



# REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

## MINISTRY OF STATE ADMINISTRATION DECENTRALISATION SECRETARIAT

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### DECENTRALISATION AND LOCAL GOVERNMENT POLICY GUIDELINES FOR THE MoPF TECHNICAL WORKING GROUP

#### 1. Context and background

In late 2006, the Government made a policy commitment to establish 30-35 Municipalities in Timor-Leste, to be created out of the existing Sub-Districts. These Municipalities will be corporate bodies, accountable to local citizens through indirectly elected assemblies. It is the Government's intention to establish a first batch of approximately ten Municipalities in the course of 2008-2009<sup>1</sup>.

In line with official policy, these Municipalities will be empowered to take responsibility for a range of service delivery and administrative functions. The specific functions to be devolved to Municipalities will be defined through a process of consultation with Line Ministries (nine of which will be establishing special Technical Working Groups - TWGs) and then stipulated in the draft Organic Law on Local Government, with flexibility for adjustment in related and subsequent legal instruments (**Guidelines for the Line Ministry TWGs are attached for purposes of information**).

Services/functions that are devolved to Municipalities will be directly managed and financed by the Municipalities – and will not be directly implemented by line Ministries. Decisions about such services/functions, then, will be made by Municipalities.

Of particular importance to the Government's decentralization policy is the design of an appropriate set of arrangements for Municipal finance and public expenditure & financial management. To this end, MoPF will set up a dedicated TWG, whose report will provide the foundations for the Municipal finance provisions that will be an integral element of the Organic Law on Local Government and pursuant regulations.

These Guidelines, drafted by the Decentralisation Secretariat of the Ministry of State Administration, are intended to help MoPF's TWG carry out its tasks and to make suggestions with regard to its working methods.

#### 2. MoPF TWG composition and tasks

The composition of MoPF's TWG should normally include the following:

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<sup>1</sup> See Government Resolution No. 6/2006 and Government Resolution No. \_/2006 for full details of the Government's policy on decentralisation and local government, as well as the Decentralisation Strategic Framework (DSF).

- Directors (including Budget and Treasury)
- Senior Technicians
- International Advisers

The TWG will be headed by a focal point, who will be nominated by the Minister. The focal point will lead and coordinate the activities of the TWG, will be responsible for supervising TWG reports and will liaise on a regular basis with the Decentralisation Secretariat in the Ministry of State Administration.

The Decentralisation Secretariat in the Ministry of State Administration will, as far as possible, provide MoPF's TWG with technical support and advice as required and/or as requested.

The tasks of MoPF's TWG, to be completed by the end of June 2007, are as follows:

**(i) State Budget**

- To assess the structure, architecture and nomenclature of the existing State Budget and make recommendations for any amendments that will be needed to accommodate Municipalities.

**(ii) Municipal planning, budgeting and procurement**

- To determine procedures for Municipal planning and budgeting (e.g. participatory/open planning and budgeting, balanced budgets, etc.);
- To review existing procurement regulations and recommend necessary amendments to accommodate Municipalities.

**(iii) MoPF and Municipal Treasuries and/or Finance departments**

- To analyse and define the institutional arrangements, staffing/resource requirements and costing of Municipal Treasury and/or Finance departments. This will include defining the nature of the relationship between MoPF and Municipal Treasury/Finance departments (oversight, reporting, technical support, etc.) and recommending changes to the current modus operandi of MoPF;
- To examine and then define an appropriate and regular external audit process for Municipalities.

**(iv) Municipal Public Financial Management**

- To determine the likely public financial management needs of Municipalities. This will include aspects such as Municipal accounting systems, Municipal asset management, disbursement/receipt processes, internal controls and audits, budget frameworks and financial reporting procedures.

**(v) Municipal own-source revenues**

- To analyse and then recommend the potential own-source revenue base (taxes, user fees, etc.) for Municipalities, both in the short and long terms. This will also include making recommendations with regard to Municipal revenue administration.

**(vi) Inter-governmental fiscal transfers**

- To outline an appropriate framework and mechanisms for inter-governmental fiscal transfers (IGFTs), including both conditional and unconditional grants as well as performance-based incentives and sanctions.

**(vii) Capacity building needs**

- To determine the likely PEM/PFM capacity building needs of both Municipalities and MoPF.

**(viii) Risk analysis**

- To undertake an analysis of the possible risks attached to the devolution of sectoral functions to Municipalities and to identify suitable risk mitigation measures.

**(ix) Legal issues**

- To recommend amendments to existing laws and regulations so as to make them consistent with the PEM/PFM needs of Municipalities and fiscal decentralization.

**(x) Draft report**

- In the light of all of the above, to draft a report on Municipal finance, to be submitted to the Decentralisation Secretariat in the Ministry of State Administration, the recommendations of which will inform the content of the Organic Law on Local Government. Note 1, annexed to these Guidelines, provides a format/structure for this report.

**3. TWG working methods**

Although MoPF's TWG will decide on the precise way in which it will accomplish the above tasks, it is strongly recommended that:

- (i) The entire TWG meets at least once a month to discuss progress and debate sector devolution issues;
- (ii) For specific tasks (e.g. identifying Municipal own-source revenues, State Budget analysis and amendment), individual TWG members or sub-groups be given particular responsibility, reporting back to the TWG as a whole during its regular meetings. As far as possible, such reports should be drafted and then kept on record by the TWG's focal point;
- (iii) The TWG's final proposals be presented to the Council of Directors of the Ministry for endorsement.

9 January 2007

- 1) Note 1: Suggested structure and format of MoPF TWG report
- 2) Attachment: Decentralisation and Local Government Policy – Guidelines for Ministerial Technical Working Groups

## Note 1: Suggested structure and format of MoPF TWG report

### **1. Introduction**

### **2. State Budget**

- 2.1. Current structure, architecture and nomenclature
- 2.2. Requirements and changes to accommodate Municipalities

### **3. Municipal planning, budgeting and procurement**

- 3.1. Existing planning, budgeting and procurement processes at the local and national levels
- 3.2. Rationale and proposals for Municipal planning and budgeting processes
- 3.3. Rationale and proposals for Municipal procurement

### **4. MoPF and Municipal Treasuries and/or Finance departments**

- 4.1. Assessment of Municipal Treasury and Finance management functions
- 4.2. Institutional proposals for Municipal Treasury and Finance Management functions
- 4.3. Proposed staffing and costing for Municipal Treasury and Finance Management functions
- 4.4. Linkages and relationship between MoPF and Municipal Treasury and/or Finance departments
  - 4.4.1. Institutional issues
  - 4.4.2. Oversight, reporting and external audit
  - 4.4.3. Technical backstopping and mentoring
- 4.5. Recommended changes to MoPF working procedures

### **5. Municipal Public Financial Management - proposals**

- 5.1. General issues
- 5.2. Disbursement procedures
- 5.3. Receipt management
- 5.4. Accounting procedures
- 5.5. Internal budget and expenditure control procedures (including internal audit)
- 5.6. Internal financial reporting procedures

### **6. Municipal own-source revenues**

- 6.1. Proposed revenue base
  - 6.1.1. Short term
  - 6.1.2. Long term
- 6.2. Proposed revenue administration

### **7. Inter-governmental Fiscal Transfers**

- 7.1. Overall framework for IGFTs
- 7.2. Conditional and unconditional transfers
- 7.3. Performance-based incentives and sanctions
- 7.4. Other issues

### **8. Capacity building needs**

- 8.1. Municipal level
- 8.2. Central level

## **9. Risk analysis**

- 9.1. Risks
- 9.2. Mitigation measures

## **10. Legal issues**

- 9.1. Existing legal basis for public finance
- 9.2. Amendments required to current laws and regulations in the light of decentralisation and local government policy

## **11. Other issues linked to decentralisation**

### **Annexes**

- Copy of relevant laws and regulations
- List of any regulatory work in progress