the drawback of grants is that they also reduce GfD’s direct influence and complicate coordination across GfD’s many interventions.

<sup>37</sup> Interview with GfD adviser.

**GfD has also used DBS.** This modality is reviewed in **Chapter 3** and was found to be less efficient.

**GfD progress reports since 2014 show that most reforms pursued took much longer than expected** (eg GfD expected decree-laws to be approved faster than turned out to be the case). This also points to the importance of ensuring that spending on programs matches the ability to make progress; this requires mechanisms to rapidly scale budgets up and down to ensure money is not spent simply because it has been allocated.<sup>38</sup>

#### **Lesson 5: Go Slow.**

Almost all the reforms pursued took much longer than expected. This begs the question ‘why did we expect it to be fast when all prior experience suggests that it will be slow?’ It is understandable for a program to overestimate the speed of change at its outset. After seven years of experience, it should be possible for GfD to estimate more accurately how long things will take. Of course, the speed at which progress can be made changes: rapid progress was made on economic development reforms under the VI<sup>th</sup> Constitutional Government due to the effective leadership of MCAE; the political instability since 2017 has made subsequent progress much harder. Nonetheless, a key lesson is that institutional reforms take time – a long time – and cannot (and should not) be pushed through according to an externally imposed schedule. This is consistent with cross-country evidence that such reforms can take generations (see World Bank, 2011).

#### **Lesson 6: Pull don’t push.**

The issue of speed also relates to the systems of development partners. A desire to spend allocated budgets tends to motivate initiative, regardless of whether the context is ready to absorb such initiatives. DFAT and GfD should consider carefully how they can enable resources to be ‘pulled’ by reforms that are owned by the counterparts, rather than pushed by advisers who are trying to achieve the reforms in their terms of reference. This also applies to GfD programs funded by DFAT but implemented by other development partners, such as legacy programs with the ADB/IFC.<sup>39</sup>

**Finding: Across all program areas, GfD represents overall ‘adequate’ value for money (VfM). Management costs represent ‘adequate’ VfM.**

**Consolidated financial information across GfD was not available from either DFAT or Cardno.** The review team prepared a consolidated expenditure summary for Year 1 to 6 of GfD (see **Table 7** below). It was used as the basis for the VfM calculations, along with a VfM scoring scale that was applied to each activity that could be assessed for VfM by the review team. (Not all GfD activities could be rated for VfM. This is due to the limited information available on some activities, their recent commencement, or their small expenditure value compared to other GfD activity expenditures.)

38 One interview suggested that this may have happened, but the evidence is weak.

39 GfD. (2017b). *GfDSS Quarterly Report Q10 (November 2016–January 2017)*.

**Table 7: Summary of GfD expenditure as at August/September 2019**

| EXPENDITURE CATEGORIES | GFD YEAR 1 2014-2015 | GFD YEAR 2 2015-2016 | GFD YEAR 3 2016-2017 | GFD YEAR 4 2017-2018 | GFD YEAR 5 2018-2019 | GFD YEAR 6 2019-2020 | TOTAL GFD EXPENDITURE YRS 1-6 | %           |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------------------------------|-------------|
| PFM                    | \$7,194,049          | \$5,156,777          | \$2,234,210          | \$1,787,840          | \$2,974,337          | \$172,750            | \$19,519,964                  | 55%         |
| EcoDev                 | \$400,681            | \$586,932            | \$1,779,803          | \$1,766,111          | \$1,128,451          | \$769,848            | \$6,431,826                   | 18%         |
| PubAdmin               | \$982,016            | \$1,154,812          | \$582,419            | \$596,306            | \$1,007,461          | \$151,891            | \$4,474,906                   | 13%         |
| Voices                 | \$1,000,000          | \$720,000            | \$1,144,690          | \$1,025,926          | \$1,281,446          | \$15,134             | \$5,187,195                   | 15%         |
| CrossProg              | \$0                  | \$5,521              | \$24,439             | \$0                  | \$0                  | \$0                  | \$29,960                      | 0%          |
| GfD Work Areas Total   | \$9,576,746          | \$7,624,042          | \$5,765,561          | \$5,176,183          | \$6,391,695          | \$1,109,623          | \$35,643,851                  | 77%         |
| Outside GfD            | \$40,222             | \$0                  | \$450,000            | \$575,261            | \$0                  | \$0                  | \$1,065,482                   | 2%          |
| GfD Management         | \$2,389,789          | \$1,633,493          | \$1,544,640          | \$1,858,555          | \$1,920,290          | \$344,417            | \$9,691,184                   | 21%         |
| <b>GfD Total</b>       | <b>\$12,006,756</b>  | <b>\$9,257,535</b>   | <b>\$7,760,201</b>   | <b>\$7,609,999</b>   | <b>\$8,311,985</b>   | <b>\$1,454,040</b>   | <b>\$46,400,517</b>           | <b>100%</b> |

**A detailed analysis of GfD expenditure by work area and management activities was made by the review team.** The total of all GfD expenditures, including for the two-year Interim GfD (2012–2014), was considered by the VfM assessment because some work area activities began during this period. The value for money proposition for each GfD activity is rated by applying a four-point scale of VfM standards of ‘excellent’, ‘good’, ‘adequate’ and ‘poor’.<sup>40</sup> The basis for this overall VfM assessment for GfD is summarised in **Table 8** below.

**Table 8: Summary VfM assessment for GfD (excluding expenditure not able to be rated for VfM)**

| VFM FOR CONSOLIDATED GFD EXPENDITURE - ADJUSTED FOR INFORMATION NOT AVAILABLE | GFD EXPENDITURE (AUD) | EXPENDITURE WEIGHTING | WORK AREA VFM SCORE | WEIGHTED GFD VFM SCORE | EXPLANATION                      |
|---|-----------------------|-----------------------|---------------------|------------------------|----------------------------------|
| Public Financial Management   | 21,949,964            | 42,97%                | 2,1                 | 0,92                   | Overall VfM score is ‘Adequate’  |
| Economic Development  | 5,828,062             | 11,41%                | 2,3                 | 0,26                   | Overall VfM score is ‘Adequate’  |
| Public Administration   | 4,199,460             | 8,22%                 | 2,0                 | 0,16                   | Overall VfM score is ‘Adequate’  |
| Other Voices  | 5,537,185             | 10,84%                | 2,6                 | 0,29                   | Overall VfM score is ‘Good’      |
| Cross Program   | -                     | 0,00%                 | 0,0                 | 0,00                   | Not scored for VfM               |
| Outside GfD   | 1,141,875             | 2,24%                 | 1,0                 | 0,02                   | Overall VfM score is ‘Poor’      |
| GfD Design, Management, Operations  | 12,425,520            | 24,32%                | 2,0                 | 0,49                   | Overall VfM score is ‘Adequate’  |
| <b>GfD VfM Assessment</b>   | <b>51,082,067</b>     | <b>100%</b>           |                     | <b>2,14</b>            | <b>Overall VfM is ‘Adequate’</b> |
| <b>GfD expenditure not rated for VfM</b>                                      | <b>1,459,246</b>      | <b>2,86%</b>          |                     |                        |                                  |
| <b>Total GfD Expenditure</b>  | <b>52,541,312</b>     |                       |                     |                        |                                  |

### Overall GfD is assessed as representing ‘adequate’ VfM.

Chapters 4–7 reviewing the work areas explain how the VfM assessments were reached. **Table 9** provides a summary.

This chapter examines GfD management issues. DFAT’s in-house management costs have not been included in the VfM calculation. The costs associated with the program’s management and operations represent AUD 9.7 million or 21% of the program budget. While the managing contractor is considered efficient, with improvement reported in the last year, this cost is consistent with management of similar technical assistance programs, and represents ‘adequate’ VfM.

<sup>40</sup> The Work Area VfM Score is the weighted average of the VfM scores for the interventions that were scored in each work area. The Weighted GfD VfM score is expenditure weighting of that work area times the Work Area VfM Score. The sum of these provides the overall GfD VfM Assessment.

**Table 9: Summary assessment of modalities and VfM per work areas (chapters 4–7)**

| WORK AREA                    | RELEVANCE ASSESSMENT   |
|------------------------------|--|
| <b>PFM</b>                   | PFM stage 1 was not efficient and 'poor' VfM due to lack of clarity on gains made and delayed outputs. PFM stage 2 was a more appropriate modality, with greater efficiency and effectiveness in supporting the introduction of PBB; it delivered 'good' VfM. Support for statistics via the ABS was an effective modality and offered 'good' VfM, with pragmatic ambitions linked to well-defined needs, but few links to other activities. Overall PFM VfM is judged to be 'adequate'. |
| <b>Public administration</b> | Public administration reform support through advisers is moderately efficient. They are valued by their counterparts but GfD needs to manage the risk they do not build enough individual or organisational capacity and can pull in different directions. No other modalities were used. Overall VfM is judged to be 'adequate' due to insufficient evidence of civil service changes in relation to overall costs.   |
| <b>Economic development</b>  | GfD has used an appropriate mix of modalities; greater engagement with non-government actors might have been more efficient on some issues. However, GfD did not have ongoing economic expertise to maintain a strategic approach. Overall the VfM is judged to be 'adequate', with a few 'excellent' or 'good' VfM interventions.   |
| <b>'Other Voices'</b>        | Grants are appropriate and can offer 'good' VfM to support 'Other Voices'. Using advisers for cross-cutting issues is appropriate. GfD has also been used to fund Embassy priorities (security, justice, elections) beyond its core themes which may reduce its VfM as management time and financial resources are re-directed elsewhere.  |

**Lesson 7: budget measures need to be aggregated in a coherent way to measure VfM.**

GfD has been managed through two separate budget processes, instead of one single budget, due to the management split between the Australian Embassy and Cardno. DFAT staff management costs have also not been included in the review's VfM assessment. The incompatibility in format, between Cardno's accounting for expenditure and that provided by the Embassy, makes it difficult to calculate overall expenditure by program, complicating VfM assessment. This information would be required for DFAT to ensure continuous VfM improvements. DFAT's review of facilities also identifies the need for improved VfM and efficiency data to draw firm conclusions on the efficiency of contractors managing such facilities. It found the available data insufficient and contradictory.

## 3.6 GfD-wide recommendations

### What to do the in the short term (18 months)?

#### R4 Strengthen GfD's ability to think and work politically.

- **Use review and reflection workshops more strategically.**

These should be more regular, targeted to shape decisions, with a limited number of stakeholders and 'critical friends'. The next workshop could be held when the review team leader returns to Timor-Leste (February 2020) to draw on the review findings. These should not be the main way of engaging with GoTL stakeholders, which requires a blend of formal and informal approaches.
- **Commission political economy analyses as inputs for the review and reflection workshops or to inform other strategy development.**

They would examine how the political circumstances are shifting and how this is likely to influence programming. They should cover GfD's different sectoral themes. They should be documented and updated regularly (eg as written reports, PowerPoint presentations, notes of meetings, cables) to inform program adaptation.
- **Continue to improve monitoring, evaluation and learning.**

GfD management should select the most relevant anticipated results by the end of the program in 2021 in the different work areas; develop mini ToCs for each initiative within the work areas showing causal chains and hypotheses towards these results; track progress and monitor hypotheses with quantitative and qualitative data to inform management decisions and ongoing program adaptation.

#### R5 Strengthen GfD's technical management and external challenge.

- **Appoint three Cardno-based 'technical work area managers'.**

They would be responsible for developing strategies for PFM, economic development, public administration, as well as integrating 'Other Voices' and cross-cutting issues more systematically; monitoring progress; and managing advisers and grants. These posts should be filled as soon as realistically feasible.
- **Establish 'independent technical sounding boards'.**

These would be made up of independent individuals with strong expertise in the area, who would be able to advise GfD on whether proposed new initiatives are sound and help assess progress. They would advise on how best to engage with GoTL stakeholders.

#### R6 Improve collaboration between DFAT investments.

- DFAT should ensure GfD and other DFAT programs that collaborate with central agencies and on economic development have a shared understanding of their division of labour and how to rely on GfD, particularly with:
  - Partnership for Human Development (PHD) and PARTISIPA on PFM and civil service capacity in relation to central barriers to education, health, social protection; how to ensure accountable service delivery and feedback loops from citizens; and decentralisation division of labour.

- *To'os Ba Moris Diak* – Farming for Prosperity Program (TOMAK), Roads for Development (R4D), Workforce Development Program in Timor-Leste (WDPTL) and Market Development Facility (MDF) on an economic development strategy and collaboration on agriculture.
- Jointly commission an updated study on the barriers to service delivery.

## What to do for a future program?

### **R7 Start designing the next GfD phase or successor program now, linking the approach to a strategy.**

- Base the design on this review and PEAs for different sectors.
- Consider designing a separate economic development program, so that GfD can remain more focused.

### **R8 Ensure accountability, gender and inclusion are central to both the design process and program implementation.**

- Consider state accountability, responsiveness and transparency – not just state capacity.
- Analyse the ways in which women, people living with disabilities, the young and rural populations are marginalised or excluded from economic activities and service delivery, and fashion interventions to specifically address this.
- Assess DFAT wider support to civil society and the specific role of a successor GfD program by rigorously assessing (across DFAT programs) how DFAT can support 'Other Voices' and civil society organisations' advocacy across the sectors it supports. DFAT would then identify what would best be covered from a GfD successor program (eg the enabling environment for CSOs).
- Consider a PFM accountability feedback loop: GfD and the OPM Social Audit Unit could explore ways to develop an accountability feedback loop that informs OPM of progress with PBB implementation and its impact on services delivery.

### **R9 Consider a broader range of modalities to address specific 'problems'.**

A new program should include a richer blend of modalities beyond mostly relying on advisers and grants.

- Design specific GfD initiatives around a clear problem that GfD could help address (rather than a GoTL organisation it should support).
- Map the different strategies that could be adopted and select relevant modalities (eg packaged as a small project).
- Facilitate networking.
- Fund public campaigns as well as technical advice or training/mentoring/coaching.
- Engage with more stakeholders (including beyond GoTL) to achieve more sustainable change.

# 4. Public financial management

## 4.1 In what ways has the GfD Program worked on PFM?

**Finding:** GfD adopted two approaches to supporting PFM reforms in Timor-Leste. Financing Ministry of Finance (MoF)-led reforms using direct budget support (DBS) (2013–2016) was replaced by a narrower focus on the introduction of program-based budgeting (PBB) through the Prime Minister’s Office (PMO) (2016–present). The end of DBS and World Bank Analytical and Advisory Assistance (AAA) in 2015 was GfD’s most significant response to a changed political and institutional context. Support through the PMO was the more politically feasible option for DFAT to stay involved in PFM reform at a tactical level. Considering this decision from a program-management perspective, the review team was not able to find any evidence of a strategic assessment of technical or allocative efficiency, sustainability of the long-term PBB initiative or opportunity cost of this decision. The absence of a formal record of the decision to reorient PFM inputs contravenes the GfD Investment Design Document and represents a weakness in both GfD program documentation and management. Critically, the ‘pivot’ had an important effect on DFAT partnerships. The termination of DBS and World Bank Analytical and Advisory Assistance (AAA) in 2015 led to a withdrawal from the MoF and the World Bank and damaged relationships with these traditional PFM leads. GfD, and any future DFAT investments in PFM, will need to rebuild these relationships to sustain the work needed to fully implement PBB over the next decade.<sup>41</sup>

PFM formed part of the service delivery pillar under Phase 1. The ToC was that, by working with MoF and key spending agencies to resolve PFM constraints, this would lead to improved financial flows for service delivery. It complemented Australian sector programs (eg health) by strengthening the central PFM systems that fund service delivery.

### **GfD provided DBS to MoF to implement its internal rolling 5-year plan**

(AUD 20 million). GfD long-term advisers were placed in the OPM and in the Ministries of Finance, Health and State Administration to link MoF PFM performance gains to budget/public expenditure practices in key line ministries and agencies. MoF policy support AAA was funded through a World Bank Trust Fund (AUD 5.2 million).

The ToC underpinning the DBS modality was that, by providing direct funding for PFM reforms using GoTL systems, this would lead to greater ownership and stronger MoF organisational engagement in the reforms. This approach aligned with the New Deal for Engagement in Fragile States and 2011 g7+ commitments championed by the Minister of Finance. The funding agreement required six-monthly joint monitoring of MoF organisational performance improvements, using a complex performance measurement matrix, and was done by specialist short-term advisers. It required a continued relationship of trust between DFAT and the MoF; and all sides needed to have the technical and relationship skills to maintain a sound understanding of, and confidence in, the DBS model.

<sup>41</sup> Based on 2014 PEFA scores in 32 selected indicators, GoTL will need 12 to 15 years to fully implement PBB. Quist, Ronald E. (2012). *Roundtable Discussion 1: The Sequencing and Time Table of Programme Based Budgeting Reform*. 8<sup>th</sup> Annual Seminar, Collaborative Africa Budget Reform Initiative, April.

These skills were not maintained in GfD; and confidence in DBS quickly eroded. Lessons from DBS have been detailed in **case study box 1**.

**In 2015, the political and institutional context of PFM changed significantly and GfD adapted by redesigning the PFM work area.** The review team was not provided with, and has not been able to locate after enquiry, any of the documents required by the GfD Investment Design Document for such a redesign. Our analysis of the 'pivot' away from the original PFM approach is in **Annex C**.

**The absence of a formally documented technical rationale, allocative efficiency analysis, opportunity cost assessment and PEA for the PFM redesign represents a major GfD program management deficit.** It was possible for this process deficit to go unchallenged because of the DFAT-led program management model.

**GfD redirected its support to the new Planning, Monitoring and Evaluation Unit (UPMA) in the OPM to begin PBB implementation.** A UPMA Technical Advisory pool included eight international short-term advisers; two international long-term advisers; and 13 national long-term advisers; alongside three public servants.<sup>42</sup>

The 'inferred' ToC for the second PFM approach maintains the same objective, to deliver improved services, through a narrower focus: if PBB is adopted, then GoTL will identify better where GoTL resources are allocated and spent. The main assumption was that the new authorising environment was appropriate: OPM would be able to drive the reforms centrally, with capacity supplementation from GfD, and would maintain its mandate beyond changes in government.

**Throughout GfD Phases 1 and 2, the MoF Directorate General of Statistics (DGS) has received continuous GfD support through a partnership with the Australian Bureau of Statistics (ABS) (AUD,4.4 million) under a series of jointly agreed work plans.** The ToC was simpler: capacity development of DGS staff to produce statistical reports was to be achieved through a partnership with Australian experts, complemented by (non-GfD funded) scholarships. The main assumptions were that DGS management would maintain its commitment to, and control over, staff professionalisation, and that staff would be available to receive and use Australian support and remain within DGS.

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42 GfD. (2016b). *GfDSS Quarterly Report Q9+ (July–October 2016)*.



## Case Study 1: Ministry of Finance budget support

In August 2012, the Timor-Leste MoF and DFAT completed a Fiduciary Risk Assessment of Timor-Leste PFM systems. This concluded that, if 12 Mutually Agreeable Results were attained within MoF, then future donor support could move to program budget support. DFAT and MoF entered into a Direct Partner Funding Agreement to support this approach to PFM policy implementation in early 2014.

The decision to adopt DBS in Timor-Leste was debated and endorsed at senior levels in AusAid. The DBS approach was new, with few operating examples (Papua New Guinea); and involved an indirect ToC, that of using DBS to encourage an institutional culture in MoF that supported PFM reforms. Further, measurement of cultural change was complex, involving a joint monitoring matrix comprising key performance indicators with 629 actions; and specialist short-term advisers for validation missions. Finally, DBS (AUD 13.5 million) formed 22% of all Phase 1 GfD resources and was directed solely by MoF. Of the AUD 13.3 million, AUD 5 million (37%) was fixed, and AUD 8.5 million (63%) was flexible and subject to joint validation of MoF organisational performance.

Neither MoF nor DFAT were well-prepared to manage DBS. In 2013, MoF was unable to open a DBS sub-bank account at the reserve bank to hold Australian funds; and DFAT/MoF jointly agreed to place funds in an ANZ bank account. DBS was not well-understood by subsequent GfD management; and the ANZ bank account is now cited as an example of potential financial irregularity.

In early 2015, the institutional and political context of DBS changed significantly and new staff joined the Australian Embassy. DFAT budget cuts were applied to GfD after two supportive DBS validation reports. Australia and Timor-Leste relations cooled in connection with maritime boundaries negotiations. A GoTL unity government came to office with a new generation Prime Minister who supported government-wide PFM reforms alongside the existing MoF-led initiatives.

During 2015, DFAT recalibrated the DBS monitoring matrix, and MoF did not achieve a satisfactory performance. This led to DBS being terminated, and MoF refusing co-location of any GfD long-term advisers in its offices. In a relatively short time, bilateral cooperation went from jointly supporting MoF strategic objectives with DBS to a low point of no shared initiatives. DBS implementation constraints resulted in a GfD program policy failure.

Lessons from the DBS modality include:

- DBS initiatives are medium-term, and need strong institutional support from donor and host entities to meet implementation needs and emerging political and institutional changes.
- DBS program achievements need to be monitored using practical and achievable performance indicators that can be readily understood by all stakeholders, preferably using existing host entity data.
- DBS investments call for progressive engagement between the parties to jointly manage a complex, medium-term initiative in settings subject to unpredictable political and institutional changes. All parties to DBS need to share these skills, without which DBS initiatives are challenging to manage and with increased potential for policy failures around a DBS investment.

## 4.2 How relevant are the PFM objectives?

**Finding:** The PFM and statistics objectives were relevant given the context and adapted as relationships between DFAT and GoTL changed. Sustainability of the PBB initiative will require more effective collaboration between GfD and DFAT and MoF as responsibility for this long-term initiative transitions from UPMA to MoF in 2019.

The 2010 International Monetary Fund assessment of GoTL PFM found improvements in laws, IT systems, fiscal information, cash management and reporting. However, sector investment, planning and line ministries and agencies budget implementation capacity, procurement and audit needed on-going work.<sup>43</sup>

The first phase of PFM support (2013–2016) mainly focused on capacity building of MoF personnel and the PFM cadre in key spending agencies. This was relevant given the low skill-base; and remains a current priority across the wider PFM system.

**Capacity building for the DGS was relevant** given the poor quality of Timor-Leste statistical data on which policies and resource allocations should be based.

**In the second phase of PFM support (2016–present), GfD’s focus on introducing program classification was relevant to the joint GoTL and GfD objective of improving services delivery.** GfD supported a key policy plank of Prime Minister Araujo’s government, that would focus on “better service delivery and quality of works, in a manner that is efficient, effective and accountable”.<sup>44</sup>

**Some current commentators suggest that GfD support to PBB was not the most important PFM reform to improve services delivery.**<sup>45</sup> In 2016, neither GfD’s redesign process nor other PFM stakeholders had formally documented alternative PFM priorities. The review team heard divergent views from various stakeholders on the rationale and motives for GfD’s decision to support PBB.

In the absence of any documented analyses, the team rapidly assessed the technical, institutional and political context in 2015 to assess the relevance of GfD support to PBB. A 2012 study of PBB implementation experiences in eight developing economies found that selected public expenditure and financial accountability (PEFA) indicator ratings can predict the timeliness and likely success of a PBB initiative. It identifies that implementing program classifications is a relatively short-term task, with physical output and outcome analysis of budget programs taking longer to achieve.<sup>46</sup> Using GoTL 2013 PEFA indicator ratings, the team found that GoTL met the required status in 18 of 32, selected PEFA indicators, suggesting significant strengthening of the PFM system is yet to occur. A PBB implementation period of 12 to 15 years is likely for Timor-Leste as a Small Island State.

**The team concludes that PBB is relevant, but effective implementation will require long-term GoTL-wide commitment in a frequently changing political-institutional context.** The first cycle of change is taking place in 2019, with OPM legislating the transfer of annual budgeting functions back to MoF.

43 Van Eden, H., Bessette, F., Pedastsaar, E., & Nayer, H. (2010). *Democratic Republic of Timor Leste Public Financial Management Performance Report*. International Monetary Fund.

44 [www.mof.gov.tl/the-swearing-in-of-the-new-national-unity-government/?lang=en](http://www.mof.gov.tl/the-swearing-in-of-the-new-national-unity-government/?lang=en) Accessed 21 October 2019.

45 Interviews with some DFAT staff and GfD international partners.

46 Quist, Ronald E. (2012). *Roundtable Discussion 1: the Sequencing and Time Table of Programme Based Budgeting Reform*. 8th Annual Seminar. Collaborative Africa Budget Reform Initiative, April.

## 4.3 To what extent has the GfD program achieved progress towards its EPOs?

**Finding:** GfD contributed to a limited degree to PFM evidence-based decisions and policies by GoTL through DBS, GfD technical advisers or the World Bank AAA during 2013–2016.

There is no evidence of policy development impact from the DBS investment.

**Evidence of policy development through long-term advisers in line ministries from this period is limited.** These advisers each supported differing PFM reform initiatives, all outside the MoF 5-Year Plan, and moving at differing speeds.<sup>47</sup> A small element funded through GfD, competency testing developed with support from a GfD adviser during the PFM first phase, is still used in ongoing MoF Performance Management Reforms.<sup>48</sup> It is an important element of MoF's pathway for professionalising GoTL's PFM cadre, resulting in better services delivery.

Interviews indicated that World Bank economic policy informing products (eg Public Expenditure Review on Infrastructure, Cost of Living Survey) were delivered late and were not well executed.<sup>49</sup> Copies of AAA activity management reports were requested by the review team to triangulate these views, but these reports were not available.

**Finding:** GfD contributed to evidence-based policies as well as implementation of a new system by supporting OPM to introduce PBB during the second stage of PFM assistance (2016–2019).

**GfD funded the OECD to inform GoTL policy and decision-making on PBB.**

This reflects OECD's technical capacity in PBB and the perceived relevance of its Asia regional conferences of budget officials to GoTL's PFM ambitions. In 2017, this led to the development, followed by the endorsement by the Council of Ministers, of the GoTL Roadmap of Budgetary Governance Reform in Timor-Leste.

PBB has ensured links between the GoTL SDP, Sustainable Development Goals, MoF Budget Circular on Gender and the Budget Program Classification framework. All line ministries have applied tailored program classifications using the overarching PBB framework for the Budget 2019. This is not full implementation of PBB but represents the correctly sequenced<sup>50</sup> first step towards GoTL's long-term goal of using PBB approaches to monitor programming priorities and financial and physical performances in support of better services delivery. The roll-out of PBB is a testament to the effective coordination and cooperation that the GfD advisers in UPMA developed with all line ministries and agencies.

While UPMA has also made a start on developing a medium-term expenditure framework, there is still much to be done to develop this fiscal policy setting tool.

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47 GfD. (2015). *Adviser Quarterly Progress Report Q3 (January–March 2015)*.

48 GoTL interview.

49 DFAT staff and steering committee meeting, 7 October 2019.

50 OECD. (2008). *Sequencing and Pacing of Performance Budgeting Reforms*. OECD, Public Governance and Territorial Development, Public Management Committee, November.

GfD did not use public expenditure tracking surveys (PETS) to monitor the service delivery impact of program classification on the activities of early adopters (Budget 2017, 25 line ministries and agencies). It is therefore too early to tell if GoTL distributes and spends allocated budget as planned and if better services delivery is resulting from introducing program classification.

**The implementation of PBB faced a number of technical challenges**, including limited training and guidance for national GfD advisers, frequent reframing of the program classification template, and the use of duplicate budget submission templates (from MoF and UMPA) during 2016–18. The speed of implementation also followed the political cycle, with at times a rushed approach to see results from a Prime Minister's initiative or delays due to uncertainty after the 2017 elections.

**Finding: GfD was effective in supporting improved GoTL implementation of policies and systems through an automated budget formulation tool (*Dalan Ba Futuru Timor-Leste*).**

**GfD supported the development of an automated budget formulation and monitoring tool** named *Dalan Ba Futuru Timor-Leste* (DBFTL) since 2016. This tool can migrate data into the MoF Financial Management Information System (FMIS) for automated uploading of budget allocations. The technical feasibility of MoF downloading actual expenditure into DBFTL for budget and actual expenditure analyses is to be confirmed, as is the relationship between DBFTL and the existing MoF Timor-Leste Budget Transparency Portal. This ICT area could benefit from donor support for a comprehensive technical diagnostic and analysis. MoF has expended over USD 42 million since 2002 (USD 5 million in 2019) on FreeBalance back-office support to produce GoTL statutory financial reports.<sup>51</sup> This cost is regarded within GoTL as unaffordable. Steps are being explored to replace FMIS with a less costly equivalent system. DBFTL also has the facility for public access to GoTL budget data, but it had not been implemented at the time of the fieldwork.

**Finding: GfD was effective in supporting the development and implementation of MoF gender-responsive budgeting requirements, including gender markers through DBFTL.**

In 2017, the Prime Minister requested gender-mainstreaming in PBB in the 2018 budget. GfD gender and PFM advisers were quickly able to support UPMA in developing the policy, systems, tools and training to deliver gender-responsive budgeting, in collaboration with the Secretary of State for Equality and Inclusion, as well as UN Women. GfD took the lead in producing a gender policy note on mainstreaming<sup>52</sup> which guided the process, with gender programs and gender activities now included in the budget as well as gender markers and indicators in FMIS and DBFTL.<sup>53</sup>

**This is a positive example of how GfD, building on the trust established in UPMA, was able to respond quickly by mobilising gender advisers and supporting government-wide reform.** It was a strategic central reform, continued by successor governments, which will assist GoTL plan, deliver and monitor its gender objectives across ministries and agencies. It is too early to assess the quality of the programs and markers or their impact on service delivery.

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51 GoTL interviews.

52 GoTL. (2017). *Gender-Responsive Budgeting Policy Note: Mainstreaming Gender into the Public Financial Management Reform (2017–2021)*.

53 Interviews with GfD advisers, GoTL and international partners; GfD. (2018o). *Stories of Significant Change: Gender mainstreaming in budget process to improve service delivery and enhance gender equality*.

**Finding:** GfD has contributed to improved statistical capacities.

**GfD, through its partnership with the ABS and alongside other donor support, has resulted in sustainable in-house DGS capacities** to provide reliable and timely key data sets to better inform GoTL policy and decision-makers. For example, DGS has the capacity to produce quarterly consumer price index and business activity statements. It can prepare national accounts with limited annual oversight from the ABS. Further, gender, disability and inclusion monographs are now being prepared using GoTL census and demographic survey data, with editorial support from a range of donors including the ABS, UN Women and the UN Washington Group on Disability Statistics. The ABS helped GfD arrive at a workable approach to mapping disability across the civil service.

**A success factor** has been the combination of (i) the ABS's partnership approach with the DGS (in Phase 2 relying on regular visits rather than in-country adviser) combined with (ii) the Directorate's ability to access Masters programs in Indonesia and Australia to develop, retain and nurture a cadre of 25 junior professionals who are carrying a major share of the workload (out of 78 staff).

## 4.4 To what extent has the GfD model been appropriate and efficient for PFM?

**Finding:** PFM stage 1 was not efficient or VfM due to lack of clarity on gains made and delayed outputs.

During Phase 1, GfD did not have the capacity to implement the complexity of DBS, AAA and a coordinated PFM long-term advisory pool as a single program. The ambition of this work area was too broad. This lack of appropriateness and efficiency had a significant adverse impact on VfM.

**Finding:** PFM stage 2 was a more appropriate modality and greater efficiency and effectiveness in supporting the introduction of PBB, and delivered greater VfM.

GfD shifted to a modality with more flexible national long-term advisers and limited international long-/short-term advisers in 2016. GfD had learnt the lessons from PFM Stage 1 that long-term advisers cannot always be co-located in GoTL when the political context is not right; and GfD management of larger long-term advisers requires technical leadership that GfD did not have.

**GoTL officials confirmed the appropriateness of the model of using more flexible national long-term advisers and limited international advisers** in meeting program classification needs. They appreciate GfD's efficient identification, recruitment and mobilisation of national long-term advisers while GoTL systems for recruitment do not have the capacity to deliver the equivalent quality of national long-term advisers in the same timely way.<sup>54</sup> With the planned transfer of PBB functions to MoF, it is appropriate for GfD to discontinue funding national long-term advisers and for GoTL to absorb these professionals, as needed, in early 2020.

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<sup>54</sup> GoTL interview.

**Finding:** The GfD model for supporting statistics was an effective modality, with pragmatic ambitions linked to well-defined needs, but few links to other activities.

**Support from the ABS has been flexible and can accommodate the changing needs of DGS.** Short-term advisers from the ABS are an appropriate modality: skills needs are identified by DGS and addressed jointly with the ABS. ABS implementation boosts junior professional officers' technical skills. This modality reinforces the perception that DGS independence is preserved while receiving donor support.

The relatively independent nature of statistical analysis means it had fewer links to other GfD activities, though DGS is now contributing to cross-cutting objectives on gender and disability. This model has a level of ambition that mirrors that of DGS; and is both appropriate and efficient. However, its higher cost means that it is rated as 'adequate', rather than 'good', VfM.

#### **Lesson 8: Alternative approaches to capacity development.**

The ABS institutional partnership with DGS provides an excellent alternative model to GfD's traditional use of advisers. A cadre of 25 junior professional advisers has been developed through a mix of scholarships and short-term support from the ABS based on jointly agreed work plans. GfD should consider whether it can adopt such an approach, or vary its modalities beyond its reliance on co-located short- and long-term advisers.

## **4.5 PFM recommendations**

### **What to do in the short term (18 months)?**

#### **PFM 1: Support the transition of PBB to the MoF.**

PBB is still in its infancy in GoTL; and MoF lacks the skills and capacity to reinforce and enhance PBB across government. A PEA should be undertaken to inform any future decisions around delivering MoF guidance materials and skills transfers to take on annual PBB responsibilities. Initial gains made by GoTL towards adoption of PBB could be compromised if the institutional transition and post-transition periods are not adequately resourced and/or supported.

#### **PFM 2: Support PFM IT systems integrity.**

Test, diagnose and remediate automated DBFTL-FMIS interfaces, as needed. Migrate the DBFTL development service to TIC TIMOR for enhanced security and administration. DBS to discrete MoF programme budget activities may be considered.

#### **PFM 3: Coordinate PFM support with other development partners.**

Liaise with the European Commission and World Bank on cost-sharing MoF PFM reforms. The major cost of implementing MoF performance management reforms and special career regime may need support from a World Bank PFM and fiscal sustainability development policy loan. Such a loan reflects GoTL and development partners' priorities on PFM human capital development; respects the country-owned, country-led, country system GoTL aid modality preference; and acknowledges DFAT lessons on DBS management. It is not recommended that DFAT fund any development policy loan. Rebuilding DFAT-MoF relations may be impaired by a loan's performance management demands.

## What to consider for a future program?

### **PFM 4: Scope the next stage of DFAT PFM support at the sub-national level:**

- address PFM system implementation constraints in Municipality/Posto;
- improve transparency of any sub-national funds transfers from Dili;
- more systematic citizens feedback on PFM impact on services delivery; and
- develop criteria and fund a pilot study of decentralisation of national PFM functions (including procurement) in key sectors, say agriculture, education and health.

### **PFM 5: Consider PFM accountability feedback loop:**

PETS can usefully be supported by GfD and any future DFAT support to PFM. The OPM Social Audit Unit monitors service delivery; GfD and this unit could explore ways to develop an accountability feedback loop that informs OPM of progress with PBB implementation and its impact on services delivery.

This work may include CSOs to increase the timeliness and reach of PETS, and would build on the municipal surveys done by up to 1,000, university students.

# 5. Public administration

## 5.1 In what ways has GfD worked to support public administration?

**Finding:** Public administration support has mostly focused on human resources management since 2014, with a broadening out to a wider reform plan and e-governance in 2018.

In the initial design, public administration was part of the service delivery pillar. The ToC was to work with Civil Service Commission (CSC) and the Ministry of State Administration to resolve constraints to service delivery through human resources management and decentralisation.<sup>55</sup> Decentralisation did not progress significantly and received limited GfD support during both phases; it has not been examined so as to narrow the scope of the review.

Since 2014, GfD has placed advisers within the CSC to introduce new human resources management policies and systems as approved by the Council of Ministers and applied by line ministries and municipalities. In 2018, GfD broadened its approach by providing advisers to the Ministry of Legislative Reform and Parliamentary Affairs (MRLAP) to prepare a comprehensive public administration reform strategy and in 2019 it agreed to provide advisers to GoTL central ICT unit (TIC TIMOR) responsible for e-governance and government ICT strategy. **Table 10** sets out the ‘inferred’ ToC for this work area.

**Table 10: ‘Inferred’ ToC for GfD’s public administration work area**

| AREA OF WORK                     | “IF... THEN...”  | “BECAUSE” (ASSUMPTIONS)   |
|----------------------------------|--|---|
| <b>Merit-based civil service</b> | Support for CSC human resources management policy, systems and resources will help to ensure civil servants are recruited/promoted based on merit because...   | <b>a)</b> GoTL wants to reduce politicisation, control the wage bill and improve civil service performance.   |
| <b>Workforce planning</b>        | Support for a workforce plan and linking the PMIS and FMIS will ensure an appropriate number of staff with the right skills are placed in the most suited positions (and ghost workers removed) because...             | <b>b)</b> Line ministries and municipalities will accept and implement central reforms even if they weaken their direct control.                        |
| <b>Inclusion</b>                 | New sexual harassment procedures, affirmative action measures, information about civil servants living with disabilities and collaboration with CSOs will improve ethics and inclusion in the civil service because... | <b>c)</b> CSC, MRLAP and TIC are the most relevant partners.<br><b>d)</b> There is a genuine desire to improve CSC performance from the CSC leadership. |
| <b>MRLAP</b>                     | Support for MRLAP’s Public Administration Reform Plan will ensure that GoTL has an adequate plan that will improve public sector performance because...  | <b>e)</b> CSC, MRLAP and TIC can absorb the technical assistance and make the necessary changes.  |
| <b>TIC TIMOR</b>                 | Support for the GoTL central ICT unit will ensure ICT investments are adequate and improve the performance of all line ministries and municipalities because...  | <b>f)</b> Changes in the external environment will not derail the reforms.  |

55 GfD. (2013). *Timor-Leste Governance for Development Design*.



## 5.2 How relevant are the GfD objectives for public administration?

**Finding:** The objective of supporting improved civil service performance was relevant but the narrower focus on human resources management less so.

**These objectives are relevant for GfD as public service policymaking and service delivery capacities in Timor-Leste are constrained.** Support for a meritocratic and better performing public service is absolutely an appropriate policy objective in any polity, and especially so in a capacity-constrained environment. A lack of quantitative skills and inadequate middle management was for example mentioned in several interviews. Portuguese colonisation and the Indonesian occupation resulted in a public service with few professionals and corrupt practices. The 1999–2002 UN administration was slow in ‘Timorising’ the public service. Public administration reform became a political priority following the 2006–2007 crisis, and in 2009, President Gusmão established the CSC, declaring GoTL’s commitment to a merit-based public service. In addition, controlling the number and salaries of public servants is politically and fiscally important, as the public service is Timor-Leste’s largest employer, with around 35,000 permanent staff, agents and casual workers.<sup>56</sup>

**While domestic civil service capacity is growing, the country continues to rely on national advisers to make up for the lack of middle management and technical experts.** Advisers can be paid higher wages than ministers or permanent civil servants (up to US\$8,000/month if they have PhDs or up to US\$4,000 with a Masters, as opposed to US\$3,000 for ministers and US\$1,200/month for Director General level 7, the highest civil servants in a ministry). Advisers are not permanent staff but constitute in effect a parallel civil service; the CSC does not know their total number.<sup>57</sup>

**GfD’s narrower focus on human resources management alone through the CSC appears to be less relevant.** A lesson from international experience is that it is difficult to drive system-wide public service reforms from an agency, as opposed to the centre of government. Senior leadership is critical.<sup>58</sup> The CSC reports to Parliament and to the PMO, and has a mandate for policymaking and to oversee policy implementation by line ministries, but interviews confirmed its authority is challenged by some across GoTL. Human resources management is only one aspect of public service performance, which can also be supported through citizens-centred measures that may more directly improve incentives (prioritising responsiveness, transparency and accountability). In 2018, GfD adopted a broader and more relevant approach by working with MRLAP, and in 2019 with TIC TIMOR. However, it has not targeted ‘Other Voices’ grants around a common strategy and it has not undertaken an analysis jointly with other DFAT investments (eg PHD) to confirm it is addressing the main barriers to service delivery.

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56 GoTL and GfD staff interviews.

57 Appendix E: Timor-Leste case study in Blum, J. R., Ferreiro-Rodríguez, M., & Srivastava, V. (2019). *Paths between Peace and Public Service: A Comparative Analysis of Public Service Reform Trajectories in Postconflict Countries*. Directions in Development. Washington, DC: World Bank.

58 Rao, S. (2013). *Civil service reform: Topic guide*. Birmingham, UK: GSDRC, University of Birmingham.

## 5.3 To what extent has GfD achieved progress towards its EPOs?

**Finding:** New human resources management laws, policies and systems have been introduced, including related to gender.

**GfD has collaborated with the CSC during both phases of the program, a continuation of past Australian support since the CSC was set up in 2009** by providing GfD advisers (at the time of writing seven, both national and international). Some of the outputs have included:

- A structured and consultative change management approach to the development of the CSC Strategic Plan (2015–2030) for the newly appointed Commissioners in 2015. The plan provided a clear vision for the CSC about the five reform areas it is implementing.<sup>59</sup>
- A National Staffing Diagnostic provided evidence on the composition of the public service. It was used to improve human resources management policies and processes (2016–2017).<sup>60</sup>
- A workforce planning policy process is under way to help manage resources and the wage bill (started in 2016; draft decree-law with the Council of Ministers at the time of fieldwork).<sup>61</sup>
- Other decree-laws, manuals and activities to support performance management, merit-based promotion and recruitment, and supplementary remuneration (throughout the period). This included the first centralised merit-based promotion process for permanent civil servants (covering 10,000 candidates during 2018–2019).
- Work continues on the interface between the Personnel Management Information System (PMIS) and the MoF payroll and budget (FMIS). This will help eliminate ghost workers and double payment of salaries. It had been due to be launched in April 2019.<sup>62</sup>
- Various initiatives to mainstream gender in human resource management, such as affirmative action measures, and the development of a sexual harassment policy (started in 2016) with a manual, reporting and disciplinary measures, in collaboration with UN Women.
- As part of CSC leadership capacity development, advice and training from a GfD gender specialist empowered CSC women leaders (a female commissioner and executive director).<sup>63</sup>
- Consultation process with persons with disability support organisations (with a high-level seminar followed by initiatives such as focus groups across the country in 2019 – see below).

59 GfD. (2017f). *Significant Improvement in Policy Influence (SIPSI): Government of Timor-Leste: Civil Service Commission Strategic Plan Improved Civil Service Provision (2015–2030)*.

60 GfD. (2018s). *Story of Significant Change: Information on civil service staffing data is available to inform policy-making*.

61 GfD. (2018t). *Story of Significant Change: Inclusive process of developing CSC Workforce Planning Policy and Decree-Law*.

62 DFAT. (2019). *GfD Aid Quality Check annex*.

63 GfD. (2018p). *Story of Significant Change: Empowerment of female senior leadership in the Civil Service Commission*.

## Case study 2: Promoting disability awareness in the civil service

Timor-Leste adopted a National Disability Policy in 2012. The CSC Strategic Plan (2015–2030) includes a specific commitment to the inclusion of people living with a disability, but implementation has lagged behind. While disability is a cross-cutting GfD issue, overall GfD progress had been slow until 2018.

In 2019, GfD pursued a more proactive agenda, supported by additional central DFAT and GfD funding. The program identified the opportunity of influencing the largest Timor-Leste employer, the public service, by collaborating with the CSC and disability CSOs funded by PHD, another DFAT program.

GfD helped the CSC organise a disability seminar in March 2019 to raise awareness with Directors General and national human resources directors from line ministries. The umbrella CSO was invited to share first-hand experience of disability issues, an important example of collaboration with an organisation seen by the CSC as critical of GoTL. DFAT also facilitated expertise from an Australian NGO.

The seminar has been catalytic, and the CSC President has ensured a number of follow-up actions. Disability CSOs are providing technical feedback to the CSC, including on the workforce planning decree-law to implement inclusivity principles. After a discussion with the CSC, the DGS will ensure that the 2020 census includes more comprehensive Washington Group questions. Qualitative work by CSC and GfD includes focus groups in 13 municipalities to understand the barriers faced by people living with disabilities.

These steps form the basis for an improved implementation of the National Disability Policy through the civil service. However, some interviewees expressed scepticism: these activities were the result of a time bound DFAT push; central DFAT funding will end in 2020 and GfD should not “do something half-heartedly”. The commitment of the new CSC Commission in 2020 is also not assured.

*Source: GfD. (2019) Stories of Significant Change: First National Seminar on Disability Inclusion in Public Administration, complemented by interviews with CSC, GfD, DFAT, PHD and independent voices.*

**Finding: GfD support for the CSC was more effective under the government of national unity. Implementation has been uneven in the face of institutional resistance. The impact on civil service performance has not been evidenced.**

**There was more progress with GfD support during 2015–17**, with a Prime Minister interested in public administration reforms and a new CSC President who values GfD support.<sup>64</sup> There was less progress when some of the assumptions did not continue to hold. GfD has not provided evidence that it had identified and was closely monitoring these assumptions, in particular political and senior management support for a less politicised civil service or for better controlled civil service costs. Overall, in 2018, an independent assessment found: “GfD’s contribution to public administration reform is high but that the changes to date are of moderate significance, given that implementation of the [CSC Strategic Plan] has led to good planning (a GfD immediate outcome) but is yet to impact on civil service capacity”.<sup>65</sup>

64 Interviews with GfD international staff.

65 DFAT. (2018). *GfD Aid Quality Check*, referencing the 2018 Significant Instances of Policy and Systems Influence report.

**First, the approach assumes GoTL wants to reduce politicisation.**

However, the CSC faces strong incentives for the continued politicisation of the civil service. For example, MRLAP's proposed reforms include political appointments of Directors General. This resistance can be explained through a political economy analysis. The political system operates on the basis of patronage that rewards those who participated in the liberation struggle (with public sector jobs in addition to social transfers or infrastructure contracts). Under the 2018 coalition government, different parties 'control' different ministries. Ministers can appoint some officials in line with their political allegiances and party priorities, but also have to work with those appointed by previous governments (with potentially different political allegiances). Civil service politicisation was confirmed in all the interviews where the question was raised, with a number of interviewees perceiving increased politicisation under the VIII<sup>th</sup> Constitutional Government.<sup>66</sup>

**Second, the approach assumes GoTL wants to control the number of permanent civil servants and temporary advisers** so as to have an affordable wage bill.

GoTL commitment is also not evident here. The political economy interests described above militate against such reforms.

**Third, the CSC faces continued resistance to change from line ministries**

that perceive the CSC as generating delays rather than facilitating their work. GfD has helped the CSC adopt a more participative approach with line ministries<sup>67</sup>, including through the GJPRU forum (Human Resources Managers' Group including representatives from line ministries coordinated by the CSC). Nonetheless, it is not able to overcome institutional resistance to its objectives, such as line ministries' preference for 'special career regimes' for their professionals. Intergovernmental coordination has become even more challenging under a coalition government.

**Fourth, since 2018, GfD has diversified its support to public administration beyond the CSC, leading to potential inconsistencies.**

In 2019, it provided two advisers to MRLAP who have helped prepare a Public Administration Reform plan, under consideration by the Council of Ministers at the time of fieldwork. In 2019, GfD also agreed to provide two advisers to TIC TIMOR, which will centralise support to GoTL ICT developments and promote e-governance. GfD advice to MRLAP was not fully consistent with the one provided to the CSC. In particular, the draft reform proposes measures that could increase the influence of politicians over appointments and directly challenges the mandate of the CSC (eg its policymaking role). A number of interviewees also noted the MRLAP reform plan was over-ambitious, an assessment supported by the review team.<sup>68</sup>

**This finding of uneven implementation is not surprising.** Such whole-of-government reforms are notoriously difficult to achieve. Review after review has reached this same conclusion. This points to the need for GfD to reconsider its approach under a possible successor program.

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66 Interviews with GoTL, GfD advisers, GfD partners and independent individuals.

67 This finding was not triangulated in interviews but is based on the GfD Stories of Change cited above.

68 Interviews with GoTL and GfD staff.

## 5.4 To what extent has the GfD model been appropriate and efficient for public administration?

**Finding:** Public administration reform support through advisers is moderately efficient. They are valued by their counterparts but GfD needs to manage the risk if they do not build enough individual or institutional capacity and can pull in different directions.

**This work area has relied on around 30 national and international advisers since 2014.** GoTL counterparts appreciate these advisers who report directly to them and deliver the outputs they request. However, GfD quarterly reports show that advisers have struggled to build either individual competencies and skills of their CSC counterparts, or organisational capacity, a mandate they may have in addition to their capacity supplementation roles (eg GfD funds expensive and rare IT skills for time-bound projects in the CSC and TIC TIMOR). At times GfD advisers perform line roles that CSC staff should eventually cover, with no or little time to develop the skills and competencies of their counterparts. GfD does not seem to have a system to track how CSC capacity is being built sustainably (against a 2014 baseline) or whole-of-government performance improvements resulting from CSC reforms.

**Focusing on one partner agency (the CSC) over a longer period is more cost- and time-efficient than regularly changing partners** (by contrast with the economic development area, which had a large number of partners). Broadening partnerships could nonetheless reap more results and deliver better VfM. In the view of the review team, the inconsistent advice given to MRLAP and the CSC undermines VfM. The overall VfM of this work area is rated as 'adequate' given the amount spent on advisers (over AUD 4 million) by comparison with the results.

## 5.5 Recommendations for public administration

### What to do in the short term (18 months – strategic level)?

**Public administration 1: Assess the impact of GfD support to the CSC, MRLAP and TIC TIMOR on the overall performance of the civil service.**

This should include data on non-permanent civil servants such as advisers. GfD does not generate data that would have allowed the review team to make this assessment. This should be done in a way that builds the CSC's ability to do further assessments independently. This analysis will also inform a potential successor program

**Public administration 2: Complete CSC initiatives and assess GfD's impact on CSC capacity.** After 10 years of Australian support to the CSC, and as the CSC Commissioners' mandate comes to an end (in May 2020), GfD should consolidate CSC initiatives it has supported since 2014 (including those on gender and disability). It should avoid new public administration reform activities.

**Public administration 3: GfD should ensure all its advisers** (not just those in this work area) shift to a capacity development approach in the last 18 months of the program (of both individuals and organisations). While this is included in their responsibilities and reporting requirement, advisers may require additional encouragement and full support from their GoTL line managers. Additional modalities could be used to complement advisers.

## What to do for a future program?

**Public administration 4: Target barriers to service delivery.** The design for a follow-on program should clearly identify what are the barriers to service delivery at the local level that would benefit from public administration reforms (as well as PFM), rather than start with a Dili-based vision of how the public service should function. The 2010 DFAT bottleneck study should be repeated. PHD, PARTISIPA and other relevant DFAT programs need to have this shared understanding. Responses are likely to require not just a focus on supply-side measures (eg human resources management) but also strategies to improve accountability, transparency and responsiveness to influence public servants' incentives. This would include ongoing feedback from the sub-national level to the national level (including through other Australian-funded programs such as PARTISIPA).

**Public administration 5: Assess political commitment to public administration reforms.** The review team considered whether continued support to the CSC is warranted or whether it should end after 10 years. In principle, it is important for GfD to remain engaged, as any public service is only as good as its people. The issue is whether DFAT judges there is sufficient political commitment to a meritocratic and accountable public service. The evidence from the last ten years is not encouraging.

**Public administration 6: Adopt a new approach.** In the absence of such commitment, GfD should reduce the scope, objectives, modalities and scale of assistance. It should reduce its reliance on long-term advisers, and instead support a much-smaller scale organisational improvement plan for selected departments. Support would be in the form of discrete 'projects' where results are agreed in advance and a combination of support can be offered (networking, public consultations, strategy development, piloting and lessons learning, training/mentoring, as needed). GfD should limit its help to the CSC, providing assistance enabling CSC to collaborate across GoTL ministries and agencies at a national and municipal level to address specific issues, track success/challenges and more quickly adjust (rather than follow a linear law-policy-implementation cycle).

# 6. Economic development

## 6.1 In what ways has GfD worked to support economic development?

**Finding:** The approach GfD took in the economic development area has not been entirely grounded in a good understanding of what might work in Timor-Leste. It has responded to changing opportunities but has generally not drawn on more formal and documented political economy analysis to continually ensure relevance and feasibility.

The ToC for the GfD Phase 1 fiscal and economic policy pillar was that, by assisting stakeholders from both within and outside of government to generate and carry high-quality analysis to key decision-makers, GoTL would be able to make better informed decisions on economic policy and fiscal policy, and on the Infrastructure Development Fund. Specific policy areas would be identified during implementation and focus on the non-oil economy.

**GfD has worked across several areas of economic development during its two phases.** However, for the most part, there appears to have been limited identification of causal pathways by GfD. Activities have been pursued with little reference to any overarching strategy or ToC. For example, to have a clear sense about why interventions in the various program areas might give rise to the desired outcomes, one needs to interrogate the causal pathways that underlie the logic of the interventions, as illustrated in **Table 11**.<sup>69</sup>

**Table 11: Inferred ToC for GfD’s economic development main work areas**

| AREA OF WORK                 | “IF... THEN...”  | “BECAUSE” (ASSUMPTIONS)  |
|------------------------------|--|--|
| <b>Economic policy</b>       | Support for capacity in MCAE and MRLAP will help ensure evidence is used for economic policymaking because...  | <p><b>a)</b> There is a genuine desire to improve performance from the leadership of the institution.</p> <p><b>b)</b> There is an ability to absorb the technical assistance and make the necessary changes</p> <p><b>c)</b> Changes in the external environment will not derail the reforms.</p> <p><b>d)</b> Sub-sector specific assumptions.</p> |
| <b>Aviation</b>              | Support for capacity in AACTL (Timor-Leste’s civil aviation authority) will make aviation safer because...   |  |
| <b>Business licensing</b>    | Improving the licensing process will encourage more businesses to set up because...  |  |
| <b>Investment promotion</b>  | Clarifying the legal environment for investment will encourage more investment because...  |  |
| <b>Legal reform in BNCTL</b> | Changing the legal framework for Timor-Leste’s national commercial bank (BNCTL) will enable it to improve access to finance because...   |  |
| <b>Access to finance</b>     | Creating a platform for agent banking will provide finance for farmers and small business because...   |  |
| <b>‘Other Voices’</b>        | Building civil society capacity to analyse current economic policies (through grants to The Asia Foundation and Oxfam, and to Monash University to conduct pieces of policy research) will help to shape the overall direction of economic policy because... |  |

69 Interview with grantees and national/international advisers across economic development activities.

**The economic development program was responsive to changes in the political environment.** For example, GfD identified that a reformist minister was appointed in the Coordinating Economic Ministry (MCAE) in 2015 and moved quickly to support him with advisers that allowed him to advance a range of reform initiatives and devise a strategy for economic reform. This was part of a wider context of the unity government. This approach has continued, for example, through the appointment of an adviser in the OPM. Conversely, interventions have been scaled down or stopped when progress was not possible. For example, when the intervention in area of telecommunications was unable to advance in 2017, the program wound down this activity and shifted the resources elsewhere. Similarly, when it became impossible to engage with the Ministry of Agriculture in 2018, the adviser's skills were used to facilitate the Private Sector and Rural Development Working Groups of the development partners.

**However, this work area has tended to conflate TWP with 'adaptive management' and focused on being as responsive as possible to GoTL requests,** rather than on devising approaches towards achieving the program's broader goals. This might have entailed more rigorous analysis of the context on an ongoing basis. During implementation, GfD commissioned few PEAs on economic topics (either at a general level or at a sectoral level), to assess the political context in a formal way and was therefore unable to apply this knowledge to its programming choices.

## 6.2 How relevant are the economic development objectives?

**Finding:** GfD chose not to address some of the most critical economic challenges in Timor-Leste (including oil and gas, human capital, infrastructure, land). Instead, GfD has focused on other important, but perhaps less critical constraints to growth (business environment, access to finance, aviation).

**The single most important economic challenge facing the country is the policies that are pursued on oil and gas development.** Whether and how Timor-Leste uses its petroleum wealth – to invest in a diversified private sector-led economy, or to double-down on oil and gas exploration, or some combination of the two – is the single critical determinant of the country's future. GfD has not engaged on this issue because assistance from Australia was neither sought, nor would likely be welcomed. It is however possible to engage at arm's length on oil and gas as a sensitive issue (see **Box 2** for an example from Nigeria).

**The second major challenge is the low level of human capital.** This is the focus of another DFAT program, the Workforce Development Program, with GfD's involvement limited to one adviser working on labour market information in the Secretariat of State for Vocational Training and Employment Policy (SEFOPE). Other constraints to growth are infrastructure and rural development, both also the focus of other DFAT programs. While GfD facilitates engagement with these programs through the Private Sector Development Working group, there is scope for GfD to increase its collaboration across DFAT-funded programs.<sup>70</sup>

**GfD is addressing Timor-Leste's business environment,** which is relevant as the country ranked 178<sup>th</sup> of 190 in 2017 for ease of doing business. Difficulties in enforcing

70 Interviews with DFAT program implementers; DFAT (2019) *Private Sector Development Review*.



contracts and starting businesses, property registration and land tenure uncertainty, poor access to finance and heavy reliance on imports are current weaknesses of the business enabling environment. Access to finance is an important constraint, particularly for SMEs, and GfD's work to support improvements to the scale, efficiency and stability of the financial sector may be useful. Timor-Leste is also remote from most major markets, which makes aviation policy and its implementation important, particularly insofar as it encourages a greater number of airlines to fly to the country.

**However, international evidence suggests a rather weak link between progress on Doing Business indicators and economic success.**<sup>71</sup> Interviews confirmed the difficulty of making progress on business climate improvements if doing so damaged vested interests.<sup>72</sup> GfD does not seem to have explored the underlying political economy of these constraints in any depth. It explicitly chose not to address land rights, one of the most important constraints affecting economic development. This was probably wise given the complexity of the issue but reduced GfD's relevance to its context. Successful models of achieving partial, but workable, solutions to the issue of land rights have been found in other countries.<sup>73</sup> Finally, GfD engaged on agricultural policy analysis during the VI<sup>th</sup> Constitutional Government – an area of critical importance for the vast majority of Timorese people.

## **BOX 2: THE NIGERIAN FACILITY FOR OIL SECTOR TRANSPARENCY**

The Facility for Oil Sector Transparency and Reform (FOSTER) in Nigeria was a GBP 14 million program funded by the UK's Department for International Development (DFID), (Phase 1, 2010–2016). Its overall intended impact was more effective use of Nigeria's natural resources. A key aspect of its approach was to identify and target critical actors and potential reformers within institutions and to seek opportunities to strengthen government and regulatory systems and institutional capacity for more effective oversight and accountability. Interventions focused on government institutions with responsibility for governing how oil and gas revenues are collected and managed (those that 'supply' accountability), as well as strengthening demand-side accountability actors such as CSOs and oversight bodies (eg the Nigeria Extractives Industry Transparency Initiative, Parliament).

The program was successful in raising the quality of the debate about oil and gas issue in Nigeria for several reasons. First, it was one of the first programs to be explicitly design to 'think and work politically'. This meant that it did regular political economy analysis of the constraints and opportunities for progress in the sector and tailored its activities accordingly. It was run by an entirely Nigerian team in-country who built relationships of trust with key counterparts and non-government stakeholders. It had the flexibility to fund activities both with government and with non-government actors depending on where reform opportunities arose – and also to stop such activities when reform windows closed. Because it operated at arm's length from DFID (run by a local team, hired by a contractor, but subject to final approval from a local DFID manager), it managed to strike a balance between being able to engage on sensitive issues while avoiding reputational risk for the UK government. Its overall rating after the first phase was the highest rating provided by DFID.

Source Lopez Lucia et al (2019)

71 See Commander and Nikoloski (2010).

72 Interviews with GfD national partners.

73 Notably in the Philippines. Booth, David. (2014). *Aiding institutional Reform in Developing Countries: Lessons from the Philippines on what works, what doesn't and why*, Overseas Development Institute. A short video can be found here.

**Finding:** Support for ‘Other Voices’ in economic policy have been relevant. Gender and youth are highly relevant for the economic development but were not prioritised.

**There is a lack of wider analysis, discussion and debate of economic issues,** even across the highly-educated elements of Timorese society. The main NGO working on economic policy produces high-quality analysis but, as a matter of principle, does not accept funding either from government or development partners. GfD support to Monash University, The Asia Foundation (TAF) and Oxfam is therefore relevant. The 2019 Oxfam grant will broaden out such discussions to ordinary Timorese at the village level who often have little or no access to information on key economic issues that affect them.<sup>74</sup>

Women are systematically discriminated against and excluded from large parts of the economy (such as in relation to land rights). They provide the majority of employment in the large and growing informal sector. However, we were unable to identify any significant work that has taken place. Youth, and even less so disability, were not prioritised.

## 6.3 What is the extent of GfD progress towards its EOPOs?

**Finding:** Considerably more progress has been made towards the use of evidence in policymaking than in implementation under the economic development work area.

**GfD has provided significant support to laws and policy development,** especially during the VI<sup>th</sup> Constitutional Government, with the MCAE, the Coordinating Economic Ministry. Some laws were promulgated, notably the Private Investment Law and the Company Law. Others however, got stuck, were blocked or were left in limbo after the 2017 and 2018 elections.

**Aviation work has seen significant progress towards both the policy and implementation EOPOs.** It was very successful in policy terms, with the creation and passing of a new aviation policy by the Council of Ministers.<sup>75</sup> It also greatly improved the capacity of the regulator, AACTL, through the provision of national advisers and targeted, intermittent, international expertise. AACTL expresses deep appreciation for the support it has received and is clearly enthusiastic to pursue the further professionalisation of the regulator with a view to passing the International Civil Aviation Organization audit in 2020.<sup>76</sup> However, even here, the institutionalisation of reform has been challenging. AACTL still depends on the Ministry of Transport for its budget and key staff are on temporary contracts. The extreme politicisation of the civil service means that it is not guaranteed that the existing staff, or other appropriately knowledgeable and qualified people, will be appointed.<sup>77</sup>

**The ADB’s assistance to BNCTL** has succeeded in producing a policy paper on the route to its commercialisation that was endorsed by the MoF and the Central Bank.<sup>78</sup> This led to a lengthy process that changed the bank’s legal governance structure, with the GfD adviser instrumental in achieving these changes, although, as of October 2019,

74 See Oxfam. (2019). *Towards Economic Diversification in Timor-Leste*.

75 GfD. (2018n). *Story of Significant Change: Inclusive process of developing National Civil Aviation Policy*.

76 Interview with GfD national partners.

77 Interview with GfD national partners and GfD staff.

78 ADB. (2019). *Progress Report July 2018–March 2019*. Interviews with GfD grantee and national partners.

the new board had not yet been formed. The bank's core banking systems have also improved significantly. Overall, there is no question that BNCTL has substantially improved its performance over the last five years. It is not clear the extent to which this improvement can be attributed to the ADB's support, although its support was clearly critical to the changes in the overall governance structure.

**In the area of access to finance, the IFC support to Kaebauk Investimentu no Finansas (KIF)** to introduce new agent banking, mobile banking and agri-finance products has proceeded much more slowly than hoped. However, the support for improvements to its organisational capacity has been greatly appreciated and the agri-finance product has led to a substantial expansion in the number of borrowers (particularly women), with, to date, a relative low non-performing loan rate. The core banking system is being implemented and agent banking is about to be introduced. These reforms seem likely to provide a reasonable prospect for modest success going forward.

**GfD's support to the Ministry of Agriculture** during the VI<sup>th</sup> Constitutional Government resulted in the production of an economic modelling tool for agricultural products. This work was effective while the Coordinating Minister was also the Minister for Agriculture and Fisheries, but this work was discontinued after the change of government.

**SERVE, the business registration agency, has become an autonomous one stop shop.** GfD helped it to map out the registration requirements for businesses for the first time. However, like many one stop shop reforms around the world<sup>79</sup>, it still struggles with the challenge of wresting control over licence issuance from the relevant line ministry. Without this, SERVE simply becomes a 'one more stop' shop. In addition to good technical reasons, there may also be political economy reasons why certain ministries are reluctant to relinquish such control, making it easy to make rapid progress on less critical issues, but harder where the constraint is more binding.

**Support via IFC to TradeInvest has also been appreciated.** This program helped TradeInvest to prepare an Investment Reform Roadmap and develop a negative list.<sup>80</sup> TradeInvest was also supported to develop a customer relationship management system to track potential investor queries. However, this initiative, as with many above, has been stymied by the political stalemate resulting from the 2017 and 2018 elections.

**Finally, some older initiatives also helped to progress economic reforms.** Most notable of these was the work with MCAE in 2015 to stop its plan to nationalise Timor Telecom.<sup>81</sup> Had this occurred, it could have greatly stifled the subsequent rapid development of the telecoms sector in Timor-Leste. However, other efforts in the telecommunications sector were less successful. GfD provided an adviser in the Ministry of Transport and Communications in 2016–2017. This resulted in a new draft decree-law intended to increase the accountability of the national communications authority. However, by the end of 2016, it became clear that the minister did not wish to pursue the reforms and so the support was shifted to supporting the National Staffing Diagnostic of the CSC.<sup>82</sup>

79 See for example, the experience of The Asia Foundation in Indonesia:

<https://asiafoundation.org/2017/04/12/licensing-reform-indonesia-whats-next-one-stop-shop/>

80 A 'negative list' is a list of areas where foreign investors are not allowed to invest. However, support to create such a list reflects a disconnect with economic analysis. A streamlined and appropriate negative list may be better than a wide and vague one; but negative lists are, in general, a poorer instrument for protecting domestic industry than other approaches (eg tariffs, targeted subsidies etc.). No consideration appears to have been given to generating evidence on why this approach should be supported.

81 DFAT. (2017). Diplomatic cable 10 August, and interview with DFAT staff.

82 GfD. (2017b). *GfDSS Quarterly Report Q10 (November 2016–January 2017)*.

**Finding:** The economic work area attempted to push through too many reforms at the same time, and made less progress when the political situation changed after 2017.

**The fragmentation of strategic policymaking within the government, and its ability to absorb technical assistance, has been a constraint for GfD effectiveness.**

In many other countries, economic policy is centralised in the MoF or a Coordinating Ministry. Timor-Leste's recent political circumstances have meant that, since the 2018 election, responsibility for central level economic policymaking has been split between the PMO, the MoF, the Ministry of Planning and Strategic Investment and, independently, the leadership of the negotiations regarding the Maritime Boundary and the Tasi Mane development. The GfD program has been successful in providing economic advice to the PMO since 2018, but has struggled to find traction elsewhere.

This contrasts with the earlier period where economic policymaking was centralised in MCAE under the leadership of a strong technocrat and so rapid progress was possible under the VI<sup>th</sup> Constitutional Government. However, during this time, GfD attempted to push through too many reforms, with the result that it made progress on several areas that were never completed when the political environment changed. A narrower and more focused agenda might have ensured success in a few areas, rather than partial success (or failure) in many.

The political situation since the 2017 and 2018 elections has made it difficult to bring work prepared under previous governments up to ministers under the VIII<sup>th</sup> Constitutional Government because of the widespread perception that the most important criterion for the acceptance of such proposals is the provenance of the proposal rather than its technical merit.

**More generally, it appears to be the case that development partners are pursuing ambitious reforms in multiple areas simultaneously,** often with the same counterparts, with relatively little coordination. As one respondent put it: "Most ministries are trying to do too much. When designing our own assistance, we shouldn't mirror that!" Given the clear and repeated empirical evidence about how long it takes to achieve basic reforms, overloading ministries and agencies with complex, multifaceted and sometimes externally-driven reform agendas runs the risk of 'premature loadbearing', which can weaken rather than strengthen long-term state capability.<sup>83</sup>

**Finding:** Support for 'Other Voices' in the economic development area has been effective but results on gender and other forms of inclusion have been weak.

**The single most consistent initiative has been the commissioning of Monash University to produce two policy-oriented reports each year.** The approach goes against most good practice for policy-oriented research: the research ideas are formulated by one academic; discussed and agreed with DFAT with no involvement from the GoTL or other stakeholders; and, apart from a launch, relatively little effort is made to discuss the findings with key stakeholders. Despite this, the reports have been remarkably effective, mainly because of their high quality. Several respondents mentioned them in interviews; and they have been cited by government officials, including in the PMO. The success is largely because the academic in question has had a long-term engagement with Timor-Leste and comes regularly to discuss with mainly young intellectuals in the country.

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83 Pritchett et al. (2010). *Capability Traps? The Mechanisms of Persistent Implementation Failure*. Center for Global Development Working Paper 234, Washington D.C.

He is widely respected and thus the process of producing the report, rather than the final product, appears to have been effective in ensuring its dissemination and discussion.

The main other initiative for generating debate on economic policy issues is the support for the Policy Leaders Group through TAF, which is reviewed in **Chapter 7**.

**Initiatives on gender equity and women’s economic empowerment have often been ad hoc, and not pursued strategically or consistently.** The access to finance program with KIF (through the IFC) has targeted institutions with high shares of female borrowers; the licensing program has considered the needs of women entrepreneurs (although lacks the budget to do much about it); changes to the Private Investment Policy and Private Investment Law give better treatment to businesses led by women. Also, some new initiatives have an explicit focus on inclusion – for example, the grant to Oxfam (although this was not reviewed). However, unlike the DFAT sectoral programs in agriculture and roads, gender issues do not appear to have received much consideration more broadly. For example, despite working extensively on the private sector, there has been no interaction with the Women’s Entrepreneurs Association. Youth and disability issues receive even less focus.

## 6.4 To what extent has the GfD model been appropriate and efficient?

**Finding:** GfD has used an appropriate mix of modalities, though greater engagement with non-government actors might have been more effective and efficient. However, the program did not have ongoing technical economic expertise to maintain a strategic approach to the economic development work area. Overall the VfM of this work area is judged to be ‘adequate’.

**This work area has used an appropriate mix of advisers, grants and funding to international financial institutions** (see section 3.4 on the use of advisers).

**The grants to multilaterals were, in principal, an appropriate modality for tackling the issues that they address, but there have been some drawbacks.** ADB and the IFC have longstanding competence on issues of private sector development and well-established mechanisms for delivering programs in these areas. However, both the ADB and the IFC progress on deliverables was very slow – reflecting the political economy challenges encountered. Having ‘contracted out’ these programs, the ability of GfD to influence or amend the approach being taken was more limited. The prospective benefits of these programs being implemented by multilaterals – for example, links to a wider pool of expertise and knowledge on tackling these kinds of reform in other countries – do not appear to have been particularly strong, while the disadvantages from the lack of managerial control over the initiatives were pronounced. These initiatives were also relatively small and our interviews do not give the impression that they were regarded as priority projects by either organisation.

**Moreover, implementation through these organisations meant less control over the manner of program implementation.** For example, the ADB’s work with BNCTL became strongly focused on issues of the bank’s governance. The ADB argues this was appropriate because these reforms are essential for the bank to operate in the international environment. However, it is notable this view is not entirely shared by BNCTL’s senior management, which put greater emphasis on the improvement of internal systems.

This review did not have the resources to make a determination one way or other on this issue. However, because the work was embedded in a wider relationship between DFAT and the ADB, it also was hard for DFAT to assess the effectiveness of the approach taken. Questions can also be raised on efficiency – with particular disappointment from some respondents about the manner in which the ADB has managed the program of assistance with BNCTL. Similarly, the repeated failure of the IFC to hit deadlines reflected both the challenging environment and a degree of inefficiency in delivery.

**Grants to INGOs and universities appear to have been an appropriate and reasonably efficient modality** for the tasks: outputs have been produced promptly and were of a good quality. This is particularly true for the grants to Monash University, which have generated a series of high-quality policy outputs.

**Despite the diversity of modalities employed, a more multifaceted approach to delivery might have been more effective in achieving the overall economic development goals.** This might include: think tanks generating knowledge products, media engagement, links to scholarships, private sector links, and support to parliamentarians and parliamentary committees. Such an approach would be consistent with the relative success of several initiatives with non-government actors and the challenges since 2017 in advancing work with government stakeholders in this area.

**GfD management arrangements in the economic development area have not been able to ensure the program is continuously relevant to the key economic problems facing the country.** The Cardno facility does not have an economic work area technical manager able to make a judgement both about the merits of individual activities and about the portfolio as a whole. This was the responsibility of the GfD team in the Australian Embassy, which, during various periods, did not have an economic background as well as carrying a heavy workload of other program and diplomatic responsibilities. In GfD Phase 1, this was less of a concern since the program was led by a dedicated economist in the Australian Embassy who had both the time and the professional background to ensure a good alignment of activities were with the key economic challenges (although there was also a proliferation of activities during this period).

**Three of the eight areas of work reviewed represent ‘excellent’ or ‘good’ VfM.**

Aviation work has succeeded in developing a policy framework, building capacity and making significant progress for a relatively modest recorded budget. Monash University has been comparatively expensive in aggregate; but many of its ten major policy research reports have been highly influential. Business licensing work has made much less progress, but the creation of SERVE is a major step forward and its total cost so far has been small.

**Most areas of work represent ‘adequate’ VfM.** This includes the support to MCAE, which also yielded significant reforms over a short period of time and the support for telecommunications work, which was ultimately unsuccessful, but relatively low cost. Support through the IFC and the ADB are the borderline ‘poor’ VfM, given their high cost but score higher on account of the significantly improvement performance of their counterpart institutions.

## 6.5 Economic development recommendations

### What to do in the short term (18 months)?

#### **Economic development 1: Devise an economic development strategy.**

Draw on the excellent existing analysis<sup>84</sup>, as well as an assessment of what other development partners are doing, to produce a short economic development strategy to guide programming. This should draw on, but go beyond, the Private Sector Development Strategy that the Australian Embassy is already producing.

**Economic development 2: Link more to sectoral programs.** Business climate improvements are often related to solving the particular problems faced by investors in specific environments, as well as generic improvements in the ability to do business.<sup>85</sup> GfD should work more closely with DFAT sectoral programs (eg in tourism, agriculture and labour) to maximise the success of investments in these areas.

**Economic development 3: Undertake sectoral PEAs of the key sectors of engagement.** Successful reforms often depend on broader political economy considerations that are rarely explicitly articulated. The program should explicitly conduct PEAs on selected areas of engagement.

### What to do for a future program?

**Economic development 4: Give serious thought to how DFAT might support efforts to address the policy challenges in the oil and gas sector, potentially through a separate program.** Having an ability to engage in this sector beyond diplomatic and commercial conversations is important. There are ways in which DFAT might support Timorese-led dissemination and debate on evidence using an arm's length approach.

**Economic development 5: Focus more on youth employment.** The provision of jobs will be the central economic challenge facing Timor-Leste's growing young population. A successor program could play a role in supporting government strategies to link work on education and training to sectoral interventions designed to stimulate private sector-led growth.

#### **Economic development 6: Reconsider the thorny issue of land rights.**

This issue is as sensitive and difficult as oil and gas. However, property rights, particularly around land, appear to be one of the most important constraints to investment.

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84 For example the World Bank's Systematic Country Diagnostic (2018) and regular Economic Updates, as well as Monash University reports (Inder et al. 2013, 2014; Inder and Cornwell 2015, 2017, 2018, 2018a; Inder et al. 2018; Inder 2018).

85 See the excellent book by Pritchett, Sen and Werker (2018). *Deals for Development The Political Dynamics of Deals for Development*. Oxford University Press, UK.

# 7. Cross-cutting issues: ‘Other Voices’, gender and disability

## 7.1 In what ways has GfD worked on cross-cutting issues?

**Finding:** GfD has supported ‘Other Voices’ and cross-cutting issues without an overarching strategy which has led to uneven implementation and an expanding thematic scope.

**There is no explicit ToC for the ‘Other Voices’ component of GfD nor for the work on gender equality and inclusion.** GfD has supported ‘Other Voices’ mostly through grants to influence policymaking to improve GoTL service delivery and economic development. These ‘voices’ include non-GoTL actors, such as research institutions in Australia (Monash University), young politicians and GoTL advisers (Policy Leaders Group, International Republican Institute – IRI), national NGOs (eg Judicial System Monitoring Program, Fundasaun Mahein) and international NGOs (eg TAF, Oxfam). The assumption is that by facilitating evidence-generation, public debates and GoTL monitoring by independent sources, GoTL policy and implementation will be influenced and therefore improved.

**Gender equality, social inclusion of persons living with disabilities and youth are ToC principles included in the GfD MEL plan.** Objectives have been pursued mostly through GfD cross-cutting advisers or included in the terms of reference of GfD advisers under different work areas. There are no dedicated GfD grants on gender or disability. The assumption is that a cross-cutting approach will be more effective than a siloed one by making these issues the responsibility of all GfD work areas.

**DFAT used GfD as a developmental facility to fund some activities important to the Australian Embassy but which did not fit within an existing program.**

In addition, GfD management appears to have interpreted GfD’s broad ToC and its flexible and adaptive model to mean that GfD could support ‘Other Voices’ on any issue potentially relevant to policymaking or service delivery.<sup>86</sup> This work area would benefit from a strategic approach more closely focused on GfD’s three main themes (PFM, economic development and public administration).

- Most of the grant-funding has gone to the economic development work area with good results (see below). There has been no significant support for ‘Other Voices’ that might complement the work with GoTL on PFM or public administration. GfD has consulted national CSOs on certain policies (such as disability in the public service), but this is not as valuable as empowering them to engage in debates on their own terms or to help GoTL to become more open to PFM and public administration reforms.
- Two grants to well respected national NGOs (Judicial System Monitoring Program – JSMP– and Fundasaun Mahein – FM) sit outside the main program thematic objectives (they cover respectively justice and security sector reform) and represent 24% of the ‘Other Voices’ budget. GfD has been encouraging greater cooperation between grantees (eg JSMP’s civil justice work is relevant to the business enabling environment) but does not have a developed security and justice strategy with resources to complement the grants.



- This work area included an adviser to the Law Reform Commission on business legal framework, which should more appropriately sit under the economic development work area (it was a GoTL body whose mandate was terminated in 2017 following the elections).
- Support to young politicians to develop policymaking skills through IRI is not linked to other activities.

## 7.2 How relevant are ‘Other Voices’, gender and disability?

**Finding:** Supporting ‘Other Voices’, gender and disability is highly relevant to the Timorese context, but the program does not engage with a wide enough range of partners nor on some of the most important cross-cutting issues such as youth and rural development.

**Supporting ‘Other Voices’, gender and disability is highly relevant to the Timorese context.** Politics and policymaking in Timor-Leste is dominated by the 1975 generation that fought for independence and resisted Indonesian occupation. Political parties are organised around those individuals and use their access to the state to allocate rents derived from oil and gas towards their supporters.<sup>87</sup> At the same time, there are channels for a range of voices to be heard, as demonstrated by Timor-Leste high rankings on relevant governance indicators.<sup>88</sup> The political elite respects elections, freedom of speech and freedom of association. CSOs are able to organise and advocate; including through national networks (eg on women’s rights). However, the level of academic research is poor and, on some issues, such as oil and gas, politicians are not open to external evidence.

**Despite the general relevance of promoting ‘Other Voices’, the relevance of some specific GfD interventions is more problematic.** Overall, beyond the Policy Leaders Group supported through TAF (see below), the program does not have a strategy for engagement with a wider range of Timorese stakeholders who could influence policy, monitor and demand improved services. National thematic NGO networks, social media, the church, private sector organisations (such as the Chamber of Commerce or women’s business associations), journalists, and so forth are all significant Timorese influencers with whom GfD could engage more. There has been limited attention to political society: how political parties develop policy priorities and take decisions once in Parliament and in government (beyond JSMP parliament monitoring and a short IRI grant).

**Timor-Leste’s legal and policy framework provides for gender equality but this does not systematically translate into practice.** While GfD addresses disability (a priority to which DFAT allocated more central funding in 2018), it has not paid systematic attention to other social inclusion issues, in particular youth, despite the youth bulge (73% of the population is under 35 years old) and rural areas (where over 70% of the population lives). There is recent relevant work such as the 2019 AUD 200,000 grant to Oxfam which covers women, people living with a disability and rural areas. The grant was too new to be reviewed.

87 Piron, Laure-Hélène and Soares, Aderito. (2019). *Timor-Leste Context Analyse for the GfD Program Review*.

88 The 2018 Democracy Index put Timor-Leste in a much better position, not only compared to most post-conflict countries, but even more established developing countries. See [www.eiu.com/topic/democracy-index](http://www.eiu.com/topic/democracy-index)

In terms of media freedom, the 2019 World Press Freedom Index shows that Timor-Leste tops many developing and some developed countries. See [https://rsf.org/en/ranking\\_table](https://rsf.org/en/ranking_table)

## 7.3 What is the extent of GfD progress towards its EPOs through cross-cutting issues?

**Finding:** GfD has been more effective in promoting ‘Other Voices’ in economic policy and gender-mainstreaming in PFM and public administration.

**Overall, ‘Other Voices’ have been given more attention under the economic development and almost none under PFM and public administration.** Conversely, gender and disability have been more systematically addressed under PFM and public administration, and relatively little under economic development. The reasons for these different levels of engagement are not obvious. Results of the JSMP and FM grants have not been assessed as they fall outside the main thematic areas. The Oxfam and IRI grants were too new, and GfD support to Secretary of State for Equality and Inclusion too small, to be assessed.

**The main GfD national initiative for generating debate is the support for the Policy Leaders Group (PLG) through TAF.**<sup>89</sup> PLG aims to bring young like-minded reformers, activists, ‘progressive’ politicians, policy makers and academics to discuss various issues facing the country from a public policy perspective. This appears to have been quietly effective. The group includes a wide range of stakeholders from all walks of life, meets regularly but informally and discusses the major issues of the day, including, but not limited to economic issues. It provides a safe space for policy discussions; but it has also helped to organise well attended public conferences. For example, in 2015, it organised a conference on ‘Aid, Investment and Accelerated development in Timor-Leste’ in collaboration with the Overseas Development Institute. PLG’s work does appear to have influenced policy (eg on road traffic safety). However, its members have jobs in other areas and so it is not currently possible for the PLG to thoroughly analyse a topic. Numerous respondents (and the PLG Steering Committee) endorse the idea of DFAT supporting the creation of a think tank or some other mechanism that will encourage serious Timorese investigation and research into key economic (and other) issues to fill the gaps in evidence-based policy debate in Timor-Leste.<sup>90</sup>

**GfD’s approach to sustainability around cross-cutting issues has been mixed.**

Some activities have aimed to improve government policies and systems with a view to sustainability (eg gender-responsive budgeting and CSC sexual harassment guidelines, both in collaboration with UN Women, nor the PLG reviewed above). However, there has been no focus on enabling GoTL systematic engagement with ‘Other Voices’, such as by prioritising GoTL accountability and responsiveness to citizens, which would require feedback loops between the experience of those accessing services, policymaking and reforms.

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89 The PLG grew out of the Support for Good Public Policy Program, which AusAID supported from 2011–13.

90 A 2016 independent evaluation of how to achieve this was not followed up.

### **Lesson 9: Gender, disability and social inclusion don't happen automatically.**

The relative paucity of work on gender and in particular disability and other forms of social inclusion (most notably youth) points to the fact that programs do not naturally focus on these issues unless required to do so. This was particularly the case for the economic development work area. However, when cross-cutting issues are prioritised, important systemic results can be achieved, such as the introduction of gender-responsive budgeting.

## **7.4 To what extent has the GfD model been appropriate and efficient?**

**Finding:** Grants can offer good value for money and using advisers for cross-cutting issues is appropriate. GfD has also been used to fund Australian Embassy priorities beyond its core themes, which may reduce its VfM as management time and financial resources are redirected.

**Grants and cross-cutting advisers have been appropriate modalities to support these objectives.** As the program is centred on GoTL policy, systems and service delivery, support for 'Other Voices', gender and disability appears a secondary focus. In recent years GfD has appropriately started to facilitate more cooperation between GfD grantees and advisers across the work areas (eg the ABS on gender and disability, JSMP on business legal environment, UPMA on budget transparency).

**The program could have marshalled its resources to facilitate broader coalition building around specific issues.** It is not always easy for external partners to coordinate with the program as responsibilities for 'Other Voices', gender or inclusion are spread across grantees and advisers. While the CSC disability work has been a good example of 'Other Voices' collaboration with another DFAT program (PHD funds disability CSOs), other opportunities were missed.

The VfM of gender and disability work cannot be assessed as financial data and results are not sufficiently disaggregated.

The wide-ranging TAF work in stimulating debate on key economic topics and building ownership for reforms appears to have been quite efficient, albeit a significant investment, so VfM is 'good'.

VfM of support to the Law Reform Commission is judged as 'poor' (one international adviser delivered a report for a high cost, though JSMP built on it). The IRI project is too short (9 months in 2019) so unlikely to have wide or lasting benefits without complementary activities.

The VfM of 'Other Voices' beyond economic development is difficult to judge as it is mainly being used as a funding channel for other Australian Embassy priorities (security, justice, elections) whose results were not reviewed. The wider VfM of using GfD as a funding channel for other Embassy priorities should be assessed. It may be an efficient modality, as systems are established. However, there is an opportunity cost of GfD investing time and resources on issues beyond those that will deliver progress against its core work areas. Other DFAT investments may be more appropriate (eg TAF could in due course manage support to JSMP and FM as it is already co-funding them and it manages a DFAT program with related themes and partners on violence against women).

## 7.5 Recommendations for ‘Other Voices’, gender and social inclusion

### What to do in short-term?

**Cross-cutting 1: Develop a GfD strategy on gender and inclusion.**

Develop a strategy, consolidate activities and identify lessons to date on gender and disability to target priorities in the last phase of the program and inform a follow-on program and other DFAT investments.

**Cross-cutting 2: Focus on the sustainability of ‘Other Voices’ initiatives.**

Avoid new short-term grants. Focus instead on the sustainability of the national grantees, including their fundraising skills. Review the best way to support in-country, high quality, well evidenced research about key policy issues of importance (through helping PLG to become a think tank or other options).

**Cross-cutting 3: Clarify the place of security, justice and elections within GfD’s overall strategy.**

For the rest of the GfD program, either make security, justice and elections an explicit work area with strategies and support beyond GfD grants to make the most of past and existing support. Or clearly establish GfD as a funding facility for the Australian Embassy on these issues, rather than a coherent program with an overarching ToC. JSMP and FM grants have been deemed essential for the survival of these organisations. Before GfD comes to an end, DFAT should consider whether another program is best placed to fund them (taking into account the management costs of the intermediary funder).

### What to do for a future program?

**Cross-cutting 4: Ensure accountability, gender and inclusion are central to both the design process and program implementation.**

The design should consider state accountability, responsiveness and transparency – not just state capacity. This will automatically generate attention to citizens’ perspectives. It should also analyse the ways in which women, people living with disabilities, the young and rural populations are marginalised or excluded from economic activities and service delivery, and fashion interventions to specifically address this. Ensure explicit attention, sufficient funding and a program-wide strategy on these issues in the design and implementation of any-follow-on program.

**Cross-cutting 5: Assess DFAT wider support to civil society and the specific role of a successor GfD program.**

Rigorously assess (across DFAT programs) how DFAT can support ‘Other Voices’ and CSOs advocacy across the sectors it supports, updating the 2019 DFAT study. Identify what would best be covered from a GfD successor program (eg the enabling environment for CSOs).

**Cross-cutting 6: Do not include security, justice and elections within the scope of a successor program.**

These issues could not be managed strategically within GfD. Following sector assessments (starting with strategic Australian objectives and what other development partners are doing), DFAT may decide to address these issues through another program or not at all.

## 8. Conclusion and main recommendations

Overall, GfD's objectives continue to be relevant, and its original main design assumption remains valid. GoTL service delivery programming and economic policy are significant determinants for poverty alleviation in the country.

- Despite improvements in PFM and statistical capacity as a result of GfD, GoTL's skill-base remains low and systems are being established. PBB will require another decade to be embedded, and gains could be lost if the transition to the MoF does not succeed.
- Significant issues remain with the civil service to improve meritocracy and address the 'parallel' civil service constituted by national advisers. Controlling the number and salaries of public servants is politically and fiscally important, as the public service is Timor-Leste's largest employer.
- Whether and how Timor-Leste uses its petroleum wealth – to invest in a diversified private sector-led economy, or to double-down on oil and gas exploration, or some combination of the two – is the single critical determinant of the country's future.
- GfD, as a central program, can be used by other DFAT investments to contribute to a more effective and efficient overall Australian development portfolio in Timor-Leste.

Based on the findings and lessons identified in the main report, the review team makes the following recommendations to improve the performance of the program in its remaining 18 months (at both a strategic and implementation level) and to design a potential successor program (in terms of the approach to design and suggestions for thematic priorities).

### What to do in the short term (18 months)?

These recommendations are all addressed to GfD management (in DFAT and Cardno).

#### a. Strategic level

##### **R1 Prepare work area strategies, in particular on economic development and cross-cutting issues.**

- Draw on the excellent existing analysis and an assessment of what other development partners are doing to produce a short economic development strategy to guide programming and to link GfD to other DFAT economic programs.
- Develop a strategy, consolidate activities and identify lessons to date on gender and disability to target priorities in the last phase of the program and inform a follow-on program and other DFAT investments.
- Review the best way to support in-country, high quality, well evidenced research about key policy issues of importance (through helping the Policy Leaders Group to become a think tank or other options).

## **R2 Support the transition of program-based budgeting (PBB) from the Prime Minister's Office to the Ministry of Finance (MoF), and coordinate support with other development partners.**

- PBB is still in its infancy and MoF lacks the skills and capacity to reinforce and enhance PBB across government. A political economy analysis (PEA) should be undertaken to inform any future decisions around delivering MoF guidance materials and skills transfers to take on annual PBB responsibilities.
- Liaise with the European Commission and World Bank on cost-sharing MoF PFM reforms. The major cost of implementing MoF performance management reforms and special career regime may need support from a World Bank PFM and fiscal sustainability development policy loan. It is not recommended that DFAT fund any development policy loan.

## **R3 Assess GfD's impact on the Civil Service Commission (CSC) capacity as well as on the overall performance of the public service.**

- After 10 years of DFAT support to the CSC, and as the CSC Commissioners' mandate comes to an end (in May 2020), GfD should consolidate CSC initiatives and avoid new public administration reform activities.
- GfD should assess its impact on the CSC and wider civil service capacity in a way that builds the CSC's ability to do further assessments independently. This analysis will also inform a potential successor program.
- GfD should ensure all its advisers shift to a capacity development approach in the last 18 months of the program. While this is included in their responsibilities and reporting requirement, advisers may require additional encouragement and full support from their GoTL line managers. Additional modalities could be used to complement advisers.

## **b. Implementation**

### **R4 Strengthen GfD's ability to think and work politically.**

- **Use review and reflection workshops more strategically.** These should be more regular, targeted to shape decisions, with a limited number of stakeholders and 'critical friends'. The next workshop could be held when the review team leader returns to Timor-Leste (February 2020) to draw on the review findings. These should not be the main way of engaging with GoTL stakeholders, which requires a blend of formal and informal approaches.
- **Commission political economy analyses as inputs for the review and reflection workshops or to inform other strategy development.** They would examine how the political circumstances are shifting and how this is likely to influence programming. They should cover GfD's different sectoral themes. They should be documented and updated regularly (eg as written reports, PowerPoint presentations, notes of meetings, cables) to inform program adaptation.
- **Continue to improve monitoring, evaluation and learning.** GfD management should select the most relevant anticipated results by the end of the program in 2021 in the different work areas; develop mini ToCs for each initiative within the work areas showing causal chains and hypotheses towards these results; and track progress and monitor hypotheses with quantitative and qualitative data to inform management decisions and ongoing program adaptation.

## **R5 Strengthen GfD's technical management and external challenge.**

- **Appoint three Cardno-based 'technical work area managers'.**  
They would be responsible for developing strategies for PFM, economic development, public administration, as well as integrating 'Other Voices' and cross-cutting issues more systematically; monitoring progress; and managing advisers and grants. These posts should be filled as soon as realistically feasible.
- **Establish 'independent technical sounding boards'.** These would be made up of independent individuals with strong expertise in the area, who would be able to advise GfD on whether proposed new initiatives are sound and help assess progress. They would advise on how best to engage with GoTL stakeholders.

## **R6 Improve collaboration between DFAT investments.**

- DFAT should ensure GfD and other DFAT programs that collaborate with central agencies and on economic development have a shared understanding of their division of labour and how to rely on GfD, particularly with:
  - Partnership for Human Development (PHD) and PARTISIPA on PFM and civil service capacity in relation to central barriers to education, health, social protection; how to ensure accountable service delivery and feedback loops from citizens; and decentralisation division of labour.
  - *To'os Ba Moris Diak* – Farming for Prosperity Program (TOMAK), Roads for Development (R4D), Workforce Development Program in Timor-Leste (WDPTL) and Market Development Facility (MDF) on an economic development strategy and collaboration on agriculture.
- Jointly commission an updated study on the barriers to service delivery.

## **What to do for a future program?**

These recommendations are all addressed to DFAT.

### **c. Overall program approach**

#### **R7 Start designing the next GfD phase or successor program now, linking the approach to a strategy.**

- Base the design on this review and PEAs for different sectors.
- Consider designing a separate economic development program to enable GfD to remain more focused.

#### **R8 Ensure accountability, gender and inclusion are central to both the design process and program implementation.**

- Consider state accountability, responsiveness and transparency – not just state capacity.
- Analyse the ways in which women, people living with disabilities, the young and rural populations are marginalised or excluded from economic activities and service delivery, and fashion interventions to specifically address this.

- Assess DFAT wider support to civil society and the specific role of a successor GfD program by rigorously assessing (across DFAT programs) how DFAT can support 'Other Voices' and civil society organisations' advocacy across the sectors it supports. DFAT would then identify what would best be covered from a GfD successor program (eg the enabling environment for CSOs).
- Consider a PFM accountability feedback loop: GfD and the OPM Social Audit Unit could explore ways to develop an accountability feedback loop that informs OPM of progress with PBB implementation and its impact on services delivery.

### **R9 Consider a broader range of modalities to address specific 'problems'.**

A new program should include a richer blend of modalities beyond mostly relying on advisers and grants.

- Design specific GfD initiatives around a clear problem that GfD could help address (rather than a GoTL organisation it should support).
- Map the different strategies that could be adopted and select relevant modalities (eg packaged as a small project).
- Facilitate networking.
- Fund public campaigns as well as technical advice or training/mentoring/coaching.
- Engage with more stakeholders (including beyond GoTL) to achieve more sustainable change.

### **d. Program focus suggestions** (subject to PEAs or other design studies)

#### **R10 Target barriers to service delivery.**

The design for a follow-on program should clearly identify what are the barriers to service delivery at the local level that would benefit from PFM and public administration reforms. This should be done jointly with other relevant DFAT programs. Responses are likely to require strategies to improve accountability, transparency and responsiveness.

- Commission a repeat of the 2010 Kathy Wimp barriers to service delivery study.
- On that basis, address the central barriers to service delivery through a GfD successor.
- Ensure ongoing feedback from the sub-national level to the national level (including through other Australian-funded programs such as PARTISIPA).
- Scope the next stage of DFAT PFM support at the sub-national level to complement central PFM initiatives.

#### **R11 Assess political commitment to public administration reforms, and in the absence of such commitment devise a new approach.**

In principle, it is important for GfD to remain engaged, as any public service is only as good as its people. The issue is whether DFAT judges there is sufficient political commitment to a meritocratic and accountable public service. In the absence of such commitment, GfD should reduce the scope, objectives, modalities and scale of assistance. It should reduce its reliance on long-term advisers, and instead support a much-smaller scale organisational improvement plan for selected departments. Support would address specific issues, track success/challenges and more quickly adjust (rather than follow a linear policy cycle).



**R12 Give serious thought to how DFAT might support efforts to address critical, but sensitive, policy challenges, eg in the oil and gas sector and on land rights. It is important to be able to engage on oil and gas beyond diplomatic and commercial conversations.**

Similarly, property rights, particularly around land, appear to be one of the most important constraints to investment – making progress in this sensitive area could be transformative. In both areas, there are ways in which DFAT might provide indirect support, either through international partners, or by supporting Timorese-led dissemination and debate on evidence using an arm's length approach.

**R13 Focus more on youth employment.**

The provision of jobs will be the central economic challenge facing Timor-Leste's growing young population. A successor could play a role in supporting government strategies to link work on education and training to sectoral interventions designed to stimulate private sector-led growth.

**R14 Do not include security, justice and elections within the scope of a successor program.**

These issues could not be managed strategically within GfD. Following sector assessments (starting with strategic Australian objectives and what other development partners are doing), DFAT may decide to address these issues through another program or not at all.

# 9. Annexes

## Annex A: List of interviews

| CATEGORY                    | NAME  | POSITION   | ORGANISATION                      |
|-----------------------------|---|--|-----------------------------------|
| DFAT                        | Acacio Pinto  | GfD economic development work area coordinator   | Australian Embassy                |
|                             | Bruce Soar  | Director, Timor-Leste Section  | DFAT Canberra                     |
|                             | Carli Shillito  | Councillor, human development and Steering Committee member  | Australian Embassy                |
|                             | Christine Bouchard  | Executive Officer, Timor-Leste Section   | DFAT Canberra                     |
|                             | Dan Woods   | DFAT Councillor and GfD Program Director 2016–2019   | Australian Embassy                |
|                             | Erin Gleeson  | First Secretary, human development   | Australian Embassy                |
|                             | Jonathan Gouy   | Former Program Director of GfD Program (2013–2016); now Director, Health and Economic Development Commonwealth Grants Commission | Australian Embassy                |
|                             | Vincent Ashcroft  | Former Minister Counsellor, Australian Aid   | Australian Embassy                |
|                             | Francisco Soares  | GfD public financial management work area coordinator  | Australian Embassy                |
|                             | Jose Marcal   | GfD public administration work area coordinator  | Australian Embassy                |
|                             | Mia Thornton  | Senior Policy Officer, Governance Section (and formerly Australian Embassy, Dili 2013–2016)                                      | DFAT, Canberra                    |
|                             | Natalie Mendelsohn  | Former DFAT First secretary and GfD Program Manager (2018–19)  | Australian Embassy                |
|                             | Nick Cumpston   | DFAT Governance and Rural Development counsellor and Steering Committee Chair  | Australian Embassy                |
|                             | Sakuntala Akmeemana   | Principal Governance Specialist and Steering Committee member  | DFAT Canberra                     |
|                             | Sam Porter  | Development Economics Unit, DFAT Canberra (and former GfD economic adviser)  | DFAT                              |
| Sarah Boddington            | Director Governance (and former GfD design team/interim GfD phase manager)                | DFAT Canberra  |                                   |
| DFAT program                | Alfons Urlings  | Market Systems Development Adviser   | TOMAK                             |
|                             | Alvaro Ribiero  | Implementation Adviser   | PNDS                              |
|                             | David Lamotte   | Roads for International Development Team Leader  | International Labour Organisation |
|                             | Erna Suriani  | Finance Advisor  | PNDS                              |
|                             | Fiona Hamilton  | Team Leader, National Program for Village Development (PNDS)   | PNDS                              |
|                             | Nick Wolf   | Team leader  | MDF                               |
|                             | Inga Mepham   | Team Leader (and formerly TOMAK Team Leader)   | Partners for Human Development    |
| GfD partner (international) | Andrew Blazey   | Coordinator, Budgetary Governance Roadmap  | OECD, Paris                       |
|                             | Brett Inder   | Professor  | Monash University                 |
|                             | Christopher Hinchcliffe   | Coordinator, Support to Statistics   | ABS Canberra                      |
|                             | David Freedman  | Country Representative and Country Economist and Steering Committee member   | Asia Development Bank             |
|                             | Hans Beck   | Former country economist (2012–2016)   | World Bank                        |
|                             | Joana Custoias  | Senior Legal Adviser   | Asia Development Bank             |
|                             | Kathy Richards  | Country Director   | Oxfam                             |
|                             | Macmillan Anyanyu   | Country Representative   | World Bank – Dili                 |
|                             | Pauline Tweedie   | Country Representative   | The Asia Foundation               |
|                             | Pedro Martins   | Senior Economist   | World Bank – Dili                 |
|                             | Soneath Hor   | Country Representative   | International Finance Corporation |
|                             | Tobias Haque  | Team Leader PFM Political Economy Analysis Report  | World Bank, Washington DC         |
| Yongmei Zhou                | Program Leader, Equitable Growth, Finance and Institutions, and Steering Committee member | World Bank, Jakarta  |                                   |

| CATEGORY                         | NAME  | POSITION  | ORGANISATION                       |
|----------------------------------|---|---|------------------------------------|
| <b>GfD partner (national)</b>    | Abel Amaral   | Acting Deputy Director  | Fundasaun Mahein                   |
|                                  | Brigido de Sousa  | President   | BNCTL                              |
|                                  | Carmeneza dos Santos Monteiro   | Independent and member of the Steering Committee (formerly DFAT, OPM, and The Asia Foundation)      | Independent                        |
|                                  | Casimiro dos Santos   | Interim Director  | Judicial Sector Monitoring Program |
|                                  | Cesario da Silva  | Director  | ADTL                               |
|                                  | Hugo Fernandes  | Director (and chair of Policy Leaders Group)  | Centro Nacional CHEGA/CAVR         |
|                                  | Joazito Dos Santos  | Director  | RHTO                               |
|                                  | Jordan Borgan   | International adviser   | Fundasaun Mahein                   |
| <b>GfD staff (international)</b> | Sr. Angelo Soares   | CEO   | KIF                                |
|                                  | Alaina Mitchel  | GfD Program Coordinator   | GfD                                |
|                                  | Carolyn Peterken  | Team Leader, GfD (Cardno)   | GfD                                |
|                                  | Cate Keane  | Senior PFM Advisor, UPMA-PMO  | GfD                                |
|                                  | Daniel Kobb   | Senior Public Administration Adviser, MRLAP   | GfD                                |
|                                  | Eric Vitale   | Public Financial Management international adviser   | GfD                                |
| <b>GfD staff (national)</b>      | Liz Garrett   | Former GfD Operations Manager   | GfD                                |
|                                  | Antonio Soares  | National adviser, decentralisation  | GfD                                |
|                                  | Delice Lopes, Jose Alves, Adelaide Correia, Domingues Soares, Jose Araujo, Pedro Gutteres | GfD National PFM Advisers, UPMA-OPM   | GfD                                |
|                                  | Emilia Lay and Johny Viegas   | GfD national gender and inclusion advisers  | GfD                                |
|                                  | Felix da SilvaReis  | National Management and Administrative Adviser, SERVE   | GfD                                |
|                                  | Guteriano Neves   | GfD economic development adviser, Office of the Prime Minister (and member of Policy Leaders Group) | GfD                                |
|                                  | Joao Pereira, Flavio Bonito, Maria Virna  | GfD national public administration advisers, Civil Service Commission                               | GfD                                |
|                                  | Leoneto Elizario  | GfD National Advisor, Labour Market Information, SEFOPE   | GfD                                |
|                                  | Leonito de Jesus  | National adviser, MRLAP   | GfD                                |
|                                  | Nelson Mesquita Cesaltina Araujo  | GfD national AACTL advisers   | GfD                                |
| Sanio Fernandes                  | GfD Personnel and Office Manager  | GfD   |                                    |

| CATEGORY   | NAME                             | POSITION  | ORGANISATION  |                              |
|--|----------------------------------|---|---|------------------------------|
| GoTL   | Alberto Piedade                  | ND Human Resources  | Ministry of Finance   |                              |
|  | Antoninho Pires                  | Director General, Corporate Services  | Ministry of Education   |                              |
|  | Antonio Freitas                  | Director General, Development Partnership Management Unit   | Ministry of Finance   |                              |
|  | Arcanjo da Silva                 | Executive Director  | TradelInvest Timor-Leste  |                              |
|  | Armando da Silva                 | Board Member  | AACTL   |                              |
|  | Brigida Soares                   | Coordinator of Planning, UPMA   | Office of the Prime Minister  |                              |
|  | Carlito Noronha                  | Director, Aviation Security   | AACTL   |                              |
|  | Carlos Tilman                    | Director  | AACTL   |                              |
|  | Cornelio Vasconcelos             | Director, Flight Safety   | AACTL   |                              |
|  | Deonísio dos Santos              | Team Leader, Social Sector, UPMA,   | Office of the Prime Minister  |                              |
|  | Dr. Rui Gomes                    | Former Minister of Finance and Economic Adviser to the President                                  | GoTL  |                              |
|  | Dulce de Jesus Soares            | Minister of Education (CNRT)  | Ministry of Education   |                              |
|  | Elias dos Santos                 | General Directorate Statistics  | Ministry of Finance   |                              |
|  | Estanislau da Silva              | Former Coordinating Minister of the Economy and Minister for Agriculture and Fisheries (Fretilin) | GoTL  |                              |
|  | Faustino Cardoso Gomes           | President   | Civil Service Commission  |                              |
|  | Filipe da Costa                  | Head of CSO unit  | Office of the Prime Minister  |                              |
|  | Ivan j Benguiron                 | PFM Advisor, UPMA   | Office of the Prime Minister  |                              |
|  | Jose Telo Soares Cristovao       | Commissioner  | Civil Service Commission  |                              |
|  | Marcelo Amaral                   | National Director, Public Administration, Planning and Finance                                    | Ministry of Health  |                              |
|  | Mark Young                       | Adviser   | Trade Investment Timor-Leste  |                              |
|  | Marlyn                           | Human resources   | Ministry of Finance   |                              |
|  | Martinho Lopes                   | Chief, PFM Reforms  | Ministry of Finance   |                              |
|  | Minister Fidelis Leite Magalhães | Minister (PLP)  | Ministry for Law Reform and Parliamentary Affairs                                       |                              |
|  | Odete Vitor                      | Former Loan and donor funded projects, Ministry of Public Works                                   | GoTL  |                              |
|  | Pedro Lay                        | National Adviser  | Ministry of Planning and Strategic Investment   |                              |
|  | Rita Pires                       | Former Coordinator of the Ministry for Economic Affairs   | GoTL  |                              |
|  | Roberto Sousa                    | Head of ICT unit (TIC)  | Office of the Prime Minister  |                              |
|  | Valdo Mar                        | PFM Capacity Building Centre  | Ministry of Finance   |                              |
|  | Helder Lopes                     | Minister Designate for Finance (Former vice-minister)   | Ministry of Finance   |                              |
|  | Independent                      | Duarte Tilman Soares  | Judge Counsellor and Deputy President   | Court of Appeal              |
|  |                                  | Fernanda Borges   | Former MP (National Unity Party/PUN) and former Head of Fiscal Policy Reform Commission | Private sector               |
|  |                                  | Gauldino da Ssilva  | President   | National Petroleum Authority |
|  |                                  | João Saldanha   | President (Former economic adviser to Ministry of Finance)                              | João Saldanha University     |
| Jose Antonio Belo  |                                  | Journalist  | Tempo Semanal   |                              |
| Jose Lobato  |                                  | Timor-Leste Country Manager   | Conoco Phillips   |                              |
| Jose Teixeira  |                                  | Former MP and former Minister of Energy (Fretilin)  | Private sector  |                              |
| Luis Alves   |                                  | Acting President  | ANCTL (Dili airport operator)   |                              |
| Lully Alves  |                                  | President   | Business Women's Association  |                              |
| Maria José Guterres  |                                  | Director  | Fokupers  |                              |
| Mariano Ferreira, Adilson da Costa, Elizaria Febe Gomez                        |                                  | Researchers   | La'o Hamutuk  |                              |
| MP Abel da Silva   |                                  | MP (PLP)  | Parliament  |                              |
| Orlando Petrus   |                                  | Director  | ETADEP  |                              |
| Pde. Guilhermino, Pde. Mousinho Lopes, Martinho Gusmão, Jose Neves, Afonso Aku |                                  | Justice & Peace Commission, Dili  | Catholic Church   |                              |
| Rui Castro   |                                  | Vice President  | Chamber of commerce   |                              |
| Signi Verdial  |                                  | Vice Minister (PLP)   | Ministry of Social Security   |                              |
| International organisation   | Simon Le Grand                   | Head of Development Cooperation, PFM program manager  | European Commission   |                              |
|  | Sunita Caminha                   | Head of Office  | UN Women  |                              |

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# Annex C: GfD Public Financial Management work

This annex provides more details on the 2015–16 'pivot' in the public financial management (PFM) work area.

## 1. Undocumented PFM work area redesign

**Finding:** GfD management was able to neglect the GfD Investment Design Document process for the PFM redesign in 2015–16. This material deficiency in GfD management highlights the potential risk of weaker governance standards for DFAT-led programs.

GfD PFM, excluding Statistics, was subject to a major redesign in 2015–2016. PFM's thematic focus, modality and counterpart agency all changed, and its funding envelope was significantly reduced.

The review team enquired into this important PFM development in the desk study and interviews but was not provided with, nor able to locate, GfD documentation for this redesign. Accordingly, the team could not appraise the PFM redesign process based on GfD documentation.

This is a material departure from the GfD Investment Design Document, which stipulates a formal redesign process. The review was advised<sup>1</sup> that the redesign process was included to assist GfD Program Directors to think and work politically in the known volatile politico-institutional context of Timor-Leste; but this process was not observed<sup>2</sup> by the GfD management.

The GfD design document requires the following approach to a redesign for PFM:

- P.32 – complete and document the (six monthly) process of review and redesign.
- P.62 – review and redesign process will involve the whole core team of the GfD Program and the Canberra-based Program Enabling Team – Design Support and will be attended by at least two people from the DFAT Program Monitoring and Support Group.
- P.91 – Institutional and Stakeholder Snapshot Template (Annex G) documented for MoF.

To address Key Evaluation Questions in the review terms of reference on PFM relevance and efficiency, the review had to make its own rapid assessment of the PFM work area redesign. This imposed time and resource burdens on the team, and limited the scope of the review's other work.

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1 DFAT staff interviews.

2 DFAT staff interviews.

## 2. Relevance (context analysis)

**Finding:** GfD found itself at a crossroad in 2015–2016 regarding its end of program outcome (EOPO) of better-quality public expenditure leading to improved service delivery. Bilateral and performance management tensions limited the capacity for engagement with the Ministry of Finance (MoF) and World Bank, its traditional PFM partners. However, the VI<sup>th</sup> Constitutional Government was strongly supportive of budget-based reform, which was consistent with Public Expenditure and Financial Accountability (PEFA) findings on the need to build budget execution capabilities. Given GfD's EOPOs and the Prime Minister's leadership, it was tactically relevant, from policy and authority perspectives, to realign GfD resources to support the introduction of program-based budgeting (PBB) in 2016.

A large number of factors present between 2015 and 2016 informed the PFM redesign. These are summarised below and grouped under three sub-headings: political, institutional and technical. The sequence of events is not known or indicated by the order of points.

Because senior DFAT staff serve as GfD Program Director, the team was advised<sup>3</sup> that some GfD program consultations assumed a political dimension due to DFAT's closeness to GfD. The review team is not aware of which consultations were so affected, as these are not documented.

### Political factors:

- Timor-Leste–Australia bilateral relations deteriorated markedly around Maritime Arrangements in the Timor Sea.
- Swearing-in of the VI<sup>th</sup> Constitutional Government on 16 February 2015, a unity government with a 'new generation' Prime Minister and Finance Minister (ex Vice-Minister of Finance in V<sup>th</sup> Constitutional Government). A key policy goal was a focus on "better service delivery and quality of works, in a manner that is efficient, effective and accountable".<sup>4</sup>

### Institutional factors:

- Prime Minister Araujo<sup>5</sup> had public finance management experience through study and as Minister of Health 2001–2006 when program budget formats were used by the I<sup>st</sup> and II<sup>nd</sup> Constitutional Governments. Budget programs were discontinued in the III<sup>rd</sup> and V<sup>th</sup> Constitutional Governments.<sup>6</sup>
- The Minister of Finance grappled with the portfolio and MoF was not considered equal to the task of driving PFM reforms. Responsibility for GoTL's annual budget was transferred by Decree Law 22/2015<sup>7</sup> from MoF to the new Planning, Monitoring and Evaluation Unit (UPMA) in the Office of the Prime Minister (OPM).

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3 GfD adviser interviews.

4 [www.mof.gov.tl/the-swearing-in-of-the-new-national-unity-government/?lang=en](http://www.mof.gov.tl/the-swearing-in-of-the-new-national-unity-government/?lang=en)  
Internet accessed 21 October 2019.

5 PM Araujo holds a Masters Degree in Public Health, majoring in Health Policy, Health Management and Health Financing, from Otago University, New Zealand. Biography, H.E. Dr. Rui Maria de Araújo, <http://timor-leste.gov.tl/?p=11229&lang=en>, Internet accessed 21 October 2019.

6 GoTL interviews.

7 DFAT. (2017). *2016 Annual Performance Report - Ministry of Finance Facing the Challenges*. DFAT Independent Validators, 24 March 2017, page 2.

- DFAT reduced the Timor-Leste Country Program budget in real AUD-terms alongside depreciation of 21% in the AUD:USD exchange rate and GfD needed to reduce Phase 1 input costs by a total of 40%.<sup>8</sup>
- DFAT lost confidence in DBS's joint monitoring model for MoF internal capacity building and recalibrated the matrix to reflect to a less complex, better understood set of measurements.<sup>9</sup> MoF failed to achieve satisfactory scores using the revised matrix and DBS was terminated after two years of operation and using AUD7.5 million, or 38%, of its AUD20 million budget. This damaged relations with MoF, which is responsible for long-term PFM management and reforms.
- DFAT-Canberra considered that the World Bank-Sydney administered AAA was underperforming<sup>10</sup> and terminated its contributions to the Australia-World Bank Strategic Partnership Timor-Leste Trust Account. This damaged relations with a technical PFM partner.
- Bilateral tension impinged on MoF-GfD engagement and the GfD long-term adviser supporting the PFM Capacity Building Centre was removed at MoF's direction. GfD no longer had any practical engagement with MoF.
- The European Union (EU) was unaffected by bilateral tensions and continues to deliver long-term advisory support and DBS to MoF after DFAT DBS was terminated. The EU also funded the 2014–2017 draft joint PEFA review done by MoF, EU, and the World Bank.<sup>11</sup> EU DBS enabled internally focused MoF Performance Management Reforms to continue. The EU also reduced its Budget Support Target indicators from 28 to 9 to streamline its monitoring effort. It notes the draft 2017 PEFA is critical of GoTL and MoF capacities; and calls for further capacity building<sup>12</sup> in PFM.

### Technical factors

- Successive PEFA assessments from 2007 to 2013 highlight weaknesses in GoTL budget expenditure management. The initial problem was low rates of budget execution and under-delivery of services (p.9, 2007); then a too liberal virement framework that diverted funds to low impact areas (p.10, 2007–2010); and the budget not responding to all policy priorities set forth in the national development plans (p.8, 2010–2012). This is balanced by “solid progress in strengthening PFM and achieving fiscal transparency”, “a relatively well-structured budget process” and use of a “modern integrated financial management information system with reconciliation of Government’s bank accounts and advances; and a treasury single account”.<sup>13</sup>
- Weak bank reconciliations are now cited as a reason not to support PBB in 2015, a finding not reached by the 2014 PEFA report.

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8 DFAT staff interviews.

9 DFAT staff interviews.

10 DFAT staff interviews.

11 International partner interviews.

12 International partner interviews.

13 Shepherd, J. A. & Hadziyannakis, Y. (2014) *Repeat Public Expenditure and Financial Accountability (PEFA) Assessment 2013 Timor-Leste*. POHL Consulting & Assoc, 26 May.

- GfD sought an experienced technical advisory to inform and assist on improving the quality of public expenditure and service delivery across whole-of-government. The OECD met this brief<sup>14</sup> because of its prior experience with implementing PBB and Medium-Term Expenditure Frameworks (MTEFs) in the Asia region, which GoTL identifies most closely with.
- PM Araujo and former President Gusmao attended OECD Asia Regional Workshops in 2016, leading to the development of the GoTL Budgetary Governance Roadmap, which was approved by Council of Ministers in 2017. The roadmap was championed by the PM and encompasses PFM reforms, sequenced implementation of PBB, development of a MTEF and civil service capacity building reforms.

### 3. Relevance (other countries experience with implementing PBB)

**Finding:** The strategic relevance of GfD support to PBB is less evident to the review team, especially with the loss of engagement in MoF as the long-term custodian of PFM systems.

A 2012 study of PBB implementation experiences in eight developing economies<sup>15</sup> notes two key tests that predict the likelihood of a PBB implementation being timely and therefore more likely to succeed. The first test considers the enabling environment and GoTL generally satisfies two of three criteria, being:

- *A more gradual approach* – not met: UPMA tried to deliver program classification rapidly.
- *Support of leaders* – the 6<sup>th</sup> Constitutional Government Prime Minister was a champion, with few others as committed.
- *Strong PFM systems including the successful implementation of computerized financial management systems* – this is less certain, as the 2012 PEFA assessment is mixed.

The second test is linked to a selected group of 32 PEFA indicator ratings, which are a proxy measure for the readiness of the PFM system to fully implement PBB in a timely way. Lower PEFA ratings imply a longer period of parallel PFM and PBB reforms, increasing the risk of reform fatigue and later benefits from PBB in terms of better services delivery. Table C1 below summarises GoTL's status for PBB implementation, using the GoTL PEFA indicator scores for 2012 and comparing these to the prerequisite score nominated in the study.

The result indicates that GoTL achieved 18 out of 32 prerequisites, which equates to a total time required for PBB reforms for a Small-Island State of 12 to 15 years. This compares to a 5 to 7-year PBB implementation period when the PBB enabling context is completed, including PFM systems being sufficiently strong.

Further, the study identifies that implementing program classifications is a relatively short-term event in a PBB implementation program, taking a few years, while the process of physical output and outcome analysis of budget programs takes longer to implement.

14 OECD. (2008). *Sequencing and Pacing of Performance Budgeting Reforms*. OECD, Public Governance and Territorial Development, Public Management Committee, November.

15 Quist, R.E. (2012). *Roundtable Discussion 1: The Sequencing and Time Table of Programme Based Budgeting Reform*. 8<sup>th</sup> Annual Seminar, Collaborative Africa Budget Reform Initiative, April.

**Table C1: GoTL status for PBB implementation, based on PEFA 2013 scores**

| <b>PEFA SCORES</b>  |  | <b>PRE-REQUISITE SCORE*</b> | <b>GOTL 2014 PEFA SCORES</b> | <b>PRE-REQUISITES STATUS</b> |
|---|--|-----------------------------|------------------------------|------------------------------|
| <b>Indicators of PFM preparedness for successful PBB implementation</b>     |  |                             |                              |                              |
| <b>1.</b>   | Aggregate expenditure out-turn compared to original approved budget            | A                           | D                            | 0                            |
| <b>2.</b>   | Composition of expenditure out-turn compared to original approved budget       | A                           | D                            | 0                            |
| <b>3.</b>   | Aggregate revenue out-turn compared to original approved budget                | A                           | B                            | 0                            |
| <b>4.(i)</b>  | Stock of Arrears   | B                           | NR                           | 1                            |
| <b>4.(ii)</b>   | Data Availability  | B                           | D                            | 0                            |
| <b>5.</b>   | Classification of the budget   | C                           | B                            | 1                            |
| <b>11.(i)</b>   | Existence and Adherence to a fixed budget calendar                             | B                           | B                            | 1                            |
| <b>11.(ii)</b>  | Clarity/comprehensiveness of and political involvement in budget preparation   | A                           | A                            | 1                            |
| <b>11.(iii)</b>   | Timeliness of budget approval by the legislature                               | A                           | C                            | 0                            |
| <b>16.(i)</b>   | Extent to which cash flows are forecast and monitored                          | B                           | A                            | 1                            |
| <b>16.(ii)</b>  | Reliability and horizon of periodic information to MDAs on commitment ceilings | B                           | B                            | 1                            |
| <b>17.(i)</b>   | Quality of debt data recording and reporting                                   | A                           | NA                           | 1                            |
| <b>17.(ii)</b>  | Extent of consolidation of the government's cash balances                      | B                           | B                            | 1                            |
| <b>18.(i)</b>   | Degree of integration and reconciliation between personnel records and payroll | A                           | C                            | 0                            |
| <b>18.(ii)</b>  | Timeliness of changes to personnel records and the payroll                     | B                           | A                            | 1                            |
| <b>18.(iv)</b>  | Existence of payroll audits  | B                           | C                            | 0                            |
| <b>19.(i)</b>   | Use of open competition  | B                           | B                            | 1                            |
| <b>19.(ii)</b>  | Justification for use of less competitive methods                              | B                           | D                            | 0                            |
| <b>20.(i)</b>   | Effectiveness of expenditure commitment controls                               | B                           | A                            | 1                            |
| <b>21.(i)</b>   | Coverage and quality of the internal audit function                            | B                           | D                            | 0                            |
| <b>23.</b>  | Availability of information on resources received by service delivery units    | B                           | D                            | 0                            |
| <b>24.(i)</b>   | Scope of reports (coverage and compatibility with budget estimates)            | A                           | A                            | 1                            |
| <b>24.(ii)</b>  | Timeliness of the issue of reports   | A                           | C                            | 0                            |
| <b>24.(iii)</b>   | Quality of information   | A                           | B                            | 0                            |
| <b>25.(i)</b>   | Completeness of the financial statements                                       | B                           | A                            | 1                            |
| <b>25.(ii)</b>  | Timeliness of submission of the financial statements                           | A                           | A                            | 1                            |
| <b>26.(i)</b>   | Scope/nature of audit performed  | B                           | B                            | 1                            |
| <b>26.(iii)</b>   | Evidence of follow up on audit recommendations                                 | B                           | B                            | 1                            |
| <b>27.(i)</b>   | Scope of the legislature's scrutiny  | B                           | B                            | 1                            |
| <b>28.(i)</b>   | Timeliness of the examination of audit reports by the legislature              | A                           | A                            | 1                            |
| <b>D-2(i)</b>   | Completeness and timeliness of budget estimates by donors                      | A                           | B                            | 0                            |
| <b>D-2(ii)</b>  | Frequency and coverage of reporting by donors on actual donor flows            | A                           | C                            | 0                            |
| <b>GoTL implementation of PBB requires significant, ongoing PFM reforms</b> |  | <b>32</b>                   |                              | <b>18</b>                    |

\* The Sequencing and Time Table of Program Based Budgeting Reform. CABRI 8<sup>th</sup> Annual Seminar, April 2012

## 4. Effectiveness

These findings have implications for GoTL. The introduction of program classification to line agencies' budgets, supported by a GfD 'project' team in UPMA, was effectively achieved in three years. Its effectiveness was influenced by the following:

- Political uncertainty for nine months following the 2017 general election that caused the deferral of GfD program implementation, including for program classification in line agencies.
- Rushed implementation of program classification into line agencies budget frameworks due to time pressures from OPM to see results of the new PFM initiative.
- Limited advance training and formal guidance materials being prepared and a focus on learning-by-doing for GfD technical advisers. In 2016, GfD national advisers received a one-week induction course on PBB; and Phase 1 program classification guidelines prepared with short-term advisory inputs. There was no further training provided other than on-the-job learning. The Phase 1 guidelines are being revised for the first time in 2019 to incorporate the many changes that were made to procedures during the three-year roll-out of program classification to all line agencies. The lack of currency rendered the guidelines of limited use in years 2 and 3 of the program classification roll-out.
- Frequent reframing of the program classification template during implementation to add supplementary elements (for example, sustainable development goals; gender marker; inclusion and disability responses; and adjustments to program classifications to match MoF FMIS technical requirements such as the Chart of Accounts structure).
- Line agencies were required to complete two GoTL budget submissions from 2016 to 2018, one for MoF Budget purposes and another, different, form for DBFTL Budget preparation using program classification. This duplication was eliminated for Budget 2019 but led to push-back from line agencies with limited capacity to undertake two budget tasks in the same time-period.

UPMA and MoF appear to have reached agreement-in-principle in 2019 that PBB and DBFTL will move to MoF management, as set out in mutually acceptable draft Organic Laws.<sup>16</sup> Further, PBB-related amendments have been drafted to Law No. 13/2009 – Budget and Financial Management. The legal and institutional status of PBB as part of the GoTL PFM framework is yet to be formalised by gazettal, but good faith negotiations appear to be ongoing to achieve this.

Further, the review team is advised that suitably qualified and experienced UPMA officers can be made available to MoF to support the transition and build MoF capacities to continue implementation of PBB<sup>17</sup>, and MoF endorses this proposition.<sup>18</sup>

Without formal legal and institutional status for PBB within the GoTL PFM framework, the program classification gains made to date are vulnerable. A case could be made that MoF does not have the in-house capacity to sustain PBB implementation; DBFTL overlaps with the reporting and public access features of the Budget Transparency Portal; the migration of DBFTL budget data to FMIS and FMIS expenditure data to DBFTL will add to already

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16 GoTL interviews.

17 GoTL interviews.

18 GoTL interviews.



high FreeBalance back-office costs; and PBB and DBFTL may not be sustainable after their transfer to MoF administration.

Clearly, any PBB implementation requires institutional stability to complete, but GoTL may need as long as 15 years to achieve this. The lack of certainty around the return of GoTL annual budget responsibilities to MoF raises questions about whether the required institutional support will be available to advance to the next stage of physical output and outcome analysis of budget programs.

## 5. Allocative efficiency and opportunity costs of supporting PBB

**Finding:** It is not possible to review the allocative efficiency of GfD’s decision to support PBB, other than to note that few viable alternatives presented themselves to the review team. Terminating GfD’s investment in improving public expenditure quality for better services delivery would have been a major departure from both DFAT and GfD’s core country program objectives, and so is unpalatable as an option. The opportunity cost was disengagement from MoF with negative implications for the long-term sustainability of the GoTL PBB reform initiative.

As noted, GfD has no documentation on the analyses that underpin the PFM redesign. Further, alternative PFM priorities to PBB as at 2015–2016 are not documented by any stakeholder. Accordingly, the only known allocative-efficiency option available to GfD in 2015–2016 was the counterfactual of not investing in PBB.

This approach would require GfD abandoning the EOPO of improving the quality of public expenditure for improved services delivery, because no other GfD work area or DFAT program was working on this outcome. The review team finds this decision unlikely, noting the centrality of improved public expenditure and service delivery goals to the Australian Aid program.<sup>19</sup>

The investment options within GfD are not evident. The public administration and economic development work areas operate at smaller scales with limited impacts. This is not an attractive alternative destination for the PFM funding stream.

Investment options outside GfD include greater DFAT funding to social sector initiatives, but the potential for this is not known to the review team.

The opportunity cost of supporting PBB was a three-year disengagement from MoF as a key central agency of GoTL. This has ramifications for long-term sustainability of PBB, now that annual budget functions are planned to revert to MoF, which does not have the capacity to support this program classification and progression of PBB to physical output and outcome analysis of budget programs.

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<sup>19</sup> DFAT interviews.

## 6. Development partner coordination

**Finding:** GoTL leadership on PFM reforms and donor coordination was inconsistent and made the already contested PFM work area more complex to navigate.

GoTL leadership on PFM as well as PFM donor coordination has been inconsistent, resulting in the technically contested area of PFM reform becoming more complex when overlaid with institutional and political changes. This is evidenced in 2016 by the sudden transfer of a major PFM reform initiative, launching PBB, from MoF to OPM leadership. In 2019, there are signs of greater coordination on the domestic policy stance on PFM reform, with MoF and OPM Organic Law amendments seeking to formalise the transfer of the annual budget role from OPM to MoF, along with responsibility to progress PBB and DBFTL. However, there remain two PFM oversight bodies and it is unclear which one will lead PFM reforms for GoTL (the Inter-Ministerial Council on PFM and Fiscal Reform, chaired by the PM, yet to meet<sup>20</sup>; and its PFM Reform Working Group sub-committee, which reportedly does meet<sup>21</sup>). The risk is further inconsistency between advice emanating from the Inter-Ministerial Council on topics already announced by the sub-committee.

GoTL coordination of PFM international assistance is similarly inconsistent. MoF appointed the World Bank to lead PFM coordination from 2006, which has not been active in this role for the past several years<sup>22</sup>, while donors have been advancing their individual PFM agenda.<sup>23</sup> However, there is GoTL leadership in the broader area of aid policy, with the launch of the revised Foreign Aid Policy in July 2019. GoTL needs to be supported to nominate a formally mandated leader for all PFM reforms and related donor support. DFAT is a lead donor in the PFM area, but has limited traction in a donor coordinating role while relations with MoF and the World Bank remain weak.

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20 GfD staff interviews.

21 GoTL interviews.

22 GfD. (2019e). *Progress Report November 2018 to April 2019*. July.

23 Interviews with other development partners.

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