

CAPE Public Finance Conference 2008
**Reforming for Results: Can public finance management reform
improve government performance?**

12 - 13 November 2008
Overseas Development Institute, London, UK

Keynote Address
Public Financial Management Reform in a Post-Conflict State

Speech of
The Honourable Emilia Pires
Minister of Finance
Government of Timor-Leste

Public Financial Management (PFM) reform is a challenging subject in any environment, not least in the case of a post conflict country with little or no prior history of central government administration - as was the case with Timor-Leste.

The literature and experience teaches us that there is no single solution or first best way to implement PFM reform, however, there may be some core guiding principals that we can use based on our experiences. However, I think the most important element of any reform is to understand the context in which you are operating. In that regard I would like to start by giving a short background on the history of administration in Timor-Leste.

I believe many of you are aware of my country's political and military struggle for independence, but very few people are aware of the details of the next challenge, namely that of setting up a functioning administration from nothing.

State entities, like many agents, rely on two elements to fully function: Structure and culture.

By this I mean a Ministry of Finance needs a structure that enables it to meet the needs and challenges of its environment, however, at the same time the institution itself needs to be embodied with a culture that defines its role in relation to the public.

A structure can be applied quite quickly, although one thing we have learned is that in a post conflict state it needs to be quite flexible as the range of challenges can be very broad. However, to instil a culture of public service is a long term challenge, especially where there was no such culture beforehand.

In Timor-Leste, immediately post independence, we were administered by the United Nations. Under the United Nations Transitional Administration in East Timor (UNTAET) direction the core structures of Government were established with mixed success.

The Finance area was probably one of the more successful establishments again done under quite challenging circumstances. In those days our budget was heavily dependent on donor grants, and therefore coordinating donors, managing the

expectations of a newly independent state and at the same time, establishing resource-sharing deals with powerful regional neighbours like Australia were immense challenges. Despite this a basic functioning public financial administration was established.

However, for a variety of reasons, partly political, partly otherwise, the decision to fully hand over the administration to the Timor-Leste Government was made after less than 3 years. It could be argued that some people saw the structure of the administration and thought that the task was complete - however - the cultural elements were not close to being ready. By that I mean the internal processes were not fully embedded, skill levels within the Ministry remained low, fundamental knowledge of the role of a Ministry of Finance remained limited. As a result the administrative structures started to decline almost immediately after the hand over from UNTAET. This is not to say that the initial administrators were not competent, far from it, but just that there were very few of them and the challenges they faced quite significant.

As a result the administration failed to deliver the necessary services to the people. In the area of Finance this could be seen by very low levels of budget execution, increasingly centralised systems with the constant suspicion of corruption, long and seemingly complicated procurement procedures that few people understood.

Post conflict states tend to suffer periodic short term bouts of civil unrest and in that sense Timor-Leste was no exception. These episodes of unrest exacerbated or perhaps even reflected the failure of the administration to deliver essential services and as a result following the last elections a new Government was brought to power.

The first priority of the new Government was to create stability within the country. These periodic bouts of civil unrest were preventing the development of the economy and therefore this became the overarching short term priority of the Government. In a PFM sense this meant that the Ministry for Solidarity became the priority in terms of both administrative and financial resources.

Secondary priorities then became the strengthening and reform of the core business of Government. It is important to stress the element of the core functions of Government because at this time there are a lot of pressure for developing countries to undertake many extraneous activities for example trying to do gender budgeting before you can even do general budgeting. At this time the priority was to focus on strengthening and reforming the core elements of Government. Public Financial Management is one of those core elements.

However, making the decision to reform is the easy part, designing and implementing that reform is much harder. For example in an ideal world you would make an initial analysis or stock-take of your internal processes, ability to deliver services, strengths and weaknesses etc. and based on that, gradually design a reform program based on what you want your reformed Ministry to look like. However that is easier said than done.

For example, in a post-conflict, there is never a period of calm in an administrative sense. You are essentially forced to design reforms in an extremely fluid and dynamic scenario. In Timor-Leste, for example, we have prepared four and passed three budgets in the past eighteen months, changed the financial year, dealt with

the implication of the fluctuations in food and commodity prices. Internally, we have had to deal with small bouts of civil unrest, the challenges of having over one hundred thousand internally displaced people and a pressing need for essential infrastructure such as power and water.

Furthermore, the Government inherited a highly centralised administrative structure where the Ministry of Finance essentially controlled every element of the procurement processes, systems were not computerised, processes were poorly understood and there was a very heavy reliance on international advisers to undertake even the most basic of internal processes.

Having gone through the experiences briefly outlined above, there are a few thematic lessons that I believe may be applied to the issue of PFM reform.

Leadership and clear direction

This is often cited as a pre-requisite for successful reform, however, in Timor-Leste, given that it was a relatively green-field site (in that there was no pre-existing Ministry of Finance), the need for clear and direction from the highest levels of Government was essential. It is important to have a clear sense of direction so that despite all the variety of exogenous shocks the country and Ministry faces, you still have a clear idea of where you want to end up.

However, it is not a simple matter of the Minister knowing what he or she wants. This direction must be clearly translated and absorbed by the staff and other stakeholders. Getting the commitment of all the stake holders can be difficult, especially when (as is the case with Timor-Leste) there are so many.

In Timor-Leste as I mentioned, we began life as a country administered by international donors. Therefore, not only did we have to get the Timorese used to administering the country; we had to manage the transition of the role of the donors from administration to support of National Policies. Again, this is not as easy as it sounds as donors often have strong views on how Government should be run, which may not necessarily be rooted in political reality. However, in Timor-Leste, certainly in the short term, we remained very dependent on donor aid and their handling the gradual take over of the administration and the sensitivities that came with perhaps a new vision for how to achieve poverty reduction was a difficult and at times trying process.

Within the Ministry of Finance one of the ways in which we did this was by creating a pool of funds for support of technical assistance whereby all the major donors providing their funding through this project and the funds were handled directly by the Ministry of Finance. This got round the issue of who was the lead donor (the lead on the project then became the Government) and also issues of the direction of the support.

Evidence based reforms

Another challenge was to decide on the direction of the reforms, given the relative lack of information about internal processes and capabilities. As a result one of the first activities we initiated was a stock take of our human resources and also a review of our internal processes. The latter was conducted by Deloitte.

What we found was that our human capital base was very low - the average level of numeracy within the Ministry was about grade three. This had profound implications for the Ministry both in terms of devising a long term human resource development plan but also in terms of looking at medium and short term solutions to the skills shortage issues.

The Deloitte's report also highlighted several fundamental weaknesses with our internal controls and processes many of which need urgent and immediate attention.

Trying to sequence and coordinate both human resource development and procedural reform is almost impossible, but, we managed to get by using a heavy reliance on external assistance - and we now have a more clear idea of how long the type of assistance required, something that may have been lacking before.

Realistic long-term implementation planning

Again, much of the academic literature talks about long term institutional strengthening approaches - and I agree fully with that sentiment. I would also add though that a realistic approach should also include political realism. This means that any program should also include short-term wins so people and staff can see the benefits of the reform and don't lose hope and direction. This sometimes means that it is better to adopt a second best but ultimately implementable solution rather than a first best but unworkable one. However, the key then becomes communicating this to the other stakeholders such that they don't think you are moving away from your reform principals.

Despite the challenges mentioned above we have managed to achieve some success in the past two years including the gradual devolution of procurement to line Ministries, the introduction of new streamlined procurement procedures, the design of a new structure for the Ministry based around service delivery, a reduced reliance on international advisers in line positions.

As a result budget execution is higher than in past, and the Government has been able to deliver on many of its key promises. The number of internally displaced peoples has been halved, the Government now pays pensions to the elderly and disabled, the economy is growing at a rapid pace and more importantly, we have achieved a level of stability and security in the country that has not been seen since independence.

However, and as I have mentioned at the start of my speech, reform is an ongoing process. The lack of skills and education and also the newness of the Government structures mean that we are still trying to achieve the cultural elements of the reforms - by this I mean instilling with the public service the culture of service delivery, governance etc.

These are long term priorities that I hope we have now laid the foundations to achieve, however, to develop the culture of public service will require many years if not decades. No doubt, we have made mistakes in the past and we will do so in the future. However, the key will be to learn from those mistakes and to continue to adapt and modify our PFM systems to meet the needs and aspiration of our people today and into the future.