



TIMOR-LESTE PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY 2022-2027

*Towards Improved Accountability, Transparency &
Better Service Delivery*

Ministry of Finance of Timor-Leste



Timor-Leste, December 2022

Developed with support from European Union, International Monetary Fund and World Bank

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Acronyms and Abbreviations

ADB	Asian Development Bank
ANAPMA	National Agency for Planning, Monitoring and Evaluation
APA	Autonomous Public Agencies
ASYCUDA	Automated System for Customs Data
BCTL	<i>Banco Central de Timor-Leste</i> (Timor-Leste Central Bank)
C	Component
CAR	Commission on Accounting Regulation
CBA	Cost Benefit Analysis
CCARI	<i>Comissão de Coordenação e Acompanhamento das Reformas Institucionais</i> (Commission for Coordination and Monitoring of Institutional Reforms)
CdC	<i>Câmara de Contas</i> / Court of Accounts
CIA	Certified Internal Auditor
COFOG	Classifications of the Functions of Government
CoM	Council of Minister
DBFTL	<i>Dalan Ba Futuru Timor Leste</i> (Program-Based Planning system)
DFAT	Department of Foreign Affairs and Trade
DG	<i>Direção-Geral</i> (General Directorate)
DL	Decree-Law
DMO	Debt Management Office
DP	Development Partner
DN	<i>Diretor Nacional</i> (National Director)
ESI	Estimated Sustainable Income
EU	European Union
FMIS	Financial Management Information Systems
FRS	Fiscal Risk Statement
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GoTL	Government of Timor-Leste
GPRCGFP	<i>Gabinete de Política de Reforma e Capacitação em Gestão das Finanças Públicas</i> (Office for PFM Policy Reform and Capacity Building)
GOP	<i>Lei das Grandes Opções do Plano</i> (Grand Planning Options Law)
GRP	Government Resource Planning
HR	Human Resources
IA	Internal Audit
IAB	Investment Advisory Board
IF	Infrastructure Fund
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INDMO	<i>Instituto Nacional de Desenvolvimento de Mão-de-Obra</i> (National Institute for the Development of Manpower)
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
LM	Line Ministries

LMA	Line Ministries, Municipalities and Autonomous Public Agencies
M&E	Monitoring & Evaluation
MAPS	Methodology Assessment of Procurement System
MoF	Ministry of Finance
MoH	Ministry of Health
MOPT	Ministry of Planning and Territory
MTBF	Medium-Term Budget Framework
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NPC	National Procurement Commission
NSW	National Single Window
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PF	Petroleum Fund
PFM	Public Finance Management
PFMR	PFM Reform
PFPMO	Petroleum Fund Policy and Management Office
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PPP	Public Private Partnership
SC	Sub-component
SDG	Sustainable Development Goal
SDP	Strategic Development Plan 2011-2030
SERVE	<i>Serviço de Registo e Verificação Empresarial</i> (Business Registration and Verification Service)
SIGAP	Integrated System for Public Administration Management
SIGTAS	Standard Integrated Government Tax Administration System
SMART	Specific, Measurable, Achievable, Relevant and Time-limited
SOE	State-owned Enterprises
T Bills	Treasury bills
TADAT	Tax Administration Diagnostic Assessment Tool
TIN	Tax Identification Number
TREP	Taxpayer Registration Expansion Program
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VAT	Value-Added Tax
WTO	World Trade Organization

Preface

I am pleased to present the Public Finance Management (PFM) Reform Strategy 2022-2027, which outlines how Timor-Leste will enhance revenue mobilization and strengthen its public finance systems for better service delivery in line with the Strategic Development Plan 2011-2030.

Timor-Leste has made good progress in its PFM reforms but more needs to be done.

A new Framework Law on the State Budget and Public Finance Management has been approved in 2022 and subsidiary legislation is being drafted by the Ministry of Finance. The State Budget process for 2023 is already being developed entirely under the new law, which represents a substantial improvement for Timor-Leste's public finances. The new regime reinforces planning, adopts program budgeting and establishes a two-phase budget process, following international best practices.

Tax reforms are ongoing, and a new tax law and a tax procedure code are being developed.

Capacity building remains one of the major challenges to the successful implementation of the PFR reform, which this strategy rightly addresses.

The timing of this strategy comes at an appropriate time. The strategy responds to a number of diagnostics done on Timor-Leste public finance systems by the World Bank, the International Monetary Fund, the OECD (funded by the Government of Australia) and the European Union.

The diagnostics, such as the 2018 Public Expenditure and Financial Accountability (PEFA), have identified a number of areas of reform that the strategy responds to by prioritizing six key components. These six components are: strengthening fiscal policy; enhancing resource mobilization; enhancing policy-based planning and program-base budgeting; strengthening public spending; strengthening accounting and internal audit; and strengthening external scrutiny and audit.

The governance structures to monitor and evaluate these reforms have been revised and strengthened to focus on the achievement of results. A system of identifying risks and addressing them to ensure sustainability of reforms will also be in place.

Last but not least, I would like to thank all the government officials and development partners that have put a lot of effort to develop this strategy. The Government of Timor-Leste is committed to these PFM reforms, as we view them as essential to achieving our principal development objective as stated in the Strategic Development Plan 2011-2030, that is, achieving middle-upper income status by 2030.

In this regard, the 2022-2027 Public Finance Management Reform Strategy (PFM) was presented and endorsed by the Council of Ministers on 28 December 2022.

Dili, 9th January 2023

The Minister of Finance of Timor-Leste



Rui Augusto Gomes

Acknowledgement

The Ministry of Finance of Timor-Leste is pleased to publish this Public Finance Management Reform Strategy 2022-2027, as the anchor document of the current PFM reform in Timor-Leste.

This document was possible due to the multiple assessments of Timor-Leste's PFM system carried out recently, namely the 2018 Public Expenditure and Financial Accountability (PEFA) assessment, the 2020 Timor-Leste Public Expenditure Review (PER) as well as several situational analyses carried out with the support of development partners, such as the 2017 OECD Roadmap of Budgetary Governance funded with the support of the Government of Australia, the EU's 2021 PFM and Fiscal Transparency Annual Monitoring Report and Related Public Policies on Timor-Leste, the IMF's 2016 Public Investment Management Assessment (PIMA) and most recently missions by the IMF and World Bank that provided short-term technical assistance (TA), which reviewed the sequencing and prioritization of the PFM reform. The strategy also benefited from the work done by UNDP on the Integrated National Financing Framework that covered resource mobilization.

Additionally, the design of this PFM Reform Strategy would not have been possible without the contribution of a number of persons and institutions. Thus, the Government is particularly indebted to those who provided the necessary support for the design of this strategy. We are also very grateful to our esteemed development partners for their continued contributions of financial and technical support during this design process. In this regard, we acknowledge the support of the World Bank (WB) as well as the International Monetary Fund (IMF) which provided technical support to the Ministry of Finance by facilitating international experts, that is, Holger van Eden, Deanna Aubrey, John Gardner, Anthony Higgins, Florence Kuteesa and Anupam Raj from the IMF and Patrick Umah Tete from the World Bank, who provided extensive input and recommendations on the draft PFM strategy, and specifically the European Union (EU), which provided financial support.

Last but not least, we extend our appreciation to all stakeholders who have taken their valuable time to contribute to this PFM Reform Strategy, specifically the Office for PFM Policy Reform and Capacity Building (*Gabinete de Política de Reforma e Capacitação em Gestão das Finanças Públicas*) led by Mr. Martinho Lopes with his task force team (Dr. Isac Menezes and Dr. Tiago Torres Larsen, who provided extensive input on the legal framework, Ms. Mónica Rangel who provided valuable data and information on Tax Administration, Mr. Januário da Gama who provided necessary design on Asset Management, Mr. José Alexandre who provided necessary information on the budget cycle and Ms. Regina de Jesus who provided the necessary information on budget execution, as well as the other staff members for providing necessary supports to the design process).

We recognize that much of the progress to date has been due to strong political willingness, and commitment of the government officials at all levels, and that commitment has to continue for the PFM reform to be a success.

Dili, 9th January 2023

The Vice Minister of Finance of Timor-Leste



Antonio Freitas

Executive Summary

1. **This PFM reform strategy seeks to complement the Government of Timor-Leste's determination to strengthen Public Finance Management (PFM) at all levels of government.** This will ensure efficient, effective and responsible use of public resources as the basis for better service delivery in line with the Strategic Development Plan 2011-2030 (SDP), as well as the 8th Constitutional Government priorities. The SDP defines the long-term development objectives of the country and sets the roadmap for socioeconomic transformation of the country into middle-upper income status.
2. **The SDP recognizes PFM as a priority area with three objectives:** (i) improving financial administration of the public sector; (ii) increasing accountability of public sector delivery and spending; and (iii) ensuring proper public financial reporting. The SDP also places a high priority on financial transparency to improve outcomes, promote investment and economic development and strengthen trust in the State.
3. **The 2022-2027 PFM Reform Strategy has been informed by a number of assessments.** They include the 2018 PEFA assessment, the 2020 Public Expenditure Review (PER) done by the World Bank, the 2017 OECD Roadmap of Budgetary Governance, the EU's 2021 PFM and Fiscal Transparency Annual Monitoring Report and Related Public Policies on Timor-Leste, the IMF 2016 Public Investment Management Assessment (PIMA) and most recently missions by the IMF and World Bank to provide technical support to the MoF to finalize the strategy. The reform strategy takes stock of progress made and identified gaps that are essential to be prioritized for implementation.
4. **PFM reforms are a key component for improving governance and accountability in Timor-Leste.** Despite several weaknesses and challenges, the governance and structure of PFM systems reflect the Government's sustained commitment to a modern vision of state-building and institutional development in line with international standards. The vision of the PFM reforms is to have an efficient, effective, transparent and sustainable PFM system that will deliver services to enable socio-economic transformation in line with the SDP.
5. **While successive PFM projects and government reforms have achieved many important goals, especially during 2015-2021, much more remains to be done.** Key reforms include the recent approval of the Framework Law on the General State Budget and Public Finance Management. Good progress has also been made in program budgeting that is improving the alignment of planning with budget expenditure, although more needs to be done.
6. **The areas of reform that are being prioritized by Government of Timor-Leste (GoTL) are categorized under six components.** They are: (i) strengthening fiscal policy; (ii) enhancing resource mobilization; (iii) enhancing policy-based planning and program-based budgeting; (iv) strengthening public spending; (v) strengthening accounting and internal audit; (vi) strengthening external scrutiny and audit. These components address systemic issues that were identified as areas of focus and priority. The six components have 20 sub-components and 83 activities that will be implemented over the next 5 years. A detailed PFM action matrix is in annex I and it includes more details on the objectives of the sub-components, activities to be implemented, 2021 baseline and targeted indicators, priority of the reform, lead responsible Department or Institution and timeframe to achieve the results.
7. **Lessons learnt from previous reforms highlight the need for this strategy to address some of the risks that could affect the progress and impact of reforms.** One key issue is to strengthen the governance structure to effectively monitor and evaluate progress and engage Development Partners to effectively utilize resources on priority areas of reform, which this strategy addresses. There is the need for a political solution to address the fragmented nature of budget planning, which is currently divided by the Ministry of Planning

and Territories handling long term planning, National Agency for Planning, Monitoring and Evaluation (ANAPMA) handling medium term planning and Ministry of Finance handling annual planning. Good practices shows that it's preferable to have one institution handling budget planning, which should be primarily done by the MoF. Other critical aspects to ensure successful reforms such as change management, effective communication amongst all stakeholders, risk management, monitoring and evaluation and having a sustainability plan are covered by the strategy.

8. **The PFM reform strategy's vision, goals and components will remain the same over the 5 year period but the action plan in the PFM Reform Matrix in Annex I, will be a living document that is reviewed annually.** There will also be a mid-term review of the strategy to assess progress and address challenges.

1. PFM Reforms in Timor-Leste

1.1. PFM Overview, Progress, Challenges and Lessons Learnt

1. **Timor-Leste has undergone a continual process of PFM reform since the restoration of independence in 2002 and its approach mirrors the commitment and good progress achieved in nation-building.** Despite several challenges, the governance and structure of PFM systems reflect the sustained government commitment to a modern state-building vision and institutional development aligned to international standards.

2. **PFM reforms have been implemented since independence and they have experienced three stages.** The first stage was from 2002-2007 where the core functions of the budget were established. The second stage was from 2007-2014 where the emphasis was on capacity building at the Ministry of Finance and related institutions. The Court of Accounts, which is a key institution of budget oversight, was established during this period. The third stage has been from 2015 to 2021, guided by the Roadmap of Budgetary Governance Reform prepared by OECD that was approved by the Council of Ministers in 2017. The 2022-2027 PFM Reform Strategy represents the fourth stage of reform and it's the first strategy prepared by the Ministry of Finance that supports Timor-Leste's Strategic Development Plan 2011-2030 (SDP).

3. **Timor-Leste has made strategic strides in its PFM reforms.** Core institutions have been formed and their capacities strengthened although more needs to be done. A new Framework Law on the General State Budget and Public Finance Management has been approved in 2022 and related decrees are being approved by the Council of Ministers. The first Law on Major Planning Options, part of the first phase of the annual two-phase budget process, as envisioned by the new Framework Law, passed in June 2022. The new Legal Regime for Procurement, Public Contracts and Respective Infractions was also approved in May 2022. The Tax reforms are ongoing and new legislation is being developed. Other reforms done include progress made in program budgeting although additional technical support is required to ensure its effectively being implemented. The 2018 PEFA assessment also recognized improvements in budget documentation, debt management, accounting for revenue and internal controls for non-salary expenditure. Extra-budgetary expenditure is fully monitored by MoF, revenue outside government financial reports do not exceed 1% of total government expenditure and detailed and complete annual financial reports are submitted to the Government covering the largest extra-budgetary units such as the National Petroleum and Minerals Authority and the Petroleum and Geology Institute (the latter having been integrated in the State Budget in 2022).

4. **The PFM areas that need to be improved include:** strengthening the fiscal framework, the medium-term expenditure framework and fiscal risk management, improving the administration of tax and customs authorities and of the petroleum fund, improving public investment management, public asset management, local government PFM systems, cash management and the governance of State Owned Enterprises (SOEs), interconnection of the Government Resource Planning (GRP) payroll system at MoF with the Integrated Public Administration Management System (also known as SIGAP) at the Public Service Commission, moving public procurement and public contracting to electronic systems, better accounting and reporting, internal and external audit, and parliamentary oversight over the budget and audit reports. Additional enhancements will also be required on program budgeting, debt management and putting in place systems to manage public private partnerships (PPP). The quality of the Financial Management Information System (FMIS) will require improvements in its security systems and disaster recovery arrangements as well as interconnections with the tax and payment systems plus reconciliations with the budget. As part of the "leave no one behind" government policy, social accountability will be introduced to increase civil society participation in the budget preparation process and in assessing the timeliness and quality of service delivery. Building human capacity is a cross cutting issue that will need to be addressed in a sustainable manner.

5. **Reforms in Timor-Leste have heavily relied on the presence of international technical assistance and therefore developing human capacity remains an essential area of reform.** The aim of GoTL for more country-owned and country-led policies means that the national institutions should take a leading role in devising and implementing the PFM reform. However, capacity issues still plaguing the Timorese Public Administration require continuing international technical assistance to guarantee the implementation of the reform. The support of the development partners will, therefore, be essential for the success of the PFM reform.

6. **Timor-Leste has faced several challenges in its implementation of PFM reforms.** They are:

- a) **Political Instability:** The prolonged political instability in 2017-2020 resulted in less than optimal political environment to proceed with reforms, leading to delays in preparing a comprehensive PFM Roadmap.
- b) **Fragmented implementation of PFM reforms:** TL has different institutions conducting similar reforms which makes it challenging to have sustainable reforms especially where changes in legislation modify the mandates of the institutions and built-up capacity is lost.
- c) **Government coordination of PFM reforms:** In the past there has been no mechanism to coordinate PFM reforms amongst government institutions/departments. This has been addressed with the establishment of the new Inter-ministerial Commission and the PFM Technical Unit that will be made up of technical heads of institutions and departments implementing the reforms. Protocols will be developed to enhance the coordination arrangement that will include submission of progress reports and verification of outputs.
- d) **Capacity constraints:** The lack of skills in implementing PFM reforms is one of the major challenges. Most institutions have a small pool of qualified professionals, and they suffer a high turnover of staff. Matters have not been made easier with the COVID-19 pandemic as it has made the recruitment of technical experts more difficult due to restrictions in mobility. There is need for regular training of PFM staff in line ministries, municipalities and autonomous public agencies (LMAs) to address this matter. This will ensure a consistent output of people with core skills in economics, accounting, procurement, financial management and audit.
- e) **Shortage of technical assistance:** Political constraints and delays in developing a PFM Reform Strategy and Action Plan, have led to drawbacks in technical assistance. With the presentation of the PFM Strategy, the MoF hopes the response from development partners will be much more positive.
- f) **Development Partner (DP) Coordination:** This has not formally been in place in the past, yet it's essential to have a formal coordinated engagement led by the MoF to focus scarce resources on priority areas and avoid duplication. The MoF plans to involve active DPs supporting PFM reforms in the Technical Unit meetings. This will strengthen coordination with DPs.

1.2. State of PFM in Timor-Leste

7. **Legislation:** TL approved a new Framework Law on the General State Budget and Public Finance Management in 2022, which represents the cornerstone of the ongoing PFM reform and will anchor subsequent regulations in multiple areas of PFM. Some related regulations that have since been approved include: the Decree Law No. 23/2022 on the authorization of expenditures; Decree No. 18/2022 on Budget Programs and Decree No. 19/2022 on Budget Classifications. On May 2022, the new Legal Regime for Procurement, Public Contracts, and Respective Infractions was published, revoking the several diplomas on procurement on public contracts, mostly dating from 2005. With regard to revenue mobilization, Law No. 8/2008, Tax and Duties Act, covers income, services, excise and sales taxes, but a new law tax is being drafted along with tax procedure

code, that will substitute rules dating from the UN period. The introduction of a Value Added Tax (VAT) is planned.

8. **Revenue Administration:** Revenue administration is currently housed under the MoF. While significant investment has improved automation of tax administration systems, there remain inefficiencies and capacity gaps in the revenue administration. Significant investment in tax administration systems have been made over the past 10 years, and with recent upgrades involving a Standard Integrated Government Tax Administration System (SIGITAS-V3), Customs systems ASYCUDA World (Automated System for Custom Data), a data warehouse, and a digital cargo tracking system, among others. These systems have made the registration, filing, and payment of obligations easier to comply with and have enabled monitoring of taxpayer information. Other revenue administration efficiency drives have included the Taxpayer Registration Expansion Program (TREP). The 2018 PEFA scores indicate that there is relatively efficient administration, which reflects the impact of some of these investments. However, there is need to improve on the monitoring of revenue arrears. Further administrative measures could include improvements to the taxpayer database by addressing inconsistencies, errors and information gaps and greater integration between the business registration process with the Business Registration Service (SERVE) and tax registration. Information sharing could help classify taxpayers as active and inactive, and thus improve non-compliance statistics. Tax identification number (TIN) assignment should be in accordance with international best practices and should be consolidated as some taxpayers have multiple TINs, which complicates assessment of tax liabilities and audits.

9. **Fiscal strategy and budgeting:** Budget reliability remains low. High-level political decisions regarding public investment management have led to significant budget adjustments, followed by systematic under-execution of the budget allocations, which undermines the credibility of the budget. With the approval of the new Framework Law on the General State Budget and Public Finance Management, the budget process has been substantially altered. Important innovations are the organization of the General Government Sector and Subsectors according to the structure presented in the IMF's Government Finance Statistics Manual 2014 (GFSM 2014), the adoption of program and results oriented budgeting, the full integration of planning on the budgetary process through a two phase budget process, the first one centred on planning with the adoption of the annual Grand Planning Options Law, that identifies the main policy measures to be implemented in the next year and presents a Medium-Term Budget Framework, consisting of forecasts and limits for revenue and expenditure for the next five years, of which the ceiling for expenditure for the next year is mandatory for the draft budget presented by the GoTL in October, which constitutes the second phase of the process. The new Grand Planning Options Law, first approved in May 2022, should serve as a bridge between planning and budgeting, reducing the need for budget adjustments. The preparation of the budget should take into consideration fiscal policies and institutional capacity, but technical capacity needs to be strengthened for the forecasts to have credibility. A fiscal responsibility law needs to be considered to strengthen fiscal policy and manage fiscal risks given the expected challenges of the running out of petroleum revenue in the next decade. Improvements in budget documentation and the inclusion of extra-budgetary units into the budget have been noted, but more needs to be done to increase performance information for service delivery and make fiscal information publicly available. Budget classification was recently overhauled to adopt more detailed categories for economic classification as well as adopting the Classifications of the Functions of Government (COFOG). Transfers to subnational governments could be improved by defining an allocation sharing formula instead of annual political decisions. Fiscal risk reporting needs to improve with the monitoring of financial reports from public corporations, subnational governments coverage of contingent liabilities and other fiscal risks.

10. **Management of assets and liabilities:** Although there is no debt management strategy to deal with potential increases in debt when the petroleum wealth runs out in the next decade, the debt management system

produces debt records that are accurate and reconciled on a regular basis. However, records on guarantees need to be more systematically consolidated and updated. Management of public assets is deemed inadequate because a comprehensive and up-to-date record of non-financial assets is not available. A central registry of government assets will need to be put in place.

11. **Public investment management:** The responsibility for public investment management is currently shared among the Infrastructure Fund Board of Director (CAFI), the Major Project Secretariat (SGP), the National Development Agency (ADN) and the National Procurement Commission (NPC). Each has its own guidelines and there is need to have a harmonized project management manual that guides government staff on how to do economic analysis, selection, costing and monitoring of investment projects based on international good practices.

12. **Budget execution and reporting:** Accounting and reporting for revenue and expenditure are supported by a robust integrated treasury cash and expenditure management function. The internal control framework is comprehensive and clearly defined with segregation of duties and authorization levels assigned to senior management and technical staff at various levels. However, improvements are necessary to strengthen payroll controls which is expected with the interconnection of the Government Resource Planning (GRP) payroll system with Public Service Commission's Integrated System for Public Administration Management (SIGAP). Expenditure arrears remain a challenge that needs to be addressed. Cash management is solid and the Treasury system supports daily consolidation of cash balance positions but does not cover all government operations. Financial standards for data integrity are effective across the GRP, but lack of systematic bank reconciliation processes undermines the overall performance of the system. Quarterly financial reports are prepared and issued to Parliament, and usually published one month after the end of the period. Annual financial reports are prepared annually and include generally detailed information on revenue, expenditure, cash balances, and long-term obligations (loans). However, the quarterly financial reports and end of year accounts are still organized by funding source (the Timor-Leste Consolidated Fund, the Infrastructure Fund, the Human Development Fund, Social Security and Autonomous Agencies), making it difficult to have an integrated picture of General Government accounts. TL is considering a move from cash to accrual accounting using the International Public Sector Accounting Standards (IPSAS), which will improve the quality of accounting and reporting. The internal audit function is partially in place, but not very effective. There is need to build internal audit capacity, to align with international standards and to adopt a risk-based audit approach to effectively conduct financial and performance audits.

13. **Procurement systems** suffer from a lack of central monitoring and reporting, while transparency on procurement processes is weak. Responsibilities are decentralized at different levels (according to legal contracting thresholds) and create parallel management systems lacking consolidation and control. Procurement operations are managed by implementing departments of each line ministry and municipalities or by the National Procurement Commission, depending on the cost. The National Procurement Commission is responsible for the consolidation of reliable and useful information on procurement processes and the integration of data, but it has no effective access to all data below the threshold of USD 1 million. The procurement module managed by MoF under the GRP application is not systematically used and updated by line ministries. There is no reliable way to estimate the enforcement of procurement legal provisions and use of competitive procurement methods. The procurement legal and regulatory framework is broadly aligned to international standards and practices, but it requires a detailed review of all implementation regulations to ensure it is fully compliant. The absence of an independent administrative complaint mechanism or appeals process for the resolution of complaints is an example. A new Legal Regime for Procurement, Public Contracts, and Respective Infractions was approved on May 2022, and will enter into force on 1st January 2023, with an aim to solve most of these problems.

14. **External Scrutiny and Audit:** External audit is done by the Court of Accounts (CdC). CdC's capacity needs to be strengthened to effectively perform financial and performance audits in line with the International Organization of Supreme Audit Institutions (INTOSAI) standards. The hearings on legislative scrutiny of audit reports need to be increased to give force to this essential accountability process. Transparency of the scrutiny of audit reports by Parliament needs to improve by inviting the public to the hearings and/or including the scrutiny reports on their website.

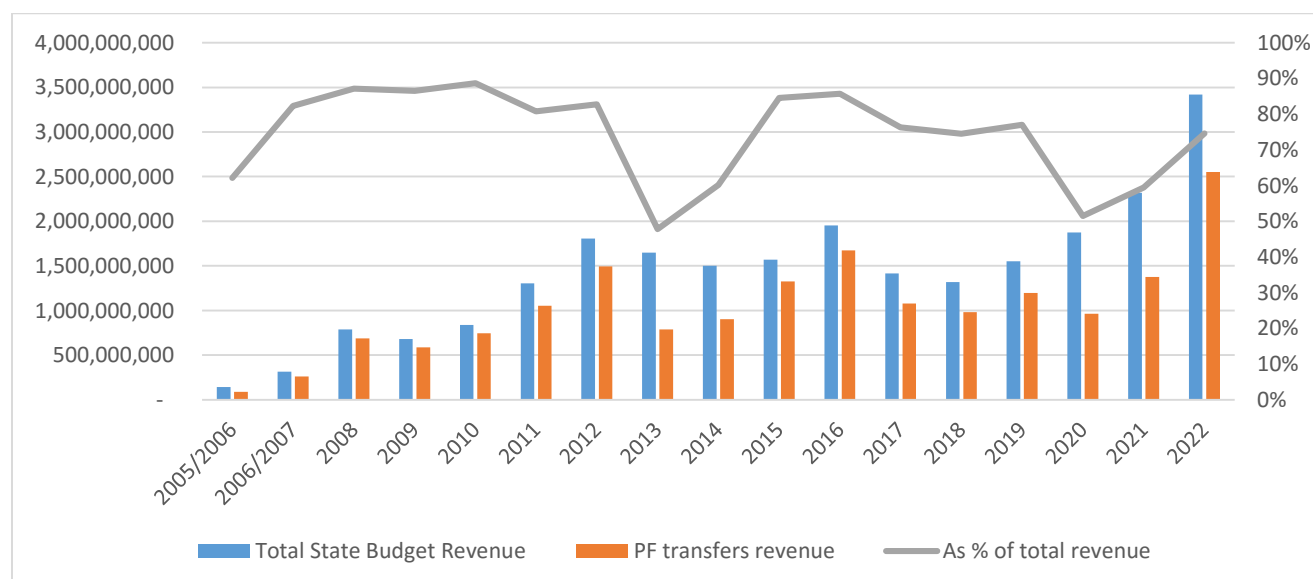
2. Context and Reasoning for PFM Reform (Why?)

15. **The Petroleum Fund of Timor-Leste was created in 2005 to collect and invest revenue.** The revenue is from taxes and royalties on petroleum activities on the Timor Sea. The revenue is invested to generate additional income for the country.

16. **The Petroleum Fund Law provides for the State Budget to be financed by annual transfers from the Petroleum Fund.** These are capped at 3% of annual Petroleum Wealth, named Estimated Sustainable Income (ESI), which is equivalent to the sustainable level of withdrawals to preserve the Fund for future generations. However, the Petroleum Fund Law allows for transfers above the ESI when justified by the Government and approved by the National Parliament.

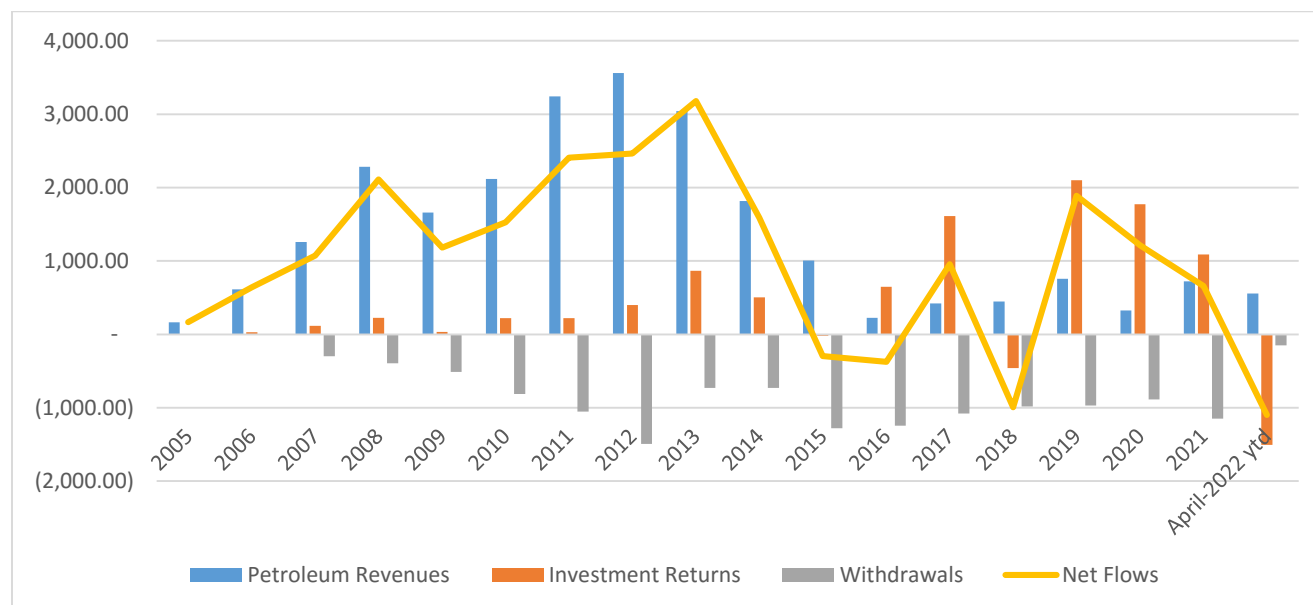
17. **Transfers from the Petroleum Fund represent the majority of the State Budget Revenue in Timor-Leste since the inception of the Fund.** As seen in table 1, the share of the revenue from transfers from Petroleum Fund has fluctuated between 60% and 90% of the total revenue every year, except for 2013, 2020 and 2021. Although in two recent year the revenue from transfers from Petroleum Fund was below 60%, that in itself does not represent a reduction of the dependency of the State Budget on that type of revenue, as those numbers resulted from changes in budgeting end-of-year balances and from increasing Social Security revenue, which although counting for the total revenue does not pay for Central Government expenditure.

Graph 1 – Transfers from the Petroleum Fund as % of total State Budget Revenue, 2005-2022



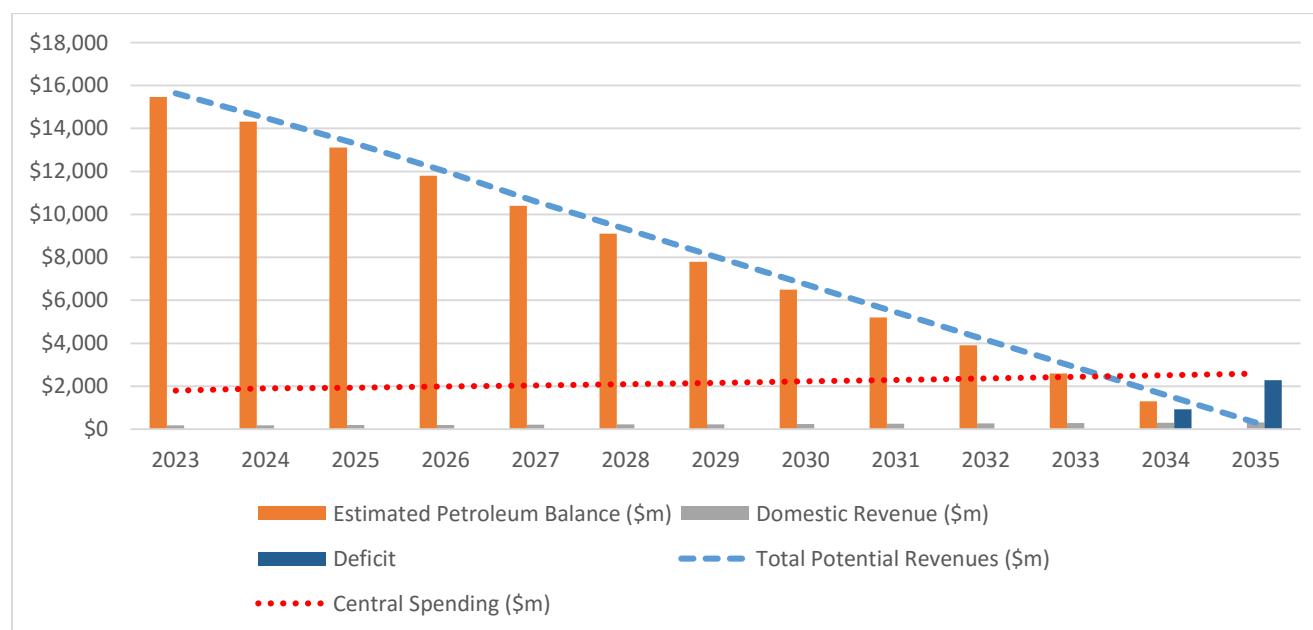
Source: Ministry of Finance of Timor-Leste, June 2022

18. **In the first years after the creation on the Petroleum Fund most of the revenue came from taxes on petroleum activities.** However, with declining returns from oil fields, the Fund is now relying on its financial investments for most of its revenue.

Graph 2 – Petroleum Fund net flows, 2005-2022

Source: Ministry of Finance of Timor-Leste, June 2022

19. **While higher than anticipated financial investments revenue has delayed the decline on the total value of the Fund, continuing withdrawals above the ESI in the next few years are currently expected to deplete the Petroleum Fund by 2035.** According to current forecasts, and notwithstanding the introduction of new revenue, Timor-Leste should be faced with a fiscal cliff by 2035, with the State Budget posting a deficit of US\$2.3 billion.

Graph 3 – Expected wealth of the Petroleum Fund, 2023-2035

Source: Ministry of Finance of Timor-Leste, June 2022

20. **Therefore, to prevent a drastic cut in public spending in 2035, there is the need to improve revenue collection and reduce the rate of growth of public expenditure in the State Budget.** This can only be achieved through a Public Finance Management (PFM) Reform that improves the collection and expenditure of funds by the Government.

3. Vision and Goals of PFM Reform, Priority Areas and Components (What?)

3.1. Vision and Goals

21. **This strategy provides the overall guiding framework for PFM reforms over the five years from 2022 to 2027.** It is informed by lessons from previous PFM reforms, situational analysis and diagnostics, and will form the basis for the Reform areas of focus going forward. The strategic direction for PFM reform will be set by an overall vision, goals and objectives. The vision statement is below.

Vision for PFM Reform

To have efficient, effective, transparent and sustainable public finance management that will deliver services to enable socio-economic transformation.

22. **The overarching vision for PFM reform reflects the high-level objectives set out in Timor-Leste's Strategic Development Plan 2011-2030 (SDP).** The SDP provides the framework for driving Timor-Leste towards middle upper income status by 2030.

Goals of the PFM Reform

- 1) *Strengthen fiscal policy to improve fiscal discipline and macroeconomic stability.*
 - 2) *Enhance resource mobilization to create fiscal space.*
 - 3) *Allocate resources consistent with the priorities in the Strategic Development Plan 2011-2030.*
 - 4) *Promote the efficient use of public resources and delivery of services through better budget execution.*
 - 5) *Promote accountability through external scrutiny and transparency of the budget.*
-

3.2. Reform Priority Areas

23. **PFM reform is a gradual and long-term process that requires strong political will and commitment.** This is essential as it will contribute to reducing fiduciary risks and improve transparency and accountability.

24. **The upgrade of the PFM framework remains a major priority of GoTL.** It recognises such reforms to be essential for improving overall governance, optimising outputs from the use of public resources, and ensuring inclusive, broad based as well as sustainable development. GoTL is committed to improve PFM systems, processes and institutions of the country through various policies, projects and programs. However, reforms require resources, in some cases additional staff and, in many cases, external experts. For these reasons, the MoF and the public sector as a whole need to be selective about the reforms to be adopted.

25. **The reform priorities are categorized under six components¹**, which are:

1. Strengthen Fiscal Strategy;
2. Enhance Resource Mobilization;
3. Enhance Strategy Based Planning and Program Based Budgeting;
4. Strengthen Public Spending;
5. Strengthen Accounting and Internal Audit; and
6. Strengthen External Scrutiny and Audit.

26. **The above priority components do cover cross cutting dimensions such as gender and climate resilience/ disaster risk reduction.** For instance, the budget will be responsive to gender and resilient to climate changes/disaster risks. These reforms will be covered under component 3 on Enhancing Policy-Based Planning and Program-Based Budgeting. Sustainability of climate resilient investments will also be covered when evaluating and selecting public investments covered also under component 3. Green Public Procurement will also be covered as part of strengthening of public procurement under component 4 on Strengthening Public Spending.

27. **The PFM reform strategy provides in Annex I (reform matrix) a prioritization of reform areas.** These were selected on the basis of critical macroeconomic and public finance issues that urgently need to be addressed as well as recommendations from DPs². In addition, reform readiness was assessed in identifying high-priority areas. If an area of reform has high priority but is blocked by, for example, legislative delays, priority is given to complementing activities such as capacity building. Other areas of reform are prioritized as medium if they contain only a few high-priority activities and as low if the delay in reform does not have a major impact on macroeconomic and public sector functioning. Low priority doesn't mean the reforms shouldn't be carried if resources are available and staff are available. The table highlights the priority areas of the reforms.

Table 1: Timor-Leste PFM Priority Areas 2022-2027

Component	Subcomponent	Priority
		H= High
		M=Medium
		L=Low
Strengthen Fiscal Strategy	Strengthen Fiscal Framework	H
	Develop & Strengthen MTEF	M
	Develop & Strengthen Fiscal Risk Management	M
Enhance Resource Mobilization	Strengthen Tax Administration & Customs	H
	Improve Debt Management & PPP	M
	Strengthen Petroleum Fund Administration	M
Enhance Policy-Based Planning	Strengthen resource constrained planning and budget formulation including program-based budgeting	M

¹ The first 5 components are drawn from MoF Strategy Plan 2011-2030 while the component on External Scrutiny and Audit has been added as it is seen as essential for budget oversight.

² Findings and recommendations from mission undertaken by the IMF Fiscal Affairs Department (IMF technical assistance/TA) team, during April 19 – April 29, 2022, to review the Public Finance Management Reform Policy and the Public Finance Management Action Plan 2021-2025 prepared by Ministry of Finance of Timor-Leste.

Component	Subcomponent	Priority
		H= High
		M=Medium
		L=Low
and Program-Based Budgeting	Strengthen Public Investment Management	
	Strengthen Local Government PFM Systems	
Strengthen Public Spending	Improve the Quality of Budget Execution	
	Strengthen Public Procurement & Contract Management	
	Strengthen Asset Management Operations	
	Strengthen PFM Capacity Building	
	Improve the Quality of IT Systems (IFMIS)	
	Transform the DG Statistics to a Public Institution	
Strengthen Accounting and Internal Audit	Improve the Quality of Accounting and Reporting	
	Strengthen the Internal Audit Function	
Strengthen External Scrutiny and Audit	Strengthen External Audit	
	Strengthen Parliamentary Oversight	
	Strengthen Social Accountability	

3.3. PFM Components

28. **This strategy has six components that are explained below.** The first two components, that is, Strengthening Fiscal Strategy and Enhancing Resource Mobilization will mainly be implemented by the MoF. The implementation of the components on Enhancing Policy-Based Planning and Program-Based Budgeting, Strengthening Public Spending, and Strengthening Accounting and Internal Audit will be led by MoF but also implemented in line ministries and some government departments, agencies and municipalities. However, there are specific activities under the subcomponent on Strengthening Local Government PFM Systems that are targeted for municipalities. The sixth component on External Scrutiny and Audit will be implemented by *Câmara de Contas* (Court of Accounts), Parliament and to an extent involve the engagement of civil society.

3.3.1. Component 1: Strengthen Fiscal Strategy

29. **This component has 3 subcomponents and 8 key activities.** The subcomponents are (i) Strengthen Fiscal Framework, (ii) Strengthen Medium-Term Expenditure Framework (MTEF) and (iii) Strengthen Fiscal Risk Management.

30. **The expected outcomes are the following:**

- 1) Change government spending and revenue behaviour in an effort to grow and develop the economy.
- 2) Improve fiscal sustainability.
- 3) Improve macroeconomic stability.

31. **This component plans to address the following challenges.**

- a) The government does not produce a well-defined fiscal strategy, nor a robust medium-term fiscal framework (MTFF). Macro and fiscal forecasts are prepared and presented in the budget for the budget year and the two out-years, and fiscal objectives are articulated on an ad-hoc basis but not

tied to a fiscal sustainability framework. For the first time, the new Grand Planning Options Law presents Macro and fiscal forecasts for 5 years.

- b) An effective medium-term expenditure framework for linking the annual budget (and medium-term budget expenditure estimates) to national and sector strategies and plans remains lacking. The budget is primarily projected through incremental increases, except for the capital development budget. Sector plans are largely aspirational in nature, are not based on realistic resource allocations, and are not cost-effectively calculated. There is no explanation for the variation.
- c) The budget is based on an orderly budget process, but it lacks an effective medium-term perspective. Macroeconomic and fiscal projections are robust and macro-management is supported by the MoF National Directorate for Economic Policy. However, as the multi-year commitments of sectorial plans and public investment projects are not sufficiently factored into the MTEF, there is an important missing link between the strategy's objectives and the allocation of resources.
- d) The PFM law should require, over the medium-term, the annual production and dissemination of a Fiscal Risk Statement (FRS). A standard coverage of the FRS includes risks, which if they happened, would have a significant financial impact on government finances and operations. Coverage incorporates macroeconomic, market, legal, and contingent risks - explicit or implicit. Each government will have exposure to some of these risks, but the precise content of the FRS will be country specific³.

3.3.1.1. Strengthen Fiscal Framework

32. The following activities are expected to be implemented to strengthen TL's fiscal framework.

- a) Strengthen the Medium-Term Fiscal Framework (MTFF) with practices in line with the Timor-Leste context. The objective of this activity is to project medium and long term fiscal sustainability, which serves as a reference in the annual budget preparation process.
- b) Improve fiscal forecasting through macroeconomic model development (modelling). Identify model requirements (with specific purpose and outputs), including rolling out a dynamic model, running the model and testing it on various scenarios, and comparing the model's outcome with prior years' actual data to assess credibility of data estimates.
- c) Introduce and strengthen the macroeconomic framework and update macroeconomic framework regularly in order to strengthen evidence-based public policy processes including developing and implementing a policy framework to capture all fiscal information at the level of local government and other entities for macroeconomic analysis.
- d) Develop elements of a fiscal responsibility law, either as an amendment to the new PFM Law or as a separate law. Elements of such a law could further specify the process, transparency and accountability requirements of fiscal policy. It could also further specify the anchor of fiscal policy, i.e., how Timor-Leste is going to ensure stabilization or at least delayed depletion of the Petroleum Fund (PF). Looking ahead it could also set a sustainability limit for debt issuance given that the strategy foresees issuance of market debt, starting with domestic Treasury-bills⁴.

³ IMF, 2016, "Analyzing and Managing Fiscal Risks—Best Practices", IMF Policy Paper, June (Washington DC), <http://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31>

⁴ The IMF mission recommends that debt sustainability analysis is performed by the macro-fiscal unit rather than the debt managers.

3.3.1.2. Strengthen Medium-Term Expenditure Framework (MTEF)

33. **The following activities are expected to be implemented to strengthen TL's MTEF.**

- a) Strengthening of the MTEF by achieving a realistic representation of the Government's multi-year commitments and medium-term costs, and incorporating medium-term predictability, stability and sustainability to fiscal strategy and budget policy decisions.
- b) Integrating the MTEF into the budget cycle. The MTEF's credibility shall be enhanced by introducing a framework for multi-year budgeting and commitments monitoring as well as developing capacity in budgeting and costing. This subcomponent will also build capacity to ensure the pre-requisites for MTEF are met, such as proper use of the MTFF, development of medium-term baseline methodology, adequate training of Line Ministries, Municipalities and Autonomous Agencies (LMAs), and political buy-in for medium-term budget decision-making, before advancing with these reforms.

3.3.1.3. Strengthen Fiscal Risk Management

34. **The following activities are expected to be implemented to strengthen TL's fiscal risk management.**

- a) Development of a fiscal risk statement by the MoF and establish a fiscal impact analysis guide for State Owned Enterprises (SOEs) and Autonomous Agencies (IPs). Government obligation to identify, analyse and disclose information on fiscal risks and develop/evaluate mitigation measures.
- b) Review the legal regime for SOEs and IPs to promote sustainability and the collection of own revenue and establish clear requirement for the creation of SOEs and IPs.

3.3.2. Component 2: Enhancing Resource Mobilization

35. **This component has 3 subcomponents and 18 key activities.** The subcomponents are: (i) Strengthen Tax and Customs Authorities; (ii) Improving Debt and Public Private Partnerships (PPP) Management; and (iii) Strengthen Petroleum Fund Administration.

36. **The expected outcomes are the following:**

- 1) Increase of domestic revenue in line with macroeconomic fiscal policy;
- 2) Provide Timor-Leste taxpayers with a high-quality service;
- 3) Greater transparency and accountability and enforcing the law with integrity and fairness to all; and
- 4) Improved tax compliance through greater efficiency in revenue administration.

37. **This component plans to address the following challenges.**

- a) Domestic revenues are insufficient to finance the fiscal deficit and infrastructure investment, contributing with less than 30% of the total State Budget revenues.
- b) In 2020, political uncertainty, the COVID-19 pandemic and the floods caused by Cyclone Seroja had an unprecedented impact on the economy. GDP contracted by 8.3% in 2020, the sharpest decline since independence and the third recession in four years. Economic recovery has been weakened, with forecasted GDP growth of 2.9% and 3.3% in 2021 and 2022.

- c) There is inadequate Government coordination on revenue mobilization and there is no holistic strategy. Revenue strategy, procedures and systems across Government are not well coordinated or supported. Systems for relevant data management are not integrated or shared. In response, holistic Government and stakeholder approach to domestic revenue mobilization is urgently needed to develop of a medium-term Domestic Revenue Mobilization strategy.
- d) Significant investment in tax administration systems have been made over the past 10 years, and with recent upgrades involving a Standard Integrated Government Tax Administration System (SIGTAS-V3), Customs systems ASYCUDA World (Automated System for Custom Data), a data warehouse, and a digital cargo tracking system, among others. These systems have made the registration, filing, and payment of obligations easier to comply with and have enabled monitoring of taxpayer information. Other revenue administration efficiency drives have included the Taxpayer Registration Expansion Program (TREP). PEFA scores indicate that there is relatively efficient administration, which reflects the impact of some of these investments. However inefficiencies and capacity gaps in the revenue administration remain.
- e) Further administrative measures could include improvements to the taxpayer database by addressing inconsistencies, errors and information gaps and greater integration between the business registration process with the Business Registration Service (SERVE) and tax registration. Information sharing could help classify taxpayers as active and inactive, and thus improve non-compliance statistics. Tax identification number (TIN) assignment should be in accordance with international best practices and should be consolidated as some taxpayers have multiple TINs, which complicates assessment of tax liabilities and audits.
- f) There is also a need to improve tax auditing by enhancing human resources and adopting a risk-based model. Improved monitoring of revenue arrears and stronger debt recovery measures are needed to avoid long backlogs that become irrecoverable. The dissemination of complete, accurate and clear tax information would help clarify tax obligations and steps to comply.
- g) Developing and finalizing strategic development plans for tax and customs administrations are a priority. Ensuring adequately resourced implementation including TA resources in the form of international experts is important. Expediting modernization of tax, non-tax and customs legal frameworks will be essential.
- h) Ensuring implementation of new laws is necessary, and the provision of adequate resources and TA coupled with institutional restructuring will also be crucial in enhancing revenue mobilization.

3.3.2.1. Strengthen Tax & Customs Authorities

38. **The design of this subcomponent was undertaken in close consultation with the Tax and Customs Authorities, including agreement on high level outcomes and key activities, as outlined below.** This involved adopting a comprehensive approach to revenue mobilization that takes in consideration the legal framework, administration in accordance with the law and its impact on tax compliance. The activities are:

- a) Introduce a legal framework that creates an Appeals Entity for Tax and Customs services. The Appeals Entity is to provide the competencies for Tax Authority and Custom Authority to perform their appeals tasks in order to minimize outstanding Tax and Customs cases.
- b) Introduce a legal framework to diversify tax revenue. In order to gradually improved tax revenue, the government should diversify tax revenue sources. The implementation of a new law will need to be planned, resourced, with TA provided, and sequenced. Institutional restructuring may be required.

- c) Establish a Tax Procedures Code. The objective of this activity is to control all tax administration processes and facilitate the Tax Authority (TA) to provide better services to the taxpayers and substitute rules dating from the UN administration.
- d) Revision of the Tax and Duties Act. This aims to broaden the tax base, revise and adopt progressive tax rates and simplify the tax structure to improve tax collection. Prepare the necessary guidelines for implementation such as planning, resources and capacity building needed for the introduction of new legislation.
- e) Law on Value Added Tax (VAT). The VAT is an opportunity to modernize tax administration and improve tax policy to enhance revenue mobilization. The preparation of the VAT infrastructure systems is essential and needs to be integrated into SIGTAS V.3.
- f) Continue to improve/update the SIGTAS V.3 system. This key activity aims to facilitate Tax Administration work by improving revenue collection services and carrying out personnel training to operate the systems.
- g) Develop a Medium-Term Tax & Custom Authorities Strategy Plan. The strategy plan should set out a clear strategy for reforming the Tax Authority and the Customs Authority in Timor-Leste over the next five years. The Medium-Term Tax Authority's (AT) Strategy Plan, building on the Tax Modernization Plan and Tax Administration Diagnostic Assessment Tool (TADAT) diagnostics, should be in line with the PFM reform strategy.
- h) Put in place a new auction legal regime in the customs context. Goods and assets confiscated due to violations of the law can be auctioned for state revenue in order to increased additional state revenue.
- i) Installation of the Risk Management application on the ASYCUDA World system. The objective of this activity is to mitigate the risk associated with customs service as the implementation of risk management at this time is more effective due to the use of ASYCUDA World system with international best practices.
- j) National Single Window and Customs Modernization. This activity aims to increase government revenue, increase compliance with rules, improve efficiency in resource allocation and better trade statistics. An Integrated National Single Window (NSW) into ASYCUDA World system should be in line with international standards, including the WTO Trade Facilitation Agreement.
- k) Recruitment of professionals for Tax and Customs Authorities based on revenue administration competency standards. Define revenue administration competency standards and ensure that the recruitment process is merit-based in order to improve service delivery to taxpayers.

3.3.2.2. Improve Debt & Public Private Partnerships (PPP) Management

39. **The following activities are expected to be implemented to improve debt & Public Private Partnerships (PPP) management.**

- a) Creation of a separate public Debt Management Office (DMO) to: (i) improve the country's borrowing capacity and its ability to manage debt efficiently to promote economic growth and national development; and (ii) achieve positive impact on overall macroeconomic management, including fiscal policies.
- b) Production of debt sustainability analyses on a regular basis. Debt analysis will enhance debt management capacity of the government, which in turn will strengthen the overall fiscal situation

and free up public funds that can be used efficiently across sectors. Production of debt sustainability analyses on a regular basis in conjunction with development of a medium-term debt strategy.

- c) Revision of Public Debt Law. The objective in this activity is to provide Government capacity to access various types/modalities of loans provided by financial institutions and ensure debt sustainability that will involve carrying out debt sustainability analysis at regular intervals.
- d) Revision of Decree Law on Public-Private Partnership (PPP). PPP projects are an important tool in financing development in Timor-Leste. Develop guidelines and procedures for Public Investment Program (PIP) and PPP fiscal risk management and analysis during project appraisal as well as provide technical assistance to enhance related staff capacity.
- e) Installation of a digital reporting system for Loans and PPP. In order to improve management and reporting and obtain accurate information, define new proper reporting system in collaboration with FMIIS.

3.3.2.3. Strengthen Petroleum Fund Administration

40. **The following activities are expected to be implemented to strengthen the Petroleum Fund (PF) Administration.**

- a) Revision of PF regime on Investment Strategy. This activity is to adjust investment and withdrawal strategies in order to secure the sustainability of the Petroleum Funds.
- b) Increase the resources of Petroleum Fund Policy and Management Office (PFPMO). Officers working in this area should have their capacity strengthened to be able to manage petroleum wealth effectively and reduce dependence on international experts. Competency standards should be defined to ensure the recruitment process is merit-based.

3.3.3. Component 3: Enhance Policy-Based Planning and Program-Based Budgeting

41. **This component has 3 subcomponents and 11 key activities.** The subcomponents are: (i) Strengthen Resource Constrained Planning and Budget Formulation including Program Based Budgeting; (ii) Strengthen Public Investment Management; and (iii) Strengthen Local Government PFM Systems and Procedures.

42. **The expected outcomes are the following:**

- 1) Enhance policy-based planning and program-based budgeting for allocative efficiency that aligns resources with results;
- 2) Annual budget aligned to strategic plans and medium-term budget;
- 3) Multi-year commitments reflected in annual budget; and
- 4) Improved budget credibility.

43. **This component plans to address the following challenges.**

- a) Aggregate fiscal discipline has deteriorated due to adjustments to the original budget and reduced control over expenditures during budget execution.
- b) Budget credibility needs more focus. The PFM Reform Strategy has been made more explicit about the issue of budget credibility and underscores measures to address the persistent underlying causes. The lack of adequate sectorial planning is seen as one of the reasons for the frequent adjustment of budgets. The costing under the old economic budget structure also led to a poor

identification of spending pressures of government policies. The new costing methodology developed for the programmatic classification should provide improvement. The Strategy will also include how budget pressures will be monitored and controlled particularly in light of the proliferation of IPs and easing of some virement rules. Budget classification errors should also be identified and fixed to ensure the budget provides an accurate record of expenditures, particularly to support the monitoring of the Government's wage bill. The recording of expenditures on goods and services is also not accurate with the recurrent costs of capital projects either not calculated going forward or incorrectly reported as capital expenditure.

- c) Budget coordination issues need to be addressed. Roles for central budget and planning management functions between MoF and ANAPMA need to be clarified. While ANAPMA has been instrumental in developing the program budget structures, the primary responsibility for budget review and costing should be with the MoF. ANAPMA's role should be on the alignment of the budget proposal with the government policy agenda and on monitoring the achievement of agreed targets. Having two institutions review costing of policy proposals will lead to unnecessary conflict. Decision-making on capital expenditures should be integrated under the program structure and oversight assigned to the MoF. Project appraisal and selection should be retained in the Ministry of Planning and Territory (MOP), as recommended in the PIMA diagnostic.
- d) Budget review needs to be improved and prioritized. Tools and training are required by LMAs to cost new initiatives and generate cutbacks (savings) including adopting a costing methodology with a balance between ease of application and accuracy (for example to allocate overhead costs across new programs). Standard price schedules should also be regularly updated and maintained to ensure costs are as accurate and harmonized across the service as possible. The MoF needs to develop tools to support central budget analysis of budget submissions to monitor and make recommendations on budget priorities, allocations and expenditure trends. The multi-year perspective in the planning and budgeting processes did not improve due to the negative impact of investment budgets and the lack of direct linkage with MoF reporting and accounting systems.
- e) There is insufficient focus on finding savings and efficiencies. The Strategy could suggest development of methodologies to identify cost savings. Short term strategies should include increased efforts in expenditure monitoring, and examination of cost drivers. Incentives to encourage managers to find savings could also be utilized. For example, setting efficiency savings targets, with incentives in place for managers to keep all or part of the savings. Other potential budgetary approaches could also be considered such as allowing organizations to put forward new initiatives, only if they are fully offset by quality savings (thus having a zero impact on the budget). Topical or thematic spending reviews could be considered over the medium term. Given the extensive capacity needs for such exercises, they should probably "piggy-back" on research efforts from DPs, like the recent World Bank PER⁵.
- f) Budget costing needs to be strengthened. Currently the baseline budget, the cost of ongoing expenditure and revenue policies are not determined. The starting point of the budget includes ongoing, approved and new policy initiatives/projects mixed together. The baseline is a technical calculation of the costs of approved government programs, which should be updated early in the budget process for approved price and volume changes. This results in a forecast of expenditures over the medium term, (if no decisions or policies are changed). This provides useful information on cost pressures and funding requirements for the coming budget. Cost drivers can be identified

⁵ The World Bank PER report 2020.

- to estimate changes in the baseline and focus attention on adjusting budgets in line with available fiscal space (i.e. space for new initiatives or requirements for cut backs/savings).
- g) Program based budgeting reforms need consolidation before more advanced reforms are attempted. The new program structures need time to “settle down” and fully reflect line ministry policy needs. Line ministry staff will also need time to properly cost the programs and their underlying structures. The Strategy should underscore the importance of training and capacity building and developing tools to assess and monitor performance using the new program structures. The development of linked performance management tools seems to have led to too many indicators in the M&E system. MoF/ ANAPMA control and policy discussions may need to remain at the program and sub-program level (not activity). It is important to get the basics right first and build capacities to monitor expenditures according to results rather than adopt more advanced performance-based reforms such as outcome-based budgeting. A direct link between targeted results and provided budget should not be attempted at this point.
 - h) MTBF/MTEF requires at the political level agreed expenditure ceilings at the sectorial/line ministry level over the medium-term. Otherwise MTBF/MTEF preparation may result in time-consuming technical exercises with little impact on actual budgetary decision-making. MTBF development should be a MoF responsibility, with ANAPMA reviewing the linked performance framework. Given the weak capacity to develop credible annual budgets, it will take some years to realize the MTBF/MTEF ambitions. Building capacities in applying costing methodology and forecasting tools are a precondition to medium term budgeting reforms. A possible simplification approach to MTBF reform would be to initiate the reforms initially only for capital expenditure.
 - i) Several pre-conditions should be mentioned as needing to be in place before an MTBF/MTEF is developed. These include (i) the MTFF being used properly as a framework for setting aggregate expenditure ceilings over the medium-term, as political commitment to using it as a tool is an essential pre-condition for progressing towards and MTBF/MTEF; (ii) Consolidation of program budgeting focused on stabilizing program structures, accurate costing of baseline expenditure, manageable numbers of indicators, and experience with monitoring and reporting on performance against set targets; (iii) Development of medium-term baseline estimates with significant training and support in applying costing and forecasting methodologies; and (iv) Support at the political level to reach agreement on sectorial and line ministry budgets over the medium-term.
 - j) Decisions in the past on investment have mostly been politically determined and the weaknesses in the PIM system, such as weak appraisal and selection and low implementation capacity have not been addressed.
 - k) More focus in the Public Investment Management (PIM) area is needed on capacity building needs and plans⁶. This is an urgent priority given the importance of ensuring projects are selected to develop the economy. There are also gaps in relation to plans to ensure recurrent costs of capital projects are identified, and how to address challenges caused by institutional fragmentation of capital planning and budgeting responsibilities between the Infrastructure Fund, Ministry of Planning and Territory and MoF.

⁶ Diagnostic assessments reported a lack of capacities and standardized tools to assess capital projects, resulting in poor project selection, with funding not allocated according to absorption capacities, resulting in weak budget execution. Several stages of the project management cycle are weak, i.e. no rigorous CBA applied, no transparent project selection, weak project management, and evaluations being conducted usually only for donor financed projects World Bank PER (2021).

- l) Undertake a capacity building needs assessment for PIM in all LMs, within a decentralized framework and integrate recurrent and capital expenditures under the program structure, especially during the decision-making and assign eventual oversight to the MoF.
- m) Capacity building efforts on IT issues should not just concentrate on training of staff in municipalities but also should ensure that needed infrastructure is in place before the staff and officials are asked to move to a decentralized setup using the FMIS system.
- n) Considering the decentralization of public services and the authority of future local governments to collect fees and fines and manage their own budgets, the necessary systems and procedures have to be put in place, namely through the approval of a Municipal Finance Law.

44. **To address the above matters, there needs to be a stronger strategic planning phase to support the linkages between policies and budgets and enhance the credibility of the medium-term budget framework.** However, the scope and level of involvement in the strategic planning processes and budget formulation remains critically weak and therefore needs strengthening.

45. **The purpose of government planning and budgeting is to ensure they articulate and fund the achievement of objectives to support national development goals and prioritize limited resources to ensure they are efficiently allocated.** A key element of this is ensuring that plans can be properly translated into budgets and activities that are workable – and ensure that plans are delivered in practice.

46. **Achievements in this area include improved coverage of budget documentation and more timely information being provided to subnational governments about their allocations.** However, some persistent weaknesses remain, such as the lack of sector plans and the low credibility of medium-term budget estimates. The subcomponents below are a response to address these weaknesses.

3.3.3.1. Strengthen resource constrained planning and budget formulation including program-based budgeting

47. **The following activities are expected to be implemented to strengthen this subcomponent.**

- a) Strengthening program-based planning approach to anchor program-based budget reforms. This key activity is to strengthen budgeting and planning in high-level sectorial plans to be of better quality and prioritized in line with national objectives. In the coming years there should be focus on consolidating the program budgeting reforms, refining the program structures and improving costing methodologies including a stronger emphasis on training and capacity building of LMA government staff.
- b) Integrating the Program-Based Planning system (*Dalan Ba Futuru Timor-Leste* - DBFTL) with the Government Resource Planning (GRP) system. Program-based Budgeting provides an opportunity to enhance the linkage between strategic planning and budgeting in FreeBalance FMIS and DBFTL systems, and also the budget submission module for program budgeting should be integrated into the FreeBalance in order to realise one budget submission module.
- c) Developing a competency standard for the annual and multi-year implementation program. The institutional responsibilities in planning and budgeting between MoF and ANAPMA need to be clarified, including define the level of competence and responsibility of the implementation program, structured control and supervision according to the position level.
- d) Improving the annual budget process and strengthening the credibility of the budget. This is to improve development of annual budget baseline estimates early in the budget year, strengthening capacities in costing methodologies, forecasting and expenditure monitoring, and correcting

expenditure classification errors as well as improving planning and its credibility, including planning at program levels to guarantee that the macro-fiscal policy is being followed and aligned with Government's strategic goals.

- e) Developing Medium-Term Budget Framework (MTBF). The MTBF should be consistent with the fiscal target and sustainable development policy and the annual the budget should be prepared according to the medium-term budget framework. In addition, the MTBF needs to be consistent with the national medium-term development policy that should align with Sustainable Development Goals (SDG) Indicators and also budgeting on gender, human rights, and climate markers.
- f) Improving quality, transparency and accountability in the budget process. Each general budget should have a pre-budget statement and a citizen budget. Civil society participation, e.g. academicians and civil society, in budget preparation will improve budget credibility, comprehensiveness, and transparency as well as improve the medium-term perspective.

3.3.3.2. Strengthen Public Investment Management

48. **The following activities are expected to be implemented to strengthen public investment management.**

- a) Develop a policy framework for Public Investment Management (PIM) that includes developing PIM manual/guidelines. This will target having a clear and strong guide to formulating Public Investment Program (PIP), improving capital spending efficiency, strengthening project evaluation and addressing the significant capacity gaps in project development.
- b) Assessment of capacity building needs for PIM across all LMs to strengthen the investment budget plan. The purpose of the activity is to identify strengths and weaknesses of investment projects in order to help identify priority areas that need improvement, inform public policy and improve investment sustainability as well as improve budget quality and reliability for public investment projects.

3.3.3.3. Strengthen Local Government PFM Systems

49. **The following activities are expected to be implemented to strengthen local government PFM systems.**

- a) Improve the capacity of planning and budgeting process in municipalities to manage resources effectively, efficiently, and economically. Strengthening Planning Units in Municipalities and align the capacity building plan for local governments with the phasing of the decentralization process.
- b) Decentralize treasury functions (payment, accounting and reporting system) to local governments. This will involve strengthening the capacity of PFM staff in Municipalities to appropriately handle this responsibility. The local government can make its own reports without having to rely on the MoF, while the MoF only provides technical assistance to comply with the manual/guidelines. As the government decentralizes service delivery to municipality level, there will be an increased demand for financial information at the level of service delivery units such as community health centres and schools. Data analytics at service delivery unit level will allow municipalities, sector ministries and DPs to better target resource allocations to vulnerable groups to improve equity in service delivery.

- c) Develop systems and procedures for the collection of fees and fines and management of municipal budgets at local governments, namely through the approval of a Municipal Finance Law.

3.3.4. Component 4: Strengthen Public Spending

50. **This component has 6 subcomponents and 28 key activities.** The subcomponents are: (i) Improve the Quality of Budget Execution; (ii) Strengthen Public Procurement & Public Contract Management; (iii) Strengthen Asset Management Operations; (iv) Strengthen PFM Capacity Building; (v) Improve the Quality of FMIS; and (vi) Transform the DG Statistics into an Independent Autonomous Agency.

51. **The expected outcomes are the following:**

- 1) Strengthen the efficiency of cash management and improve the appropriation management rules.
- 2) Strengthen rules about transfers between budget items and carry-over of budget allocations.
- 3) Strengthen the effectiveness of FMIS to enhance efficiency of PFM professionals.
- 4) Enhance efficiency of public procurement and contract management to improve on service delivery.
- 5) Improve predictability and control in budget execution.
- 6) Strengthen the effectiveness of accountability systems and compliance in budget execution.
- 7) Strengthen the management and efficient use of assets.
- 8) Strengthen sustainable PFM capacity building to comply with international good practices.
- 9) Establish an Independent Statistics Entity and improve its efficiency to provide services.

52. **This component plans to address the following challenges.**

- a) The procurement system is weak and inefficient causing delays in service delivery.
- b) Effective processes for tracking and reporting on budget implementation and in-year revisions is also lacking. Funding is often provided too late, making planning and implementation challenging. Combined with this is a lack of information on spending tracking and what is achieved through spending, partly due to limited level capacity.
- c) Commitment and cash management systems are solid and effective. The strength of the process for consolidated annual financial statements enables effective oversight by the CdC and it allows formal checks and balances mechanisms on the actual use of resources. However, loopholes in the reporting systems and delays in the last quarterly in-year budget execution reporting need to be addressed to maintain oversight of the budget execution.
- d) Risks to resource allocation and fiscal discipline due to frequent in-year adjustments and unreliability of medium-term budgets, makes it difficult for service delivery units to plan and execute budgets efficiently across the whole of Government.
- e) The lack of consistent and adequate performance information produced by the performance budgeting process fails to provide clear incentives to service delivery units. The reporting of information on DPs support to service delivery sectors has improved, but it is not yet fully on-budget and integrated into the government systems.
- f) Management of assets and liabilities is relatively strong on debt management, but public investment management and management of physical non-financial assets is weak. There are a

range of options for financing investments, which are planned at the strategic level through the medium-term fiscal framework, and monitored through regular debt sustainability analysis. However, poor planning and appraisal of projects leads to low returns from public investment.

- g) The lack of a well-defined institutional framework for capacity building is a major risk which can derail the pace of ongoing PFM reforms in the country.
- h) A faculty pool for PFM areas should utilize key specialist personnel across various LMAs, including MoF, ANAPMA and Ministry of Planning and Territory, with incentives to provide training.
- i) Phase the implementation of automated bank reconciliation and prioritize the completion of system linkages of GRP with DBFTL; SIGTAS and ASYCUDA; and Payroll with SIGAP.
- j) Draft a comprehensive Business Continuity Plan and introduce a more inclusive governance structure for FMIS.
- k) Address the problem of accumulation of new expenditure arrears by strengthening commitment controls.

3.3.4.1. Improve the Quality of Budget Execution

53. **The activities that are expected to be implemented to improve the quality of budget execution are:**

- a) Introduce a new treasury instruments regime. The purpose of this activity is to have a legal framework for issuing treasury instruments to mobilize financial resources to finance future state expenditures. The introduction of new treasury instruments should start with the Treasury bond market and become a medium-term priority for both the MoF and the Central Bank of Timor-Leste (BCTL). Development of the legal, institutional, and market frameworks for Treasury bill issuance, and a later further development of the longer maturity market.
- b) Review and strengthen cash management systems and execution procedures. The aim of this activity is to improve on cash forecast provided daily, supported by information flows between DG Treasury and the Directorate-General for Management and Mobilization of External Resources (DGGGMRE). The development of a cash flow forecasting mechanism will be a medium priority for the Treasury.
- c) Interconnection of the GRP Payroll System (MOF) with the SIGAP (Public Service Commission). This activity aims to control and ensure efficient and effective processing of government-wide salary payments. This will require the development of the interconnection of the payroll system with SIGAP in collaboration with MoF and Public Service Commission (CFP).
- d) Prepare a concept paper setting out new regulation on the governance of SOEs. This aims to improve sustainability and managerial independence coupled with an enhanced monitoring framework focused on performance, key financial indicators, and fiscal risks. In addition, prepare a concept paper setting out which public policy and governance issues the proposed new SOE governance regime will address.

3.3.4.2. Strengthen Public Procurement & Contract Management

54. **The activities that are expected to be implemented to strengthen public procurement & contract management are:**

- a) Implementation of the new Decree Law on procurement, public contracts and infractions. The aim of this activity is to improve procurement practices and promote economic development, updating the existing legal systems, while maintaining the same logic, but adapting it to new realities and best practices.
- b) Strengthen procurement services at LMs, IPs and Municipalities. The purpose of this activity is to improve the quality of procurement process. However, reinforcing the responsibilities of the National Procurement Commission, in particular in standardizing procedures and issuing guidelines and creating standard contractual drafts and norms, is crucial.
- c) Establish a procurement appeal's body and a service control body. This will provide a forum to address procurement complaints in a systematic manner. The service control body will improve on procurement services.
- d) Develop procurement manuals, standard contractual guidelines and rules, to function as guidelines for the implementation of the procurement system according to the new Law.
- e) Improve the Procurement Portal in order to improve transparency and accountability, in collaboration with MoF.
- f) Review the Decree Law on the establishment of a National Procurement Commission. The aim is to have a legal framework to facilitate services efficiently and effectively. Review the institutional arrangements for public procurement, including a review of the role of the NPC, to ensure that responsibility for strategic management is clearly assigned. If properly mandated and resourced, the NPC is well positioned to take responsibility for strategic leadership and coordination of public procurement across government, as well as monitoring and reporting.
- g) Increase the resources of National Procurement Commission. Aim to improve the quality and quantity of procurement personnel. Amend the NPC Decree Law to strengthen the NPC personnel resources. Develop new personnel plan for the National Procurement Commission in accordance with the new Organic Law, including improving capacity through intensive training.

3.3.4.3. Strengthen Asset Management Operations

55. **The activities that are expected to be implemented to strengthen asset management operations are:**

- a) New regime to establish asset management as an independent public institution. Aims to improve the proper management, valuation and disposal of fixed and non-fixed assets. To have an institution with competence and authority to promote the integrated management of non-financial assets.
- b) Introduce a new legal regime on use of state vehicles and strengthen the fleet management system, including relocation of state vehicles. This aims to promote efficiency and effectiveness in the use of state vehicles to reduce state spending and it will also facilitate the analysis of maintenance costs, fuel consumption, and operating expenses and produce systematization reports. Improve the efficiency of using state vehicles in accordance with government regulations.
- c) Installation of asset management software for Fixed and Non-Fixed Asset Inventory. To ensure proper management to control State assets and improve registry management in line with government resolutions for state asset management reform. Fixed assets are capitalized and reported in the Consolidated Financial Statements. Putting in place a monitoring and proper

maintenance system of public assets, primarily through the activation of the asset and inventory modules of FMIS, as well as providing supporting guidance, training and procedures for public asset management.

- d) Revision of the Decree-Law on the auction of state movable assets. This aims to allow the government to better manage the auction in order to provide maximum benefits to the state as a source of state revenue.
- e) Improving the management of National Vehicle Workshop and management of pool vehicles. The purpose is to implement a management model to improve quality control, maintenance and fuel consumption. Manage state vehicles effectively and improve control of state vehicle usage, maintenance and repair. Provide adequate facilities for the workshop and provision for computing equipment, related accessories, vehicles and other tools to support field work.

3.3.4.4. Strengthen PFM Capacity Building

56. **The activities that are expected to be implemented to strengthen PFM capacity building are:**

- a) Develop a training curriculum based on the PFM competency standard. This activity aims to improve standardized PFM training according to international standards. A well-developed course curriculum covering all areas of PFM should be available to all stakeholders.
- b) Accreditation for PFM competence areas (technical and specialized) in order to provide qualified certification in the PFM areas. This aims to provide Qualified Certification of courses for civil servants based on international standards and develop a training module based on accredited unit competencies.
- c) Provide intensive training to empower PFM professionals in specialized, technical and generic areas of PFM. The objective in this activity is to strengthen sustainable capacity building of PFM officers in line with PFM reforms.
- d) Establish the PFM Training Centre (PFMTC). In order to guarantee the Competence Standards of PFM Professionals in Timor-Leste, it is necessary to establish the PFM Training Centre that regulates the PFM Training procedures. It will ensure PFM civil servants learn the basics and can upgrade their skills to effectively conduct their duties.
- e) Introduce a Decree Law on special career regime for PFM professionals. This aims to create the career of PFM Professionals in Public Administration and professionals from specialized areas in the MoF. However, this activity will need a financial impact assessment to be done prior to the implementation of the special career regime for PFM professionals.

3.3.4.5. Improve the Quality of IT Systems (FMIS)

57. **The activities that are expected to be implemented to improve quality of IT systems (FMIS) are:**

- a) Develop FMIS strategic plan in line with Timor-Leste's PFM systems. The objective of this activity is to establish a clear strategy reform and strengthen the MoF-FMIS over the next five years. Develop a FMIS strategic plan to drive FMIS, rollout and update the system over the next five years.
- b) Updating the FreeBalance function within PFM systems. The enhancement of modules and the government's decentralization agenda will lead to an increase in the user base of the GRP system. Update the GRP to include aspects of user base management and system load handling. Upgrade the GRP with advanced reporting, a mobile friendly system, and a document management system

plus introduce a two-factor authentication for key process authorizations as part of strengthening the security controls of the system.

- c) Design and Construct MoF's disaster recovery centre to ensure the MoF database centre is secure from natural disasters or sabotage. Disaster Recovery setup with Tier 3 database should be part of a larger Business Continuity Plan for the FMIS with elements such as a risk management plan, business impact analysis, incident response plan, recovery plan, mock drills and table top exercises. This should be complemented by auxiliary plans to have in-house technical capability to support the basic system features in the medium term, making systems adhere to accepted standards such as ISO 27001 & ISO 20022 and formalizing the help desk for end-users.
- d) Develop and implement the interconnection of FreeBalance with tax and customs systems, payment systems, payroll systems, budget reconciliation, updating e-portal, e-procurement and MoF website. This will strengthen working coordination, control and efficiency. The system user interface has compatibility issues that need to be addressed by introducing an advanced reporting tool, a mobile friendly version of GRP, and an advanced document management system linked to main GRP application. All these linkages for two-way data exchange between the GRP and other systems need to be prioritized for early completion.

3.3.4.6. Transform DG Statistics into an Independent Autonomous Agency

58. **The activities that are expected to be implemented to transform DG Statistics into an Independent Autonomous Agency are:**

- a) Creation of the National Institute of Statistics of Timor-Leste. The aim is to transform the General Directorate of Statistics into an independent statistical service in order to provide impartial and credible data and information. This will include the revision of the existing draft law to establish an Independent Statistics Entity.
- b) Strengthen the human resources capacity in municipal statistics. The aim is to improve the capacity of municipal statistics staff to produce reports at the municipality's level. This will include preparation of staff plans for the Independent Statistics Entity and improve staff capacity through intensive and regular training and scholarships.
- c) Improving facilities and infrastructure. This is aimed at improving the provision of statistics services as well as improving infrastructure facilities through regular maintenance or repair as needed.

3.3.5. Component 5: Strengthen Accounting & Internal Audit

59. **This component has 2 subcomponents and 10 key activities.** The subcomponents are: (i) improve the Quality of Accounting and Reporting; and (ii) Strengthen Internal Audit Function.

60. **The expected outcomes are the following:**

- 1) Timely accounting and reconciliations;
- 2) Quality and reliable internal audit reports;
- 3) Enhanced internal audit legal framework; and
- 4) Adopting a risk-based audit approach and conducting both financial and performance audits.

61. **This component plans to address the following challenges.**

- a) Annual financial reports are prepared annually and include generally detailed information on revenue, expenditure, cash balances, and long-term obligations (loans). However, disclosure of information on the stock of financial and nonfinancial (fixed) assets is only partial (mostly the Petroleum Fund), while other liabilities and guarantees are not included.
- b) The bank reconciliation process is still manual with negative impacts on financial reporting.
- c) Treasury has not yet adopted a clear definition of arrears.
- d) The monitoring of arrears is manual, is only carried out at year-end, and there is no tracking of arrears by age.
- e) The new PFM Law requires that the stock of arrears be identified in the annual budget and in annual financial statements but again does not define expenditure arrears.
- f) Complete information on financial and non-financial assets is not provided as well as financial liabilities beyond external debt. In addition, the report does not cover proceeds of Development Partners' support made in cash and deposited in accounts opened in commercial banks and under the control of public institutions, or directly transferred to a Government account at the BCTL (e.g. EU budget support).
- g) Financial standards for data integrity are effective across the GRP, but lack of systematic bank reconciliation processes undermines the overall performance of the system.
- h) Management systems and controls over fiscal reporting are already in place. However, despite visible efforts to expand coverage of government fiscal reporting, systems (and capacity) for effective asset and liability management need to be strengthened.
- i) No follow-up on implementation of audit recommendations of the MoF Office of Internal Audit (GIG) by MoF and LMAs.
- j) Lack of focus on reporting on high-risk government operations, such as large investment projects and their associated procurements and contracts management
- k) The current training and capacity building exercises carried out are not enough to establish an effective Internal Audit mechanism for the entire Government owing to the capacity and manpower limitations on the part of both the MoF and LMAs.

62. **This strategy seeks to provide a comprehensive, strategic and coordinated effort to strengthen the governance of FMIS for accountability, including collaboration with other agencies to strengthen network connectivity.** In particular, reform activities will aim to improve the integration of the various standalone accountability systems and provide stronger IT security and management. This will also involve introducing a cross-government e-payment gateway, rolling out e-Procurement and to complete the roll-out of IFMS to all remaining entities in order to remove manual processes.

63. **In order to strengthen effective management and delivery of government services and operations, the Government needs to develop and operationalize risk management.** Internal audit will therefore play a key role in supporting the establishment and roll out of risk management approaches by operationalizing the risk management strategy across government. This will form a key part of their assurance function. In addition, capacity building for internal audit functions will ensure that their audit and recommendations are relevant to government and focused on key risks.

64. **The methodology of audit should gradually shift from auditing compliance with financial rules to include risk-based audit and performance audit.** This will enhance the scope of audit and makes it more

efficient to identify shortcomings in processes and systems to suggest mitigation methods. This would require a gradual change in methodology in Timor-Leste where a first step would be the setting up of Internal Audit units across Government, developing a good understanding of audit and compliance audit, and then performing the risk-based audit.

3.3.5.1. Improve the Quality of Accounting and Reporting

65. **The activities to be implemented under improving the quality of accounting and reporting are:**

- a) Introduce a new regime on accounting standards for the public and private sectors to strengthen efficiency, transparency and accountability.
- b) Improve financial reporting compliance with International Public Sector Accounting Standards (IPSAS) regulations. The aim is to improve Treasury operations, comprehensive financial reporting and regular reporting throughout the year to ensure budgets are executed broadly as intended within approved fiscal targets.
- c) New regime on the Commission of Accounting Regulation (CAR). The Accounting Commission acts as a body to control and supervise the use of accounting standards in Timor-Leste. The introduction of private sector financial reporting standards, based on the International Financial Reporting Standards (IFRS), will support improved tax compliance.
- d) Prepare a concept note on eventual transition from a Cash Basis accounting system into an Accrual Based accounting system. A concept note with a long-term plan for an eventual transition to accruals should be developed, with indicative timelines. This should include a capacity building plan to strengthen skills of government staff to comply with accrual accounting.
- e) Establish an automatic reconciliation system between the GRP systems and the Central Bank's R-Timor system. This will strengthen bank reconciliation and improve the quality of accounts.
- f) Define, monitor and report on expenditure arrears. This is essential to manage and control expenditure arrears. Develop a regulation to define expenditure arrears and develop an approach on how they are to be monitored and reported under the current cash basis of reporting. Develop a vendor window linked to the FMIS to allow suppliers to track progress of their invoices and claims through the relevant LMAs and MoF.

3.3.5.2. Strengthen the Internal Audit Function

66. **The activities to be implemented under strengthening the internal audit function are:**

- a) Prepare a new Decree-Law for Internal Audit. To have a regulatory framework that guides better quality internal audit services. Have an internal control and monitoring system for the provision of services and accounts in all State institutions. Strengthening Internal Audit should focus on the requirements of all LMs and not just MoF.
- b) Develop an Internal Audit Manual. To have a guideline that guides auditors to audit with professionalism and quality. The methodology of audit should gradually shift from auditing compliance with financial rules to include risk-based audit and performance audit.
- c) Improve auditor skills and have sufficient staff in the GIG of the MoF. Capacity building should move towards risk-based audit with focus on priority areas with understanding of systems audit and use of IT tools for audit. The follow-up process should be defined and enhanced to ensure desired outcomes based on the audit process. Provide scholarship to selected staff to study for the Certified Internal Auditor (CIA) Program of the Institute of Internal Auditors.

- d) Follow up of external audit recommendations. Follow up of audit recommendations is a key elements of an effective audit framework. The GIG is required to report to CdC on progress of the previous year's audit recommendations but there is little evidence of any follow up with the LMAs and there is no consolidated record of implementing the recommendations. It is therefore essential to improve the follow-up of audit recommendations by GIG with the LMAs.

3.3.6. Component 6: Strengthen External Scrutiny and Audit

67. **This component has 3 subcomponents and 8 key activities.** The subcomponents are: (i) Strengthen External Audit; (ii) Strengthen Parliamentary Oversight; and (iii) Strengthen Social Accountability.

68. **The expected outcomes are the following:**

- 1) Court of Accounts (CdC) adopts a risk-based audit approach and conducts quality financial and performance audits;
- 2) Improve the quality and timeliness of Parliamentary scrutiny of CdC's external audit reports; and
- 3) Strengthen public trust by enhancing social accountability.

69. **This component plans to address the following challenges.**

- a) Ensure external audits are strengthened with the development of financial and performance audits. A risk-based audit approach needs to be adopted in conducting audits.
- b) There are delays in the scrutiny of external audit reports from the CdC by Parliament and the frequency of hearings on audit findings needs to be increased by Commission C. The public needs access to the hearings or the reports of Commission C, which can be put on Parliament's website after they have been approved.
- c) Civil society participates in budget preparation consultations in accordance with the PFM law but there is a need to strengthen the quality of the participations to be more impactful in improving the quality of the budget. Forums for civil society to provide feedback on government programs with respect to the quality of service and areas of risk for CdC to consider in their audits, need to be encouraged to become part of TL's PFM system.

3.3.6.1. Strengthen External Audit

70. **The activities to be done to strengthen external audit are:**

- a) Develop and strengthen financial audits using a risk based approach. This will involve developing audit manuals in line with International Organization of Supreme Audit Institutions (INTOSAI) standards and building capacity of CdC's audit staff to produce quality audits.
- b) Develop and strengthen performance audits. This will involve developing a performance audit manual in line with INTOSAI standards and building capacity of CdC's audit staff.
- c) Acquire audit software to improve audit efficiency.

3.3.6.2. Strengthen Parliamentary Oversight

71. **The activities to be done to strengthen parliamentary oversight are:**

- a) Parliament's Commission C will have to increase the frequency of its hearings to timely scrutinize CdC's external audit reports. It's highly recommended that the hearings be made public as well as the reports, in line with the transparency principle in the new PFM law. This will increase the trust of the public in Parliament's oversight of government's accountability of public funds.

- b) A risk-based methodology should be developed for Parliamentarians to scrutinize audit reports. This will also call for their capacity to be enhanced. This risk-based approach will ensure that there is a focus on material issues raised by CdC, which will be more impactful in ensuring accountability of public funds and improve on the timeliness of Parliament's scrutiny of audit reports.

3.3.6.3. Strengthen Social Accountability

72. The activities to be done to strengthen social accountability are:

- a) Improve the quality of civil society participation in the budget planning process to ensure annual budget's take into consideration the views of the citizens of TL. Lessons from International Budget Partnership show that how the citizens participate in the budget process matters. For instance, if MoF calls for the consultations on the budget, it can become a "ticking of the box activity", while if it's the civil society that requests for consultations with the MoF, they are most likely to be better prepared to make their budget proposals.
- b) There is need to have consultative forums organized by MoF/GIG seeking the feedback of civil society on the quality of services being delivered, as it can build public trust in the accountability process, especially if they get a sense that their voice is being heard. If the government institutions know that there will be opportunities for citizens to comment on the quality of their services, it will provide extra incentives to do good timely work.
- c) There is need for CdC to consult civil society on areas of risk related to government expenditure to focus their scarce audit resources as part of the risk-based approach. Lessons from Korea's Supreme Audit Institution show that this has been very effective in building public trust.

73. The action matrix (annex I) presents a more detailed description of the activities related to the six main components, implementation time, entities in charge and indicators to measure the achievement of the goals that have been set.

4. PFM Reform Principles and Governance (How?)

4.1. PFM Reform Principles

74. **To have successful PFM reforms, TL will need to apply principles.** These principles take into consideration the reform experience of TL such that PFM systems operate effectively to support the Government to deliver economic growth and meet its development objectives. They are:

- a) **Manageable reforms:** This principle is to ensure genuine progress is done in a manageable way. The reform effort will focus on priorities for improvement that are based on consolidating past reforms, addressing the most urgent evidenced based problems, and providing a solid platform for delivering economic growth objectives.
- b) **Clear monitoring framework:** TL's reform strategy will provide an overarching implementation plan and framework for monitoring performance against objectives and outcomes across any number of PFM reform projects or programs.
- c) **Sustainable reforms:** PFM reform investments should be sustainable, ensure continuity and complementarity between reforms, and make use of synergies with other, relevant reform opportunities across Government, through learning, monitoring and evaluation at all levels, with appropriate activities and outputs designed to contribute to the achievement of agreed outcomes.

- d) **Measurable targets:** The PFM reform targets and indicators for measuring performance in relation to the defined outcomes will be Specific, Measurable, Achievable, Relevant and Time-bound (SMART) within the strategy's timeframe.
- e) **Political commitment:** The VIII Constitutional Government has a strong commitment for successful delivery at the political, management and technical levels, evidenced by the creation of the Inter-Ministerial Commission for Tax and Public Finance Management Reform, as well as an Inter-Ministerial Sub-Commission for State Assets Management Reform (Government Resolution 31/2020) to give new impetus to the PFM Reform, including active involvement and participation by stakeholders to ensure compliance and conformity with legislation and procedures, as well as ownership of the strategy and consensus on the problems and reform goals.
- f) **Communication and coordination:** Effective communication and institutional coordination will be organized between and within the MoF and LMs, regional and local government, international partners and with relevant stakeholders in the private sector and civil society.

4.2. PFM Governance

4.2.1. Governance Structure

75. **The PFM Reform process has a two-tier governance structure.** This comprises of an Inter-Ministerial Commission for Tax and Public Finance Management Reform, as well as an Inter-Ministerial Sub-Commission for State Assets Management Reform (created through Government Resolution 31/2020, amended by Government Resolution 131/2021).

76. **The Inter-Ministerial Commission for Tax and Public Finance Management Reform is composed of the following:** the Ministers of Finance (Chairman); Economy; Justice; State Administration; Planning and Territory, Tourism, Commerce and Industry; and Petroleum and Minerals. The Inter-Ministerial Sub-Commission for State Assets Management Reform is composed by the Ministers of Finance (Chairman); Justice and State Administration. The internal regulations of the Commission and Sub-Commission have been adopted and the technical working groups have been staffed.

77. **In addition, a new Technical Unit working group under the PFM Reform Secretariat will be established to strengthen planning and implementation of the six priority areas of PFM reform.** The Technical Unit will be composed of Heads of Departments of Institutions involved in the PFM Reform program. DPs supporting PFM Reform will be invited to join the meetings of the Technical Unit.

78. **The key issues arising from the Technical Unit working group meetings will be shared and discussed with the Inter-Ministerial Commission for Fiscal and Public Finance Management Reform and Inter-Ministerial Sub-Commission for State Assets Management Reform.** This will ensure appropriate actions and decisions are made where necessary by the responsible authority. Progress updates on PFM reforms can also be provided in the regular meetings between DPs and GoTL.

79. **While a top-level governance framework exists for guiding the reform, comprised of six ministries led by the Prime Minister's Office, at the implementation level responsibilities are unclear and they will need to be clarified.** Director General level officials should be assigned to lead reforms in their area of responsibility. Within ministries, there should be a ministry-level steering committee to monitor reforms. The MoF has a General Directorate focused on PFM Reform, change management and training, which also supports other entities of the public sector on similar reforms.

80. **Details on the Governance Structure are provided in Annex II.**

4.2.2. PFM Coordination with Development Partners

81. **An engagement framework with DPs should be an integral part of governance arrangements.** DPs in Timor-Leste are eager to provide support for PFM reform but need to be informed regularly and see results. The government would also benefit from the experience in PFM and reform management of the DP community. It would also provide government more flexibility to resolve bottlenecks in the reform agenda through ad hoc arrangements.

82. **The MoF through the General Directorate responsible for PFM Reforms, will be leading DP coordination.** Every month the DPs supporting PFM Reform will be having a meeting with the Technical Unit working group composed of DGs responsible for implementation of the components and Heads of Institutions. PFM strategy, plans, progress, challenges and any other related matters will be discussed during these meetings.

4.2.3. Change Management and Communication

83. **Change management is essential to have effective reforms.** Change management interventions are both mainstreamed as well as separately pursued through a set of systematic learning, leadership, and motivational activities. Implementing reforms requires changing systems, procedures, norms and behaviours. While it is important to identify the correct technical solutions to PFM problems, it is also important to adopt a systematic approach to managing change. In particular, since resistance to change is a normal consequence of reform, the change management strategy underpinning the PFM reform strategy will seek to understand and address stakeholders' concerns, fears and needs alongside reforms.

84. **The PFM Reform Action Matrix promotes incentives for change at two levels:** (a) at each activity level where the risks and challenges in achieving the change have been thoroughly discussed, and sub-activities are designed to manage those risks and challenges (for example, advocacy and coalition building sub-activities are built in where the government's current ownership is not at the highest level, or capacity building sub-activities are designed to cater for capacity challenges etc.) and (b) a separate set of activities to promote leadership and learning in program implementation and enable mutual accountability.

85. **These change management interventions will enable the implementation teams to effectively deal with both technical and non-technical challenges that come up during implementation.** With that in mind, three closely connected pillars underpin the change management approach for PFM Reform in Timor-Leste:

- a) *Systematic Learning and Sharing of Good Reform Practice:* Increasingly institutions recognize that culture of knowledge sharing, and learning may exist but is neglected as staff focus on more immediate issues. Also, capacity gaps have dramatic impacts on the effective achievement of organizational mandates, sustainability of day-to-day operations, and replicability of success.
- b) *Communications and Stakeholder Alignment:* Stakeholders will be involved and informed throughout the implementation of the Action Plan through the Inter-ministerial Commission meetings. In addition, several activities will be designed to foster institutional collaboration, alignment, and learning.
- c) *Adaptive leadership skills through Implementation Coaching:* Adaptive leadership coaching emphasizes co-ordination, collaboration, empowerment, and learning. It brings to government leaders the tools and practices required to facilitate implementation of the reform activities and address challenges during implementation, including culture change.

86. **The PFM reforms will need to have a communication strategy as part of the change management strategy.** This will ensure that all levels of government and the citizens of TL are appropriately informed about

the reforms. The purpose of the reforms needs to be emphasized. Feedback received from government officials and citizens will be essential in building ownership of the reforms.

4.2.4. Risk Management

87. **The risks that have affected previous PFM reforms need to be managed going forward.** This will ensure this strategy is effectively implemented.

88. **GoTL recognizes that it will not be possible to eliminate all risks in the delivery of PFM reforms.** However, the PFM Reform Unit/Secretariat will identify key risks that could have an impact on PFM reforms such that they are appropriately mitigated to be managed. The PFM Reform cluster heads (DGs, Director and Technical Unit) will support PFM reform unit/secretariat in this task, which could be raised with the governance structure of the PFM reforms to be appropriately addressed.

89. **Political will is essential for the reforms to succeed.** This needs to be guaranteed through the involvement of high-level Government officials in the Inter-Ministerial Commission for Tax and Public Finance Management Reform, as well the Inter-Ministerial Sub-Commission for State Assets Management Reform. In addition, there is need to get the support of the President, Parliament and opposition parties, given that the strategy's implementation period goes beyond the current legislature.

90. **Expectations have to be managed and the need for changes and contingencies have to be factored in.** As with any plan, the implementation will not follow exactly what is expected. Changes will have to be made taking into account existing resources, evolving political wills and technical analysis. Delays resulting from internal and external factors will happen (dependency on the annual allocation of resources by the budget, DPs own financial calendars, the pace of the legislative process, the time it takes for training to conclude, etc.). Its, therefore, important to be prepare for this contingencies, to be ready to easily and quickly adopt adjustments to the strategy and not let setbacks derail the reform.

4.2.5. Sustainability Plan

91. **Sustainability is the ultimate goal of the PFM reform strategy.** The aim is to finance PFM activities and reforms independently and embed PFM systems without continuous external assistance. This strategy seeks to establish a sustainability plan, linked to the implementation plan. This will identify recurrent costs associated with PFM reform activities that need to be mainstreamed into GoTL operations.

92. **Capacity building will be essential to achieve sustainability.** PFM administrative and staffing structures will be reviewed to ensure that administrative structures are commensurate with current needs for effective PFM. The strategy also seeks to explore new ways of providing capacity building and training for PFM across the Government. More sustainable delivery modalities such as training of trainers, e-learning platforms, a comprehensive needs assessment, comprehensive training programs and collaboration with relevant external training providers or professional bodies will be considered.

93. **Building on lessons from the previous reform, specific reforms will be deepened in the delivery of essential services.** While the strategy retains an all-government approach, this prioritization element aims to reorient the reform strategy to sustain its contribution to key service delivery outcomes.

4.2.6. Monitoring and Evaluation

94. **The Office for PFM Policy Reform and Capacity Building (GPRCGFP) will be responsible for monitoring and evaluation of the PFM Reform program supported by the PFM Reform Unit/Secretariat.** Each Head of Department/Institution implementing the PFM Reform program will be required to submit a progress report every two months, which will be discussed in the PFM Technical Unit coordinating meetings. These reports will subsequently be consolidated by the PFM Reform Unit/Secretariat

and submitted to the responsible DG. The PFM reform action matrix will be used as the reference document to monitor and evaluate performance of the reforms mainly by reporting on the performance indicators and targets. The GPRCGFP will submit progress reports over an agreed timeframe to the Inter-Ministerial Commission for Tax and Public Finance Management Reform and Inter-Ministerial Sub-Commission for State Assets Management Reform as well as associated working groups e.g. Accountability Technical Unit and DPs.

95. **The GPRCGFP through the Minister of Finance will work closely with existing Monitoring and Evaluation arrangements.** This includes the Commission for Coordination and Monitoring of Institutional Reforms (CCARI) under the Prime Minister's Office and the Presidency of the Council of Ministers. This will be done by providing annual progress reports on the PFM Reform program and how it's achieving the objectives of the Strategic Development Plan 2011-2030 (SDP).

4.2.7. PFM Reform Matrix

96. **The PFM Reform Matrix in Annex I, is the core of the PFM Reform Strategy.** It describes the objectives of the sub-components, activities to be implemented, 2021 baseline and targeted indicators, priority of the reform, lead responsible Department or Institution and timeframe to achieve the results. This way, the Matrix provides a clear implementation roadmap that has been developed in an extremely consultative manner over months of engagement led by GPRCGFP with the respective entities responsible for each area. The PFM Reform Matrix is a living document that will be reviewed annually, costed and linked to the annual budget cycle.

97. **The Reform Matrix is made up of six components, twenty sub-components and eighty three activities that are the priorities of the PFM Reform Strategy.** The IMF validation mission on the PFM reform strategy provided an opportunity to reframe and redefine the components of the reform and identify related implementing entities. The mission was useful in identifying the sub-activities and activities supporting the subcomponents that would enable the achievement of the objectives of the component. The mission also conducted a situational analysis of the strengths and weaknesses of Timor-Leste PFM systems.

98. **The list of sub-activities is likely to change during the implementation period as stakeholders' understanding of the underlying challenges evolve overtime.** Setting the results indicators at the activity level (and not by sub-activities) allows the flexibility to the implementation teams to course correct. Thus, implementation teams will be able to undertake new designed sub-activities as and when necessary and abandon those currently mentioned in the Matrix, to the extent that they ensure successful achievement of the outcome targets for the overall activity.

Annex I: PFM Reform Action Matrix

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
C-1	STRENGTHEN FISCAL STRATEGY											
Outcomes: 1) Change the government spending and revenue behaviour in an effort to grow and develop the economy. 2) Improve fiscal sustainability. 3) Improve macroeconomic stability.												
SC-1.1	Strengthen Fiscal Framework (<i>Legal framework & Systems</i>)											
Key Activities												
1.1.1	Strengthen the Medium Term Fiscal Framework (MTFF) with practices in line with the Timor-Leste context	To have a fiscal framework that projects medium and long term fiscal sustainability, which serves as a reference in the annual budget preparation process	• Coordinate with relevant bodies within intra MOF & inter-ministerial on aggregate expenditure levels and sectorial allocations • Estimates of domestic revenues, balance of payments trends and withdrawals from the Petroleum Fund • Use data from an upgraded macroeconomic model • TA is necessary to develop a credible MTFF document early in the budget year, including support for strengthening macro and fiscal forecasts, development of top-down baseline methodology, and costing methodology for major initiatives.	• A MTFF type document is being developed to support the Major Planning Options Law • In recent years, government has stated the objective to increase domestic revenues to 17.5% of GDP, but without a clear timeline. • Macro and fiscal forecasts are prepared and presented in the budget for the budget year and the two out-years, and fiscal objectives are articulated on an ad-hoc basis but not tied to a fiscal sustainability framework.	Fiscal objectives are articulated and linked to a fiscal sustainability framework.	H	DGPO DNPE	X	X	X		
1.1.2	Improve fiscal forecasting through	To produce updated projection based on the	• Identify model requirements (<i>with specific purpose and outputs</i>)	• The macro unit is developing a four-	Roll out dynamic model, run the	M	DGPO DNPE	X	X	X	X	



PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
	Macroeconomic Model Development (modelling)	actual economic situation and fiscal policy	- Consult best practices from similar countries and decide on the specific nature and design of the proposed model - Implement dynamic model and consult with key stakeholders including academics and private sector on the outcome of the model and run the model, test on various scenarios compare model outcome with prior years' actual to assess credibility of data, estimates, forecast	- sector economic model to forecast GDP with support from the IMF's Singapore Training Institute. - Expenditure, revenue and other forecasts are presently mostly forecast based on trend analysis.	model and test on various scenarios compare model outcome with prior years' actual to assess credibility of data estimates							
1.1.3	Introduce and strengthen macroeconomic framework	To update macroeconomic frameworks regularly in order to strengthen evidence-based public policy process	- Develop and implement a policy framework to capture all fiscal information at the level of local government and other entities for macroeconomic analysis - Develop capacity in the Budget Department to provide multi-year estimates of new or amended policies in the revenue and expenditure spheres.	Macroeconomic framework is regularly updated with assistance from the World Bank, IMF and ADB	Macroeconomic framework regularly updated	H	DGPO DNPE	X	X	X	X	X
1.1.4	Development of elements of a fiscal responsibility law	The law to define the process, transparency and accountability requirements of fiscal policy and the required content of the MTFF	- Determine fiscal policy anchors, i.e. how Timor-Leste will ensure stabilization or at least delay the depletion of PF - Setting sustainability limits for debt issuance given that the strategy predicts market debt issuance, starting with domestic T-bills. - Develop and implement a fiscal strategy anchored by a sustainability framework for the PF before any new fiscal rules are attempted.	Currently there is no law, but it is being considered to make a separate law	A fiscal responsibility law developed	M	DGPO DNPE		X	X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			Develop fiscal process, transparency and accountability requirements in the new PFM Law or separate fiscal responsibility law.									
SC-1.2	Strengthen Medium-Term Expenditure Framework (MTEF)											
Key Activities												
1.2.1	Strengthening of the Medium-Term Expenditure Framework (MTEF)	The MTEF which provides the basis for a predictable and sustainable medium-term fiscal strategy and for budget policy decisions to align with fiscal targets. The MTEF is also representation of the Government’s multi-year commitments and medium-term costs	- Strengthen reconciliation between the MTEF and the annual budget - Carry out pilots in selected ministries, but linked to government priorities - Empower sectorial ministries to enable them to fully utilize MTEF - Established direct link and ownership between ANAPMA, MoF and line ministries in the use of MTEF. - Focus on extending technical capacities for costing of the annual baseline estimate and new initiatives/cutbacks into the medium term.	- The MTEF itself is ineffective, with changes to the MTEF made every year without a clear reconciliation between the MTEF and the annual budget. - MTEF has been piloted in several ministries but is not linked to the government priorities - Remain lack of technical capacities	The medium-term perspective on the budget is sufficiently credible to help the government plan budget allocations according to priorities	M	ANAPMA DGPO GAJ		X	X	X	X
1.2.2	Integrating the medium-term expenditure framework (MTEF) into the budget cycle	To enhance the credibility of the MTEF by introducing a framework for multi-year budgeting and commitments monitoring, and developing capacity in budgeting and costing	- Strengthening of multi-year commitments and medium-term costs - Developed sector plans that are linked to the medium-term expenditure framework (MTEF), - Establish tracking system of achievements of service delivery through MTEF - Ensure that pre-requisites for MTBF/MTEF are met, such as proper use of the MTFF, development of medium-term baseline methodology, adequate	- Sector plans that are developed are not well linked to the MTEF. - Consider developing an MTBF initially only for capital expenditure. - The latter has been successfully developed from a methodological point of view, but now needs more support for line ministries to use it effectively in budget	- Sector plans are developed and well linked to the MTEF. - More support for line ministries to use MTEF effectively in budget preparation and execution.	M	DGPO AT AA	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			training of LMAs, and political buy-in for medium-term budget decision-making, before advancing with these reforms.	preparation and execution.								
SC-1.3	Strengthen Fiscal Risk Management (Legal framework & Systems)											
Key Activities												
1.3.1	Development of a fiscal risk statement by the MOF and establish a fiscal impact analysis guide for SOEs and PIs	Government obligation to identify, analyse and disclose information on fiscal risks and develop/evaluate mitigation measures	- Develop a new system of independent performance appraisals - Design evaluation framework - Content of a Fiscal Risk Statement: a. Macroeconomic risks b. Debt sustainability c. Guarantees d. Public-private partnerships e. State-owned enterprises f. Sub-national governments g. Natural disaster risks h. Financial sector risks i. Legal awards and claims j. Commodity price risks k. Other specific risks (e.g. tax incentives, un/part-funded pensions, government insurance programs) l. Other long-term pressures on public finances (e.g. demographic changes, climate change)	Financial and governance related data on SOE is fragmented and performance is not monitored effectively	- The fiscal risk statement is developed and Risk Management strategy rolled out - Assessment framework is in place and implemented	M	DGPO DNPE		X	X	X	
1.3.2	Review and develop the Regime for State-Owned Enterprise (SOE) and Public Institutes (PIs)	To have a legal framework that regulates the establishment of SOEs & PIs, in a way does not harm public spending while without income.	- Coordinate with relevant entities - Carrying out the necessary assessment - Preparation of SOE regime review	Ongoing elaboration on the revision of the SOEs regime	The legal framework is approved and implemented	L	GAJ DGPO ANAPMA		X	X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			- Develop a new system of independent performance appraisals - Design evaluation framework									
C-2	ENHANCE RESOURCE MOBILIZATION											
Outcomes: 1) Increase of domestic revenue in line with macroeconomic fiscal policy; 2) Provide Timor-Leste taxpayers with a high-quality service; 3) Greater transparency and accountability and enforcing the law with integrity and fairness to all; 4) Improved tax compliance through greater efficiency in revenue administration.												
SC-2.1	Strengthen Tax Administration & Customs (Legal framework, Infrastructures, Systems & HR)											
Key Activities												
2.1.1	Legal framework on the creation of an Appeals Entity for Tax and Customs services	To provide the competencies for AT (Tax Authority) and AA (Customs Authority) to perform their appeals tasks in order to minimize outstanding Tax and Customs cases	- Elaborate legal framework by Legal Office (Gabinete de Apoio Juridico) in collaboration with AT and AA - Identified qualified Appeals Entity members	Legal opinion on the establishment of the Appeals Body is provided and also technical discussions are held between AT, AA and Legal Unit.	Legal framework for Appeals Body is approved and functioning effectively	H	AT AA GAJ	X	X	X		
2.1.2	Introduce a legal framework to diversify tax revenue	To diversify and increase tax revenue	- Prepare new legal framework to diversify tax revenue - Conducting the required assessment - Expedite modernizing tax, non-tax and customs legal frameworks - Ensure implementation of new laws is planned, resources and provided AT adequately and is sequenced with institutional restructuring.	Currently, the new legal framework under development	- Legal framework are in place. - Tax revenue are gradually improved	M	AA AT UT-RFGFP GAJ		X	X	X	X
2.1.3	Establish Tax Procedures Code	Control all tax administration processes and facilitate AT to provide better services to the taxpayers	- Prepare the draft of the Tax Procedures Code - Submit to CM for approval	Draft Tax Procedures Code is being prepared.	Tax Procedure Code Established and internal staff capacity improved.	M	AA AT UT-RFGFP GAJ	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
2.1.4	Revision of Tax and Duties Act	To enhance the quality of the whole tax system and to build the tax administration capacity, with the aim of modernizing revenue administration into a function-based organization while in parallel supporting implementation of the new VAT legislation	- Continue to make necessary revisions according to the actual situation and in consultation with various parties. - Submit to CM for approval. - Prepare the necessary guidelines for implementation such as planning, resources and capacity building needed for the introduction of new legislation.	The review project has been finalized since 2017 but needs to be adjusted based on the current situation and international best practices	- The law approved and disseminated - Staff are able to introduce new tax laws	H	AA AT UT- RFGFP GAJ	X	X	X		
2.1.5	Law on Value Added Tax (VAT)	The VAT is an opportunity to modernize the administration in order to bring the administrative and policy improvements together in support of greater revenue mobilization	- Continue to make necessary revisions according to the actual situation and in consultation with various parties. - Prepare infrastructure systems for VAT which will be integrated into SIGTAS Version 3 - Launch on-line payment system for VAT, Income tax and Customs together with an interface with FreeBalance - Submit to CM for approval	- The draft law of VAT has been finalized since 2017, however it needs to be updated - Continuous VAT preparation infrastructure systems that will be integrated into SIGTAS Version 3	- Approved and disseminated. - The introduction of VAT indicates an implementation path of at least two years	H	GAJ AA AT UT- RFGFP	X	X	X		
2.1.6	Continue to improve (update/update) the SIGTAS V.3 system	To facilitate AT work in order to improve revenue collection services	- Update and install the SIGTAS-V3 and decentralized system for regional tax offices - Establish AT portal with the necessary resources - Provide personnel training to operate the systems	- Update of SIGTAS Version 3 is ongoing - SIGTAS system is installed and decentralized to regional tax offices; - AT portal is established with its e-service features "e-filing, e-report and e-payment".	- New system is implemented - Staff are well trained and qualified - Taxpayers are using the new system	M	AT UT- RFGFP GAJ	X	X	X		
2.1.7	Develop a Medium-Term Tax Authority's &	The strategy plan sets out a clear strategy for reforming the tax	Prepare a Medium-Term AT Strategy Plan, building on the Tax	The current tax-to-GDP ratio is the lowest in the region	The AT's strategy plan is in place	M	AT AA GAJ	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
	Custom Authority Strategy Plan	administration AA in Timor-Leste over the next five years	Modernization Plan and TADAT diagnostics - Review and progressively refine the tax laws - Publish the preliminary conclusions and recommendations and share with key stakeholders - Develop and finalize strategic development plans for tax and customs administration with priority. - Ensure adequately resourced implementation including AT resources in the form of international experts.	and leads to insufficient domestic revenues to support the national development agenda - It will be developed by AT's in collaboration with international technical assistance. - The Strategy Plan for AA has launched in 2022.	Implementation of the strategic plan is in line with the fiscal reform strategy							
2.1.8	New Auction Regime in the customs context	Goods/ Assets confiscated due to violations of the law can be auctioned for state revenue	- Prepare auction regime by GAJ in collaboration with AA - Other support activities required for key activities	The draft is in the approval process	The new regime is approved and increased additional state revenue from auction activities	L	AA UT-RFGFP GAJ	X	X	X		
2.1.9	Installation of the Risk Management application on the ASYCUDA World system.	To mitigate the risk associated with customs service as the implementation of risk management at this time is more effective due to the use of ASYCUDA World system with international best practices	- Mitigate the risk associated with customs service - Prepare business processes - Install the system use of ASYCUDA World system with international best practices	- The system exists, but it requires business processes - Currently UNCTAD is supporting in this area	System is installed and risks are detected for mitigation purposes	M	AA IFMISU	X	X	X		
2.1.10	National Single Window and Customs Modernization	To increase in government revenue, increased compliance with rules, improved efficiency in resource allocation, better trade statistics	- Coordinate with relevant institution on implementation NSW - Integrated NSW into ASYCUDA World system	- Currently UNCTAD is supporting in this area - Relevant institutions are trained and some are already using the ASYCUDA system in	Relevant institutions gradually implementing the Single Window system (Health,	M	AA IFMISU	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			In line with international standards, including the WTO Trade Facilitation Agreement	Single Window implementation	Quarantine, MTCI)							
2.1.11	Recruitment of professionals for Tax Authority and Customs Authority based on PFM competency standard	Improve service delivery to taxpayers	- Define PFM competency standard - Ensure that the recruitment process is merit-based	The recruitment process is ongoing, but needs to be accelerated	Numbers of professionals are recruited and worked at AT & AA as planned	H	AA AT DGCS	X	X	X	X	
SC-2.2	Improve Debt and Public Private Partnerships (PPP) Management (Legal framework, HR & IT Systems)											
Key Activities												
2.2.1	Creation of a separate public Debt Management Office (DMO)	The DMO aims to achieve the following advantages: - Improve the country's borrowing capacity and its ability to manage debt efficiently in promoting economic growth and national development - Achieving positive impact on overall macroeconomic management, including fiscal policies;	- Planning the institutional framework and capacity of a centralized DMO, include the legal framework for a future DMO in the revision of the Public Debt Law. - Develop an operational strategy to implement the medium-term debt strategy (MTDS) and conduct training as needed and design a communication platform for multiple agencies involved. - Include an activity for gradual development of the domestic government securities market, starting over the next few years with the issuance of T-bills	Currently MTDS is not maintained as a reliable reference and there are deficiencies in the capacity to regularly update the country's debt sustainability assessment.	- Public debt strategy for the medium-term is gradually developed. - Develop "institutional structure and capacity planning of a centralized DMO" before "MTDS development"	L	DGPO DNPE GAJ		X	X		
2.2.2	Production of debt sustainability analyses on a regular basis	Debt analysis will enhance debt management capacity of the government, which in turn will strengthen the overall fiscal situation and free up public funds that can be used efficiently across sectors	- Production of debt sustainability analyses on a regular basis in conjunction with development of a MTDS. - Debt sustainability analyses is an overriding policy tool which debt management and the MTDS in particular	Production of a debt sustainability analyses is on-progress,	Move the task of debt sustainability analyses to the macro-fiscal unit in the MoF (DNPE, but rely initially on the analysis done by	L	DGPO DNPE GAJ		X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			Carry out debt sustainability analysis at regular intervals.		- IMOF and others. - Production of a debt sustainability analyses is regular basis							
2.2.3	Revision of Public Debt Law	Government has the capacity to access various types/modalities of loans provided by financial institutions	- Revising the Public Debt Law which will need to conform to the new PFM Law and this is appropriate for draft revision of the Public Debt Law - Legal framework for a future DMO in the revision of the Public Debt Law Carry out debt sustainability analysis at regular intervals.	The loan portfolio is extended to other sectors prioritized by the Government, discussions are initiated with international financial institutions, namely the World Bank and the ADB for “policy-based loans”	The law is amended and adopted	L	DGGMRE GAJ		X	X		
2.2.4	Revision of Decree Law on Public-Private Partnership (PPP)	Government capacity to explore more opportunities considering PPP projects as an important tool in financing development in Timor-Leste	- Prepare the draft revise PPP Regime - Diagnostic study on legal framework and propose enhancements - Develop guidelines and procedures for PIP and PPP fiscal risk management and analysis during project appraisal	Ongoing discussion on the review of the PPP regime that focused on medium and small scale PPP	- The law is amended and implemented - Guidelines and procedures for PIP and PPP fiscal risk management are in place	L	DGGMRE GAJ		X	X		
2.2.5	Installation of a digital reporting system for Loans and PPP	To improve management and reporting system in order to obtain accurate information	- Define new proper reporting system in collaboration with IFMISU - Installing a digital reporting system for Loans and PPP - Other support activities required for key activities	Discussion with IFMISU is in progress	The system is installed and deployed	L	DGGMRE IFMISU		X	X	X	
SC-2.3	Strengthen Petroleum Fund Administration (Investment Policy)											
Key Activities												

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
2.3.1	Revision of Petroleum Fund regime on Investment Strategy	To adjust investment and withdrawal strategies in order to secure the sustainability of the Petroleum Funds	- Adjust investment and withdrawal strategies in order to secure the sustainability - Carried out studies and technical opinions - Consult with Investment Advisory Board (IAB)	Studies and technical opinions are carried out, including on the “Investment Advisory Board (IAB)” and a study on fiscal rules for Timor-Leste.	The investment strategy policy concept is presented and implemented	L	PFPMO GAJ	X	X			
2.3.2	Increase the resources of Petroleum Fund Policy and Management Office (PFPMO)	Officers working in this area are able to manage petroleum wealth effectively and reduce the dependence on international experts	Define PFM competency standard Recruitment process is merit-based.	The PFPMO currently has a staff of 4	The recruitment or internal transfer of personnel to this area is carried out	L	PFPMO DGCS	X	X	X		
C-3	ENHANCE POLICY-BASED PLANNING AND PROGRAM-BASED BUDGETING											
Outcomes: 1) Enhance policy-based planning and program-based budgeting for allocative efficiency that aligns resources with results; 2) Annual budget aligned to strategic plans and medium-term budget; 3) Multi-year commitments reflected in annual budget; 4) Improved budget credibility.												
SC-3.1	Strengthen resource constrained planning and budget formulation including program-based budgeting											
Key Activities												
3.1.1	Strengthen program-based planning approach to anchor program-based budget reforms	Strengthen budgeting and planning in high-level sectorial plans to be of better quality and prioritized in line with national objectives	- Strengthen reliable medium-term perspective for allocation sector linked to the medium-term expenditure framework (MTEF) alignment to high-level priorities set in the Strategic Development Plan 2011-2030 (SDP). - Priorities should be aligned national priorities, including reference to the Sustainable Development Goals (SDGs). - The budget section of the reform strategy should contain a focus area on improving the annual budget process, which would	Partially implemented	- Strengthened accuracy and comprehensiveness of multi-year budgeting; - Reviewed and established of policy framework for multi-year budgeting and commitment monitoring	M	DGPO ANAPMA DGT GAJ	X	X	X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			include developing an annual budget baseline estimate early in the budget year, strengthening capacities in costing methodologies, forecasting and expenditure monitoring, and correcting expenditure classification errors. - The coming years should focus on consolidating the program budgeting reforms, refining the program structures and improving costing methodologies. - More focus in the Strategy should be given to training and capacity building of LMAs. - Tools need to be developed tools for LMAs to assess and monitor performance using the new program structures and performance indicator framework. - Ensure MoF/ ANAPMA policy discussions and control focus on program and sub-program level (not activity). Simplify/streamline activity level and limit indicator framework to manageable proportions.									
3.1.2	Integrated Program-Based Planning system (DBFTL) with the Government Resource Planning (GRP) system	Program-based Budgeting provides an opportunity to enhance the linkage between strategic planning and budgeting in FreeBalance and <i>Dalan Ba Futuru Timor-Leste</i> systems	- The budget submission module for program budgeting should be integrated into the FreeBalance FMIS. There should be one budget submission module. - Harmonizing the linkage FreeBalance and DBFTL systems - Harmonizing the chart of Account according to the program-based budgeting	An automated planning system has been developed by ANAPMA but is not yet interfaced with the GRP system for budget formulation.	Improved performance information with the progressive alignment of national and sector plans and budgets with Government priorities	M	DGPO ANAPMA DGT GAJ	X	X	X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority H= High M=Medium L=Low	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators			22-23	23-24	24-25	25-26	26-27
3.1.3	Develop a competency standard for the annual and multi-year implementation program	To define the level of competence and responsibility of the implementation program, structured control and supervision according to the position level	- Define the level of competence and responsibility of the implementation program - Institutional framework for monitoring, supervising and reporting at each phase (program, sub-program and activities) - Develop/strengthen tools for budget review and expenditure monitoring for the MoF budget department and provide training in their use. - Tools and training for line ministries, APAs and municipalities to cost new initiatives and cutbacks (savings) including what costing methodology are to be applied. - Ensure price schedules are regularly updated. - Improve the focus on finding savings and efficiencies, including establishing incentives. Review of line ministry budget submissions including new initiatives/cutbacks on costing should be a MoF responsibility. - ANAPMA should focus on the performance targets and monitoring and evaluations.	Roles will be defined once everyone has structured responsibilities	- Budget Coordination improved - The strategy to clarifying the institutional responsibilities in planning and budgeting between MoF and ANAPMA established. - The new program structures “settle down” and fully reflect line ministry policy needs	M	DGPO ANAPMA GAJ DGT	X	X			
3.1.4	Improving the annual budget process and Strengthen the Credibility of the Budget	Improve developing an annual budget baseline estimate early in the budget year, strengthening capacities in costing methodologies,	- The calculation of the baseline estimate should be separated in the annual budget calendar from the identification of new initiatives and cutbacks (savings). - Consolidation of program budgeting focused on stabilizing	- Review the virement framework in a few years’ time - Planning system is a major constraint to attainment of budget credibility at both	- The annual budget improved - Strengthen planning at program levels guarantee that it follows macro-	M	GAJ DGPO	X	X	X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		forecasting and expenditure monitoring, and correcting expenditure classification errors Improve planning and its credibility, including planning at program levels guarantee that it follows macro-fiscal policy, and align with Government’s strategic goals	program structures, accurate costing of baseline expenditure, manageable numbers of indicators, and experience with monitoring and reporting on performance against set targets. - Part of improving the annual budget process is addressing underspend in capital expenditures and overspend in other categories. - Reducing virements through loosening the virement framework can be part of the solution but should not be an alternative to improving budget costing - The calculation of the baseline estimate should be separated in the annual budget calendar from the identification of new initiatives and cutbacks (savings). - Part of improving the annual budget process is addressing underspend in capital expenditures and overspend in other categories. - Improve the focus on finding savings and efficiencies, including establishing incentives. - Strengthen planning at program levels guarantee that it follows macro-fiscal policy, and align with Government’s strategic goals - Adequate availability of real-time or up-to-date statistical data to inform the planning process	Sector and Municipality Level in the process of preparation	fiscal policy, and align with Government’s strategic goals Achieved the credibility budget							

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
3.1.5	Develop Medium-Term Budget Framework (MTBF)	Consistent with fiscal target and sustainable development policy to prepare annual budget according to medium-term budget framework – as well as to be consistent with national medium-term development policy	- A possible simplification strategy would be to initiate the MTBF reforms initially only for capital expenditure. - Political commitment to using it as a tool is an essential pre-condition for progressing towards and MTBF/MTEF. - Alignment with SDG Indicators and also budgeting on (gender, human rights, climate markers) in the development of the Medium Term Budgetary Framework (MTBF)	The pilot program in several line ministries was carried out, namely Ministry of Planning, Ministry of Health and Ministry of Education, Youth and Sports	- Medium-term Budget Framework is developed - Development of medium-term baseline estimates with significant training and support in applying costing and forecasting methodologies.	M	DGPO GAJ DGT		X	X	X	X
3.1.6	Improving quality, transparency and accountability in the budget process	Each general budget must have pre-budget statement, citizen budget, civil society participation (example: academia) in the process of consultation for budget preparation	- Review the virement framework in a few years’ time. Reducing virements through loosening the virement framework can be part of the solution but should not be an alternative to improving budget costing. - Improve budget credibility, comprehensiveness, and transparency by improving the medium-term perspective - Improve pre-budget statement, citizen budget, civil society participation	This process is in progress, but it needs to be strengthened and ensure its continuity	Pre-budget statement is prepared annually and consultation process is held annually	M	DGPO GAJ DGT	X	X	X	X	X
SC-3.2	Strengthen Public Investment Management (Legal framework & Systems)											
Key Activities												
3.2.1	Develop a policy framework for Public Investment Management (PIM)	Have a clear and strong guide to formulating Public Investment Program (PIP) Improving capital spending efficiency	Introduced to integrate project evaluation into the planning phase, there are significant capacity gaps in project development due to lack of policy framework. To address this, PIM	- Currently, the proper policy framework is not in place. - Public investment in Timor-Leste is under-executed and does not	Framework is in place and capital spending efficiency has improved	H	DGPO GAJ MoPT	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority H= High M=Medium L=Low	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators			22-23	23-24	24-25	25-26	26-27
			manual will need to be developed and staff capacity built to comply with the guidelines. • A PIM Working Group comprised on relevant ministries/departments will need to be formed to oversee investment projects. • Develop a draft policy framework for the management of Public Investment • Undertake a capacity building needs assessment for PIM in all LM, within a decentralized framework. • Project appraisal review and standardized tools/methodologies development should be retained in the Ministry of Planning and Territory (MoPT), as recommended in the PIMA.	achieve the necessary economic returns on investments due to poor policy framework								
3.2.2	Assessment of capacity building needs for the PIM across all LMs to strengthen the investment budget plan	• Improve the Public Investment Management to identify the strengths and weaknesses of investment projects. • Help identify priority areas that need improvement, inform public policy, improve investment sustainability • Improve budget quality and reliability for public investment projects	• More focus in the Strategy is needed, particularly on capacity building needs and plans • Improved coordination project cycle management approach to avoid risk and cause issues at all stages of the project cycle with clear mechanism • More rigorous monitoring at a central level with annual reviews in each sector to ensure informed budget allocations and understanding of challenges and constraints. • Integrate recurrent and capital expenditures under the program structure, especially during the	• Diagnostic assessments reported a lack of capacities and standardized tools to assess capital projects, resulting in poor project selection, with funding not allocated according to absorption capacities, resulting in weak budget execution. • The proper monitoring and evaluation mechanism is not in place.	• Improved Line Ministry Ability to Manage Public Investments • Improved budget quality and reliability for public investment projects	H	DGPO GAJ MoPT	X	X	X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			decision-making and assign eventual oversight to the MoF. • Project appraisal review and standardized tools/methodologies development should be retained in the Ministry of Planning and Territory, as recommended in the PIMA. • Identification of recurrent costs of implementation of capital projects to be prioritized during the decision-making for both annual budget and over the medium-term, and correct economic classification codes applied under the program structure. • Appropriate project costing integrated into commitments to MTEF to avoid accumulating arrears, reallocation and constraints release, which may cause delays in procurement. • Develop investment project costing methodologies for budgeting processes at sector level and ensuring projects are selected that to develop the economy. • Fill the gaps in the Strategy in relation to plans to ensure recurrent costs of capital projects are identified, and how to address challenges caused by institutional fragmentation of capital planning and budgeting responsibilities between Infrastructure Fund, Ministry of Planning and Territory and MoF		• Several stages of the project management cycle are weak, i.e. no rigorous CBA applied, no transparent project selection, weak project management, and evaluations being conducted usually only for donor financed projects World Bank PER (2021) • Currently planning and reviewing project cost estimates is ongoing							

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
SC-3.3	Strengthen Local Government PFM Systems and Procedures											
Key Activities												
3.3.1	Develop systems and procedures for the collection of fees and fines and management of municipal budgets at local governments, namely through the approval of a Municipal Finance Law.	- To properly manage financial resource mobilization at municipalities. - Establish the systems and procedures that allow local governments to collect fees and fines and manage municipal budgets.	- Build human capacity to manage financial resource mobilization at municipalities. - Approve a Municipal Finance Law - Develop systems and procedures based on the Municipal Finance Law	- Currently some municipalities are collecting publicity and parking fees, but there are no systems and procedures in place, and there is a lack of human capacity to manage it properly. - A draft Municipal Finance Law was presented to the National Parliament	- Municipal Finance Law is approved and implemented - Systems and procedures in place; - Adequate human capacity to manage it.	H	MAE GAJ	X	X	X	X	
3.3.2	Improve planning and budgeting capacity in municipalities in order to manage resources effectively, efficiently and economically	- Increase ownership and participation in planning and budgeting processes - Managing resources effectively, efficiently, and economically.	- Improve of capacity building for the local government PFM officers - Realized a workshop on planning & budgeting local level - Strengthen Planning Units in Municipalities - The capacity building plan for local government should align with the phasing of the decentralization process.	- Currently, several competencies have been decentralized but there are still weaknesses in planning & budgeting - Aims to address the weaknesses in planning and budgeting at local level	Adequate local government capacity to implement decentralized planning and budgeting processes	M	DGPO DGT		X	X	X	X
3.3.3	Decentralize treasury functions (payment, accounting and reporting system) to local government, including the capacity of PFM staff in APAs and Municipalities	- The local government can make its own reports without having to rely on the MoF, while the MoF only provides technical assistance - To improve efficiency and effectiveness of payment process in local government	There should be a concurrent use of new and old systems at the level of municipalities and the output in terms of the budgetary estimates, financial reports, and reconciled statements should be monitored for any deviations to ascertain the accuracy and ease of use for new PFM protocols and systems.	- Limited coverage of IT-based systems and lack of knowledge of PFM officers - Several functions have been decentralized with autonomous agencies and ministries - Currently there has no role in place yet	- The guideline is in place and there are enhanced PFM training officers - The decentralization of treasury functions follows a risk-based approach	M	DGT PFMTC		X	X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		- As the government decentralizes some service delivery down to municipality level, there will be an increased demand for financial data at the level of service delivery units such as community health centres and schools. - Data analytics at service delivery unit level will allow municipalities, sector ministries and DPs to better target resource allocations to vulnerable groups to improve equity in service delivery.	- Develops treasury rules and procedures in the implementation of decentralization - Piloting accounting and reporting in municipalities and pilot plan can cover a few municipalities at first and then roll-out to all. - The decentralization of functions like treasury should follow a risk-based approach. - The proposed decentralization of payments should be done in phases, with the low-risk payments such as payroll, employee benefits, and intra-government payments being decentralized first and high-risk payments such as procurements being taken up last. - The capacity building should not only focus on the standards and international best practices but also should have a major focus upon the existing practices being used in the country, usage of FMIS system, and extraction of useful reports from it. - Develop specific functions related to the decentralization of budget execution in municipalities - Improving qualities and on-time budget execution includes monitoring public expenditures	- New rules and procedures need to be developed - The quality of the report does not meet the expected standards, it requires adequate training	- Rules and procedures in place and well implemented - Improved quality of reporting - Intensive training is implemented regularly							
C-4	STRENGTHEN PUBLIC SPENDING (Budget Execution)											
Outcomes:												
1) Strengthen the efficiency of cash management and improve the appropriation management rules.												
2) Strengthen the transfer rules between budget items and the annual rule which states that the authorization to spend lapses at the end of year.												

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe						
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27		
	3) Strengthen the effectiveness of FMIS to enhance efficiency of PFM professionals. 4) Enhance efficiency of public procurement and contract management to improve on service delivery. 5) Improved predictability and control in budget execution. 6) Strengthen the effectiveness of accountability systems and compliance in budget execution. 7) Strengthen the management and efficient use of assets. 8) Strengthen sustainable PFM capacity building to comply with international good practices. 9) Establish a Statistic Institution and improve its efficiency to provide services.													
SC-4.1	Improve the Quality of Budget Execution (Cash Management, Treasury Systems, Legal Frameworks, Procedures, etc.)													
Key Activities														
4.1.1	Introduce new treasury instruments regime	The government has a legal framework for issuing treasury instruments to mobilize financial resources to finance future state expenditures.	- Prepare a concept note for the introduction of the new treasury instruments regime - Consultations with the Central Bank and other commercial banks - The introduction of new treasury instruments should start with the treasury bond market and become a medium-term priority for both the MoF and BCTL - Development of the legal, institutional, and market frameworks for T bill issuance, and a later further development of the longer maturity market, would require substantial technical assistance which the IMF would likely be willing to provide. - Hiring of the consultant to manage the process of developing the new treasury instruments regime	- The Concept Notes were prepared and discussed with the Central Bank. - At present, the BCTL performs monetary operations without using securities. This restricts its flexibility to implement monetary policy and a future ability to utilize T-bills for this purpose would be a very significant development.	Star Introduced Treasury Instrument Scheme with Treasury Bond Market	M	DGT GAJ		X	X	X	X		
4.1.2	Review and strengthen cash management systems and execution procedures	The cash forecast must be provided daily, supported by information flows between DG Treasury and the Debt Directorate (DGGGMRE)	- Develop a State Single Treasury regime; - Develop new regime for Authorization of Expenditure;	A cash flow forecast is prepared quarterly on the basis of actual cash inflows and outflows and budgetary units are provided reliable	Operationalised, particularly functions related to debt issuance, debt servicing, recording and	M	DGT DGPO DGGMRE		X	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		Improvement of cash flow forecasting will be a medium priority for the Treasury	- Establish and implement a harmonised Treasury inspection framework for foreign missions - Develop a new cash flow forecast mechanism; - Introduce of Advance Tracking and Invoice Tracking in the GRP System - Develop and implement guidelines for cash management	information on commitment ceilings at least quarterly in advance	reporting (accounting) and align debt issuance to the cash projections.							
4.1.3	Interconnection of the GRP Payroll System (MOF) with the SIGAP (Public Service Commission)	Control and ensure efficient and effective processing of government-wide salary payments	Develop interconnection of the payroll system with SIGAP in collaboration with Public Service Commission	Recently, the payroll GRP system is ready to connect, but the SIGAP system is still being developed	Interconnected the payroll system with SIGAP	M	DGT DGCS GPRCGFP	X	X			
4.1.4	Prepare a concept paper setting out new regulation on the governance of SOEs	Improving profitability and managerial independence with an enhanced monitoring framework focused on performance, key financial indicators, and fiscal risks.	- Prepare a concept paper setting out which public policy and governance issues the proposed new SOE governance regime will address - Development of the appropriate regulatory framework and a medium-term SOE reform policy and strategy. - Technical assistance needs should also be identified for these activities. - The new governance framework should be clear on the legal requirements for timely submission of business plan, budgets, financial statements and annual reports, and include a performance/ accountability framework	- Currently, this unit is under the purview of the Treasury, but does not have any regulations to perform its monitoring and management function of government participation in SOEs - New regulations are needed to support their functions	Conceptual document was approved and new regulation begins to be developed	M	DGT IFMISU		X	X	X	
SC-4.2	Strengthen Public Procurement & Contract Management (Legal framework, systems & HR)											
Key Activities												

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
4.2.1	Implementation of the Decree law on procurement, public contracts and infractions	Improve procurement practices and promote economic development	- Regulate procurement, public contracts and infractions regimes in a single legal regime; - Define procurement planning processes, with a view to ensuring stability and predictability for public agents and private operators; - Finalize the MAPS assessment, including the procurement reform roadmap. - Updating existing legal systems, maintaining the same logic, but adapting it to new realities and best practices; - Define systematization of the law and detailed description of each phase, for greater ease of use;	- Decree law on procurement, public contracts and infractions enters into force - MAPS' preliminary report on operational regulation is complete and available for consultation.	- New law is implemented - Secure CoM endorsement of the key recommendation s of the MAPS assessment. - Operational procurement regulations are developed and implemented in early 2023	H	GAJ CNA	X	X	X		
4.2.2	Strengthen procurement services at LMs, IPs and Municipalities	Improve the quality of procurement process	- Provide regular training to LMs, SI and Municipals - Reinforcing the responsibilities of the National Procurement Commission, in particular in standardizing procedures and issuing guidelines and creating standard contractual drafts and norms - Action Plan's focus on capacity building	- Currently, the procurement process is not fully using e-procurement. - The MAPS assessment recognizes the need for an inclusive strategy for professionalizing the procurement framework and the need to transition to implementing e-procurement.	- Training for LMs, SI and Municipalities is provided regularly and able to implement the new procurement regulation - The procurement process is fully used e-procurement.	H	PFMTC CNA	X	X	X	X	X
4.2.3	Establish a procurement appeal body and a service control body	To facilitate complaints, in order to avoid procurement process and service control issues	- Develop new procurement process complaints mechanism; - Establish an appropriate body to oversee and control the procurement process	The MAPS assessment confirms the need for institutionalization of a complaints handling mechanism as part of a	The appeal body is regulated with a new regime and implemented	H	GAJ CNA	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			- Define the specific task of the procurement appellate body - Other support activities required for key activities	broader set of procurement governance and integrity system improvements including internal audit.								
4.2.4	Develop procurement manuals, standard contractual guidelines and rules	As a guideline for the implementation of the procurement system according to the new established Law	- Develop a new procurement manual in accordance with the new Law - Develop guidelines and create drafts and standard contractual rules in accordance with the new Public Procurement and Contracts Law. - Secure CoM endorsement of the key recommendations of the MAPS assessment	- The preliminary assessment found that procurement is fragmented across government leading to poor value for money outcomes. - MAPS assessment are the weak governance arrangements for procurement with overlaps, omissions and potential conflicts of interest. - There is no strategic approach to public procurement	- Manual is developed after the law approved. - Guidelines and standard contractual rules in line with the new Public Procurement and Contracts Law developed.	H	CNA GPCRCGP	X	X			
4.2.5	Improve the Procurement Portal	To improve transparency and accountability	- Improve the procurement portal - Develop a guideline using the procurement portal	- Currently there is not fully used procurement portal - Plan to be prepared after approval of the New Law on Public Procurement and Contracts	Procurement portal fully used for publishing of procurement process	M	GAJ CNA	X	X	X		
4.2.6	Review Decree Law on the establishment	Have a legal framework to facilitate services	Prepare the draft revision of a new Organic Law for the National	Being review the institutional	New decree-law passed, including	M	GAJ CNA	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
	of National Procurement Commission	efficiently and effectively.	Procurement Commission, these should be preceded by a review of the institutional arrangements for procurement and, in particular, a review of the mandate and role of NPC. - Review the institutional arrangements for public procurement, including a review of the role of the NPC, to ensure that responsibility for strategic management is clearly assigned - If properly mandated and resourced, the NPC is well positioned to take responsibility for strategic leadership and coordination of public procurement across government, as well as monitoring and reporting.	arrangements for public procurement, including a review of the role of the NPC, to ensure that responsibility for strategic management is clearly assigned	institutional arrangements for public procurement and the role of the NPC, to ensure that responsibility for strategic management is clearly assigned							
4.2.7	Increase the resources of National Procurement Commission	- To improve the quality and quantity of procurement personnel - Amend the NPC Decree Law to recommission and adjust NPC resources	- Revise the Action Plan to incorporate any new activities and capture any TA needs. - Develop new personnel plan for the National Procurement Commission in accordance with the new Organic Law - Improve capacity through intensive training - Transform existing contract staff into civil service status	- Plan to be drafted after approval of New Procurement and Public Contracts Law. - MAPS assessment report will include a roadmap for prioritizing and sequencing of reforms.	- Progressively implement the procurement reform roadmap, ensuring that TA requirements are clearly identified and sequenced over the medium term. - Where necessary secure the necessary TA through the PFM Reform Unit	H	PFM GAJ CNA DGCS	X	X			
SC-4.3	Strengthen Asset Management Operations (<i>Legal Framework, systems, infrastructures & HR</i>)											

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
Key Activities												
4.3.1	New regime to establish asset management as an independent public institution	- Improve the proper management, valuation and disposal of fixed and non-fixed assets. - Have an institution with competence and authority to promote the integrated management of non-financial assets.	- Carry out the assessment for the transformation of the Directorate-General for State Asset into a Public Institution in accordance with the 8th CG program; - If there are major public policy, accountability, transparency or other benefits associated with the creation of an APA for assets management, these should be clearly documented in a policy paper or concept note. - Develop public asset management policy (non-financial assets), improving management, valuation and disposition of fixed and non-fixed assets	Discussion was ongoing, but needs to be strengthened by political will	- Public Asset Management Policy (non-financial asset) framework developed - Public Institutions of State Assets are stabilized	M	DGGMPE MJ MOP MAE MTCI GAJ		X	X	X	
4.3.2	Introduce legal regime on the use of state vehicles and strengthen the fleet management system, including relocation of state vehicles	- Promote efficiency and effectiveness in the use of state vehicles to reduce state spending. - Centralization of control over the government vehicle fleet, with cost savings on fuel, as well as less traffic congestion and pollution. - Facilitate the analysis of maintenance costs, fuel consumption, operating expenses and produce systematization reports - Improve the efficiency of using state vehicles in	- Conduct comprehensive physical fleet survey - Prepare policy options based on fleet survey and macroeconomic analyses were carried out - Prepare the technical recommendation based on the survey results - Submitting to CoM for approval and implementation - Develop business plan for fleet management systems - Adoption of new electronic systems for usage control - Implementation of new systems to facilitate analysis of maintenance expenses, fuel consumption, operating expenses and	- Policy options based on the fleet survey and macroeconomic analysis were made - The technical recommendation was prepared based on the research results - Ongoing discussion with the company's SION system and expected that the contract can be completed in a short time.	- The regime policy option adopted - Fleet management system are in place - Analysis of maintenance costs, fuel consumption, operating expenses and systematization reports are rolled out	H	DGGMPE DGPO GAJ	X	X			

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		accordance with government regulations.	production of systematization reports									
4.3.3	Installation of asset management software for Fixed and Non-Fixed Asset Inventory	- Improve the central database of movable and immovable assets, including information on their economic value - To ensure proper management to control State assets - Improve registry management in line with government resolutions for state asset management reform	- Business process mapping and requirements analysis for fixed assets - Develop guidelines on public asset operation and maintenance - Disseminate to all state entities - Integrated data between fixed assets and non-fixed assets - Undertake FMIS asset & inventory management functional training for key users - Fixed assets are capitalized and reported in the Consolidated Financial Statements	- The initial phase for the adoption of the electronic system of state assets is underway - Kick-off meeting with Ministry of Justice to synchronize the fixed asset database system. - The MoF recently decided to make use of the functionality of the FMIS asset management module to address much more weaknesses.	- A standard software is installed and mobile and immobile asset data are recorded - Integrated data between fixed assets and non-fixed assets	M	DGGMPE DGPO GAJ		X	X		
4.3.4	Revision of the Decree-Law on the auction of state movable assets	Allow the government to better manage the auction in order to provide maximum benefits to the state as a source of state revenue	- Prepare the draft revision of the Decree-Law on the management and disposal of State movable assets - Conduct public consultation - Submit to CoM for approval	The draft DL is being reviewed for adjustment with the Policy of the 8 th Constitutional Government	Decree Law is approved and implemented	M	GAJ DGGMPE		X	X		
4.3.5	Improving National Vehicle Workshop management and management of pool vehicles	Implement a management model to improve quality control, maintenance and fuel consumption Manage state vehicles effectively and improve control of state vehicle usage, maintenance and repair	- Improve quality services through suitable professional mechanics - Provide adequate facilities for the workshop and provision for computing equipment, related accessories, vehicles and other tools to support field work - Improve workshop management - Provides regular intensive training for mechanics - Develop guideline for the use of pool vehicles - Disseminate the guidelines to users	The workshop providing services for the 21 line ministries and state institutions with a total of vehicles of approximately 900 units but has a lack of facilities and basic infrastructure Currently the management of pool is implemented, but needs improvement	- Management and facilities are improved - Intensive training is provided for mechanics and enhanced skills - Pool management is improved to avoid unnecessary expenses	L	DGGMPE DGPO GAJ		X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
SC-4.4	Strengthen PFM Capacity Building (Systems, legal framework & HR)											
Key Activities												
4.4.1	Develop training curriculum based on the PFM competency standard	- Improve standardized PFM training according to international standard. - A well-developed course curriculum covering all areas of PFM should be available to all stakeholders	- The training curriculum for all stakeholders should also have separate modules for initial learning and mid-career refresher courses Hiring of the consultant to manage the process of developing the curriculum - Develop competency-based assessment. - The Strategy should include details of capacity building in sub-activities such as audit, procurement, and IT systems. - The focus should not just be on the standards and best practices across country contexts, but a large focus of the course material should also be on the existing systems and practices in Timor-Leste. - This should be translated into annual training plans based on requirements gathered from all stakeholders and the training plan should be published as a training calendar in advance to all entities.	- Recent years have seen several PFM training activities undertaken by Ministry of Finance and ANAPMA for LMAs. - These have however been mostly on-demand exercises without a proper framework.	- The curriculum for the competency areas is developed. - Developed online self-learning modules.	H	GAJ PFMTC GVM	X	X	X		
4.4.2	Accreditation for PFM competence areas (technical and specialized) in order to provide qualified certification in the PFM areas	Provide Qualified Certification of courses for civil servants based on international standards.	- Develop unit competencies in collaboration with INDMO as an accreditation agency - Develop a training module based on accredited unit competencies - Present the unit's competencies to the accreditation committee - Accredited competences of the selected unit	The initial process of certification of courses by the National Institute for the Development of Manpower (INDMO) was initiated	Most of the PFM competence is accredited by INDMO	M	GPRCGFP GAJ	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			Prepare the proposed accreditation of trainers based on the competence of each unit									
4.4.3	Provide intensive training to empower PFM professionals in specialized, technical and generic areas of PFM	Strengthen sustainable capacity building of PFM officers in line with PFM reforms	- Training should be well-coordinated between various providers to avoid overlap and duplication. - Prepare regular annual training - Classified type of technical and specialized training areas - Improve training facilities - Development and rollout of a training programme on Financial management for both financial and Non-Financial Managers - Undertake research to inform learning and improvement on PFM reform policies - A faculty pool for PFM areas should utilize key specialist personnel across various ministries and agencies, including MoF, ANAPMA and MoPT, with incentives to provide training.	The lack of a well-defined institutional framework for capacity building is a major risk which can derail the pace of ongoing PFM reforms in the country.	- Training modules and systems for induction and in-service training of civil servants on PFM systems and standard strengthened. - Self-learning modules in place to facilitate online learning for various PFM aspects while linking the best practices to existing systems and processes with the aid of training videos and manuals	H	GPRCGFP GAJ	X	X	X	X	X
4.4.4	Establishes the Public Finance Management Training Centre	In order to guarantee the Competence Standards of PFM Professionals in Timor-Leste, it is necessary to establish the PFM Training Centre (PFMTC) that regulates the Public Finance Management Training procedure	- Draw up the preliminary draft of the new institution regime for the PFMTC in collaboration with the legal unit - Coordinate with relevant entities - Other support activities required for key activities	Currently the PFMTC focus on improving public sector finance management, increasing accountability for public sector services and expenditures, and ensuring an adequate system of financial sector accountability through regular	- The PFMTC was created. - Improved functionality and trained staff to perform their duties	M	GPRCGFP GAJ			X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
				training in the areas of PFM. • The concept paper has drafted								
4.4.5	Introduce a Decree Law on special career regime for PFM professionals	Create the career of Public Finance Management Professionals in Public Administration and professionals from specialized areas in the Ministry of Finance	• Continue reviewing the existing draft Decree-Law on the special career regime for PFM professionals • Conduct financial impact assessment prior to the implementation of the special career regime for PFM professionals • Prepare a concept note for special career regime	The concept paper is prepared.	Decree-law approved and applicable to Public Finance Management Professionals in specialized areas of the Ministry of Finance.	M	GPRCGFP DGCS		X	X		
SC-4.5	Improve the Quality of IT Systems (FMIS) (System & HR)											
Key Activities												
4.5.2	Develop FMIS strategy plan in line with Timor-Leste's PFM systems	Establish a clear strategy reform and strengthen the MOF-FMIS over the next five years	• Hiring of the consultant to manage the process of developing the strategy plan • Developed an FMIS strategy plan to drive FMIS, roll out and update over the next five years • Other support activities required for key activities	Currently under development	Draft strategic plan is ready and expected to be launched in 2022	M	IFMISU DGT DGPO PFMTC	X	X	X	X	X
4.5.1	Updating the FreeBalance function within PFM systems	The enhancement of modules and the government's decentralization agenda will lead to an increase in the user base of the GRP system.	• Update the GRP to include aspects of user base management and system load handling. • Upgrade the GRP with advanced reporting, a mobile friendly system, and a document management system • Introduce two factor authentication for key process authorizations.	• The current user base of about 3,000 users faces system performance issues on financial period closure days. • There are plans in place to enhance the Advance Payment Tracking System and	IT Governance and Security of financial accountability systems strengthened	M	IFMISU DGT DGPO DGGPE	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
				Asset Management System.								
4.5.3	Design and Construct MoF's disaster recovery	To ensure that MOF database centre is secure from natural disaster or sabotage	Disaster Recovery setup with tier 3 database should be part of a larger Business Continuity Plan for the FMIS with elements such as a risk management plan, business impact analysis, incident response plan, recovery plan, mock drills and table top exercises. This should be complemented by auxiliary plans to have in-house technical capability to support the basic system features in medium term, making system adhere to accepted standards such as ISO 27001 & ISO 20022 and formalizing the helpdesk for end-users.	The work plan to configure the Disaster Recovery site is currently underway, as it was an important step to minimize system-related risks.	Project is implemented	H	IFMISU DGCS		X	X	X	
4.5.4	Develop and implement the interconnection of FreeBalance with tax systems, payment systems, budget reconciliation, updating e-portal, e-procurement and MoF website	To strengthen working coordination, control and efficiency	- The system user interface has compatibility issues. These issues need to be addressed by introduction of an advanced reporting tool, a mobile friendly version of GRP, and an advanced document management system linked to main GRP application. - At present, some key PFM functions like budget preparation, tax collection/reporting and customs collection/reporting are performed by stand-alone systems e.g. DBFTL, SIGTAS and ASYCUDA. These systems have annual or periodic manual data uploads to GRP. Also, there is no linkage between the Payroll and	- The electronic payments made through GRP and R-Timor interface are reported back to Treasury by electronic account statements outside GRP, which need to be manually reconciled with payment details. - The Treasury Payment Order number is included in the statement, which should be used to facilitate system-based reconciliation.	Systems are well communicated amongst other	H	IFMISU DGCS DGT DGGPE AT AA	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			SIGAP HR system of the Civil Services Commission. For better assessment of taxes based on imports and exports, a linkage between SIGTAS and ASYCUDA is also being contemplated. All these linkages for two-way data exchange between the GRP and other systems need to be prioritized for early completion.									
SC-4.6	Transform DG Statistic into an Independent Autonomous Agency (Legal framework, Infrastructures & HR)											
Key Activities												
4.6.1	Revisions of the draft Decree-Law on the creation of the National Institute of Statistics of Timor-Leste	Timor-Leste has independent statistical services to support the country in order to provide impartial and credible data and information	Revise existing draft of Establish an Independent Statistics Authority Carry out consultation with relevant entities Other support activities required for key activities	DL drafted and being reviewed	Decree-Law is approved and enters transition phase	L	DGE GAJ		X	X		
4.6.2	Strengthen the human resources capacity in municipal statistics	Improve the capacity of municipal statistics staff to produce report at the municipalities level once integrated as independent institution	Prepare a staff plan as an Independent Statistical Authority Improve staff capacity through intensive and regular training Continue to invest human resources through scholarships Other support activities required for key activities	Routine information is obtained but require more intensive service delivery from the municipal staff (10 people are conducting their study at Sekolah Tinggi Ilmu Statistik Jakarta but put on hold due to the Covid-19)	Specialized training is well implemented and sufficient capacity to work independently	L	DGE DGCS PFMTC		X	X	X	X
4.6.3	Improving facilities and infrastructure	To improve statistics service delivery	Work facilities identified as needed to improving; Improve infrastructure facilities through regular maintenance or repair as needed Other support activities required for key activities	Lack of working facilities (computers, printers, photocopiers, building maintenance)	Infrastructure facilities are improved and upgraded	L	DGE DGCS	X	X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
C-5	STRENGTHEN ACCOUNTING & INTERNAL AUDIT											
Outcomes: 1) Timely accounting and reconciliations; 2) Quality and reliable internal audit reports; 3) Enhanced internal audit legal framework; 4) GIG adopting a risk-based audit approach and conducting both financial and performance audits.												
SC-5.1	Improve the Quality of Accounting and Reporting (Systems, legal framework & HR)											
Key Activities												
5.1.1	Introduce new regime on accounting standards	Have an accounting standard that can be used by the public and private sectors to strengthen efficiency, transparency and accountability	- Hiring a consultant to manage the process of developing the new accounting standards regime - Prepare a concept note and drafting the new regime - Conduct public consultation including relevant entities - Submit to CoM for approval	The new PFM Law does not require any specific reporting standards to be used, but Article 114 does require MoF to submit a plan or concept note to Parliament within 2 years of the PFM Law being enacted, outlining the transition to accrual-based reporting.	Accounting standard regime is established	L	DGT GAJ		X	X	X	
5.1.2	New regime on the Commission of Accounting Regulation (CAR)	The accounting commission acts as a body to control and supervise the use of accounting standards in Timor-Leste. The introduction of private sector financial reporting standards will support improved tax compliance.	- Prepare a concept note and drafting the new regime - Technical advisory support would be needed for the transition plan, establishing and capacitating the CAR, and for supporting the long-term transition to accruals. - The Action Plan must clearly define the sequence of actions	There is currently no regime in the Accounting Regulation Commission (CAR) and is expected to be prepared in 2022	New regime is approved and implemented	L	DGT GAJ		X	X	X	
5.1.3	Improve financial reporting compliance with IPSAS regulations	To improve Treasury operations, comprehensive financial reporting and regular reporting throughout the	- Improve the quality and timeliness of Government-wide year-end fiscal reporting - Improve bank reconciliation	Treasury does not currently have a Manual and Design report format in place that defines clear	- Financial reporting is improved - Compliance of accounting	H	DGT GAJ	X	X	X	X	

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority H= High M=Medium L=Low	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators			22-23	23-24	24-25	25-26	26-27
		year to ensure budgets are executed broadly as intended within approved fiscal targets.	- Adopt and implement Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS) - Update the Accounting Policy and Procedures - Manual and Design and issue new reporting format Establish clear responsibilities and produce timely annual financial statements - Submit government-wide annual financial statements, compliant with IPSAS cash basis within 3 months after the fiscal year end	- responsibilities and produces timely annual financial statements. - Performance evaluation phase	- systems with IPSAS regulations - Systems and human resources are gradually improved							
5.1.4	Prepare a concept note on eventual transition from Cash Basis accounting system into Accrual accounting system	To meet the requirements of the new PFM Law, a concept note with a long-term plan for transition to accruals should be developed, with indicative timelines	- This can be followed by the establishment and capacitation of the proposed CAR. It would then be for the CAR, in cooperation with MoF and other stakeholders, to develop more detailed strategies for adoption of TL financial reporting standards for both the private and public sectors. - For the general government sector, the CAR would work with MoF to develop a detailed but flexible transition plan to guide the transition to accruals based financial reporting.	In planning to develop a concept note	- Concept note prepared - Comprehensive comparative study carried out	L	DGT DGPO			X	X	X
5.1.5	Establishes an automatic reconciliation system between the GRP systems and the Central Banks' R-Timor system	Strengthen bank reconciliation with interconnection between GRP system with the Central Banks's R-Timor system to improve system performance	- Finalize, with high priority, development of the interface between the MoF FMIS and the BCTL system to fully automate bank reconciliation. - Improve bank reconciliation with automatic system between GRP and R-Timor	- The bank reconciliation process is still manual with negative impacts on financial reporting. - The manual bank reconciliation process	Automatic reconciliation system carried out between GRP and R-Timor	M	DGT IFMISU		X	X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
			- Enhance capacity for data analysis, quality assurance and reporting to maximize the potential for PFM systems integration for efficiency, accountability, transparency and monitoring - MoF payment order numbers are available on both the FMIS system and the BCTL electronic bank statements so the technical challenges to automated bank reconciliation should be minimal.	- is time consuming and error prone. - This impacts on the reliability and timeliness of both in-year budget execution and annual financial statements.	Minimize time consuming and avoid errors							
5.1.6	Define, monitoring and reporting on expenditure arrears	Improvement and adequate control on expenditure arrears	- Develop a regulation to define expenditure arrears and develop an approach on how they are to be monitored and reported under the current cash basis of reporting. - Develop a vendor window linked to the FMIS to allow suppliers to track progress of their invoices and claims through the relevant LMAs and MoF.	- The new PFM Law requires that the stock of arrears be identified in the annual budget and in annual financial statements but again does not define expenditure arrears. - The monitoring of arrears is manual, is only carried out at year-end, and there is no tracking of arrears by age	Improved proper control of expenditure arrears	H	DGT DGPO IFMISU	X	X	X	X	X
SC-5.2	Strengthen the Internal Audit Function (Legal Framework, Systems & HR)											
Key Activities												
5.2.1	Prepare a new Decree-Law for Internal Audit	- Have a regulatory framework that guides better quality internal audit services - Have an internal control and monitoring system for the provision of	- Prepare the draft Internal Audit Decree-Law in collaboration with GAJ - Carry out public consultation - Submit to the CoM for approval	- In Timor-Leste, there is currently no internal audit regulation - Existing of internal audit rules in the MoF are regulated by the internal organigram of	- Decree-Law is approved and guidelines for implementation are developed. - Audit offices are established in	M	GIG GAJ		X	X		

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		services and accounts in all State institutions	- Establish and strengthen the Internal Auditor and Inspection Office in state institutions - Develop a new policy to integrated the functions of internal auditor and inspection into the organic law - Internal audit units established in large expense and high risk departments and training conveyed in the risk-based internal audit manual - Strengthening Internal Audit should focus on the requirements of all Line Ministries and not just Ministry of Finance	the Ministry of Finance - The functions of internal auditor and inspection have not yet been integrated into the organic law of each institution. - The Internal Audit set-up across the government faces a challenge in terms of manpower strength as well	each state institution							
5.2.2	Develop an Internal Audit Manual	Have a guideline that guides auditors to audit with professionalism and quality	- Prepare the draft Internal Audit manual, including the auditors' guidelines. - The methodology of audit should gradually shift from auditing compliance with financial rules to include risk-based audit and performance audit.	At present, has no Internal Audit Manual	Manual developed, approved and implemented	M	GIG GAJ		X	X		
5.2.3	Improve auditor skills and have sufficient staff in the Inspector General's Office (GIG) of the MoF	GIG can carry out its mandate effectively when resources are sufficient and capable	- Capacity building should move towards risk-based audit with focus on priority areas with understanding of systems audit and use of IT tools for audit. - The follow-up process should be defined and enhanced to ensure desired outcomes based on audit process. - Provide scholarship to selected staff to study for the Certified Internal Auditor (CIA) Program of the Institute of Internal Auditors	Staff within GIG composed of 4 staff and 1 administration assistant	- Recruitment is carried out to strengthen internal audit services - Auditor skills improved	H	GIG DGCS PFMTTC	X	X	X	X	X

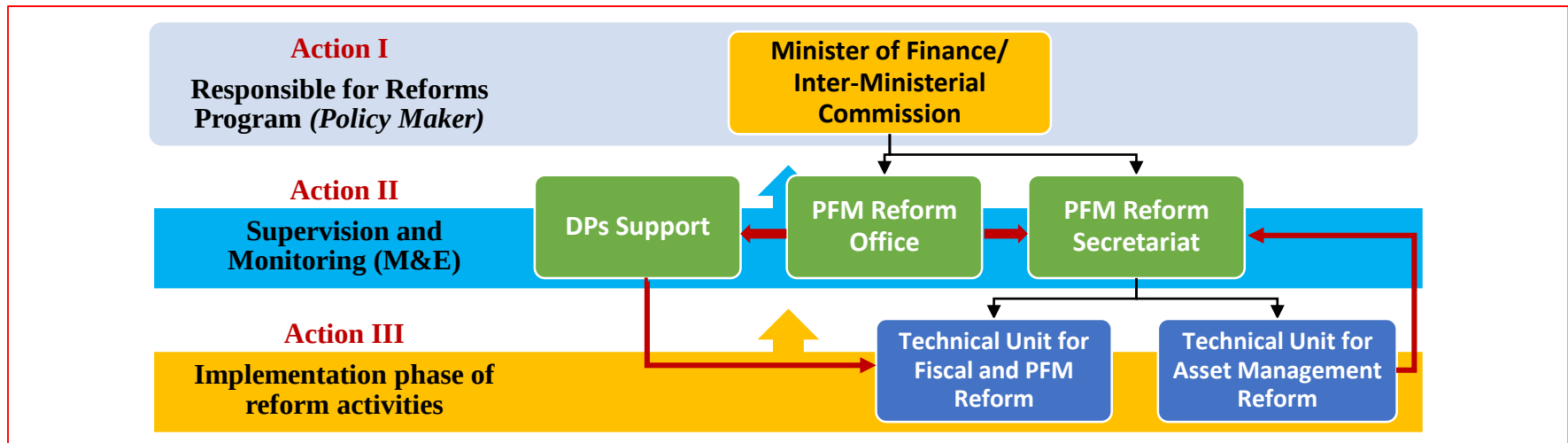
PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
5.2.4	Follow up of external audit recommendations	Follow up of audit recommendations is a key elements of an effective audit framework	- The GIG's role is to disseminate the audit findings to the LMAs, coordinate implementation, and to monitor progress. - The GIG is required to report to CdC on progress on the previous year's recommendations when submitting financial statements for audit. - Incorporate existing and proposed reform and capacity building activities for the CdC into the PFM Action Plan. - Improve follow-up on implementation of audit recommendations by MoF GIG and LMAs - Increase focus on reporting on high-risk government operations, such as large investment projects and their associated procurements and contracts management - Carry out a review of the resource and TA needs of CdC over the medium-term		- The CdC itself follows up progress with each audited institution six months after the completion of the audit report. - Given the relatively low PEFA score (C) on follow up of recommendations, capacity building and reform activities should focus on this core function of CdC.	M	GIG DGCS PFMTC	X	X	X	X	X
C-6 STRENGTHEN EXTERNAL SCRUTINY AND AUDIT												
Outcomes:												
1) Câmara de Contas (CdC, or Court of Accounts) adopts a risk-based audit approach and conducts quality financial and performance audits; 2) Improve the quality and timeliness of Parliamentary scrutiny of CdC's external audit reports; 3) Strengthening public trust by enhancing social accountability.												
SC-6.1 Strengthen External Audit												
Key activities												
6.1.1	Develop and strengthen financial audits using a risk-based approach.	Conduct financial audits in line with international standards on auditing or INTOSAI standards.	Develop financial audit manual in line with international standards on auditing or INTOSAI standards.	Financial audits using a risk-based audit approach not being done.	Conduct financial audits using a risk-based approach from	H	CdC		X	X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority H= High M=Medium L=Low	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators			22-23	23-24	24-25	25-26	26-27
			- Build the capacity of the auditors to conduct financial audits through training and on the job technical support. - Acquire audit software and train auditors to conduct audits efficiently.		the second year of reform.							
6.1.2	Develop and strengthen performance audits.	Conduct performance audits in accordance with INTOSAI standards.	- Develop performance audit manual in line with INTOSAI standards. - Build the capacity of the auditors to conduct performance audits through training and on the job technical support.	Performance audits not being done.	Conduct at least 3 performance audits from the third year of reform.	M	CdC			X	X	X
6.1.3	Acquire audit software to improve audit efficiency	To acquire audit software to improve audit efficiency	Acquisition of specialized audit software by CdC.	CdC has no specialized audit software.	CdC has specialized audit software.	M	CdC		X	X		
SC-6.2 Strengthen Parliament Oversight												
Key Activities												
6.2.1	Increase Parliament's hearings on the scrutiny of CdC's audit reports to be done in a timely and transparent manner.	Ensure Parliament scrutinizes CdC audit reports in a timely and transparent manner.	- Parliament's hearings to scrutinize audit reports need to be done more frequently to ensure the process is done in a timely manner and the review report sent to the executive to take action on the audit issues. - Parliament will need to open the hearings of the scrutiny of CdC audit reports to the public or share their review reports on their website.	Parliamentary hearings on the scrutiny of CdC audit reports are not being done in a timely and transparent manner.	The scrutiny of CdC audit reports needs to be done within 3 months of receipt of Parliaments receipt of the report and in a transparent manner.	M	Parliament		X	X	X	X
6.2.2	Parliament to adopt a risk-based approach in the scrutiny of CdC audit reports.	Focus on material audit issues that are more impactful in the accountability process, which will lead to timely	- Develop a risk-based methodology for the scrutiny of CdC audit reports. - Build the capacity of Parliamentarians through training to apply the risk-based approach	No risk-based approach in place for Parliament's scrutiny of CdC audit reports.	Parliament adopts and applies the risk-based approach for the scrutiny of CdC audit reports.	M	Parliament			X	X	X

PFMR Code	Components (C) Subcomponents (SC) Activity Title	Objective	Sub-activities Description	Measurement		Priority	Lead Unit	Timeframe				
				Baseline (2021)	Target Indicators	H= High M=Medium L=Low		22-23	23-24	24-25	25-26	26-27
		scrutiny of CdC audit reports.	of the scrutiny of CdC audit reports.									
SC-6.3	Strengthen Social Accountability											
Key Activities												
6.3.1	Improve the quality of civil society participation in the budget planning process to have quality annual budgets.	Improve the quality of the annual budgets by taking into consideration the views of civil society.	- Civil society will need to be encouraged to organize budget consultation meetings with MoF. - Support civil society to do budget analysis. This can be done by targeting non-governmental organizations that are keen on monitoring public finances or academicians. Talk shows in the media should also be encouraged.	The PFM law has a provision for civil society to participate in the budget planning process but there is need to actually implement this to happen.	Civil society consultations in the budget planning process are being done from the third year of reform.	M	MoF Civil Society			X	X	X
6.3.2	Consult civil society on quality of outputs/service delivery.	To verify as part of the accountability process the delivery of quality outputs / services that were budgeted for.	Organize workshops with civil society on a semi-annual basis to consult them on the quality outputs/service being delivered by government.	Civil society consultations on the quality of outputs/services being delivered currently not being done.	Consultations with civil society on the quality of outputs and services budgeted for being done on a semi-annual basis.	M	MoF GIG Civil Society		X	X	X	X
6.3.3	CdC to consult civil society on areas of concern in service delivery to take these into consideration in their audit risk analysis.	CdC to identify areas of risk in service delivery to take into consideration during the planning of annual audits.	Organize a workshop with civil society on an annual basis to consult them on concerns about service delivery to take this into consideration during their audit planning.	Consultations by CdC with civil society on areas of concern in service delivery not being done.	Annual consultations by CdC with civil society on areas of concern in service delivery being done from second year of the reform. .	M	MoF CdC Civil Society		X	X	X	X

Notes: The priority sequence is marked with "H" (High), "M" (Medium) and "L" (Low), indicating the priority sequence of each activity, while "X" in the timeline column shows the time /years of implementation of the activity.

Annex II: PFM Reform Governance Structure



Notes:

- Action I:** there is high-level coordination in the Inter-ministerial Commission for Fiscal and PFM Reform, chaired by the Minister of Finance, composed of: Minister for Economy, Minister for Justice, Minister for State Administration, Minister for Planning, Minister for Tourism, Commerce and Industry and Minister for Petroleum and Minerals. It also include the Inter-Ministerial Sub-Commission for State Assets Management Reform, chaired by Minister of Finance, composed of: Minister for Justice, Minister for State Administration, and Minister for Tourism, Commerce and Industry. The IC will hold the regular meeting on a regular basis once every two months or any extraordinary meeting required by the chairman. The representative of DPs who supporting PFM reform should attend the meetings at the IC- level.
- Action II:** are the level of coordination between MF and DPs in supporting PFM reform implementation. The PFM reform office will carrying out the supervision, monitoring and evaluation of the reform. The PFM reform secretariat will provide administrative support, Technical Assistance (TA) that takes care of the whole reform and also organize regular meetings at both IC and technical level, including the DPs meeting. The MF and key DPs who supporting PFM reform will hold the regular meeting once a month or any special meeting required by the PFM reform secretariat.
- Action III:** are the level of implementing the reform activity which consisted by technical unit for Asset Management Reform and technical unit for PFM Reform. The PFM Reform secretariat will coordinate the TU role in implementing the reform. Technical unit members represent each member of the government at the IC-level, except for members of the MF, all DGs will be involved according to their respective areas. At this stage, the regular meeting will be held once a month or any extraordinary meeting required by the technical unit coordinator.
- Reporting:** the TU should provide a regular progress report once every two months to the PFMRO through the PFMR Secretariat. The PFMRO should also provide a progress report to the IC once every three months, including sharing progress to the DPs.

Annex III: 2018 PEFA Timor-Leste PFM Assessment Indicators

No	PEFA Indicator	Score
Pillar I. Budget reliability		
PI-1	Aggregate expenditure outturn	C
PI-2	Expenditure composition outturn	D+
PI-3	Revenue outturn	B+
Pillar II. Transparency of Public Finances		
PI-4	Budget classification	C
PI-5	Budget documentation	B
PI-6	Central government operations outside financial reports	A
PI-7	Transfers to subnational governments	C+
PI-8	Performance information for service delivery	D
PI-9	Public access to fiscal information	D
Pillar III. Management of Assets and Liabilities		
PI-10	Fiscal risk reporting.	D+
PI-11	Public investment management	D+
PI-12	Public asset management	C
PI-13	Debt management	B
Pillar IV. Strategy-based Fiscal Strategy and Budgeting		
PI-14	Macroeconomic and fiscal forecasting	C
PI-15	Fiscal strategy	D
PI-16	Medium-term Perspective in expenditure Budgeting	D
PI-17	Budget preparation process	D
PI-18	Legislative scrutiny of budgets	C+
Pillar V. Predictability and Control in Budget Execution		
PI-19	Revenue administration	D+
PI-20	Accounting for revenue	A
PI-21	Predictability of in-year resource allocation	B+
PI-22	Expenditure arrears	D
PI-23	Payroll controls	D+
PI-24	Procurement management	D
PI-25	Internal controls on non-salary expenditure	B+
PI-26	Internal audit	D
Pillar VI. Accounting and Reporting		
PI-27	Financial data integrity	C+
PI-28	In-year budget reports	D+
PI-29	Annual financial reports	C+
Pillar VII. External Scrutiny and Audit		
PI-30	External audit	D+
PI-31	Legislative scrutiny of audit reports	C

Source: PEFA assessment 2018