Aid instruments for peace- and state-building: Putting the New Deal into practice
Disclaimer

The booklet is a product of the g7+ secretariat and not individual member states. The views expressed in this paper are those of the authors and do not represent any official position of the g7+ or of contributory organisations.

Acknowledgements

The g7+ secretariat would like to thank the case study authors: Gideon Rabinowitz (Overseas Development Institute - ODI), Fiona Davies (ODI), Lisa Denney (ODI), Raphaelle Faure (ODI), Tom Hart (ODI). The overview chapter was drafted by Gideon Rabinowitz and Myra Bernardi (ODI).

The authors would also like to thank everyone who shared information for and commented on drafts of this text. These include representatives of relevant government agencies, the African Development Bank, the Australian Department for Foreign Affairs and Trade, the European Commission, the United Nations Development Programme, USAID and the World Bank.


About the g7+

The g7+ is a voluntary association of countries that are or have been affected by conflict and are now in transition to the next stage of development. The main objective of the g7+ is to share experiences and learn from one another, and to advocate for reforms to the way the international community engages in fragile and conflict-affected states.

To find out more about the g7+ visit www.g7plus.org.
New Deal case study

Australia and EU capacity building and budget support to the Ministry of Finance, Timor-Leste
1. Timor-Leste – Background, aid context and New Deal progress

TL formally gained its independence in 2002 following decades of conflict with Indonesia, who ruled the country during the period 1976-1999. The international community has since provided very notable levels of development assistance to TL to support its stabilisation, rebuilding and development. Over the last decade TL has received an annual average of $273 million (in 2012 dollars) in Official Development Assistance (ODA), making it the seventh most aided country in per capita terms (OECD 2016). ODA levels in proportion to the Government’s budget have though fallen rapidly over this period (from 80% in 2002 to 16% in 2012), largely due to the fast growth in oil and gas revenues [Valters et al 2015]. Australia has been TL’s largest donor over the last decade, providing 36% of total ODA; the EU was the fifth largest donor (after Australia, Portugal, USA and Japan) providing 8% (OECD 2016).

Around half of the ODA received by TL over the last decade has been provided in the form of technical cooperation, which is increasingly focussed on public policy, administration and financial management [OECD 2016]. ODA to TL has though largely been delivered and managed outside of the Government’s systems, with only 7% using Government financial management and procurement systems in 2012, down from 17% in 2010. Only around two-thirds of TL’s ODA is currently integrated into Government budgets and donors aren’t yet systematically reporting on their disbursements. Aid predictability is though relatively high and has been improving [GPEDC 2014].

As is the case with regard to its aid effectiveness components, implementation of the broader New Deal principles and commitments in TL has also been gradual and patchy. A fragility assessment to benchmark the status of the PSGs was completed in 2012, and a second fragility assessment was undertaken in the second half of 2015 [UNDP 2015]. The Government has made major strides in promoting transparency by introducing publicly accessible budget [and aid] transparency portals.

2. Introducing the DFAT/EU Timor Leste Ministry of Finance capacity and budget support programme

This programme aims to strengthen the financial management and performance systems of Timor Leste’s Ministry of Finance, thereby helping to improve aggregate fiscal discipline, allocative efficiency and operational performance – leading to better service delivery. It is a four year programme (2014-17) with a budget totalling $25.5million.

This funding is used primarily to provide support directly to the budget of the Ministry of Finance to support its efforts to strengthen PFM systems and improve performance. The level of funding provided to the MoF is linked to the achievement of Key Performance Indicators (KPIs) for assessing MoF performance, which are based around the MoF’s five year plan and agreed jointly by the MoF and the donors involved. In the case of DFAT, the amount of funding (to be disbursed [for use in the year that follows that being assessed] is determined based on two separate components linked to the KPIs:

- Fixed component: Up to AUD 1 million is disbursed based on achieving an average overall (adjusted raw) score for the KPIs of at least C+;

- Variable component: Up to AUD 3 million is disbursed based on the average score of donor-selected priority KPIs as per table X below:

<table>
<thead>
<tr>
<th>Adjusted Average of all KPI's</th>
<th>Percentage of Variable Component to be Paid</th>
<th>AUD Variable Component to be paid (using $3m Variable Component)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>100%</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>A</td>
<td>100%</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>B+</td>
<td>90%</td>
<td>$2,700,000</td>
</tr>
<tr>
<td>B</td>
<td>80%</td>
<td>$2,400,000</td>
</tr>
<tr>
<td>C+</td>
<td>70%</td>
<td>$2,100,000</td>
</tr>
<tr>
<td>C</td>
<td>50%</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>D+</td>
<td>25%</td>
<td>$750,000</td>
</tr>
<tr>
<td>D</td>
<td>10%</td>
<td>$300,000</td>
</tr>
</tbody>
</table>
The EU also provides funding of EUR 1m-EUR 2m pa, linked to similar assessments of progress in achieving agreed KPIs.

Once the funding is disbursed, it goes into the budget of the MoF, which can then determine how it is used to address weaknesses in meeting the KPIs. In practice, much of the money covers technical assistance provided throughout the Ministry, with delivery through the MoF budget ensuring that this TA is embedded and reports to MoF rather than funders, as per MoF’s policy on technical assistance. MoF provides a procurement plan as to how they will spend the money, which is then approved by DFAT and the money released. If DFAT or the EU have any concerns about how the money is being allocated, this is discussed and has to date always been easily resolved. To date AUSD 3.5 million out of a total of AUSD 4 million has been disbursed to MoF, relating to performance in 2014.

In addition to providing this financial assistance, the programme also funds embedded technical assistance (TA) and some short-term advisers to help deliver each of these components.

3. Programme emergence and drivers

This section details how this programme emerged, including any previous cooperation it built upon, and the key drivers that facilitated its emergence. Such an analysis is not only of interest for understanding how this programme can be successfully implemented, but can also help to guide political and technical collaboration between Governments and donors to develop innovative programmes in comparable contexts.

This programme builds on over a decade of Australian support to the Public Financial Management (PFM) system in Timor-Leste, most recently through the World Bank’s Public Financial Management Capacity Building Project (PFM CBP) to which Australia contributed $11.9m [WB 2014]. In 2012, as the original end of this project approached, the MoF requested that a new modality of budget support follow on from this project and be used to support the next phase of PFM strengthening. The PFM CBP was therefore extended to 2014 in order to support preparations for the introduction of budget support. As a part of this preparatory phase the system of KPIs was developed in close collaboration with the MoF, and the first round of assessments was undertaken in March 2013. The results that emerged have provided the baseline for the KPI assessments that have taken place through the budget support programme.

In interviews carried out to produce this case study, DFAT confirmed that the programme of budget support which is now being implemented has been made possible due to the strengthened policy environment in MoF and increased maturity of MoF systems. In 2012 a joint fiduciary risk assessment [GRM/Ausaid 2012] was conducted by MoF, Australia, the EU and the World Bank, which found that:

- Systems were improving relatively fast, reducing inherent fiduciary, development and reputation risks.
- Strong commitment was demonstrated from MoF leadership to reform and institutionalise capacity building.
- Traditional methods of delivering development assistance to MoF were unlikely to deliver reduced exposure to fiduciary risk, and in fact could increase development risks.
- Plans to established budget support for MoF would help deliver stronger reform plans.

In addition, the MoF emphasised in interviews that many standard donor conditions for budget support had already been met, which helped to support their push to use this modality. MoF officials emphasised that these conditions included having a credible public policy and PFM reform plan [reflected by the range of strategic MoF documents that have recently emerged], a credible and relevant macroeconomic stability policy and political commitment to aid and budget transparency [exemplified by the Aid and Budget Transparency Portals].

DFAT also cited being pushed towards this facility because it is genuinely seen to be in keeping with best practice principles of PFM and would therefore delivery better value for money. To that end, it is quite possible that this support would have come about without the New Deal. However, the New Deal provided a language and a focus on principles that donors cannot ignore, and that also had high level political support. For instance, in the case of Australia, former-Prime Minister Kevin
Rudd’s support for the New Deal in Timor-Leste was cited as an important piece of the puzzle in enabling budget support.

4. How the programme addresses the New Deal principles

This section identifies the primary New Deal principles addressed by this programme and how its design aimed to support their implementation.

**One vision, one plan** - This programme aligns to government plans by supporting development of KPIs to help achieve their priorities and by providing budget resources to MoF to allocate (with some DFAT and EU oversight) in line with their plans.

**Transparency** - Although the programme doesn’t directly focus on interventions related to transparency, it introduces a transparent process for assessing KPIs, including a standardised methodology, a joint MoF-donor process for undertaking the assessments and a commitment to publishing the results.

**Risk sharing** - MoF and donors conducted a joint risk assessment in 2012; this programme builds on the learning from that assessment. Currently, budget support does not go beyond the Ministry of Finance as it is felt other Ministries are still too risky.

**Use of Country Systems** - The DFAT/EU support is channelled through the MoF budget and is timed to coincide with the Timor-Leste financial year. Also, all TA reports to the MoF and payments of their salaries are made through MoF systems. In general, these donors have taken much more ambitious steps to use country systems than other donors, who have generally been reducing their use of country systems in recent years.

**Strengthening capacity** - The project is explicitly about improving performance management, which is intimately connected to capacity building. Capacity is being developed by encouraging the development of rolling five year plans and annual action plans, as well as meaningful KPIs. Where Directorates are found to be underperforming, support is also channelled towards these teams to enable them to perform better in future, thus focusing on strengthening capacities.

**Timely and predictable aid** - The calculations for how much budget support will be received for the Jan – Dec financial year is determined in October. This should in theory, allow this decision to feed into MoF’s internal budgeting processes, which take place in October/November. However, in the programme’s first year it actually took much longer than this, largely because the system was new. There are also currently delays in the process of assessing the KPIs and selecting the KPIs for the next phase due to political changes in TL (including the resignation of the Prime Minister and Minister of Finance). In interviews the MoF did though not express any major concerns with these delays, as they felt they had sufficient time to plan, and their resourcing had not yet been undermined.

5. Programme impacts and challenges

The programme was only initiated in June 2014 so it is very early to comment on the programme’s impacts. A mid-term review is planned for 2016, and this should provide some useful insights into how well the programme is meeting its objectives. It is though possible to see signs of improved performance in the MoF since the programme began, which is indicated by improvements in the KPI scores since the first assessment in 2013.

However, it is important to note that these improvements in performance between 2013 and 2014 may in some way point towards challenges in the process of setting and assessing standards in an objective way. To date the KPI assessments have relied up self-reporting (which is then validated through quality control and testing by external experts), an approach which has been seen as vital to building internal knowledge and support for the system. This does though leave open the possibility of reporting biases emerging, and as a result more objective approaches (e.g. using pre-agreed criteria to judge grades) are being explored.

There have also been challenges in managing the significant time and capacity demands in carrying out the KPI assessments, which typically take 2-3 weeks to undertake. A system for managing the data produced has been introduced, but is taking time to fully develop. Ensuring continuity of the experts supporting the KPI assessments is also relevant, although this may be less
of binding constraint as MoF officials and departments become more familiar with the process.

6. Lessons learnt

The process through which this programme emerged, its initial impacts and continued challenges to be addressed in its implementation point towards the following lessons learnt for promoting effective, progressive and innovative Government-donor collaboration to pursue the New Deal:

• **Progressive and innovative collaborations take time to emerge and requires experimentation and adaptation** - Programmes such as this can’t be planned neatly upfront and then simply be implemented, they involve slow processes to build the relationships, learn the systems, etc. Buy-in grows throughout the process on all sides, and initial inadequacies can be addressed through patient dialogue which ensures that ownership is promoted throughout the process. Importantly, this means this kind of programme doesn’t lend itself to the quick-win ‘in my term in office’ kind of approach that donors often like; they need to be willing to see this as a long term partnership. As a result, it’s important to have good continuity of staff on both the government and donor side.

• **It may be helpful for a senior management champion (or a range of more junior champions) to lead the reform process and satisfy donors that this is a serious undertaking** - In Timor, this was initially former-Minister of Finance Emilia Pires; the new Minister (former Deputy Minister) is also clearly committed and even the new Prime Minister [who was previously an Advisor to the Ministry of Finance] mentioned performance management as a priority in his speech following his appointment.

• **Government needs to be clear on the principles on which its partnerships with donors are based** - In the case of Timor, this is very clearly the New Deal principles. It is known in Dili that the MoF isn’t interested in donors unless they are going to operate according to New Deal principles.

Bibliography


g7plus

Address: Kobe House 2nd Floor, Ministry of Finance, Avenida Presidente Nicolau Lobato, Dili, Timor - Leste

Telephone: (+670) 331 0126

E-mail: g7plus.secretariat@gmail.com

Facebook: www.facebook.com/g7plus

Twitter: @g7plus

Website: www.g7plus.org