Democratic Republic of Timor-Leste
Health Resource Tracking Study

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Timor-Leste Health Resource Tracking Study

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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>CHC</td>
<td>Community Health Centers</td>
</tr>
<tr>
<td>CPV</td>
<td>commitment payment voucher</td>
</tr>
<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
</tr>
<tr>
<td>DHS</td>
<td>District Health Services</td>
</tr>
<tr>
<td>DIP</td>
<td>Detailed Implementation Plans</td>
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<tr>
<td>FMIS</td>
<td>Financial Management Information System</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>MFV</td>
<td>multi-function vehicle</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MoH</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>NGO</td>
<td>non-governmental organization</td>
</tr>
<tr>
<td>NHSSP</td>
<td>National Health Sector Strategic Plan</td>
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<tr>
<td>PETS</td>
<td>Public Expenditure Tracking</td>
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<tr>
<td>PFM</td>
<td>public financial management</td>
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<tr>
<td>PO</td>
<td>purchase order</td>
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<tr>
<td>SISCa</td>
<td>Integrated Community Health Services</td>
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Executive Summary – English

The Timor-Leste Health Resource Tracking Study was undertaken in order to improve the flow of critical cash and in-kind resources to districts and health centers by identifying, and proposing how to relieve, the most critical impediments in the public financial management (PFM) cycle.

By agreement with the Ministry of Health, the study focuses on the following elements of the non-salary recurrent budget (the so-called “goods and services budget”) for primary health care:

- operating cash for District Health Services and Community Health Centers, sometimes referred to as pasta mutin or imprest advance;
- fuel for vehicles and generators; and
- vehicle repairs and maintenance.

Starting at the point of service delivery (district), the study follows these three inputs backwards through every stage of the PFM cycle in order to unearth the pertinent issues that impede the timely and sufficient delivery of inputs to frontline providers. It required the collection of data from a wide variety of sources and the use of diverse methodological approaches, including semi-structured district- and facility-level surveys, one-to-one interviews, transaction analysis, document review, and analysis of the government’s financial management information system (FMIS) (see Study Rationale and Approach).

Cross-Cutting Findings

The study findings are presented in detail, together with the supporting evidence and key related recommendations, in Chapter 1 (operating cash), Chapter 2 (fuel budget), and Chapter 3 (vehicle repairs and maintenance). From the input-specific analyses contained in those chapters emerge a set of cross-cutting findings (Chapter 4) that affect all areas of the goods and service budget. These are:

**Disconnect Between Planning, Budgeting and Reporting**

While the National Health Sector Strategic Plan (NHSSP) provides a sound policy framework for sectoral goals, and district-level activity planning is improving, these goals and activities are not yet effectively reflected in the composition of the goods and services budget of the District Health Services (DHS). The disconnect between activities/need, on the one hand, and budget allocation, on the other, is evidenced by the fact that line items are often dramatically over- or under-spent. There is also very poor control over expenditure levels; spending requests are checked against fund availability in the overall goods and services budget, but not at the individual line item level. Also, the fact that MoH has to initiate spending on centrally procured items (such as fuel and vehicle maintenance/repairs), while the DHSs spend their operating cash, means that there are effectively
two budget holders: if either overspends, it reduces the overall goods and services budget available for the other.

**Late and Slow Release of Funds**
The late release of the first payment and slow processing of subsequent payments across all three of these inputs impedes service delivery. District operating cash (Chapter 1) is supposed to arrive as an “advance”, but the first installment is typically received several months into the year. Similar problems affect the requisition, delivery and payment of fuel (Chapter 2). In 2013, the first fuel deliveries arrived in April, and the fuel company waited an average of 62 days for payment. For vehicle maintenance (Chapter 3), it takes the supplier at least two months to be paid. In 2013, no payments were received before May (almost halfway through the year), and most payments were debt payments for work carried out in previous years.

**Weak Contract Management**
Issues with contract management include the late signing of contracts and failure to communicate (and initiate) renewal leading to uncertainty among suppliers. Contracts are typically extended through amendments that are approved after the lapse of the initial agreements. For vehicle maintenance and repair (Chapter 3), for example, contracts define maintenance services, but do not include terms and performance criteria for transport of vehicles to and from Dili or for, alternatively, district-level provision of routine maintenance.

Together, these cross-cutting issues create a self-perpetuating—and vicious—cycle. The district goods and services budgets are not aligned to national policy or district-level plans, making the budget a poor expression of primary healthcare goals and needs. A lack of internal controls in execution of these budgets means that the district health services are not constrained to operate within their budgets, obligating large amounts to suppliers and creditors that then become debt. This is compounded by long delays in the initial, and subsequent, release of funds for all three inputs—operating cash, fuel and repairs. In the short-term, going into debt enables facilities to continue to deliver at least a minimum of services (rather than reducing services, which was an alternative coping strategy observed in the study), but it also means that when funds are released they are already obligated to debt repayment, causing budget shortfalls later in the year.

**Recommendations**
The main recommendations of the study, described in detail in Chapter 4, are as follows:
Cross-Cutting Recommendations

- Carry out an audit of all debt at district-level, including that which is off-the-books
- Use national program goals and targets to guide district allocations and provide timely district budget envelopes
- Provide some flexible operating cash to the districts and CHCs, using a budget norm or formula, to address short-term needs across all budget lines
- Utilize program/activity based budgeting codes in the chart of accounts, in addition to line item codes
- Simplify the steps to release district operating cash
- Implement the duodecimo provision in order to ensure fund availability even when national budget is slow to pass
- Submit the CPV for the operating budget at the start of year, and “push” first payment based on approved expenditure plans, rather than waiting for proposals before processing the CPV
- Improve the speed of processing requisitioning and payment documents
- Ensure that contract procurement starts early to avoid delays
- Include performance criteria in the contracts of suppliers and set performance standards for MoH Logistics and Finance departments
- Consider decentralizing vehicle maintenance and/or simple repair services and fuel provision to the districts, within a framework to ensure technical capacity and quality
- Address delays in the flow of funds between district- and community-level by having clear guidelines for CHC-level imprests and push the funds based on these

Recommendations for Fuel

- Plan for the fuel budget allocation based on district needs including vehicles, travel and distance requirements
- Improve budget reporting on fuel expenditures and use
- Clarify specifically how motorcycle fuel should be planned for, where it is budgeted, and at what levels it can be procured
- Consider a complementary period for fuel payment requests in order to reassure providers that they will be paid to minimize interruptions in service towards year end
- Permit local procurement of fuel in addition to or in place of in-kind delivery
- Modify the voucher system to include district-specific or reserve vouchers
- Produce guidelines and provide required equipment to ensure adequate CHC-level fuel supplies and reserves

Recommendations for Vehicle Repair and Maintenance

- Establish an easily and regularly updateable asset register for vehicles and motorcycles
- Perform vehicle economic evaluation and establish guidelines for replacement and disposal of defunct vehicles
- Rationalize the distribution of existing vehicles according to terrain and need
- Establish a planning and budgeting process for district-level maintenance and repair requirements
- Distinguish budgeting, requisition and payment processes for maintenance from that of repairs
- Build performance incentives into the contracts of national suppliers of repair services
- Consider decentralizing simpler maintenance and/or repair to the districts

Recommendations for Operational Cash

- Clarify and standardize guidelines on expenses allowable in the imprest account
- Simplify the steps to release district operating cash
- Provide training to the districts on finance and reporting
- Staff districts (or groups of districts) with dedicated transport managers, or expand the training of drivers to include routine maintenance
- Provide back-up vehicles for use when vehicles are being repaired
- Consider outsourcing a more comprehensive package of fleet provision and management services to the private sector
- Develop a consolidated transportation policy and manual, and disseminate it widely

**Moving Forward**

The health of the population of Timor-Leste depends on the provision of quality primary health care services in the districts. Without a well-functioning public financial management system, critical health inputs such as fuel, vehicles and operating cash will fail to reach front-line service providers in a timely and sufficient manner. In Timor-Leste, improvement of the PFM system is already on-going and a way forward has been charted in a PFM Roadmap. The Timor-Leste Health Resource Tracking Study takes this roadmap as the starting point for its recommendations, which range from “quick wins” to more systemic reforms. Moving forward, the emphasis should be on immediate implementation of the easy, incremental reforms, while simultaneously assessing the likely impact and feasibility of implementing more ambitious initiatives.
Nota Enkontru: Estudu ba Lala’ok Rekursu Saúde iha Timor-Leste

Estudu ba Lala’ok Rekursu Saúde Timor-Leste nian ho objetivu atu hadia suli/distribuisaun osan no rekursu ba distritu no sentru saúde sira liuhusi identifika, propoin oinsá hamenus impedementus kritiku iha siklu manajementu finanseiru publiku. Estudu ne’e foka ba elementus diferente husi orsamentu sasan no atendimento nian ba saúde:

- Osan operasaun ba Servisu Saúde Distrital no Sentru Saúde Komunitariu, dalaruma refere ba nudar Pasta Mutinor ou imprest advance;
- Konfustivel ba vihekulu veikulu /kareta no jerador sira;
- Reparasaun no manutensaun veikulu/kareta.

Rezultadus Jerál

Diskonekta entre planu, orsamentu no relatoriu

Planu Estratéjiku Nasional Setór Saúde (PENSS) nebe fornese plataforma politika ida diak ba metas sektoral no planu atividade iha nivel distritu diak ona. Maibe, metas no atividades hirak ne’e sidauk refleta ho efektivu iha orsamentu ba sasan no atendimento iha Servisu Saúde Distrital. Diskonekta entre atividades/nesesidade no alokasaun orsamentu hatudu fák tus katak item balun dala barak gasta liu ou la gasta hotu. Nomos la dun iha kontrolu ba gastus; pedidu gastu hetan duni verifikasaun ba orsamentu Jerál sasan no atendementu, maibe la verifika item individual nian. Ministériu Saúde bele inisia gastus kona ba item sira nebe bele sosa rask, iha sorin seluk DHS sira gasta sira nia impres, kria ema rua nain ba orsamentu: karik ida mak gasta liu, entaun ida ne’e hamenus orsamentu Jerál sasan no atendementu nebe disponivel ba ida seluk.

Fó sai fundus tarde no neneik

Fó sai fundus tarde ba pagamentu dahuluk no prosasu pagamentu tuir mai nebe la’o neneik ba input tolu hirak ne’e impede servisu atendementu. Orsamentu ba operasaun iha distribut lolos ne’e to’o antes nudar “advance”, maibe pagamentu dahuluk babain simu iha fulan klaran tinan ida nian. Problema hanesan afeita rekizaun, distribuisaun no pagamentu ba konfustibel/mina. Iha tinan 2013, distribuisaun dahuluk ba konfustibel/mina akontese iha fulan Abril, no kompania mina nian hein kuaze loron 26 ba pagamentu. Kona ba manutensaun kareta, iha tinan 2013 fornesedor nunka hetan selu iha menus husi fulan rua, no la halo pagamentu antis fulan Maio—no maioria husi hirak ne’e mak pagamentu ba tusan/debe ba servisu nebe hala’o ona iha tinan hirak liu ba.
**Manajemento kontratu nebe fraku**
Asuntu ho manajemento kontratu inklui asina kontratu tarde no failansu atu komunika (no inisiia) ba hafoun kontratu hamosu duvidas entre fornesedor sira. Kontratu hirak ne’e hanaruk/hafoun liuhusi amandamentu nebe aprova depois mosu failansu iha akordu inisiu nian. Kona ba manutensaun no repara-saun ba karreta, kontratus hirak ne’e definí servisu manutensaun, mai fe la inklui kriteria termus no perfomansia ba transporte veikulus ba no husi Dili ka ba objektivu saida, alternativa mente, manutensaun rutina husi provizaun nivel distrital.

**Siklu Violentu Ida**
Hamutuk, asuntu hirak ne kria siklu perpetua ketal ida. Orsamentus sasan no servisu la aliña/han malu ho politika nasional ka planu nivel distritu sira, nebe kria espresau fraku ezekusaun orsamentu bo objektivus no ne-sesidades kuidadu saúde primaria nian. Menus kontrolu internú ba iha ezekusaun orsamentu hirak ne signifika katal servisu saúde distrital la iha limitasaun hodi halo operasaun ba sira nia orsamentus, nune’e obriga atu fó osan ho montante bot ba fornesedor no kreditor sira nebe ikus mai hamosu debe/tusun. Debe ne’e fasilita atendementu balun, mai fe kria ho boot problemas at liu tan tinan ba tinan no la sustentavel. Iha atrazus naruk iha inisiu, no tempu tuir mai, halo pagamentus ba parte tolu hirak ne’e—osan ba operasaun, konfustivel no reparasaun. Distritu sira hamenus servisu ka akumula nafatin debe barak liu tan, nebe kauza orsamentu hotu iha tempu badak iha tinan nia rohan.

**Rekomendasoens Jeral**
- Hala’o audit ida ba debe/tusun hotu iha nivel distrital, inklui hirak nebe mak la priense iha reseitas/off-the-books
- Uza objektivus no tarjetus nasional atu hatudu dalam ba alokasaun distritu sira no fornesese envelope orsamentu tuir tempu nebe los
- Fornesese fundus operasaun nebe fleksibel ba distritu no CHCs sira, uza norma ka formula orsamentu ida
- Utiliza programa /aktividade bazeia ba kodigu orsamentu iha diagrama konta bankaria nian, no mos ba liña kodigu sa-san sira
- Simplifika etapas atu hasai fundus opera-saun distrital
- Implementa provizaun duodecimo atu asegura disponibilidade fundus maske or-samentu nasional neneik atu pasa
Hatama CPV ba fundus operasaun iha ini-siu tinan ida nian, no “dudu” pagamentu primeira bazeia ba planu gastus nebe aprova ona, duké hein proposta sira molok prosesa CPV

Had’ia prosesamentu rekizitus no doku-mentus pagamentu nebe lalais

Garantia katak kontratu aprovizionamentu hahú sedu atu evita tarde

Inklui kriteria perfomansia iha kontratu fornesedor no determina padrão dezenpeñu ba departamentus Lojistiku no Financia Ministériu Saúde nian

Konsidera desentralizasaun manutensaun veíkulu no/karreta sira nebe permissiun atu asegura kapasidada técniu no kualidade

Rekomendasoens Fundus Operasional

Klarifika no standardiza gas ba gastus nebe bele permiti iha konta bankaria impret

Simplifika etapas hodi hasai fundus opera-saun distrital

Fornese treinamentu ba distritu sira kona ba finanseiru no relatoriu

Rezolve atrazus husi sul/distribuisaun fundus entre nivel distritu no comunidade li-uhusi estebelese mata-dalan ida nebe klaru ba nivel CHC imprests sira no du du fundus bazeia ba gia hirak ne’e

Rekomendasoens ba Konfustivel

Planu ba aloksaun orsamentu konfustivel bazeia ba nesesidades distrital inklui veíkulu-viasen, no rekeremantal distansi

Hadia relatoriu fundus ba gastus no uzu konfustivel

Klarifika espesifikamente oinsá halo planu ba konfustivel motorizadas nian, fundus hetan husi nebe, no atu sosu ho nivel saída

Konsidera periodu komplimentariu ida ba pedidu pagamentu konfustivel atu asegu-ra fila fali ba fornesedor sira katak sira sei hetan pagamentu, nune’e lebele iha impedementu to’o tinan nia rohan.

Permite aprovizionamentu lokal ba konfus-tivel atu komplementa ou substitui distribuisaun hanesan.

Modifika sistema kupon atu inklui kupon rezerva ou espesifikasi distritu nian

Produz mata-dalan no fornese ekipamento nebe presiza atu asegura forneseamento no rezerva konfustivel adecuau iha nivel CHC

Rekomendasoens ba Manutensaun no Reparasaun Veíkulu/karreta

Estabelese rejsitu asset veíkulu/karreta no motorizadas nebe atualizadu ho fasíl no regular

Hala’o avaliasaun ekonomia ba veíkulu/karreta no estabelese mata-dalan ba substitui-saun no soe tiha kareta sira nebe aat ou labele uza ona.

Rasionaliza distribuisaun ba veíkulu/karreta sira nebe eziste bazeia ba natureza rai no nesesidade

Estabelese prosesu planeamentu no orsamentu ida ba manutensaun iha nivel distritu no rekezitus reparasaun nian

Distinge prosesu orsamentu, rekezisaun no pagamentu entre halo manutensaun no reparasaun

Harri insentivus dezenpeñu iha kontratus ho fornesedor nasional sira ba servisu rep-arausaun

Konsidera desentraliza manutensaun simplees liu ou reparasaun ba distritu sira

Staf iha distritus (ou grupu distritus) ho manajer transporte dedikadu, ou haluan treinamentu ba xofer sira atu inklui manutensaun rutina.

Fornese veíkulu/karreta rezerva wainhira halo reparasaun ba kareta sira seluk

Konsidera halo sub-kontratu ida nebe kom-prehensivu liu ba pakote provizaun karre-ta-lubun no servisu manajementu ba setór privadu
Dezenvolve politika no mata-dalan trans-portasaun ida nebe kombinadu, no desimina ba publiku tomak.

**Etapas tuir mai**

Analiza no rekomendasones husi notas politika haat ne’e presiza tau iha planu asaun ida mai husi involvimentu liña ministerial no subnasional nebe identifica ho klaru responsabilidade husi kada reforma nebe atu hala’o. Planu asaun ne’e tenki sai nudar pontu hahu husi mapa mata-dalan PFM saúde nian nebe dezenvolve ona. Presiza emfazia ba implementasaun imidi-eta husi reformas adisional, iha tempu hanesan avalia impaktu no visibilidade nebe mosu wain-hira implementa inisiativus ambisiozu hanesan plataforma kontratu ho setór privadu ba manajementu kareta-lubun, ou introdusaun prosesu financeiru desentralizada ba operasaun saúde iha nivel distritu nian.
Study Rationale and Approach

The Timor-Leste Health Resource Tracking Study was undertaken in order to improve the flow of critical cash and in-kind resources to districts and health centers by identifying, and proposing how to relieve, the most critical impediments in the public financial management (PFM) cycle.

By agreement with the Ministry of Health, the study focuses on the following elements of the goods and services budget (i.e. non-salary recurrent budget) for primary health care:

- operating cash for District Health Services and Community Health Centers, sometimes referred to as pasta mutin or imprest advance;
- fuel for vehicles and generators; and
- vehicle repairs and maintenance.

These inputs were selected because they constitute the largest share of the total goods and services budget intended for use at the district level; because they are planned, budgeted, executed and delivered in several distinct and diverse ways (in-cash, in-kind locally, and in-kind centrally) which allows examination of a wide range of payment, procurement, and delivery systems; because these are economic categories of expenditure that have been squeezed in relative terms in recent years (compared to, for example, the appropriations for salaries and capital, both of which have increased substantially); and because their availability has a direct impact on the ability to deliver services.

In order to produce recommendations that are discrete, concrete, closely linked to service delivery and highly actionable, the approach of this study departs from that of the more “traditional” (typical) public expenditure analyses, such as public financial management analyses, public expenditure reviews and public expenditure tracking (PETS) exercises. Rather, it starts at the point of service delivery (district), and follows three key health sector inputs backwards through the PFM cycle, identifying the relevant issues at every step in the cycle of planning, budget allocation, expenditure, delivery, and reporting/accounting. The analysis is broad in the sense that it follows the entire cycle, but narrow in that it focuses only on a few well-defined categories of inputs.

The study draws on the following multiple data sources and types of analyses:

i. analysis of internal circulars and guidelines, in order to map the public expenditure management, procurement and delivery processes for delivering these inputs to frontline service providers;
ii. review of actual transactions to assess the time required for each step in the process and to identify issues hindering smooth and timely budgeting, execution or fund release;
iii. examination of financial reporting on the use of funds at the line item level to analyze budget execution and the accuracy of posting to the government’s financial management information system (FMIS);

iv. a semi-structured district- and facility-level survey, implemented in five District Health Services, covering two Community Health Centers (CHCs) each;¹

v. interviews with officials of the Ministry of Health and Ministry of Finance at the central level (Dili);

vi. a consultative workshop, with central and district officials, in Dili in December 2013 to obtain feedback on preliminary findings; and,

vii. a final workshop, with officials from Ministry of Health, Ministry of Finance, Ministry of Education, as well as development partners, in Dili in July 2014 to confirm the appropriateness of the conclusions and recommendations of the final report.

¹ The study covered the following districts (CHCs): Covalima (Fohorem and Zumalai), Dili (Comoro and Metinaro), Manatuto (La Leia and Natorbora), Oecusse (Baqui and Passabe) and Viqueque (La Cluta and Ossu).
Recurrent expenditures for supplies and the operation and maintenance of health facilities and vehicles are an important part of providing quality health services. District Health Services (DHS) and Community Health Centers (CHC) need discretionary operating cash to carry out routine activities and deal with problems as they arise. This chapter analyzes the system of providing this operating cash, sometimes known as pasta mutin, “Advance Funds” or Fundo de Manhão.1 The term pasta mutin refers to a “white bag” in which health workers might carry cash for incidental expenses. Timor Leste’s districts are remote, there are not yet local offices of the Ministry of Finance to manage payments, and the District and Local Health Facilities have historically lacked bank accounts. As the scope of local health services in Timor-Leste has expanded, the needs of the pasta mutin system have grown larger and more complex.

According to Ministry of Health (MoH) documentation, the system is “designed to allow the quick and easy purchasing of items required for District Health Services to function.”² The system was set up as an imprest account, meaning that each facility should be given a sum of cash in advance (a “float”) to be used for a limited range of goods and services. Once cash is received by the DHS, it is then further distributed to programs and CHCs. This payment is temporarily accounted for as an advance payment on balance sheets. The cash can be used for a range of items included in the goods and services budget, according to expenditure guidelines set by the MoH.

Once the funds are liquidated and the spending unit submits its reports, the actual expenditures made are reassigned to their respective line items within the goods and services budget category. In theory, the available operating cash should be replenished periodically so that the facility always has cash on hand to carry out routine activities. In practice, the system has become complicated by conflicting policies and is not operating as smoothly as it should. The key problems are:

- Amounts budgeted are not related to planned activities, or rational budget allocation criteria, meaning that the available funding may be inadequate to meet, or poorly aligned with, MoH objectives.
- The operating cash for DHS is received late, infrequently and irregularly, and in some cases is fully spent before the end of the year, resulting in an under-provision of services, inactivity, or accumulation of debt.

The bottlenecks in the smooth flow of adequate operating cash have serious consequences for the delivery of health services, even though district and local health facilities go to considerable lengths to adapt to these limitations. Every DHS surveyed cited the delay and/or insufficiency of funds as the
Planning and Budgeting

The first part of the public expenditure management cycle for any public service involves setting strategic goals, planning activities to meet those goals, and connecting those plans with the available budgets. There are problems both in connecting planned activities needed to achieve the MoH’s strategic goals with the budgeted funds, and with ensuring the actual expenditures are guided by the budgeted funds through budget control. In both cases, the role of the budget as a lynchpin of health strategy and policy is undermined.

Planning is Weakly Connected to Budget

The connection between planning for district-level activities and the goods and services budget is weak. A budget is an important expression of any organization’s goals, but if budgeting is poorly connected to policy and plans then these goals have little chance of being realized. This problem is both common and serious: “[f]ailure to link policy, planning and budgeting may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries.”

In the National Health Sector Strategic Plan (NHSSP), the MoH has a sufficiently detailed policy framework to develop overall goals and targets. Improving the planning of district activities to accomplish these goals has been a focus of attention, and the MoH Department of Planning, Monitoring and Evaluation has developed planning templates and guidelines for districts. These templates and related planning workshops aim to facilitate activity-based costing and the attribution of routine activities (such as travel) to corresponding programs and line items.

As a result, districts now develop Detailed Implementation Plans (DIPs) for most of their activities.

However, as of 2013 these activity plans are not effectively reflected in the goods and services budget for the District Health Services and their subsidiary facilities. This budget is still prepared and examined during the national budget process on a line item basis, rather than by program or activity. As is typical with budgets formulated in this way, the line item budgets are mostly set incrementally (i.e. based on the previous year’s budget), or in an arbitrary and ad hoc way that reflects an overall budget ceiling but does not take into account the specific activities or needs of the district.

An expenditure plan reflecting both activities in the district plan and the available budget is not used, contributing to budget shortfalls or timing problems. In addition, a range of goods and services are centrally procured, such as fuel and vehicle maintenance, and currently not budgeted based on district-level planning input. These items therefore have a different budget holder (the MoH) from the operating cash, which is held by the DHS. Consequently, districts have
one idea of what they are supposed to be doing—according to their DIP—while the budget reflects a different prioritization and distribution of resources, leading to frustration. In the words of district staff:

We request the budget depending on our program based on the eighteen Key Performance Indicators identified by the Ministry. We have a clear and collective plan from health post up to DHS but what we get is not what we requested. So we would like the national level to at least respect our effort.

A simple comparison of the per capita district budget, used as a proxy for district need, suggests the extent of potential distortions in resource allocation across districts (see Figure 1.1). The per capita goods and services budgets can be about five times higher in some districts than in others. While there is certainly a need for some differentiation of the per capita budget (because of differences in age profile, disease burden, population density, geographic size, and remoteness, for example), it is unlikely that variations of this magnitude are consistent with a systematic measure of need. In short, the goods and services budget is distributed very unevenly across districts, and there is likely room for improvement.

To make the point more precisely, one can take the examples of the travel and rental line items within the goods and services budget. Travel allowances are budgeted at a flat rate of US$7,000 per district; that is, each district receives the same amount in their budget, regardless of population, land area, population density or similar measures of expected activity level. It is unlikely that the need for travel allowance is the same in all districts regardless of these parameters. Rental of property is another line item that is budgeted at a flat rate of US$2,000 per district, regardless of the number of facilities and buildings. Since the number of CHCs per district in Timor-Leste varies from three to seven, rental costs for staff accommodation (the main use of rental funds) should be varied rather than flat.

The mismatch between the budget and the district requirements is starkly shown by the differences in the share of these funds that are actually used. As Figure 1.2 shows, in 2013 some districts used up four times their allotted US$7,000 on
travel allowances, while a few just about made do with that amount. While the higher amounts across all districts may reflect some overspending, it is safe to conclude that the flat rate budget for travel allowances is also not well connected to the needs of individual districts, because the excess spending is so different in different districts. Expenditure plans and activity reporting linked to expenditure reporting could help, as travel allowances in other countries tend to be vulnerable to cash retention or diversion.

**Budget is Weakly Connected to Actual Operating Cash Allowances**

Why does the system allow such large differences between the budget and actual spending to persist without corrections? One problem is that the operating cash for use by districts and communities is meant to cover some, but not all the line items included in the goods and services economic budget category. Other items are procured centrally and distributed in kind, such as fuel and vehicle repairs (see Chapters 2 and 3). In theory, the available amount of operating cash for the districts should equal the total of the line items that districts must pay for themselves according to these MoH guidelines. However, the parts of the budget that districts pay with operating cash depend on MoH guidelines for DHS and CHC spending that are changed frequently, are sometimes contradictory, and are not consistently implemented locally. For example, districts reported to the study team that stationary, fuel and minor building repairs and equipment are not allowed to be purchased with the imprest allowance and must be requested for procurement by the central MoH, but FY 2006–7 guidelines on petty cash spending limits and procedures state that these expenditures are permitted. More recently, 2011 budget execution guidelines allow expenditure on ”stationary, small repairs of building, vehicles or other equipment, cleaning equipment, cabinets, beds, mattresses and bed sheets for health facilities”, but not on fuel.

In practice, the execution rates can also vary because of the way budget control is done. When spending requests come to the MoH, they are checked against the overall goods and services budget for the district, not the individual line item. As long as there is a remaining balance under goods and services for that district, the expenditure may be approved by the MoH Finance Department and operating cash can be issued through the imprest. This practice allows
the executed (or spent) budget for specific items to vary a lot from the original appropriation by using funds budgeted for other items. Over-spending on centrally procured items that is beyond the control of the district may also reduce the subsequent availability of funds for disbursement as operating cash.

Analysis of the individual goods and services line item budget execution rates by district reveals huge variations across districts between the minimum and maximum levels of spending. Table 1.1 shows that lowest, highest, and average execution rates found across all districts for each goods and services line item. For some items, such as “Other miscellaneous services” and “Professional services”, some districts record no spending in one or the other of these lines while others do. Travel allowances, perhaps in part due to the difficulties in controlling them, and vehicle fuel, are overspent across all districts (an issue which is further discussed in Chapter 2). The range of spending on items like “Training” (from 4.7 per cent to over 438.8 per cent) and “Maintenance” (from 3.6 per cent to 321.7 per cent) is enormous.

In summary, the current line item budgeting system for goods and services does not allow the budget to reflect the prioritized activities and needs of the districts even though these activities are being planned. It also does not control expenditures against the budgeted amount. While the current system does allow some useful flexibility, the overall conclusion is that there is little public financial management benefit because the current system does not support planning or control of operating cash for district and community facilities.

### Budget Execution Process

Once the budget is appropriated (i.e. approved by Parliament) the process of spending (known as budget execution) begins. Beyond the lack of clarity over the approved amounts compared to the implementation plans described above, there are three major and interconnected problems with the flow of operating cash to DHSs and on to CHCs:

- the late arrival of the first installment of cash;
- the irregularity of amounts and timing of payments throughout the year; and

<table>
<thead>
<tr>
<th>TABLE 1.1 District Budget Execution Rate by Line Item, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
</tr>
<tr>
<td>Local travel</td>
</tr>
<tr>
<td>Training and workshops</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
<tr>
<td>Rental of property</td>
</tr>
<tr>
<td>Vehicle operation fuel</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
</tr>
<tr>
<td>Office stationary and supplies</td>
</tr>
<tr>
<td>Operational material and supplies</td>
</tr>
<tr>
<td>Fuel for generators</td>
</tr>
<tr>
<td>Maintenance of equipment and buildings</td>
</tr>
<tr>
<td>Operational expenses</td>
</tr>
<tr>
<td>Professional services</td>
</tr>
<tr>
<td>Other miscellaneous services</td>
</tr>
</tbody>
</table>

Source: MoF Budget Data, 2013.
in some cases, shortages at the end of the year.

The procedures for DHS and CHCs to receive their operating cash have changed significantly in recent years, leading to ambiguity and uncertainty over the exact system in use. As noted in the introduction, the system was originally set up as an imprest account to provide funds in advance to DHSs and CHCs. In theory, once these funds are nearly used up, the office requests replenishment of the float payment (See Box 1.1).

In FY 2011, guidelines from the MoH for the initial float specified US$15,000 per district, and up to US$1,500 per CHC. Replenishment was supposed to occur when the balance declined to US$2,000. The district requests replenishment with a summary form, the pasta mutin register, supporting vouchers and pasta mutin cash count.11

However, also in 2011, a separate MoH directive outlining a different system for executing this budget was issued. The allowances were revised to a maximum monthly amount of US$20,000 per month for each DHS, and between US$1,000 and US$1,500 per CHC per month, with disbursement to be carried out “once every three months”. Rather than requesting replenishment, the services were to make requests quarterly via a proposal or “proposta”, annexing their activity plan, while making monthly reports of expenditure.12

The imprest as currently utilized is more suited to enabling occasional unplanned expenditures than providing for a regular flow of operating budget. The system differs from some traditional imprest systems in several important ways:

- Payments are not provided in advance, but rather are used to meet obligations already undertaken.
- The account is not used on a replenishment basis; only after the entire previous balance is liquidated can the process of initiating the next payment begin, meaning there is an inevitable gap between acquittance and the release of the next payment.
- Payments are based on proposals from the districts rather than being triggered by a declining balance and on-time reporting.

This system is intended to provide a quarterly payment, but it does not meet the second set of guidelines either: it does not operate quarterly in reality, some of the payments exceed the stated maximums, and the payments do not correspond to the amounts in the activity plan.

Figure 1.3 illustrates the steps currently involved in securing an imprest payment. The subsequent sections illustrate the outcomes of the current arrangements in terms of the timing and distribution of operating cash payments.
Based on a review of the documentary record of all payments to the five study districts of Covalima, Dili, Manatuto, Oecusse and Viqueque.

**Late Payments at the Start of the Year**

Despite the intention to serve as an “advance” payment, the first installment of operating cash is typically received several months into the year. Fixing this problem should be the highest priority, according to DHS staff. As was noted in the consultation workshop:

> The key issue here is the delay of releasing Operating Budget in Q1. Where can we get the money to cover Q1 so that the shortage of cash can be avoided and ensure that Q1 money arrives on time? If so, there will be no delay in providing health services and at the same time avoiding new debt.\(^{13}\)

Table 1.2, which outlines the record for 2013 and 2012 in the five districts surveyed for this study, shows that no cash was available to any districts until the very end of April, and in three cases, well into May. The data additionally shows that the amount of the first installment is not proportional to the theoretically eligible sum of line items in the district goods and services budget. Under a hypothetically even expenditure plan, one would expect the operating advance to equal 25 per cent of the total available budget per quarter, but in reality these payments range from 11 percent to 28 per cent.

This delay is often blamed on the late approval by Parliament of the national budget for 2013, with both central and district staff noting that the initial payments are not processed or disbursed until after the budget passes. This situation is consistent with the finding that districts making earlier proposals (e.g. Viqueque) still received their installment around the same time as the other, later districts.

There are legal provisions that are intended to prevent this kind of delay, but they appear not to be employed effectively. Consistent with
many budget systems worldwide, Timor-Leste has a law allowing a supplementary budget period in cases where budget approval is delayed. This provision, known as the “1/12 regime”, or *Duodecimo* provision, dictates that “should the Budget not enter into force at the beginning of the financial year, the Government may resort to temporary budget appropriations…provided” they “cover an expense for a period not longer than one month” and do not “exceed one twelfth (1/12) of the budget appropriation for the same purpose provided for…in the previous year.”

It is not completely clear why this provision is not applied to speed the execution of the first payment. However, a close reading of the legislation suggests some possibilities:

- Since the imprest advance is not appropriated or attributed as a line item in the national budget (instead it is a balance sheet mechanism for distributing certain line items), it may be considered impossible to determine the “budget appropriation for the same purpose” in the previous year.
- As the guidelines in current use dictate the payment of operating cash allowances on a quarterly basis, it might be interpreted that the regime does not apply as it is intended only “for a period not longer than one month” at each time.

The law requires the MoF to issue an expense authorization, which may have been delayed or not forthcoming.

It is very important that provisions of the public financial management framework designed to ensure timely budget execution work as needed when passage of the budget is delayed.

While no doubt a key factor, this reason also does not fully explain the delays to operating cash expenditures. As the table shows, in 2012 the first payments were not distributed until March, still a full quarter into the fiscal year. Furthermore, as seen in the next section, there are considerable delays associated with several steps of the budget execution process outlined above.

### TABLE 1.2 First Operating Cash Payments by District, 2013

<table>
<thead>
<tr>
<th>District</th>
<th>Amount of First “Advance” in USD 2013</th>
<th>As Percentage of Eligible Goods and Service Budget***</th>
<th>Date of First Proposal 2013</th>
<th>Date of First Payment 2013</th>
<th>Date of First Payment 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covalima</td>
<td>$15,398.00</td>
<td>11 %</td>
<td>N/A*</td>
<td>9 May</td>
<td>5 March</td>
</tr>
<tr>
<td>Dili</td>
<td>$76,246.10</td>
<td>38 %</td>
<td>6 May</td>
<td>31 May</td>
<td>7 March</td>
</tr>
<tr>
<td>Manatuto</td>
<td>$19,930.00</td>
<td>12 %</td>
<td>8 April**</td>
<td>29 April</td>
<td>22 March</td>
</tr>
<tr>
<td>Oecusse</td>
<td>$21,010.00</td>
<td>21 %</td>
<td>13 March</td>
<td>29 April</td>
<td>22 March</td>
</tr>
<tr>
<td>Viqueque</td>
<td>$41,795.00</td>
<td>35 %</td>
<td>1 February</td>
<td>29 April</td>
<td>14 March</td>
</tr>
</tbody>
</table>

*Source: Documents held at MoH Department of Finance/MoF Freebalance entries.*

* Documents not located; **Invoice date indicated on cheque; ***Percentage of sum of line items theoretically allowable for expenditure under the *pasta mutin* system.
per cent of the allocated amounts. However, it should be noted that these figures do not include all money that was disbursed to all districts, as additional payments were requested outside the advance system by some districts, but not by others (as will be further discussed later).

The study also analyzed the time it takes to process operating cash payments using available documents on payments to the five study districts. The data in Table 1.4 show that it takes an average of 45 days to process an advance payment from the date of the propusta to cashing the check and having the money available. As checks are currently issued in Dili, there is some additional travel time involved in returning the money to the DHS and distributing it to CHCs. This timeframe is quite variable—it can be shorter by half, or as long as three months.

While the delay for the first payment is the longest, there are also big delays at other times of the year, indicating that the bottlenecks in processing are not only due to the delayed passage of the national budget. The two most time consuming parts of the process are related to the processing of propustas (proposals) used to request the amount of payment, and the use of a separate CPV for each payment. Both of these actions are under the control of MoH and thus

### Table 1.3 Number, Date and Size of Payments to Five Study Districts, 2013

<table>
<thead>
<tr>
<th>Payment</th>
<th>CPV Created</th>
<th>Check Date</th>
<th>Amount USD</th>
<th>% of Eligible Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viqueque</td>
<td>1</td>
<td>27/03/2013</td>
<td>24/04/2013</td>
<td>41,795.00</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>05/09/2013</td>
<td>17/09/2013</td>
<td>65,145.00</td>
</tr>
<tr>
<td>Oecusse</td>
<td>1</td>
<td>16/04/2013</td>
<td>24/04/2013</td>
<td>21,010.00</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>15/07/2013</td>
<td>05/09/2013</td>
<td>36,695.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>11/11/2013</td>
<td>20/11/2013</td>
<td>8,500.00</td>
</tr>
<tr>
<td>Dili</td>
<td>1</td>
<td>22/05/2013</td>
<td>31/05/2013</td>
<td>76,246.10</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>05/09/2013</td>
<td>26/09/2013</td>
<td>88,856.00</td>
</tr>
<tr>
<td>Covalima</td>
<td>1</td>
<td>03/05/2013</td>
<td>09/05/2013</td>
<td>15,398.00</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>14/06/2013</td>
<td>19/07/2013</td>
<td>31,980.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>12/11/2013</td>
<td>03/12/2013</td>
<td>16,800.00</td>
</tr>
<tr>
<td>Manatuto</td>
<td>1</td>
<td>29/04/2013</td>
<td>07/05/2013</td>
<td>19,930.00</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>11/06/2013</td>
<td>07/08/2013</td>
<td>19,930.00</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>15/10/2013</td>
<td>22/10/2013</td>
<td>17,756.00</td>
</tr>
</tbody>
</table>

Source: MoH Finance Department documentation

### Table 1.4 Data on Operating Cash Payment Steps

<table>
<thead>
<tr>
<th>Step</th>
<th>Minimum No. of Days</th>
<th>Maximum No. of Days</th>
<th>Average No. of Days</th>
<th>Standard Deviation</th>
<th>No. of Cases*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propusta to CPV</td>
<td>10</td>
<td>54</td>
<td>18</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>CPV to Check</td>
<td>6</td>
<td>57</td>
<td>20</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Check Printed to Cash</td>
<td>0</td>
<td>12</td>
<td>5</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Total: Proposal to</td>
<td>20</td>
<td>91</td>
<td>45</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>Check Cashed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Documents held at MoH Department of Finance/MoF Freebalance entries.

* Number of payments for which the complete documentation could be located.
may be modified without changes to MoF rules. Figure 1.4 breaks down the average processing time by step, showing that it takes a long time (42 per cent of the total time) to process the propusta and raise a CPV, and another lengthy period (47 per cent of the total) for MoF Payments to issue a check after receiving the CPV. As will be discussed in the conclusion, there are options for improving the system that could eliminate or reduce the need for both of these steps. The right reform could potentially reduce processing times dramatically.

Of course, there is also a second layer of delays in pushing the operating cash from DHS to CHC. Currently, the CHC has to send its own propusta to the DHS for its share. As the payments are so late, these proposals are usually based on already completed activities. The DHSS and CHCs report several different ways of dividing the money, and some CHCs simply receive nothing at all. The five DHSS surveyed reported that between 25 per cent and 75 per cent of their operating cash was distributed to CHCs, demonstrating the widely varying approaches being used. If the guidelines for a fixed float of up to US$1,500, or clear distribution criteria were in use, there should be no need for an additional set of proposals for the narrow set of expenses undertaken by CHCs.16

**Shortages at the End of the Year**

A final problem with the execution of the operating cash payments is that there are frequently reductions in the amount made available—or even a complete cessation of payments—to districts as the end of the year approaches. Table 1.5 presents data on the dates and amounts of the last payment of the year for each of the study districts, and compares this to the amount requested in the proposal. The amounts received are often considerably less than proposed. In Covalima’s case, the amount was as little as 29 per cent of the requested amount. This is in contrast to payments received towards the beginning of the year when payments received typically match the proposed amounts. Also, there is much variation across districts in the date of the last payments received—any time between September and December.

An important cause of this problem is the weakness in existing public financial management control and commitment systems. A control system aims to ensure actual spending is in line with budgeted amounts. For example, line item control entails checking expenditures against the budgeted amount for that line item. By contrast, a program-based budget may have looser control, just ensuring that overall spending on a given activity does not exceed the
budgeted amount. Imprest accounts generally have weaker control than line item budgeting because the expenditure is not verified by line item before it takes place.

In the case of district operating cash, allowable expenditures are spread across several line items in the goods and services budget. When the districts send in their propustas, these are checked against the aggregate goods and services budget and not a quarterly spending plan, or other planning information. As the goods and services budget also includes significant items that are not executed by districts—such as fuel, vehicle repair, utilities, and (as of 2014) professional services—it is possible for either the district or central spending to considerably exceed the individual line budgets without triggering controls. In short, if the proposal is within the remaining goods and services budget for the district, it may be approved even if it will result in shortfalls later in the year. Another way to express this is that the goods and services budget, which is the level of control being used, has two different budget holders (the Ministry’s central agencies, and the DHS in question), both of which can incur obligations to the detriment of the overall budget.

The result of these shortfalls is that districts may receive larger installments in the first part of the year, and then none at the end of the year as the total district goods and services appropriation is used up. In other cases, the expenditure must be met through frequent and substantial transfers of resources from other line items. This transfer can be done within the district and budget category (goods and services) easily, or through virement from other districts, divisions or central ministry appropriations. To make matters more complicated, in some cases additional payments to districts are authorized from the goods and services budget that are not classed as imprest advances, but these still reduce the total available budget. These payments are typically to settle debts that have been incurred in previous years, either due to inadequate budgets or poor budget execution. This practice varies from district to district. For example, in 2012, DHS in Viqueque received only two small payments for operating cash of US$8,000, in Q1 and Q2. But in the same period, the district made over US$84,000 worth of additional proposals for which checks were cut and cashed. The bulk of this was for debt related to activities in past years, including catering. In another case in 2012, the goods and services budget for Manatuto was charged for payments of vehicle repair debts dating back as far as 2009 and amounting to tens of thousands of dollars. In other districts studied, the normal operating cash advance is used to meet these obligations.

Since these debts are not included in the relevant budget line items in the current year, and often exceed them, other needs must go unmet later in the year. This reinforces a cycle of debt. In practice, by the time the late first payment arrives, the entire allotment is used up almost immediately to reimburse staff expenditures (e.g.}

### TABLE 1.5 Last Payment of the Year: Date, Amount and Proposed Amount, 2013

<table>
<thead>
<tr>
<th>District</th>
<th>Date of Last Payment</th>
<th>Check Amount USD</th>
<th>Proposed Amount USD</th>
<th>As Percentage of Proposed Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covalima</td>
<td>3 December</td>
<td>$16,800.00</td>
<td>$58,118.00</td>
<td>29%</td>
</tr>
<tr>
<td>Dili</td>
<td>8 October</td>
<td>$88,856.00</td>
<td>$138,821.80</td>
<td>64%</td>
</tr>
<tr>
<td>Manatuto</td>
<td>29 October</td>
<td>$17,756.00</td>
<td>$29,620.00</td>
<td>60%</td>
</tr>
<tr>
<td>Oecusse</td>
<td>26 November</td>
<td>$8,500.00</td>
<td>N/A*</td>
<td>N/A*</td>
</tr>
<tr>
<td>Viqueque</td>
<td>23 September</td>
<td>$65,145.00</td>
<td>$80,750.00</td>
<td>81%</td>
</tr>
</tbody>
</table>

* Source: MoH Department of Finance Documentation/MoF Freebalance entries.
  * Documents not located.
on motorcycle repairs and other facility needs) and repay debts to local service providers. Four out of the five DHSs surveyed confirmed that they use credit as the main means of coping with late or insufficient imprest payments, while the fifth (Dili) drew upon resources available from “partners or NGOs”.

In addition to the loose control over expenditures at liquidation, CPVs are not playing their intended role as a commitment control system earlier in the process. Commitment controls are supposed to serve to relate future expenditures with the budget so that both appropriated amounts and cash availability can be ensured as early as possible: “commitment in the budgetary sense should correspond to the earliest stage within the expenditure cycle at which a claim against the appropriation can be recognized”.20 In the case of an imprest, this recognition could correspond to agreed quarterly spending plans; for other goods and services it would typically be the award of a contract.

In the case of the operating cash, commitments are only requested (through the raising of a CPV) after acceptance of proposals from the districts. They are in almost all cases being submitted at the same time as the payment orders to produce the check. Since most of the proposals relate to activities already completed because of the late payments and debt cycle described above, there is no functioning system of “commitment” or “authorization to spend” in the budget execution process. These obligations, or even liabilities, already exist. In this sense, the government is “on the hook” for money it has not yet even committed. In the best case scenario, the districts are acting on the implementation plan developed via the planning directorate to carry out programs for which there is insufficient funding; in the worst case scenario, they are unrestrained agents able to incur liabilities that the central government is later forced to meet.

If there were regular spending plans for district operating cash, it should be quite easy to modify the system to ensure money is set aside in the budget for the whole period and reduce the need for time-consuming processing of CPVs for each request. When district level treasury offices are established, it will be easier for a greater number of purchases by DHSs to be processed via CPVs, which would aid commitment control provided the CPVs precede the obligation of funds.

**Recommendations**

The problems associated with planning, budgeting and executing the operating budget, delivered via the imprest account to DHSs and CHCs, are interconnected and result in a vicious circle. Since the budget is not prepared by matching bottom-up planning of activities with the available resources, it does not match the amounts needed to meet the strategic goals set by the MoH. Since it is not based on planning activities, it cannot act as a useful control on spending either and, instead, large amounts are diverted between line items and even between districts or units. The late release of the budget compounds an already severe debt (usually unrecorded centrally) problem at local level, as funds are quickly used up to repay debt. In turn, new debt must be accumulated, further undermining the credibility of the budget during the next cycle.

Improving this system requires addressing the individual weaknesses of each phase, as well as ensuring that the system as a whole functions effectively, enabling district and community health services to respond to local needs in time.

**Linking Planning and Budgeting**

A basic challenge for any budget system is to make sure organizational goals and plans are reflected in the budget. While there is a strategic framework in the National Health Sector Strategic Plan (NHSSP), and increasingly detailed activity or implementation plans at the district
level, neither of these is being properly reflected in the final budget. Actual spending is wildly inconsistent with the budget, and it is hard to distinguish poor budgeting from misspending as control systems are loose and poorly applied. The challenge, faced by many countries, is to institutionalize a process for aligning available resources with the top-down strategic goals of the MoH and the bottom-up planning that reflects conditions and priorities in the districts. Only then can the budget be an effective guide to where money should be spent, and a useful control to monitor it and prevent it from being diverted. Such a system requires government to:

- **Observe national program targets to guide district-level planning and prioritization.** The NHSSP provides guidance on the overall national allocation of resources between health care expenditure types and level, such as primary, secondary and tertiary care. Yet, in 2010 recurrent expenditure for primary health care in districts was below the NHSSP goal of 60 per cent of the recurrent budget for primary care. This process helps determine the total pool of resources that should be available for primary health care activities in districts and below. The ability to predict program and hence district level ceilings will be enhanced if the Ministry and the government as a whole is able to move towards a more multi-year budgeting framework. If the NHSSP targets are to be met, the overall allocation for district primary care should increase.

- **Provide timely district budget envelopes that reflect allocation criteria.** Once the overall level of resources for health, and for district level primary care, has been determined, these resources need to be allocated across districts. This allocation should be based on relevant criteria including population to be served, cost differences (for example due to population density), number and type of existing facilities, and additional requirements needed to meet service standards. The planning templates for districts that are already in use, and are being improved, together with timely planning workshops would help to clarify these needs. The key innovation here is to integrate the bottom-up planning exercises with the overall budget envelope. This integration can be achieved either by providing a preliminary budget estimate to the districts during the planning phase, or by prioritizing activities in the templates so that the activities can be aligned with the ceiling when received by the MoH according to district priorities. Final allocations should be clearly communicated to local levels, and reflected in quarterly spending plans that can be used as a basis for control of budget execution. These district level budget allocation systems and local planning capacities would be essential building blocks for a potential future decentralization of operating expenditure with greater autonomy at the district level.

- **Use program/activity based budgeting in the chart of accounts.** The districts and the MoH increasingly use a program- and activity-based costing and budgeting framework. However, the national budget is still organized around a line item structure, and it is negotiated with the MoF and Parliament in that way. It may be advisable to include with the budget submission a separate descriptive section that clearly spells out both program and line item breakdowns. This would be especially useful for proposals for “additional spending” above the budget ceiling by allowing the MoF and the technical budget commission to understand both the programmatic justification for such requests and their line item implications. The national chart of accounts supports such an approach in theory (through Smartstream).
but the capacity to budget activities in this way is not being utilized at either the line ministry or MoF. The Public Financial Management Roadmap target to establish an MoH budget review committee during 2012–15 to review all division proposals could support this shift. The PFM roadmap includes the introduction of templates for activity-based costing (2012) and program-based budgets (2013) for both district and central levels.

- **Clarify and standardize guidelines on expenses that are district responsibilities, whether under an imprest or alternative execution system.** The policy framework does not currently identify clearly enough how much and which parts of the goods and services budget are intended to be distributed to districts as operating cash. Cash planning needs to be based on analysis of only those line items that are to be procured or expended locally, and control should be exercised against this amount, not the overall goods and services category. In short, control should be exercised separately for the imprest based on the aggregate of only the allowable line items, and requests should be assessed against that amount, if not assigned in advance to individual line items based on spending plans. Similarly, central MoH spending should not be able to exceed budgeted amounts for centrally-procured items without adequate control over transfers out of the imprest items. Any transfer between the two groups should involve the approval of the budget holder for the group—the DHS in the case of operating expenditures, and the Ministry in the case of centrally-procured items.

**Speeding and Controlling Budget Execution**

Even the best-planned budget will be of little use if it is executed with the delays and lack of control currently found in the system. The main challenges that need to be addressed are as follows:

- late first payment;
- time required to process new payments and distribute them to CHCs;
- lack of flexibility and discretion for district and community health staff; and
- lack of budgetary control, resulting in diversions from other line items, *virement*, or shortage of funds altogether.

Tackling these challenges requires clarity on the budget execution system for operating cash in DHSs and CHCs. Right now the system is an ineffective hybrid of an imprest system and quarterly allotments based on district proposals. However it is run, the execution system needs to provide speed and flexibility, while building on improved planning and budgeting by controlling expenditures more effectively.\(^{22}\)

**Clarify the execution system.** The current imprest arrangements are simply not well-suited to the purpose of providing a regular recurrent operating budget. The choices are to implement an imprest system properly, to move to a quarterly operating budget, or to adopt a combination. The theoretical advantages of an imprest are that it ensures funds are available where they are needed *in advance* (which is especially useful if stations are remote), allows local staff flexibility in allocating expenditures, and generates a full accounting of expenditures because only those funds that are spent and documented are replenished. The disadvantage is that planning and control over specific line items is usually weak because expenditures are assigned to them only after the expenditure has been obligated (though in some systems the expenditures are nominally assigned to planned line items in advance).

In Timor-Leste, however, the late release of the first payment, the requirement to submit a
propuesta, the lack of budget control and accumulation of debts mean that these advantages are not realized—the money is not available in advance, there is limited flexibility in its use, and accounting is not used to control the expenditure. The proper implementation of an imprest system would require:

- automatic release of the first advance payment at the beginning of the year based on presentation of the activity-based budget template, with a yearly or quarterly spending plan adjusted for the final budget allocation;
- replenishment before the funds are exhausted, for example through allowing payment requests after a percentage of the funds are expended;
- clarification of acceptable use of funds;
- budget control at the level of only those line items that are allowable expenditures; and
- avoiding using the imprest to cover exceptional payments such as accumulated debt (see “carry out an audit of all debts” below).

The second option is to move to an operating budget system, supported by local treasury branches and bank accounts. Payments for specific goods and services would be requested against the budgeted line item totals, and ideally paid into a DHS bank account through bank transfer after locally raising CPVs and purchase requests. The advantages of such a system are that it offers tight linkage to plans and controls expenditure by line item to avoid overspending; however, it also reduces operational flexibility, particularly if the virement regime is not carefully designed to suit the circumstances. It is likely that this alternative would be unduly rigid, particularly with regard to CHCs.

The third option involves a combination of the two systems: implementing an operating budget for districts for those expenditures that are somewhat fixed, predictable, and recurrent, and continuing with a properly implemented imprest account for a smaller amount of unpredictable and flexible expenditures, as well as for the day-to-day operation of CHCs. The key steps in implementing such a system are outlined below.

- Districts prepare annual spending plans, based on the approved budgets, for locally procurable items at district level.
- These items could be processed directly at the district level as soon as district treasury offices and DHS bank accounts are available; until then they can be included in imprest advances with encumbrances temporarily against the relevant line item. The degree of discretion over these payments held by district staff or MoH finance staff would have to be determined by the MoH, but the principle should be that there is a single budget holder (either central or district) for each item of expenditure, to prevent overspending.
- Develop a budget norm or formula for allocating a smaller amount of flexible operating cash for districts and CHCs based on activity level, population served, geography and other factors, to be implemented as an imprest advance for unexpected repairs and shortages with only minimal requirements to trigger replenishment.
- DHSs would run subsidiary imprests (petty cash) for CHCs as they do now, but based on a clearly budgeted amount.

This option would help to reduce the amount of expenditures handled on a cash basis, thereby reducing vulnerabilities to misuse of funds. At the same time, the retention and clarification of a smaller but more flexible fund could support the capacity of the districts to plan for more decentralization and autonomy in the provision of operating budgets in the future. In fact, the MoH is already moving in this direction by recently removing contracting for “Professional services”
(e.g. cleaning and catering) from the *pasta mutin* payments and using direct contracting for these services. This will also lay the groundwork for further deconcentration of procurement to the district level as time, regulations, and capacity allows. The development of a finance manual covering internal controls is underway.

In addition to clarifying the execution arrangements, there are other steps that can be taken to improve budget execution, regardless of which execution system is chosen:

- **Resolve the use of the duodecimo provision.** The *duodecimo* provision, to provide a standing allocation of 1/12 of the previous year’s appropriation when the national budget is not passed, is designed exactly for the kind of delays that districts currently suffer. Such provisions are found, and used, worldwide. Whatever the obstacle to its implementation—whether it is the quarterly (as opposed to monthly) period of the current operating cash allotments, the lack of a specific budgeted line item for imprest, or some other administrative or legal impediment—it should be a concern at the highest level of government to ensure the implementation of this provision as soon as possible.

- **“Push” the first payment of the year based on approved expenditure plans.** Even when the budget is passed, there is a considerable delay in processing checks—an average of 18 (but up to 54) days for the *propusta* to be advanced to a CPV, and an additional 20 days on average to a check. The key here is that regardless of whether an imprest account or a quarterly operating budget is used, the amount of the first payment can be known without a proposal. For the imprest, it should simply be the assigned float balance based on the adjusted annual budget, which might be a flat rate or adjusted for bigger and smaller districts. If there is an operating budget assigned, then the quarterly expenditure plan will indicate the required expenditure.

- **Submit the CPV for the operating budget at the start of year.** Regardless of the system, it is implicit that there is a commitment for DHSs and CHCs to have an operating budget equal to either the imprest float or, alternatively, the budgeted amount. The CPV should therefore be raised for the quarter as soon as the budget is available, clearing the way for more rapid payments. It would be worth considering authorizing CPVs for half or even the entire year at the beginning of the year. This commitment should aim to support the distinction between those parts of the budget where the district should be the budget holder. Simply committing the funds will not endanger them: in an imprest new payments cannot be made until previous ones are accounted, and with a quarterly budget payment requests still require documentation.

- **Provide training to the districts on finance and reporting.** The survey showed that lack of training was a common complaint among staff working in the districts, and also that in some areas finance staff were frequently absent. Proper training on reporting would help speed the existing imprest system (for example by facilitating replenishment prior to the exhaustion of funds), allow the proper administration of subsidiary imprests intended for the community level, and enable a quarterly operating budget to be implemented upon the establishment of district bank accounts and/or local treasury branches. Activity-based district plans should be matched by reporting on activities completed that is connected to financial reporting on operating cash expenditure.

- **Address delays in flow of funds between district and community-level.** Just as the first payment to districts does
not need to wait for a new proposal regardless of the system used, the CHCs should also receive their first payment on a “push” basis as described above, and replenishment should be simplified. Developing guidelines for deciding on the share of *pasta mutin* to be allocated to CHCs would also be useful.

- **Carry out an audit of all debt at district-level.** National assessments of the public expenditure management system in Timor-Leste make almost no mention of arrears, yet the evidence of this study is that there are large undeclared debts accumulated through taking of credit from staff and suppliers to supplement shortfalls in the operating budget (imprest), but also in the other two operating expenditure items included in this study, namely fuel and vehicle maintenance and repair. Without quantifying this issue properly, budget mismatches will continue, and will compound the problems described above. Given the level of debts, the MoF might consider a “complementary period” after the end of the year, when pending payment orders can still be paid from the previous year’s budget.

The existing PFM Roadmap contains several of the key steps required to improve budgeting and execution of district and community operational funds. However, the PFM roadmap as currently configured is wide-ranging and ambitious with multiple sets of objectives and activities. The recommendations outlined in this chapter should be used to contribute to a prioritized implementation plan for the Roadmap focusing on areas of key concern and maximum potential for the MoH. These include informing district level financial management capacity and systems building activities, and supporting the alignment of the FMIS reporting systems under FreeBalance/Smartstream with the use of the activity-based planning and costing templates under development for the District Health Services by improving the quantity and timeliness of operating cash availability in the districts. Improvements in these areas might also be considered as intermediate steps towards a more ambitious set of reforms involving more decentralized operating budgets for districts with local discretion, once relevant capacity and district level fiscal institutions (such as bank accounts and treasury offices) are established and running effectively.
Endnotes

4 Interview, Ministry of Health, Planning, Monitoring and Evaluation Department (22 May 2013).
5 Interview, Ministry of Finance Budget Directorate (7 May 2013).
7 In Timor-Leste the budget is divided into five economic categories: wages; goods and services; minor capital; major capital; and transfers.
8 Domingos Gomes da Cruz, “Ministry of Health Memo to All Program Managers, Re: Petty Cash Guidelines for FY 2006–7” (31 July 2006).
9 Ministry of Health, “Utilization of the 2011 Government General Budget at the Ministry of Health”, Art. 3.4.2.
12 Ministry of Health, “Utilization of the 2011 Government General Budget at the Ministry of Health”, Art. 3.2.2, 3.3, 4.2.
15 Ibid., Art. 39.
17 Interview, Ministry of Health Finance Department (24 September, 2013).
18 In budget control systems, virement is the process and rules for transferring amounts from one item to another when expenditures are significantly above or below the budgeted amount.
19 Amounts are based on review of available documents at DHS level and may be incomplete.
21 Expenditure Review Unit, “Expenditure Review: Health Sector Timor-Leste” (Ministry of Finance, January 2010), 17–8.
22 In 2011 the World Bank recommended “a joint activity with district health teams on appropriate payment mechanisms that give more autonomy to districts within an enhanced accountability framework”: World Bank, Timor Leste Health Financing Note (World Bank, September 2011), 32.
24 Interview, Ministry of Health Finance Department
26 Complementary periods have advantages and disadvantages, see Daniel Tommasi, “Budget Execution,” in Budgeting and Budgetary Institutions, ed. Anwar Shah, Public Sector Governance and Accountability (World Bank, 2007), 296.
Fuel, in the form of diesel for vehicles and petrol for motorcycles, is an essential input in the delivery of health services. It powers the vehicles and motorcycles that are used to transport patients; carry health workers to communities to provide immunization, deliveries and curative care; allow district heads to undertake supervision visits to facilities; and to transport various supplies. Diesel is also used to run the generators that provide electricity to community health centers (CHCs). In Timor-Leste, where populations are remote, and electricity provision limited, ensuring a reliable supply of fuel is essential.

Fuel is budgeted by district, but is procured under centrally managed contracts with one or more fuel companies: in 2013 this supplier was Aitula Fuels. According to policy, fuel should be delivered in kind by the fuel provider to the District Health Service (DHS) offices at the start of the year, and then replenished upon request from the districts. In Dili, instead of direct delivery of fuel, fuel vouchers are issued to the DHS. In practice, fuel shortages—including complete stock-outs and rationing—are common, and a particular problem at the beginning and end of the year. Four of the five districts surveyed for this study reported shortages of fuel in 2013. These shortages ranged from four weeks to 16 weeks (four months) in duration. Also, all but one of the ten CHCs surveyed reported fuel shortages, at least for motorcycles. Consequently, most (if not all) facilities are forced to take some form of credit for fuel from local suppliers, borrow vehicles from local partners and NGOs, divert operating cash to the purchase of fuel locally, purchase fuel out of pocket, and/or reduce activities such as supervision visits (see Table 2.1).

Drawing on data on fuel-related transactions, survey responses at the district and CHC level, and interviews with central divisions of the MoH and fuel suppliers, the following sections discuss some of the likely reasons for the fuel shortages at the local level, including issues related to the process of planning and budgets, as well as the process of budget execution.

Planning and Budgeting

One important reason for the fuel shortages is the weak link between planned activities and budget allocations. Vehicle fuel is budgeted at several fixed amounts from US$21,000 and US$36,000 per district (Figure 2.1). Management and staff agree that this allocation is not based on district implementation plans (DIPs) or on district realities, such as the distance to be covered by vehicles.

In practice, fuel shortages—including complete stock-outs and rationing—are common, and a particular problem at the beginning and end of the year. Four of the five districts surveyed for this study reported shortages of fuel in 2013. These shortages ranged from four weeks to 16 weeks (four months) in duration. Also, all but one of the ten CHCs surveyed reported fuel shortages, at least for motorcycles. Consequently, most (if not all) facilities are forced to take some form of credit for fuel from local suppliers, borrow vehicles from local partners and NGOs, divert operating cash to the purchase of fuel locally, purchase fuel out of pocket, and/or reduce activities such as supervision visits (see Table 2.1).

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or per vehicle/square kilometer (ranging from US$0.97 to US$4.99 per car per sq. km). Also, there is no additional fuel allocation made for new vehicles as they are distributed to districts. It seems clear the fuel is not budgeted based on vehicle numbers. A further issue is that the poor performance of the vehicle maintenance system implies fuel alone is not sufficient for effective health transportation services (see Chapter 3).

At the same time, fuel allowances for generators also do not seem to relate to the number of facilities across the country. Fuel allowances for generators ranged from US$6,000 to US$9,000 per district in 2013. If divided by the number of facilities per district (both CHCs and the DHS office) to approximate the number of generators under DHS responsibility, the budget per facility ranges from US$1,000

### TABLE 2.1 Fuel Shortages and Their Consequences, 2013

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<tr>
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<tbody>
<tr>
<td>DHS 4/5 (80%)</td>
<td>9 weeks</td>
<td>Reduce activities (2/5) Take credit (2/5) Use pasta mutin (1/5)</td>
<td>Supervision visits reduced Use motorcycle in place of car</td>
</tr>
<tr>
<td>CHC 7/10 (70%)</td>
<td>8 weeks</td>
<td>Reduce activities (6/10) Take credit (3/10) Staff buy fuel (2/10) Borrow fuel (2/10) Use pasta mutin (1/10) Use NGO transport (1/10)</td>
<td>House calls reduced Mobile Clinic/SISCO reduced Health Promotion reduced up to 50% Supervision reduced up to 50%</td>
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**Source:** Survey responses.

*Average weeks is the mean of number of weeks with shortages among the by DHSs (3 out of 4) and CHCs (3 out of 7) experiencing fuel shortages in 2013.*

### FIGURE 2.1 Vehicle, Generator and Overall Fuel Budget by District, 2013

![Figure 2.1: Vehicle, Generator and Overall Fuel Budget by District, 2013](image)

**Source:** MoF FMIS Data, 2013.
to US$1,750, which is a considerable variation. Also, in areas such as Dili where power from the electricity grid is more consistently available, and therefore substitutes for generators, costs should be lower than average, yet this is not reflected in the budget. Factors such as other sources of power or facility size naturally may impact fuel consumption.

While there is variation in appropriations across districts, the MoH’s Health Planning and Finance Directorate claims that the overall MoH budget for vehicle fuel (US$1.651 million in 2013) is sufficient for needs. In 2013, budget execution for vehicle fuel across the MoH as a whole was at 95 per cent. However, this figure masks underspending in central units, overspending on generator fuel, and overspending by districts. For example, the central Human Resources Department thought that their 2013 allocation of 29,000 liters for three vehicles was well in excess of their needs. In addition, the budget for generator fuel was overspent by 49 per cent, meaning that the MoH’s overall expenditure on fuel in 2013 exceeded the budget by US$24,607. This is significant as at the district level there is no way to reliably distinguish fuel use for vehicles from generators, and the budget execution evidence presented below suggests there may be diversion of the fuel budget.

Execution rates of the fuel budget by district show a serious disconnect between planning, budgeting and actual use. These data are summarized in Figure 2.2 and Annex II. Vehicle fuel is substantially overspent in all but one district. Spending on fuel reported by District Health Services averages 123 per cent of the budgeted amount, but can reach up to one and a half times the budgeted amount (e.g. Aileu and Viqueque district). Districts are not aware of their total fuel allocation, and control is not exercised at the line item level to prevent overspending. As with travel allowances, it is difficult on the basis of this study to know how much fuel over-spending may be related to needs and how much may be associated with possible diversion.

Generator fuel is also typically overspent, but the pattern of reporting is different. With two exceptions, generator fuel is consistently reported at either 100 per cent (i.e. spending exactly matches the budget) or 115 per cent. This regularity suggests that expenditures are artificially reassigned across line items in order to

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**FIGURE 2.2 Vehicle, Generator and Overall Fuel Budget Execution by District, 2013**

Source: MoF FMIS Data, 2013.
bring expenditure figures in line with what was budgeted. The fact that, in practice, vehicle fuel and generator fuel are delivered simultaneously and commingled in holding tanks means that it is relatively easy for vehicle fuel allocations to be used for generators and vice versa. It also means that fuel expenditures may be easily assigned to either line item, resulting in a divergence between reported and actual spending on these two budgets.

For example, in the one exceptional case where vehicle fuel execution was equal to the budget, namely Oecusse, generator spending was very high; in fact, more than double the budget at 225 per cent. This could be explained by the unique situation of Oecusse whose health centers typically have no local access to electricity—and would mean that the budget is far removed from the needs of the district. However, it may also be explained by use of fuel under one budget line item (i.e. generators) for another (i.e. vehicles). Examining the data across vehicle, generator, and overall fuel budgets suggests that reassignment of expenditures across line items and divisions is being used to maintain an outwardly “consistent” budget execution rate—in other words, to spread out over-spend- ing more evenly across districts and divisions of the MoH.

This practice undermines the reliability of the budget or execution rates as a guide to current and future needs, and in this sense, the aggregate fuel budget may be a better measure of the match between budget and use. The aggregate fuel budget per district, combining vehicle and generator fuel, ranges from US$29,000 to US$46,000, and can be seen in Figure 2.1 in green. Actual fuel expenditures exceed the budget in all but one district (Figure 2.2). Alongside travel allowances fuel is the most consistently overspent item in the goods and services budget, and this suggests that a combination of under-planning for travel and possible diversion (both these items are easily diverted) of resources may be responsible.

Taken together, the comparison of the budgeted amounts and their execution suggests three main findings:

- The budget for fuel in districts is not effectively linked to a calculation of need (for example based on vehicle or facility numbers or district activity planning), with consequences for efficiency and transparency. The fact that the fuel budget is consistently overspent by so much suggests, further, that the allocations may be low across districts when compared to needs, while central allocations may be high.

- The overspending of fuel means that a significant share of the budget allocated to other line items is in effect being reallocated to district fuel. Such reassignment of expenditures and virements have the effect of reducing the availability of overall funds in the goods and services budget, with knock-on effects on other expenditure items, as described in Chapter 1. These sorts of reassignments undermine the credibility of the budget and erode its usefulness as a planning tool.

- Reporting on fuel use (i.e. number of missions undertaken) appears to be only weakly linked to the actual use of the fuel; expenditures are reassigned between vehicles and generators after the fact to produce a “reasonable” budget distribution. This makes planning and budgeting for future use difficult.

**Budget Execution**

Fuel is procured through centrally managed contracts with suppliers and delivered in-kind to the districts. According to the MoH, this centralized system was adopted in order to try to avoid budget overruns and fuel shortages associated with price differences across the districts, as well as concerns about diversion of resources.
This arrangement was consistent with the recommendations of a 2012 MoH procurement review which found that “items bought in volume ... such as vehicle, fuel and travel should be procured centrally to exploit the advantages of volume discounts available.”

In practice, this system does not control budget overspending at the district level, as demonstrated by the data on budget execution presented in the previous section. Importantly, it also does not appear to yield the expected bulk discounts. Prices provided by Aitula Fuels show that the price of centrally-procured fuel is equivalent to the prevailing price in the district plus a delivery and dispensing charge of between US$0.05 and US$0.20 per liter. Final delivery prices per liter for diesel (at 31 May 2013) ranged from US$1.22 in Dili to US$1.35 in at least four outlying districts, compared to a maximum price at the district stations run by the same company of US$1.28.9 This clearly shows that it would be cheaper to purchase fuel in the districts at prevailing prices, assuming that it is available.

With commercial Aitula fuel stations present in all districts, local procurement appears to be an option, even with the risk that commercial stations may run out of fuel. One reason for the MoH’s preference for in-kind delivery is to ensure that fuel is available even when district stations experience stock-outs.10 Indeed, the field survey found that in one district (Viqueque), the local fuel station does run out of fuel at times, so there is a basis for this concern. However, in general, the current system of centralized procurement and in-kind distribution performs so poorly that four of the five districts studied reported that they run out of fuel and not the fuel stations. They solve their shortages by purchasing fuel on credit or with vouchers from the district fuel stations. In addition, the fact that the central MoH departments rely on fuel vouchers for field visits indicates some confidence that there is a supply of fuel available commercially in district centers.11

**Procurement**

There are at least three issues with procurement and contract management that contribute to the problem of fuel availability. First is the late completion of the contract(s) with fuel supplier(s). Second, and not unrelated, is uncertainty on the part of suppliers as to the renewal of contracts. Finally, the contract itself does not seem to act as a control on overspending, as it does not limit district level fuel deliveries to the budgeted amount. However, until there are improvements in the currently loose link between planning and budgets, overly rigid ceilings may harm delivery further.

The contracting process for 2012 and 2013 is revealing. In 2012, responsibility for fuel delivery to the districts was shared between two firms, Aitula Fuels and EdGas. During the year, EdGas’s contract was terminated, reportedly for non-performance, and after a short spell during which a third company covered those districts formerly served by EdGas, Aitula’s contract was amended to cover all districts and extended until 31 May 2013. Aitula’s original contract for 2012 was only signed in May 2012, suggesting that deliveries started late that year, and the amendment to extend Aitula’s contract was only signed on 11 April 2013.12 This means that there was a delay of five months at the start of 2012 and another four months at the start of 2013 where the supplier was not formally under contract. After that, the extension was legally valid for only seven weeks before the contract would have to be renewed. Clearly, the “lack of capacity and capability” in MoH contract management flagged in a 2012 procurement review persists.13

The late signing of contracts has an obvious impact on the next steps in the budget execution process, namely the requisitioning and delivery of fuel, introducing significant delays. The uncertainty over contract extension and renewal causes additional problems with delivery, especially when combined with the weaknesses in the requisitioning process described below.
**Requisitioning, Delivery and Payment**

Once a contract is in place, the formal process for initiating a fuel order, taking delivery, and clearing payment follows the order outlined in Figure 2.3. As with the operating cash for districts (see Chapter 1), the initiation of fuel purchasing and delivery begins with a proposal (*propusta*). In 2012, this originated in the district and since each *propusta* required a new purchase requisition and commitment payment voucher (CPV) to be raised for each fuel delivery, there were significant delays. As with the operating cash (discussed in Chapter 1), control is not exercised over the CPV at line item level, thereby allowing fuel requests to exceed budgeted amounts.

The process changed in 2013. While the DHS would still need to request the delivery of fuel via a *propusta*, it became the task of the Logistics Department to request the MoH’s Finance Department to raise a single CPV and Purchase Requisition for each district for the entire quarter in advance. This system is much more consistent with the commitment system used by MoF and should speed individual deliveries because funds are already counted as committed by the Treasury before payment requests are received. In theory, the district CPV is followed by a purchase order for the delivery which is sent to the supplier, who then delivers the fuel and submits an invoice to the MoH along with a proof of delivery docket. The payment is then cleared by the MoH Logistics Department and sent to the MoH Finance Department, which should request payment from the Treasury Payments Unit.

In practice, there are significant problems with this process. Using the combined records of the MoH Logistics Department, the MoH Finance Department, and DHS-level fuel records (collected as part of the district survey), it is possible to track the requisition, delivery and

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**FIGURE 2.3 Fuel Execution and Delivery Procedures, 2012 and 2013**

- **DHS**
  - Initiates CPV (2012)
  - Proposal/Propusta

- **Central MoH**
  - MOH Finance prepares CPV by District and Quarter (2013)
  - CPV received by MOH Finance Department (2012)
  - MOH Finance prepares PO and sends to MOH Logistics Department
  - PO sent to Fuel Supplier

- **Fuel Supplier**
  - PO received by Fuel Supplier
  - Fuel Supplier delivers fuel to DHS

- **DHS**
  - Fuel received at DHS – signs Fuel Delivery Docket
  - Supplier submits invoice to MoH Logistics Department
  - MoH Logistics Department approves and MoH Finance Department requests payment from Treasury Payments Unit

- **CHC**
  - Entries for fuel delivered to CHC
  - Reported use of fuel
  - Reported shortfalls

- **Replenishment**
  - DHS sends proposal for replenishment
  - Depending on remaining PO, replenishment immediate

*Source: Authors.*
payment of all the initial fuel deliveries of 2013 to the surveyed districts, as well as several subsequent deliveries. In this way, near-complete records of sixteen fuel deliveries for both generators and vehicles across the five sample districts can be reconstructed and used to show which parts of this process contribute most to the delays.

Table 2.2 describes the available data for each transaction and the time taken for each step, for those orders which followed the standard procedures. Unfortunately, not all deliveries could be completely documented due, in part, to the use of emergency procedures and credit from local stations and, in part, to incomplete records. Indeed, poor record-keeping and documentation is one of the most important underlying issues contributing to poor fuel budget management.

What the table indicates is that there were long processing delays at all parts of the fuel requisition process in 2013, but also that there was substantial variation in the length of the delays. After creation of a purchase order, delivery could take anything from 12 to 38 days. It cannot be ascertained whether this is due primarily to delays in conveying the order to the supplier or delays in acting upon it by Aitula due to limited availability of delivery documentation provided by MoH. The company claims to have acted on all purchase orders within two days of receipt. An alternative measure of supplier response time, and one for which more data points are available, is the time from purchase order to invoice; this averages 17 days. While this cannot be considered a fast response, it is markedly shorter than the processing time for other steps in the process.

Invoices spend an average of three weeks at the MoH Logistics Department before being forwarded to MoH Finance Department, although processing time varies quite substantially (as measured by the standard deviation) and in some cases were handled as quickly as two days. Invoices are also not always processed in the order that they are received. An additional two weeks typically passes before the MoH Finance Department forwards the invoice with a payment request to the Treasury’s Payments Unit. Then, an additional three weeks passes (on average) before the Payments Unit is able to process the payment. Taken together, the fuel company waits an average of two months (62 days), but sometimes up to 77 days, for payment after submitting an invoice.

Given that the standard processing time for a payment at Treasury is five days, and there are cases where payments are processed as quickly as the same day, it seems likely that one source of delay is that payment requests are submitted

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Source: MoH Finance documents; MoH Logistics documents; survey responses.
to MoF without complete documentation, requiring resubmission. The lack of an approved CPV (indicating that the MoH has committed the funds before raising a purchase order) appears to be a particular issue in the documentation of payment requests. In six of the fourteen cases for which data were available for analysis, the Payment Request to the Treasury was dated before the CPV had been authorized, effectively invalidating the Payment Request until a cleared CPV is available.

In fact, the biggest problem in 2013 appeared to be the timely issuance of a CPV. As noted above, the intended policy was to pre-authorize a full quarter’s fuel purchase for each district with a single CPV and purchase order. Accordingly, the MoH Logistics Department did in fact submit a proposta to the MoH Finance Department to raise a CPV for both generators and vehicles for the entire quarter for each district. However, it did so only on 21 March 2013. This means that the start of the process already fell at the end of the quarter for which it was intended.

Moreover, it seems that the CPVs on record were only finally authorized between 31 May and 14 June, despite being initiated by the MoH Directorate of Finance and Planning at various times starting at the end of April. The length of time required may have been exacerbated by the high level of official approval required, with the Vice Minister of Health acting as approving officer. These long delays in authorizing CPVs contributed substantially to the resulting delays in payment when transactions were initiated without accompanying approved CPVs.

In summary, the supplier (Aitula Fuels) was only paid in mid-July for fuel deliveries made before the end of April and for which an invoice was submitted in March. By that time, over US$225,000 was owed, which would understandably make the supplier hesitant to commit to further deliveries unless payment was forthcoming. Clearly, the multiple, compounding delays in the processing of payments needs attention, as well as the significant overspending of the budget.

Coping Mechanisms of Districts and Community Health Centers

Districts and CHCs deal with the problems surrounding fuel delivery in different ways. The most common coping mechanisms are to take fuel on credit from the local commercial fuel station, purchase fuel from local stations using the operating cash, borrow fuel or transport services from other organizations, or reduce service delivery.

Where fuel is obtained on credit, districts pay for the fuel obtained in different ways. Sometimes the approach taken depends on the provider of the fuel. Credit from service stations is sometimes repaid using operating cash, which also arrives very late (see Chapter 1). Viqueque district, for example, used US$2,596.95 of its first quarter 2013 operating cash installment for vehicle fuel and an additional US$492.70 for generators. This amounted to well over one quarter of the total first quarter operating cash, reducing the cash available for other purposes. It is important to recall that the operating cash allotment does not include budget for fuel, so this diversion has a large impact. The practice continued in the second quarter with an additional US$1,150.90 of the operating cash liquidation going to fuel purchases. In other districts, fuel debt is paid via special requests or propustas, sent to the MoH.

In both cases, the overall available goods and services budget for the district is reduced, resulting in non-receipt of subsequent allocations of operating cash, or in virement of funds from other districts, divisions or line items. Relying on credit from commercial stations is also risky because the line of credit may be stopped at any time because the station cannot be assured of payment.

Instead of obtaining credit from gas stations, some districts borrow fuel from other
offices as noted in Table 2.1, such as the electricity company, police, or NGOs operating in the area. In these cases, fuel is returned in-kind from stocks received from the contracted fuel supplier, thereby exacerbating shortages in subsequent periods. As there is a fixed storage capacity, it is not possible to ship additional fuel retrospectively.

Replenishment, once the flow of fuel has begun for the year, appears to be less of a problem than delays or non-delivery at the start or end of the year. In theory, the district can request replenishment from the MoH Logistics Department whenever the tank is low. Since there should be a valid CPV and purchase order in place for the quarter, the delivery and subsequent payment should be able to be done quickly. This is bolstered by the introduction, in 2013, of weekly reporting on remaining fuel stocks to the MoH Logistics Department. However, this information is not yet being used to trigger replenishment; a specific propusta still needs to be submitted.20

The long delays in initial delivery and the subsequent clearance of debts mean that replenishment is sometimes being requested in the form of urgent or emergency proposals from districts. In 2013, at least two such requests were made by letter in absence of a CPV, for amounts up to US$18,000. In these cases, an emergency justification letter is sent from the Logistics Department to the supplier.21 Since this letter comes in advance of the supplier receiving a cleared purchase order, it is effectively a further form of credit. However, the delays in signing contracts and the uncertainty over the renewal or award of the fuel contract (described earlier in the section on procurement) have a dampening effect on the ability of districts to use “emergency measures” for fuel replenishment. At the end of the year when a contract is about to end, and before a new contract has been signed, fuel deliveries are generally not made since there is no assurance that the company will be paid.22 The district station, operated by the same company, may not provide fuel on credit for the same reason.

The use of emergency justification letters also creates obligations that must be met later, further undermining the use of CPVs as a form of budgetary control, and contributing to the large budget overruns and reporting inaccuracies across the available budget. While these improvisations appear to speed replenishment of fuel stocks and, thus, allow continued health service delivery, they undermine the basic public financial management system and potentially reduce the supply of operating cash by creating unapproved obligations on the overall goods and services budget.23

**Fuel Vouchers**

Fuel vouchers, which allow for the purchase of a fixed dollar amount of fuel at any fuel station belonging to the contracted company, are an alternative means used to distribute fuel to MoH vehicles and offices. Central MoH departments use vouchers rather than in-kind delivery of fuel. At the district-level, only Dili reported using vouchers regularly.

Vouchers appear to help deal with some of the challenges in the fuel supply. Fuel vouchers are valid across calendar years, and so by reserving some of the 2012 vouchers for 2013, the DHS in Dili did not suffer the same beginning-of-the-year fuel shortages that other districts did.24 Vouchers are also used as an emergency means of dealing with shortages through redistribution from one department or division of the MoH to districts experiencing shortages. If a DHS runs short of fuel, the MoH Logistics Department may, after verifying the logbooks of the DHS, send vouchers already budgeted for a central division to the supplier in order to replenish the tank of the DHS in question.25 In this way, vouchers appear to offer a degree of needed flexibility and if used alongside in-kind provision—and properly accounted—they could (continue to) play an important role in dealing with shortages.
However, while solving a short-term problem, the reallocation of vouchers contributes to misreporting of expenditures; vouchers are reported as expenditure in the originating division’s budget and in the year of purchase, but used for DHS activities that may even come a later year. This also prevents better needs-based budgeting from occurring in subsequent planning periods. From a public financial management perspective, the use of vouchers also raises the risk of misappropriation because there are no real controls on where, when and how they are used after being issued. Due to the risks presented by the transferability of vouchers, such a combined system should probably be piloted first.

**CHC-Level Challenges**

The DHS-level fuel supply problems described above have a direct impact on health service delivery at the CHC level. Many CHCs have little or no on-site storage capacity for fuel and, therefore, rely directly on availability at DHS level to meet requests. The uncertainty regarding the fuel supply at the CHC level is immense because there are no consistently applied criteria for fuel allocation from DHS to CHC level—something which is further aggravated by the delays and uncertainty about fuel delivery to the DHS. What is certain is that the fuel supply to CHCs is not based on a predetermined schedule of planned activities.

In addition, the process of fuel delivery from DHS to CHC varies. In Dili, CHCs report that vouchers are used, but, in general, vehicles must be brought to the DHS for refilling and also to pick up the fuel for generators. Without sufficient onsite storage capability, many CHCs report significant costs in both time and fuel usage simply for the process of refilling and collecting generator fuel from the DHS.

*If we have 30 litres left in the car, have to go to DHS to refill—but it takes 20 litres to get here.*

**Petrol for Motorcycles**

Fuel for motorcycles, which run on unleaded petrol, presents a set of specific issues beyond those associated with the diesel supply. There are many motorcycles in use, particularly at CHCs, and these are essential for outreach and community-based programs. The five surveyed districts reported having a total of 211 motorcycles (of which 30 are out-of-service). The three most common uses for motorcycles are house calls, SISCa missions and mobile clinics—which indicates the central role that motorcycles play in primary health service delivery. Some motorcycles are provided from particular programs or donated by NGOs, and so those activities—for example, malaria outreach or leprosy—are prioritized when using those vehicles.

The basis for the allocation of the budget for motorbike fuel to each district is not clear. Some districts receive petrol out of the fuel budget for motorcycles, and indeed fuel company records show deliveries of petrol. Some CHCs report that they do not receive any petrol in-kind, but purchase fuel for motorcycles using their operating cash allowance. In other cases, staff claim that they pay for the fuel themselves in which case reimbursement practices also vary. One CHC reported that, where possible, it uses the imprest advance to reimburse staff for motorcycle fuel, whereas another CHC reported that this was not permissible. In yet another CHC, staff reported that purchases of motorcycle fuel were the largest expense that they had to pay out of pocket without reimbursement. In one district, the DHS solved petrol shortages by trading diesel for stocks of petrol.

**Recommendations**

Current processes and practices do not effectively link policy, planning and budgeting for fuel so as to ensure a sufficient and appropriately distributed fuel supply at the district level. It is vitally important that steps are taken to
generate fuel budgets that are more grounded in the needs of the district and that the reporting and accounting for fuel purchases is accurately attributed to their real use. Also, there are tremendous inefficiencies in the procurement, requisitioning, and delivery of fuel. These inefficiencies introduce significant delays in the fuel supply system and contribute to uncertainty about fuel provision at central- and district-level, and also among suppliers.

The following actions could be considered to help improve the current situation:

**Linking, Planning and Budgeting**

There is currently a vicious circle at play where inaccurate budgeting and consistent overspending contributes to budget shortages, which are then covered by transfers from other parts of the budget and reallocated across fuel line items. The result is that reporting on fuel spending does not reflect the true levels of fuel expenditure (and need) in each district. This problem needs to be tackled from both the budgeting and reporting sides.

**Strengthen planning for the fuel budget allocation.** Planning for fuel use needs to be incorporated into the District Implementation Plans (DIPs) for vehicle use or mileage. If DIPs are not (yet) advanced enough to provide this estimate, then an alternative (interim) planning model based on number of vehicles, facilities and visits should be used. One possibility is to build on the planning norms for fuel consumption that have recently been developed for the SISCa program (the MoH’s Integrated Community Health system which relies heavily on mobile clinics and outreach), using them as the foundation of a district-wide system. Another model is the activity-based costing pilots being implemented in Ermera district. The planning templates under development and envisaged in the MoH’s Public Financial Management (PFM) Roadmap should serve this purpose. However, it is crucial for these activity-based planning processes to include an effective mechanism that will allow districts to adjust activity plans in accordance with available budgets during the budget preparation process. These adjustments, as suggested in Chapter 1, may consist either of effective prioritization of plans in advance, or sufficient time for a round of adjustments to be built into the planning cycle. In either case, communication of revised estimates to districts and their involvement in planning throughout the cycle is required.

**Improve budget reporting on fuel expenditures and use.** It appears that reporting of fuel deliveries and expenditures in the Financial Management Information Systems is somewhat arbitrary, and that there are large uncounted transfers through vouchers and in-kind credit. Without accurate reporting and accounting for fuel use, it will be impossible to adjust budgets to match actual fuel needs. An audit of FMIS entries for fuel deliveries to see that they are matched with the appropriate district codes would be useful; it would reveal where, and how much, fuel is actually being used. The MoH Logistics department may also consider collecting and analyzing data on the mileage of vehicles by district to serve as an indicator of the accuracy of fuel budget reporting, which would require increased attention to the careful use of logbooks. The transition to district level FMIS data entry that is called for in the MoH’s PFM Roadmap could help to improve the accuracy of budget accounting for fuel at the point of use, but this reform will require considerable commitment and capacity development at the district level.

**Clarify specifically how motorcycle fuel should be planned for and procured.** There is a clear need for a policy on the planning, budgeting, and provision of petrol for motorcycles, and for these guidelines to be understood across the country. An inventory of motorcycles and a set of planning guidelines for motorcycle
fuel use should be developed, as a part of the broader vehicle inventory (discussed in Chapter 3). Consideration also needs to be given to how the fuel budget for motorcycles should be provided. It may not be optimal to provide motorcycle fuel in the same way as the larger budget for diesel because quantity requirements, storage capacities, and local availability may be different. The budget for motorcycle fuel might be best provided as part of operating cash in order to allow DHSs and CHCs the flexibility to purchase it directly (including in the district), or by using a separate voucher system. A possible first step in this regard would be a pilot or feasibility study for including petrol in local purchases.

**Speeding Budget Execution**

**Ensure that the fuel procurement cycle starts promptly.** Management of fuel contracts needs to be strengthened, both in terms of the time taken to initiate the contracts, and the time taken to extend or modify existing contracts. Moving toward a mixed system of fuel procurement where central provision is combined with some flexible budget for local purchases of fuel (discussed below) might ease the problems caused by delays in completing contracting at the start of the year. Another measure could be to include contract provisions that allow for the extension of the previous year’s contract on a month-by-month basis if there are delays in the passage of the national budget, as well as implementation of the 1/12 regime to allow payments in line with the previous year’s appropriations.31

**Consider including performance criteria in contract terms for supplier and MoH.** For example, fuel suppliers’ contracts could stipulate maximum response times and penalties for failure to comply. In addition, MoH could set performance standards for itself, especially with respect to timely payment after fuel has been delivered and invoiced. There may also be scope for more ambitious privatization of vehicle fleet management under framework contracting in which case the responsibility for fuel provision would also be shifted to the contractor. This possibility is discussed further in the recommendations of Chapter 3 on vehicle maintenance and repair.

**Improve the performance of the requisitioning and payment system.** Late initiation of propustas, CPVs and POs delay the delivery of fuel. Permitting the automatic triggering of propustas when fuel stocks are low and streamlining the authorization of CPVs for routine expenditures (such as fuel) would help to alleviate this problem. The CPVs should also cover a quarter of a year at minimum, but probably longer; a practical suggestion would be to have a CPV cover the entire year, with POs being issued quarterly or semi-annually for all the deliveries in the period. The finance and procurement manuals that are planned for as part of the MoH’s PFM Roadmap should include checklists, standard procedures and performance targets for processing CPVs, POs and payments for fuel purchases. Also, since the Treasury Payments Unit maintains records of payment requests that have been returned for lack of required documentation, one could consider using these data to improve processes and monitor performance either through periodic publication of statistics across government ministries or some other form of benchmarking.32 In addition, one could revisit which level of ministerial authority would be appropriate to approve the commitment of funds for routine expenditures; delegation to lower levels could help to alleviate bottlenecks and prevent delays.

**Consider a complementary period for fuel payment requests.** The current strict MoF requirements to close the year’s payment requests in November may prevent some late-year shipments of fuel. To remedy this, one might consider a complementary period for payment requests to be accepted into January, providing
suppliers more confidence that payment requests for late-year deliveries will be accepted. However, this recommendation would require agreement across government departments.

**Increasing Flexibility in the Delivery of Fuel**

Permit local procurement of fuel in addition to or in place of in-kind delivery. It is apparent from the survey that fuel—both diesel and petrol—is already being bought and/or borrowed locally in many districts. There is little evidence that the current practice of centralizing purchases results in substantial cost savings or efficiencies. While it may not be appropriate to eliminate all central procurement of fuel (as some districts may still benefit from regular in-kind delivery), a system to complement the fuel deliveries with either budget or vouchers for local purchases would dramatically increase the ability of DHSs and CHCs to cope with shortages, and bridge the uncertain periods at the end and beginning of the fiscal year. The fact that the SISCa program has been providing a fuel budget directly to the district since August 2013 suggests that this kind of purchasing is feasible. At the very least, a cash or voucher-based system for locally procuring motorcycle petrol should be workable.

**Modify voucher system to include district-specific or reserve vouchers.** Fuel vouchers provide some flexibility in purchasing by being transferable across divisions and over time. Yet, these same qualities undermine the credibility of the fuel budget. Vouchers could play an important role in enabling flexibility in districts at times of shortage, and bridging gaps in deliveries by enabling local purchasing. A modified voucher system could allow a portion of districts’ fuel budget to be provided as district or service-specific vouchers, preventing transfer of vouchers without due recording in records. Alternatively, a pool of reserve vouchers could be introduced with its own account code, to be acquitted against the actual district in which they are used, similar to the way that the imprest advance cash is acquitted.

**Systematize CHC-level fuel supplies and reserves.** The PFM Roadmap already calls for a system of sub-district management of fuel. Consideration should also be given to the installation of a fuel reserve at the CHC level. Depending on the availability of fuel locally, these reserves could consist of physical fuel reserves, or vouchers for fuel purchase. Naturally, this would need to be accompanied by an improved reporting system for fuel usage.

The recommendations of this chapter are in alignment with the MoH’s Public Financial Management Roadmap, and provide concrete measures to its broader goals of improved resource allocation and utilization. In combination with the steps outlined in Chapter 3 they can contribute to more effective and mobile health service delivery at the district- and community-level.
Endnotes

2 Car numbers used are those provided in the Logistics Department’s consolidated transport list, which in some cases differs from the number of vehicles observed during field survey sites, and also includes inoperable vehicles.
4 Interviews, Ministry of Health Department of Human Resources (7 May 2013) and Directorate of Planning and Finance (7 May 2013).
5 Observations, Field Survey Team Oecusse (19 July 2013).
6 The term “virement” refers to the transfer of approved budget from one accounting category or line to another, as well as the procedures for such transfers.
7 Interview, Ministry of Health Logistics Department (22 May 2013).
9 Document provided by Aitula Fuels Lda.
10 Interview, Aitula Fuels (16 May 2013).
11 Interview, Aitula Fuels (16 May 2013).
12 “Contract Agreement for Supply of Fuel (Diesel & Unleaded Petrol) for Vehicles and Power Plants of Health Offices and Health Facilities Countrywide” under Ministry of Health, Contract No: RDTL-MS-DNALA-12–325-B-ICB-0020(a), (May 2012); and Amendment #02 of Contract No: RDTL-MS-DNALA-12–325-B-ICB-0020(a), (Signed 11 April 2013).
14 A commitment payment voucher (CPV) signals a commitment to spend by an authorized spending unit, and triggers controls to assure funds are available.
15 Interview, Ministry of Health Logistics Department (22 May 2013).
16 Interview, Ministry of Finance Payments Unit (10 May 2013).
17 Interview, Aitula Fuels (16 May 2013).
18 Aitula Fuels invoices.
19 Interview, SISCa Program Manager (25 September 2013).
20 Interview, Ministry of Health Logistics Department (22 May 2013).
21 Interview, Aitula Fuels (16 May 2013).
22 Interview, Aitula Fuels (16 May 2013).
24 Interview, Dili DHS (10 May 2013).
25 Interview, Ministry of Health Logistics Department (22 May 2013).
27 Interview, CHC director.
28 Interview, CHC director.
29 Interviews, CHC staff.
30 Interview, SISCa Program (25 September 2013).
31 The duodecimo or 1/12 regime is a legal provision that 1/12 of the previous year’s budget for a given purpose may be allocated each month if the annual budget is not enacted by the start of the fiscal year.
32 Interview, Ministry of Finance Payments Unit (10 May 2013).
### ANNEX 2A Vehicle and Generator Fuel Budget and Execution Rates in USD, 2013

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<td>$21,000.00</td>
<td>$2,792.00</td>
<td>133%</td>
<td>$9,000.00</td>
<td>$10,349.75</td>
<td>115%</td>
<td>$30,000.00</td>
<td>$38,277.75</td>
<td>128%</td>
</tr>
<tr>
<td>Oecusse</td>
<td>$25,000.00</td>
<td>$2,500.00</td>
<td>100%</td>
<td>$7,000.00</td>
<td>$15,780.00</td>
<td>225%</td>
<td>$32,000.00</td>
<td>$40,780.00</td>
<td>127%</td>
</tr>
<tr>
<td>Viqueque</td>
<td>$30,000.00</td>
<td>$2,313.05</td>
<td>94%</td>
<td>$8,000.00</td>
<td>$2,000.00</td>
<td>25%</td>
<td>$38,000.00</td>
<td>$30,313.05</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>$388,000.00</strong></td>
<td><strong>$462,605.12</strong></td>
<td><strong>123%</strong></td>
<td><strong>$102,000.00</strong></td>
<td><strong>$115,793.51</strong></td>
<td><strong>114%</strong></td>
<td><strong>$490,000.00</strong></td>
<td><strong>$578,398.63</strong></td>
<td><strong>118%</strong></td>
</tr>
</tbody>
</table>

Source: MoF FMIS data, 2013.
Vehicle maintenance and repair is a persistent problem for the Ministry of Health (MoH). It plagues all vehicle types—cars, motorcycles and ambulances/multi-function vehicles (MFVs)—and is a regular source of complaint among health workers. A District Health Services (DHS) staff member sums it up:

“Vehicle condition, not fuel, is our primary constraint.”

At the time of the study, four of the five districts surveyed report that at least a few of their vehicles were out of service. In total, about 45 per cent of the cars, 17 per cent of the ambulances/multi-function vehicles (MFVs) and 14 per cent of the motorcycles were not operational (Figure 3.1). This means that as many as a third (32 per cent) of all four-wheeled vehicles may be out of service at any given time. It is not surprising, then, that district staff complain of long delays in the repair of vehicles and large numbers of old or difficult to maintain vehicles in the fleet.

Shockingly, the average time that these vehicles have been out of service is over two years. They lie idle, either due to inability to repair them, or the slow completion of repairs. The current situation appears to be no better than in 2009, when an analysis of the MoH’s transportation management estimated that 34 per cent of four-wheeled vehicles in seven sampled districts were in poor or bad condition, or beyond economic repair. This chapter focuses on financial and expenditure management issues that contribute to these problems with vehicle maintenance. Clearly, there are also technical and engineering aspects that are important, too, but these are beyond the scope of the analysis.

Planning and Budgeting for Vehicle Maintenance

The key to any planning process for repair, maintenance and eventual replacement of vehicles is the maintenance of an accurate and up-to-date inventory of vehicles. The existing system has weaknesses: the inventory of vehicles does not match with the reported number of vehicles in the districts, the age of vehicles and their mileage is not easily available, and the number of working vehicles differs depending on the data source used.

Planning: Vehicle inventory

A database of vehicles provided by the MoH for May 2013 classified 82 per cent of cars and ambulances (112 out of 137), and 72 per cent of motorcycles (349 out of 483) as being in working order. For the five districts that were studied, the central inventory described 68 per cent of cars and ambulances (36 out of 53) and 86 per cent of motorcycles (181 out of 211) as being in working order. A review of the central inventory compared with records obtained by the study team
at each district (see Table 3.1), revealed that while the total number of cars reported matched central records, there were differences in their distribution among districts. For motorcycles, on the other hand, there were significant numbers of motorcycles at the district level that were not recorded in the central inventory (at least 27 across the five surveyed districts). There were also differences in the number of vehicles reported as being in working order; importantly, districts reported ten fewer four-wheeled vehicles in working order than the central inventory.

District health staff participating in a consultation workshop, conducted as part of the

**TABLE 3.1 Comparison of MoH Central Vehicle Inventory With Survey Results**

<table>
<thead>
<tr>
<th></th>
<th>Cars and ambulances</th>
<th>Motorcycles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central Inventory</td>
<td>Field Survey</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Working</td>
</tr>
<tr>
<td>Covalima</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Dili</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Manatuto</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Oecusse</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Viqueque</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53</strong></td>
<td><strong>46</strong></td>
</tr>
</tbody>
</table>

*Source: MoH Logistics Department Transport Database, May 2013.*
study, confirmed the mismatches between records in the central inventory and the availability of vehicles at the district level, noting that not only does this include differences in the number of vehicles, but also sometimes the makes of vehicles and their maintenance records.4 Whether the district-level estimates are more accurate than the central inventory is not certain, but the large discrepancies, and implications for management of the vehicle fleet, are cause for concern. Because the central inventory of the MoH consists of a static excel spreadsheet which can only be updated manually,5 it may be that differences arise (at least in part) due to the inability of both district and central logistics to dynamically report and update the inventory database.

The age of the fleet is a common complaint; with both district and central staff suggesting that vehicle age renders much of the fleet impossible or uneconomical to repair. One MoH manager estimated that 70 per cent of the fleet is older than 10 years.6 In contrast, some district staff observed that “most of the cars are in a condition that can be fixed”, but are not being repaired due to over-centralization of the repair arrangements.7

Unfortunately, the vehicle inventory provided does not include vehicle age or mileage. In the district survey, information about vehicle age could be collected for 72 per cent (38 out of the 53) of the four-wheeled vehicles in the five districts. For the rest, the respondents did not know. The reported age of these vehicles ranged from 13 years old (i.e. a 2000 model) to brand-new. The median model year reported was 2009, meaning that half of the vehicles are four years old or less. It, thus, seems very unlikely that the median age of the fleet as a whole is as old as 10 years.

The central inventory describes the general condition of vehicles only by using the term “labele hadia” for those vehicles that are considered beyond repair. Only two four-wheeled vehicles out of a total of 137 are described as being beyond repair, but as many as 16 per cent (75 out of 483) of motorcycles are. This is a large number, and an immediate priority should be to make a complete inventory of these vehicles and to develop an asset disposal plan.

More important than dealing with defunct vehicles, though, is the almost complete lack of regular (preventative) maintenance for vehicles that—at first glance—should be within their expected lifespan. In this regard, it is important to distinguish between maintenance (routine preventative activity to preserve and lengthen a vehicle’s lifespan) and repairs (fixing problems with vehicles as they arise). Maintenance should be a predictable expenditure based on the number of vehicles and the mileage they need to cover, while repairs are by nature less predictable. The current fleet inventory does not appear to allow for accurate planning of routine maintenance, nor for repairs when they arise. In turn, this impedes the ability to budget accurately.

Budgeting
The district level vehicle maintenance budget is a clear case of arbitrary or ad hoc budgeting. For 2013, it was budgeted at a flat rate of exactly US$29,000 per district—regardless of the size of the district, the number of vehicles in use, their mileage or their condition. Using the MoH Logistics Department’s vehicle numbers (i.e. the central database), this amounts to between a minimum of US$2,416.67 to a maximum of US$3,625.00 per vehicle, depending on the district: the districts with the fewest vehicles have 1.5 times as much budget for the repairs and maintenance of each car or ambulance than those districts with the most vehicles.

A vehicle maintenance budget that is clearly unlinked with actual needs results, unsurprisingly, in widely varying execution or spending rates (see Figure 3.2 below). While the average 2013 execution of district vehicle repair budgets was about 90 per cent, this conceals variation ranging from only 41 per cent of the budget (in Ainaro) to virtually 200 per cent,
or double, the budgeted amount (in Manatuto). Where execution rates are low, this is not necessarily due to lack of need, however, but could rather be attributed to bottlenecks in the provision of maintenance services. As one director of a district with a low execution rate observed, “sometimes there is unused money the Ministry of Health needs to return to the Ministry of Finance at the end of the fiscal year, while we are struggling in the district.” In this sense, there is no link at all between the requirements for vehicle maintenance and repair on the one hand, and budgeted amounts on the other.

Budgeting difficulties are compounded by the fact that the budget for vehicle maintenance and repair is a single line item in the goods and services category, meaning that both activities are budgeted, funded and accounted for together. This means that even if budget control was exercised at the line item level (which it is not), there would not be an easy way to isolate expenditure on repairs from the budget for routine maintenance. The result is that if there is over-spending on vehicle repairs or large debt payments for repairs previously invoiced, there may not be budget available for routine maintenance. In fact, given that budget control is exercised at the level of the economic category rather than the line item, activities unrelated to vehicles, such as debt payments or providing districts with operating cash through the imprest account (see Chapter 1), could jeopardize the maintenance budget.

**Budget Execution**

The process of spending the vehicle maintenance and repair budget is beset with challenges. One prominent issue is poor procurement and contract management. A second issue is the minimal expenditure on routine maintenance. The third issue is the slow requisition, completion and payment of repairs. Lack of maintenance results in excessive and unpredictable repair costs as vehicles break down sooner than they might otherwise; the slow procurement, requisition, completion and payment of repairs results in unsustainable debt being carried over year after year, posing a fourth challenge. In addition, there are a number of challenges specific to motorcycles.

**Procurement and Contracting**

In recent years, vehicle maintenance and repair has been procured via bulk contracts with one
or two providers who carry out the work at facilities in Dili. In 2012, two suppliers were under contract: Eravizul Services and Sousa Motor Repair. Both suppliers had contracts in effect during the study period. Eravizul’s contract was effective on 22 June 2012, and valid until 22 June 2013. Sousa’s contract was valid from 1 January until 31 December 2012 (i.e. the 2012 fiscal year), but was subsequently extended through amendments to 31 May 2013. The MoH signed this extension only on 11 April 2013, meaning that the amendment was in force for less than two months.

Examination of Eravizul’s contract shows that the terms of reference define the parts and labor costs of a range of specific repairs, including a set of four routine maintenance packages, labeled A, B, C, D, reflecting the mileage intervals at which they should take place. However, the contract neither includes terms for the transport of vehicles to and from Dili should they be immobile nor does it provide any specific terms for district-level provision of maintenance or repair services by the supplier. The lack of clarity in the payment provisions and lack of performance criteria further contribute to delays in the delivery of repairs, as described below. In addition, some district directors reported that the uncertainty regarding the continuation or signing of new contracts for maintenance results in reluctance to send vehicles to Dili, especially toward the end of the fiscal year; there is a concern that should the supplier’s contract not be renewed, the repairs will not be carried out.

**Lack of Routine Maintenance**

There is a package of four routine maintenance activities defined by contract (as described above) and there are MoH guidelines for these service packages. However, district staff are not very aware of the content of these guidelines, and reported that training had not been given.

Taken together, the lack of contractual provisions for regular maintenance checks coupled with the lack of dissemination of maintenance guidelines at the district level means that there is little structure in place to ensure routine maintenance takes place, and a lack of clarity over who bears responsibility for ensuring that it does.

Out of the five DHSs surveyed, four claimed that some routine maintenance is carried out, while one said no routine maintenance takes place. Of the two districts surveyed that are farthest from Dili—Oecusse and Viqueque—one was carrying out some maintenance, and the other was not. However, interviews with district staff and an examination of invoices suggest that if it is taking place, maintenance is extremely limited, is primarily carried out only when another problem with the vehicle arises, and is not based on a regular schedule. It can therefore hardly be described as “routine” maintenance.

Between January and June 2013, invoices from the two maintenance suppliers show that two of five surveyed districts had no routine maintenance services at all. The other three districts had a total of eight cases of maintenance package C, one of maintenance package D, and one of maintenance package A. In four of the eight examples of maintenance package C, the same vehicle also had other major repairs or parts replaced at the same time, suggesting that maintenance was done only at the time of a breakdown. A district director confirmed this approach in an interview:

*We do not make a distinction between maintenance and repair. If something small is broken we call it “maintenance A/B”. If something bigger is broken we call it “maintenance C/D”.*

In summary, at the very most ten out of 36 working, or 53 total, four-wheeled vehicles in the surveyed districts received any form of centrally-procured maintenance during the first half of 2013. However, when vehicles that received maintenance because they were also in need of repairs are excluded from this tally, the number of vehicles receiving maintenance falls...
to four. While some very basic maintenance is conducted at the district-level (for example, changing tires or oil), there is clearly inadequate attention to routine maintenance.

This situation is not surprising given the system for managing routine maintenance. The central suppliers are not required, or incentivized, as part of their contracts to monitor the mileage of vehicles, nor to send staff from Dili to perform simpler maintenance activities in the district. Districts themselves face long delays in the return of vehicles, significant fuel costs, and loss of staff time when vehicles are sent to Dili. It is therefore understandable that the districts often continue operating vehicles that are long overdue for maintenance.

An alternative could be to use local mechanics for routine maintenance. While there is not as much local mechanical capacity as one might wish, as well as a lack of spare parts in the districts, there is some technical capacity at the district level that could be built upon. All five district directors surveyed reported having private sector mechanics capable of carrying out “minor” repairs in their districts, and two of the five reported that these mechanics could also conduct more significant repairs. With the appropriate quality control and spare parts, local procurement of maintenance and possibly repair is an option that could be explored.

This should be complemented by increased driver training and awareness on routine maintenance needs. The 2009 review of transport management noted that vehicles were not provided with repair kits, there was no program of planned preventative maintenance, and little training or orientation of drivers. It seems that this situation has not changed, as one district staff participant in the consultative workshop noted:

**FIGURE 3.3 Requisition, Verification and Payment Process for Repairs, 2013**

- DHS
  - Pedido reparasaun
- MOH Logistics
  - Ordem de Serviço
- MOH/Supplier
  - Vehicle transported to Dili
- Supplier
  - Work completed
  - Invoice (may consolidate group of repairs)
- MoH Procurement
  - Verification (Logistics)
  - Verification (Procurement)
- MoH Finance
  - CPV (Note commitment comes after completion of work, not before)
  - Purchase Order/Payment Request to Treasury Department
- MoH Payments
  - Check

Source: Authors.
It will be more efficient to provide short training or introduction on the usage of the new vehicles, so that small mistakes in causing minor problems to the car can be avoided. For example, one new car has just been provided by the NHSSP-SP project to our district and due to lack of understanding on how to operate the car, the driver broke the lid of the petrol tank. 

Slow Requisition, Servicing and Payment for Repairs

When vehicles do break down, there are problems transporting them to Dili, as well as repairing and returning them to the districts in a timely manner. The process for requisitioning, billing, and paying for maintenance and repairs broadly follows Figure 3.3. It is important to note that the process is the same both for routine maintenance (if and when that ever occurs) and for repairs after a vehicle is damaged.

The district or MoH Logistics Department begins the process with a request specifying the vehicle and the job to be carried out. This request takes the form of a Pedido (request) from the district, or an Ordem de Serviço (service order) from the MoH Logistics Department. The documentation for all 2013 transactions examined for this study showed that either a Pedido or an Ordem is normally used, not both. However, in earlier years sometimes both types of requests were used.

The MoH has two mechanics who are assigned to travel to assess repairs to determine if vehicles should be transferred, or if parts should be brought to the districts. It is unclear from the data gathered how frequent or how timely this service is, or how this relates to the mechanics’ other duties. Once the vehicle is transported to Dili, work is completed and invoiced. Typically several invoices are grouped together by the supplier, and the supplier submits a request for payment summarizing all the invoices for a given period, usually covering several divisions across the MoH. The MoH Logistics Department and the National Director of Procurement verify the work and authorize payment. The MoH Finance Department raises a CPV, issues a purchase order, and a payment request for the Ministry of Finance Payments Division, which will then issue a check. It is vital to note that the normal control systems of the CPV and purchase order do not apply here since the CPV and subsequent PO are only issued after the consolidated invoices for work already completed have been submitted with a payment request by the supplier. This means that repairs are conducted before their cost is compared to budgeted amounts and available remaining spending, creating obligations for the government without regular public finance control.

There are often delays in transporting vehicles to Dili for repair or maintenance work. It is unclear from the contract with suppliers who

Box 3.1: Oecusse’s Unique Challenges

Oecusse’s enclave geography, surrounded by Indonesian West Timor, presents special challenges for a centrally procured and delivered maintenance and repair system. Interviews in Oecusse at both district- and community-level confirmed that all maintenance and repairs, except tire repairs, were being carried out in Dili. Transporting vehicles by ferry involves US$300 in transport costs and a minimum three-day delay as ferries travel only twice a week. Land crossing requires a visa of US$90 per person each way and involves delays at the border with Indonesia.

Without doubt, decentralization of some routine maintenance and minor repair functions would be beneficial. One possibility, suggested by health staff, would be to use Indonesian mechanics in West Timor, where there is believed to be sufficient mechanical capacity and good road conditions.
has the responsibility for transporting vehicles if they are immobilized. As mentioned earlier, it does not appear in the suppliers’ terms of reference. Consequently, neither the supplier nor the DHS have funds budgeted for towing or other transport. Several districts explained that they have to request the central Ministry of Health to transport vehicles, but also expressed frustration that this process could take considerable time. These delays are the worst in more remote districts. Oecusse, in particular, faces special challenges (see Box 3.1).

The availability of spare parts is another reason for slow repair times. One district director pointed out that his DHS vehicles come from several different countries which means that they require different spare parts that are not easily available. A story that was told to the survey team, and described in Box 3.2, illustrates clearly the consequences of delays in vehicle recovery and poor management of spare parts.

The impact of these delays on the provision of health services could be reduced or even prevented through the use of back-up vehicles during maintenance or repairs. However, there is no systematic provision of back-up vehicles. This, in turn, may be (at least partly) related to the absence of a predictably-scheduled maintenance plan.

Several districts suggested that slow repair work was also due to delays in payment to the suppliers, which in turn caused delays in them starting new work. An analysis of the finance documents for all repair and maintenance transactions for the five survey districts and two maintenance suppliers between January and September 2013 shows that the average time to send an invoice for work done was nine days, although this period varied quite widely from zero up to 42 days (see Table 3.2). In some cases, it appears the request (i.e. *pedido* or *ordem*) was prepared at the same time that the work was done, suggesting that repairs may be initiated informally. Also, the suppliers appear to group invoices from a series of repairs across various districts, which may introduce some delay before they request payment.

It typically took 30 days for the payment request to be approved by the Procurement Department of the MoH, although this period could last up to two months. The average period between the approval and the issuance of a CPV by the MoH Finance Department was even longer, at 43 days, and could be up to 71 days. Once a CPV was raised, the creation of a purchase order and payment request to the MoF Payments division took less time—about two weeks altogether. A few purchase orders were considerably delayed—48 days in one case. Taken together, the length of time from the supplier’s payment request for work completed to the MoH requesting payment from MoF was never under two months, and could be well over four

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**Box 3.2: The Two and a Half Year Multifunction Vehicle Repair**

A multifunction vehicle broke in July 2011 in a community. The DHS waited for the MoH to bring it to Dili until September 2012 (14 months). When there was still no action, they transported it to the DHS using the imprest/operating funds. In August 2013, they again used operating cash to hire a tow truck to send the vehicle to Dili. Only after the vehicle arrived in Dili was the part needed ordered from abroad, introducing a further delay.

Eventually, in December 2013, about two and a half years after the breakdown, the vehicle was returned. In the opinion of the district staff, the actual repair could have easily been done in the district if the parts had been available from Dili and the MoH could have organized to have the parts sent to the district.
months. In 2013, no payments were made at all before May, and as will be shown below, most of these first payments were debt payments for work already carried out in the previous year (or even earlier).

This pattern demonstrates that the processing of approvals by Logistics and Procurement and the subsequent raising of the CPV for payment are the key bottlenecks in the requisition, completion/supply and payment chain. It is notable that for almost all transactions two payment requests to Treasury, about two weeks apart, were filled out for each transaction, suggesting that incomplete documentation may have slowed processing. Steps to improve this performance would have a big impact on the speed of payment, and potentially the ability of the suppliers to continue their work.

The MoH Logistics department also provided documentation for transactions in each of the five survey districts for the previous year, 2012. While these were incomplete, analysis of the five complete transactions (one per district) showed a similar pattern of long delays between supplier invoice and verification of the repairs, contributing to long delays in payment (see Figure 3.4). Of the 78 days that it takes, on average, from the request for repairs to their verification, 50 days were taken to verify completed work.

### TABLE 3.2 Number of Days for Maintenance and Repair Processing Steps

<table>
<thead>
<tr>
<th>Step</th>
<th>Average</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pedido or Ordem to Invoice</td>
<td>9</td>
<td>0</td>
<td>42</td>
<td>15</td>
</tr>
<tr>
<td>Supplier Payment Request to Approval</td>
<td>30</td>
<td>12</td>
<td>61</td>
<td>18</td>
</tr>
<tr>
<td>Approval to CPV</td>
<td>43</td>
<td>24</td>
<td>71</td>
<td>19</td>
</tr>
<tr>
<td>CPV to Purchase Order</td>
<td>12</td>
<td>2</td>
<td>48</td>
<td>13</td>
</tr>
<tr>
<td>Purchase Order to MoH Payment Request</td>
<td>2</td>
<td>0</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Supplier Payment Request to MoH Payment Request (Total to Payment)</td>
<td>87</td>
<td>64</td>
<td>132</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Documents for all January-September 2013 transactions for the five study districts.

### FIGURE 3.4 Average Days for Requisition, Invoicing and Verification of Repairs, 2012

Source: MoF Logistics documentation.
delaying payment to suppliers by almost two months.

**Debt**

Poor budgeting and slow payment have combined to create an ongoing pattern of large vehicle repair debts being carried over from one fiscal year to the next. In some cases, these debts were considerably larger than even the cost of current repairs. An analysis of each of the five sample districts’ payments for vehicle repairs demonstrates the scale of the problem (see Table 3.3).

Almost all of the first set of payments for these five districts in 2013 was in fact used to pay off repair debts carried over from 2012 or even earlier, and it was July or August before any new payments were made. These debts contribute substantially to the erratic budget execution rates presented earlier. For example, the US$13,394.50 paid against debts by Manatuto, considered against a budget of US$29,000, was a major contributor to the district’s high execution rate of 198 per cent. Examination of 2012 documentation shows that large debts were owed to the previous supplier—A1 Services—from 2011, and were subsequently paid from the 2012 budget. For example, in 2012 Oecusse paid US$17,873.00 to A1 Services for debt on 2011 vehicle maintenance.23

It is important to emphasize that these debts are effectively “off the books” from the point of view of the Ministry of Finance as they are informal arrangements or outstanding invoices that have not been entered into the Freebalance accounts payable system. As observed in the chapter on Operating Cash, IMF assessments of Timor-Leste’s public financial management have praised it for the lack of substantial arrears, when in fact these budget lines have very large amounts of debt being passed from one year to the next without being planned or accounted for in the budget process.24 There is a persistent problem across budget lines of accumulated off the books debt, indicating generalized under-budgeting or overspending for districts that requires a systemic response.

**Motorcycle-Specific Issues**

There are some particular issues that affect the maintenance and repair of motorcycles, which are crucial to several key health services including mobile health services via SISCa, emergency response, outreach, and monitoring and evaluation.25 In 2009, a survey of seven districts found that 38 per cent of motorcycles were in poor, bad or beyond repair condition.26 Our survey of five districts found 15 per cent of the motorcycles functioning, while the inventory provided by the Ministry suggests 28 per cent of a smaller total number of bikes in the same districts are operable. It is clear that an up-to-date inventory of operable motorcycles is not in place.

There appear to be no official guidelines or shared understanding across districts about who is responsible for motorcycle repair and maintenance. The survey data from the ten CHCs visited demonstrates this variation. Across these

<table>
<thead>
<tr>
<th>District</th>
<th>Month of 1st Payment</th>
<th>Total Payment USD</th>
<th>Payment for Debt in USD</th>
<th>Debt as % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covalima</td>
<td>June</td>
<td>$3,917.50</td>
<td>$3,917.50</td>
<td>100%</td>
</tr>
<tr>
<td>Dili</td>
<td>May</td>
<td>$5,862.50</td>
<td>$5,862.50</td>
<td>100%</td>
</tr>
<tr>
<td>Manatuto</td>
<td>May</td>
<td>$14,287.00</td>
<td>$13,394.50</td>
<td>94%</td>
</tr>
<tr>
<td>Oecusse</td>
<td>May</td>
<td>$10,862.50</td>
<td>$9,595.50</td>
<td>88%</td>
</tr>
<tr>
<td>Viqueque</td>
<td>May</td>
<td>$3,609.00</td>
<td>$3,609.00</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: MoF data; MoH Finance documents.
ten CHCs, 68 out of 76 motorcycles present were reported as functional (almost 90 per cent). In eight out of ten CHCs, motorcycles were repaired locally or at the district center, and in five of those eight communities the staff using the motorcycle had to pay all costs—without reimbursement. In one case some larger repairs were reimbursed, and in another case staff were reimbursed from pasta mutin, having requested DHS permission before paying for repairs. One CHC staff member claimed that staff sometimes pay out over US$100 per year in repair costs.

In one remote community, CHC respondents insisted that motorcycle repair was a central function and that they must send any broken motorcycles to Dili. As a consequence, only two out of five motorcycles were operational. Overall, these data indicate a large degree of improvisation and sacrifice by district staff in the face of unclear guidelines and inadequate provision for maintenance of a key service delivery input.

Recommendations

The current situation seems slightly improved since 2009 when a review described the MoH as having “no effective transport management system”. There is now a basic central inventory of vehicles and their condition, and the data suggest a slightly higher proportion of vehicles are in working condition. However, there are still severe weaknesses in the planning tools available, budget allocations, and management of spending for routine maintenance and repairs. To strengthen the vehicle maintenance and repair system the MoH could consider the following changes to its public financial management arrangements for vehicle maintenance and repair:

Planning and Budgeting

Establish an easily and regularly updateable asset register for vehicles and motorcycles. The maintenance of an accurate and up-to-date vehicle registry is key to fleet management. There is still room for significant improvement in reporting guidelines and systems for accounting for the variety of vehicles held by the MoH. This should include relevant characteristics, such as mileage, age, maintenance schedule, and general condition. Motorcycles seem to be particularly inaccurately accounted for, probably as there are a number of sources for new motorcycles, including donations from NGOs. A dynamic database that can be updated through regular DHS reporting processes would be superior to a static inventory that is centrally updated. In the absence of a new database, the static register could be periodically published through internal systems to allow DHS Directors to compare entries directly and make or request corrections.

Perform a vehicle economic evaluation and establish guidelines for periodic replacement and disposal of defunct vehicles. Along with the establishment of an accurate inventory, a once-off evaluation of the cost of repair or replacement for the vehicle stock should be carried out, and guidelines for future periodic assessment created.

Rationalize the distribution of existing vehicles. Given that there are a range of vehicle types in the fleet currently, there could be some redistribution of vehicles among districts to ensure that vehicles are deployed in a way most effective for facilitating repair and procurement of spare parts. For example, the more easily repaired or more rugged vehicles could be allocated to the more remote locations.

Establish a planning and budgeting process for district-level maintenance and repair requirements. The planning and monitoring and evaluation unit of the MoH is introducing district-level planning templates to cost activities during the MoH’s budget preparation.
process. It should also include—based on an accurate inventory (which includes vehicle type, age and mileage)—a maintenance plan and budget for all vehicles. If mileage is difficult to estimate accurately, maintenance scheduling should be done on a time basis to ensure district budgets are allocated based on needs, not an arbitrary flat rate. In addition, a simple repair budget should be calculated separately from the maintenance budget on a per vehicle basis. Even if the national chart of accounts continues to keep repair and maintenance together in the same budget line, MoH-level expenditure planning should clearly distinguish budgets and cash flow plans for each.

Consider outsourcing some of the fleet management functions to the private sector. While the focus of this chapter is on understanding and making recommendations on how to improve the existing public financial arrangements, it is also important to consider whether alternative approaches to fleet management, including contracting out to the private sector, may allow for better planning and budgeting, and eventually more efficient repair and maintenance services. This is discussed further in the following section and in Box 3.3.

**Budget Execution**

Document all arrears/debt and budget for repayments. National assessments of the public expenditure management system in Timor-Leste make almost no mention of arrears, yet this study shows that there are large undeclared debts in the form of debts to suppliers. These debts are held off the books with suppliers of all kinds through informal arrangements; outstanding invoices are not entered into Financial Management Information Systems. Consequently, documenting all arrears/debt may require making inquiries with all suppliers. Without documenting the scale of this problem and making provision for the settlement of debts by the end of the year, budget mismatches will continue, and result in shortfalls either in the repair and maintenance budget, or in other elements of the goods and services budget. Requirements for suppliers to present all invoices prior to the year’s end need enforcement. In order to prevent the future accumulation of debt, the MoF might also consider a “complementary period” after the end of the year, when pending payment orders can still be paid from the previous year’s budget.  

Distinguish requisition and payment processes for maintenance from that to be followed for repairs. Expenditure on maintenance needs can be predicted and, if planned on a time basis as suggested above, can be programmed in advance. Issuing a pre-cleared CPV for all planned routine maintenance for each quarter or even longer should reduce payment times for those activities by 1–2 months, easing the accumulation of debt and helping prevent delays in starting (unplanned) repair work.

Incentivize national suppliers to improve performance. The contract for supply of maintenance and repair services at the national level needs to be prepared in the previous year. It could incorporate service standards and targets for the following:

- vehicle recovery time;
- spare parts in stock; and
- mobile mechanical support for routine maintenance in the districts.

Contracts need to clearly specify who is responsible for the recovery of immobile vehicles and for ensuring that routine maintenance schedules are maintained, and might also include incentive payments for good performance, or minimum standards for contract renewal.

Consider private sector contracting for a more comprehensive package of fleet management services. An alternative,
more ambitious approach, would involve the outsourcing to the private sector of a much more comprehensive package of fleet provision and management services than is currently provided by the national suppliers (see Box 3.3).

**Decentralize some of the simpler maintenance and/or repair services.** Many health staff seem to think that decentralizing some maintenance and/or repair tasks to the local private sector could improve efficiency and performance. The fact that local staff / DHS pay out of pocket for motorcycle repairs, while a financial burden that health staff should not be expected to bear, demonstrates that some capacity to carry out repairs exists at district level. Formally decentralizing maintenance and repair...
would require (i) ensuring that technical capacity exists, and (ii) adjusting the financial and administrative systems to allow for purchasing it at the district/local level.

_i. Technical:_ A simple system of certification of local mechanics could be introduced to establish what level of routine maintenance or repair can be carried out locally, perhaps in collaboration with other ministries maintaining vehicle fleets in districts. Different district-level mechanics could receive different levels of certification, depending on their competencies. One could also consider adjusting the contractual arrangements with the central supplier to include services such as ensuring spare parts are stocked for delivery to district certified mechanics, and even the training of district/local mechanics.

_ii. Financial/administrative:_ MoH procedures would need to be adjusted to allow for local maintenance or repairs to be paid. This could occur in one of two ways. They could be paid for out of the imprest. Current MoF and MoH guidelines do not permit this. Funds would need to be replenished based on the acquittal of vehicle maintenance and repair spending within pre-approved limits. An alternative, particularly if more significant maintenance and repair services were to be decentralized, would be to introduce contracts for local providers managed by the central level and paid for via CPVs and purchase orders through the district sub-Treasury offices (when they are established). Moving to framework contracts, which use a single payment (or a very small number of payments) that covers the routine maintenance of the entire district fleet, rather than requiring repeated payments for every maintenance service, as is practiced currently, would be a tremendous improvement.

**Consider staffing the districts (or groups of districts) with dedicated transport managers, or expand the training and responsibilities of drivers to include routine maintenance activities.** In 2009, driver training was virtually non-existent, and there is still a need for increased attention to driver skills, including routine maintenance. Clear district level responsibility and accountability for ensuring that maintenance schedules are observed is also needed. A less ambitious alternative may be to establish a regular maintenance round of the districts to be carried out by the centrally-based mechanics; currently this occurs on an _ad hoc_ basis.

**Provide back-up vehicles.** A list of back-up vehicle requirements for the districts is needed, along with a deployment plan. It may be possible to align this with the existing technical support that the Australia Department of Foreign Affairs and Trade (DFAT) and Charles Kendall Consulting are currently providing.

**Develop a consolidated transportation policy and manual.** Changes to the operating and financial procedures should be consolidated into a transportation manual to avoid continued ambiguity over issues such as motorcycle maintenance, reimbursement, and responsibility for vehicle recovery. Transportation policy should cover asset registration and management, including clear triggers for registering new assets from various sources. The policy and manual would need to be widely disseminated.

In conclusion, the recommendations of this chapter are aligned with the existing PFM Roadmap of the MoH. This means that an overall policy framework for the implementation of the recommendations is in place. First, the Roadmap calls for an asset management system to be introduced in 2014, including district data entry capabilities and linkage to the Freebalance system’s asset management module. Second, the Roadmap envisages the development of budget
templates for linking annual plans to budgets (2012–2015), which should include planning norms for routine vehicle maintenance and estimates for repairs. As with the recommendations of the other chapters, these recommendations need to be discussed, and planned for, with the various ministries and, in particular, the Ministry of Health. Ideally this would be in the context of the development of an action plan, likely focusing initially on ensuring these planning templates come to reflect both district needs and final budget allocations.
Endnotes

1 Interview, Dili DHS (10 May 2013).
2 Mark Nicholson, Transport Management System Situation Analysis (World Bank, December 2009), 5.
3 This may be explained by donated motorcycles whose information may not be properly recorded, and possible inconsistencies in how motorcycles were reported to the survey team across different districts.
4 District Staff Participant, Health Resource Tracking Study Consultation Workshop, World Bank Office, Dili (5 December 2013).
5 The central inventory provided to the study team consists of an excel spreadsheet detailing vehicle assignments, types, serial numbers, source, conditions, users. Vehicle year is not recorded. The spreadsheet is not version controlled and, so, it is unclear when last it was updated.
6 Interview, Ministry of Health Staff (8 May 2013).
7 District Staff Participant, Health Resource Tracking Study Consultation Workshop, World Bank Office, Dili (5 December 2013).
8 District Staff Participant, Health Resource Tracking Study Consultation Workshop, World Bank Office, Dili (5 December 2013).
9 As described in the chapter on Operating Cash, budgetary control over goods and services expenditure in the Ministry of Health is generally exercised at the economic category level, meaning that expenditures are checked against the remaining goods and service budget for that district as a whole before being approved, not against the individual line item.
10 Contract No. RDTL-MS-DNSHE-09-C-0001.
11 Contract No. RDTL-MS-CAMS-11-325-B-0004A and Amendment No. 2 of same contract.
12 Package A is for 5,000 km, package B is for 10,000 km, package C is for 20,000 km and package D is for 200,000 km.
13 Contract No. RDTL-MS-DNSHE-09-C-0001, Annexes I-III.
15 Interview, District DHS staff.
16 Nicholson, Transport Management System Situation Analysis, 6.
17 DHS Director, Health Resource Tracking Study Consultation Workshop, World Bank Office, Dili (5 December 2013).
18 DHS Director, Health Resource Tracking Study Consultation Workshop, World Bank Office, Dili (5 December 2013).
19 Interviews, Oecusse (19–23 July 2013).
20 The community is not identified in order to protect survey respondents.
21 Interview, District Health Director.
22 The Logistics department only provided complete documentation for five transactions across the sample districts for 2012.
23 CPV 25/7/2012, PO 31/08/2012, PR 6/9/2012.
25 Interviews, CHC staff (various dates).
27 Ibid., 7.
28 The use of complementary periods, for which there are ample precedents, have advantages, but also disadvantages. See Tommasi (2007) for a discussion (endnote xxiii).
30 Discussion with International Finance Corporation
### ANNEX 3A Status of Vehicles and Motorcycles as per MoH Vehicle Inventory, by District, 2013

<table>
<thead>
<tr>
<th>District</th>
<th>Cars and ambulances</th>
<th>Motorcycles</th>
<th>Total</th>
<th>Percentage Working</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Can be repaired</td>
<td>Beyond Repair</td>
<td>Working</td>
<td>Total</td>
</tr>
<tr>
<td>Aileu</td>
<td>4</td>
<td>7</td>
<td>11</td>
<td>64%</td>
</tr>
<tr>
<td>Ainaro</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>82%</td>
</tr>
<tr>
<td>Baucau</td>
<td>2</td>
<td>8</td>
<td>10</td>
<td>80%</td>
</tr>
<tr>
<td>Bobonaro</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>63%</td>
</tr>
<tr>
<td>Covalima</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>82%</td>
</tr>
<tr>
<td>Dili</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td>78%</td>
</tr>
<tr>
<td>Ermera</td>
<td>1</td>
<td>11</td>
<td>12</td>
<td>92%</td>
</tr>
<tr>
<td>Lautem</td>
<td>3</td>
<td>9</td>
<td>12</td>
<td>75%</td>
</tr>
<tr>
<td>Liqua</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Manatuto</td>
<td>12</td>
<td>12</td>
<td>100%</td>
<td>3</td>
</tr>
<tr>
<td>Manufahi</td>
<td>1</td>
<td>11</td>
<td>12</td>
<td>92%</td>
</tr>
<tr>
<td>Oecusse</td>
<td>1</td>
<td>9</td>
<td>10</td>
<td>90%</td>
</tr>
<tr>
<td>Viqueque</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>82%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
<td><strong>2</strong></td>
<td><strong>112</strong></td>
<td><strong>137</strong></td>
</tr>
</tbody>
</table>

Source: MoH Logistics Department, May 2013.
Cross-Cutting Issues and Recommendations

Improving the planning, budgeting and execution of funds for operating cash, fuel, and vehicle repair and maintenance is expected to improve the delivery of primary health care services in the districts. Chapters 1 through 3 analyze each of these three types of resource flows in-depth and make recommendations specific to each. In addition to the issues and challenges that are specific to each of those flows, there are a number of problems in each phase of the public expenditure management cycle that affect all three of these parts of the goods and services budget. This overview presents these cross-cutting issues. It also provides a set of recommendations to address them and summarizes the main recommendations for each of the resource flows provided in the previous chapters.

Cross-Cutting Issue 1: A Disconnect Between Planning, Budgeting and Reporting

The National Health Sector Strategic Plan (NHSSP) provides a sufficiently detailed policy framework that articulates overall sectoral goals and targets. With a view to attaining these goals, the MoH has also focused on improving the planning of district-level activities. For example, the MoH Department of Planning, Monitoring and Evaluation has developed guidelines, as well as a set of planning templates, to support district-level planning, and organizes planning workshops intended to facilitate activity-based costing and the correct assignment of routine activities (such as travel) to the corresponding programs and line items. As a result, districts now produced detailed implementation plans (DIPs) for most of their activities.

However, these activity plans are not yet effectively reflected in the goods and services budget of the District Health Services (DHS) and their subsidiary facilities. The goods and service budget is still prepared on a line item basis, rather than by program or activity, and examined that way during the national budget process. As is typical with budgets formulated in this way, the line item budgets are mostly set incrementally (i.e. based on the previous year’s budget), or in an arbitrary way that reflects an overall budget ceiling but does not take into account the specific activities or needs of the district (Chapter 1). Consequently, the district level goods and services budgets are not particularly closely related to the activity plans of the districts, their needs or their cost structure. One indication is how widely the district goods and services budgets vary when calculated on a per capita basis, from about US$1.25 to almost US$6.00 per person (Chapter 1). While needs and costs no doubt vary among districts, this is too wide a range to reflect actual differences in the cost of providing needed services.

The disconnect between activities/need and budget allocation is also found in the budget allocations for specific line items. Vehicle
fuel is budgeted at one of several fixed levels and does not appear to be based on district implementation plans (DIPs) or on district realities, such as the number of vehicles or geographic area to be covered; there is similarly no correspondence between the districts’ fuel allowances for generators and the number of facilities (Chapter 2). The district level vehicle maintenance and repair budget is perhaps the clearest case of arbitrary budgeting: in 2013 it was a flat rate of exactly US$29,000 per district—regardless of the size of the district, the number of vehicles in use, their mileage or their condition (Chapter 3).

Overspending and variability in budget execution rates across line items and across districts provides strong evidence of the mismatch between activities/needs, on the one hand, and budget allocation, on the other hand. This can be clearly seen in Figure 4.1 where, for each line in the goods and services budget, the blue indicates the district with the lowest execution rate, while the red indicates the highest, and the green is the average. Two conclusions stand out:

- There is a tremendous difference between the lowest and highest budget execution rates of all line items, meaning that the budget for each item is typically not credible or related to actual needs and uses;
- Local travel and fuel (both for vehicles and for generators) are, on average, the most heavily overspent items, suggesting particularly poor planning and budgeting for these items, or alternatively that these are areas where funds and resources are being misused or diverted.

Overspending on the fuel budget reduces the availability of funds in the goods and services budget for other items that are presumably also important for service delivery. This undermines the credibility of the budget as well as erodes its usefulness as a planning and control tool (Chapter 2). A similar approach is likely adopted for the vehicle repair and maintenance line item where, while the average 2013 execution of district vehicle repair budgets was about 90 per cent, execution rates ranged from only

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**FIGURE 4.1 Variation in Budget Execution Rates of Districts’ Goods and Services Budgets, by Line Item, 2013**

![Figure 4.1](image-url)

Source: MoF FMIS data, 2013.
41 per cent of the budget (in Ainaro) to virtually 200 per cent (in Manatuto) (Chapter 3).

Despite the variation at the line item level, budget execution of the goods and services budget as a whole is more consistent; each district remains within its overall budget allocation, and spends over 90 per cent of its allocation. There is more variation across districts if only imprest line items are considered (Figure 4.2). Five of the thirteen districts overspend, while two manage to execute only slightly more than 80 per cent of the budget. This co-existence of wildly inaccurate budgeting of individual line items combined with almost perfect execution rates at the category level shows that expenditures are not being controlled at the line item level. Instead, it is the overall goods and services budget for a district that guides expenditure. When spending requests come to the MoH, they are checked against the overall goods and services budget for the district, not the individual line item and, as long as there is a remaining balance under the goods and services budget for that district, the expenditure is approved by the MoH Finance Department. This lack of line item control is particularly problematic because different parts of the goods and services budget are “held” at different levels of the health system. The MoH can initiate spending on centrally procured items (such as fuel and vehicle maintenance/repairs), while the DHSs spend their imprests: if either level overspends it will not be prevented from doing so by the Finance Department until the overall goods and services budget is used up (Chapter 1).

It is important to emphasize that the consistent execution of the overall goods and services budget by districts does not mean that these budgets are well planned; rather it shows that the districts use what is available but these amounts are not linked to planning or needs across districts. This difference is illustrated, among other ways, by the accumulation of dramatic debts at the district level to suppliers and also to health staff who sometimes pay out of pocket when facility funds are not available. Accumulated debt is not formally recorded in the books; it obligates the districts to a set of payments in advance of any control being exercised on the basis of plans or budgets. It arises both because of debts incurred in previous years that could not be paid with the available

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**FIGURE 4.2** Budget Execution of Goods and Services Budget Compared to Imprest Fund Line Items, 2013

![Graph showing budget execution comparison](image)

*Source: MoF FMIS data, 2013.*
budget or processed in time, thus reflecting the generalized under-budgeting and overspending at the district level, and also because of the lateness of the first annual payment to the districts. It also occurs across line items, indicating that a systematic response is needed. The accumulation of debt means that, once received, the first transfers of operating cash, fuel and vehicle maintenance of every year are often used to pay debts for activities already undertaken, contributing to erratic budget execution, undermining credibility of the budget, and compromising service delivery in subsequent periods (Chapter 2).

**Recommended Measures to Improve Planning, Budgeting and Reporting**

Carry out an audit of all debt at district-level. As discussed above, there are large undeclared debts owed to suppliers. Debt is used to cover shortfalls in the operating budget (imprest), and also in the other two expenditure items included in this study, namely fuel and vehicle maintenance/repair. Without properly quantifying the scale and nature of debt, budget mismatch (between allocation and need, and between allocation and expenditure) will continue. Given the extent of accumulated debt, the MoF might consider a “complementary period” after the end of the year (as is sometimes allowed in other countries), when pending payment orders can still be paid from the previous year’s budget. This would not resolve the debt problem, but could potentially ease some issues of carry over (Chapter 1).

Use national program targets to guide district plans and budget allocations, and provide timely indicative budget envelopes to the districts that reflect these allocation criteria and district needs. Budget planning in the MoH should reflect the goals and targets of the sector’s strategic plan, such as for the share of resources allocated to primary care (Chapter 1). The distribution of these resources among districts should move from the current practice of arbitrary or incremental increases over the previous year’s line item allocations to a rationalized allocation that reflects absolute need, and variation in need across districts. One way to rationalize resource allocation could be to move towards a formula-based allocation with elements of capitation financing of districts and facilities, possibly adjusted for relevant district characteristics such as remoteness or population density, over the medium-term. These efforts would be aided by a medium-term or multi-year budget framework for the ministry as a whole.

**Strengthen planning and budgeting for district level cash, fuel and maintenance and repair requirements.** The district-level planning templates introduced by the MoH Planning, Monitoring and Evaluation department are useful tools for costing activities at the district level during the MoH’s budget preparation process. It is recommended that they also include a maintenance plan for all vehicles, with an associated budget, based on an accurate vehicle inventory (which includes vehicle type, age and mileage) (Chapter 3). District Implementation Plans (DIPs) should also include planning for fuel use, based on the number of vehicles and expected travel (Chapter 2).

**Use program/activity based budgeting in the chart of accounts.** The districts and the MoH are increasingly using a program- and activity-based costing and budgeting framework, while the national budget is still organized (and approved) around a line item structure. Consequently, it may be advisable to include both program and line item breakdowns in the budget submission. The national chart of accounts supports such an approach. The MoH budget review committee that, according to the Public Financial Management Roadmap, will be established to review all division proposals could support this shift (Chapter 1).
Cross-Cutting Issue 2: Late and Slow Release of Funds

The late release of the first payment of the year and slow processing of subsequent payments, across all three budget areas examined in this study, impedes service provision in the districts.

District operating cash is supposed to arrive as an “advance” payment, but the first installment is typically received several months into the year; late-April was the earliest in 2013 (Chapter 1). This delay is often blamed on the late approval of the national budget by Parliament (which was passed in March in 2013), but public financial management laws intended to prevent delays in budget execution in the case of the national budget being held up are not being used effectively (Chapter 1). It also takes an average of 45 days to process an advance payment. This timeframe is quite variable, though—it can be half this length of time or as long as three months. A final problem with the execution of operating cash payments, discussed in Chapter 1, is that there are frequently reductions in the amount of, or even a complete cessation of, payments to districts as the end of the year approaches.

Fundamentally, the imprest system as operated in Timor-Leste is unsuited to the purpose of providing a regular recurrent budget to local units. The imprest requires an activity proposal to approve payments, and these payments must be fully expended before a new imprest can be released. This system causes a gap at the beginning of the process, and again at the end while acquittances are processed. Regardless of the speed of processing, the system will cause a delay in payments and should be re-examined.

Similar problems affect the requisition, delivery and payment of fuel. In 2013, initial fuel deliveries were only in April, and the fuel company waited an average of 62 days, but sometimes up to 77 days, for payment after submitting an invoice (Chapter 2). There are significant delays at every point in the processing chain in the MoH Logistics Department and MoH Finance Department, including the approval of the CPV. Fuel suppliers expressed reluctance to fill requests when there are large outstanding debts.

For vehicle maintenance, the length of time from when the supplier requested payment for work completed to when the MoH requested payment from the MoF was never less than two months, and sometimes well over four months. In 2013, no payments were made before May, and most of these were debt payments for work carried out in the previous year (or even earlier). Steps to improve document processing would improve the speed of payment, and potentially the ability of the suppliers to continue their work (Chapter 3).

Recommended Measures to Improve Payment Release

Simplify the steps to release district operating cash, submit the CPV for the operating budget at the start of year, and “push” the first payment of the year based on approved expenditure plans. Districts should prepare annual and quarterly expenditure plans for expenditures in their activity plan and within the approved budget. Expenditures on these items could be paid directly at district level as soon as district treasury offices and DHS bank accounts are available; until then they can be included in advance payments, possibly with estimates posted in advance against the corresponding line items. The MoH Finance department should control against line items, and there should be a single primary budget holder (either central or district) for each item of expenditure, to prevent overspending (Chapter 1). Central MoH needs to exercise control only over that part of the budget that covers centrally procured goods/services. The Ministry should require DHS-approved virements from DHS controlled budget lines to cover any overspending.

Modify the current imprest system, or replace it with a quarterly allotment, for the
majority of operating expenses at district level. The current imprest system, by requiring a proposal in advance of payments, and full acquittance before replenishment, creates delays at the front end and the back end of each installment. This delay cannot be removed only through speeding processing times. There is a need to both use expenditure plans in place of proposals and allow request for replenishment before the end of the quarter. The Ministry of Health and the Ministry of Finance should explore modification of the imprest, or preferably the use of a regular quarterly allotment and direct payment for the majority of district recurrent expenditure.

Develop a budget norm or formula for allocating a small amount of flexible operating cash for districts and CHCs based on activity level, population served, geography and other factors, which could be implemented as an imprest for unexpected repairs and shortages with only minimal requirements to trigger replenishment. DHSs would run subsidiary flexible imprests (petty cash) for CHCs as they do now, but based on a clearly budgeted amount. CHCs should also receive their first payment on a “push” basis, and replenishment should require simplified documentation when balances fall below a certain threshold. Such a grant could serve as a pilot activity for a larger, more decentralized operating grant system in the future.

Ensure the duodecimo provision is used as intended to allow the execution of funds before the budget is passed. The late passage of the national budget should not be an impediment to processing of the first quarterly payments for operating cash or contracted services.

Improve the speed of processing requisitioning and payment documents. The slow processing of propustas, commitment and payment vouchers (CPVs) and purchase orders (POs) delays payments to DHSs and suppliers. Streamlining the authorization of CPVs for routine expenditures would help to alleviate this problem (Chapter 2). One might also consider creating a complementary period for payment requests into January, providing confidence to suppliers that payment requests for late-year deliveries will be honored. The MoH Logistics and Finance departments should implement time-bound performance guidelines for processing steps.

Provide training to the districts on finance and reporting. Proper training on finance and reporting would help speed the existing imprest system, allow the proper administration of subsidiary imprests intended for the community level, and enable the district level operating budget to be executed locally rather than through cash “advances” after the establishment of district bank accounts and/or local treasury branches.

Cross-Cutting Issue 3: Weak Contract Management

Fuel and vehicle repair/maintenance services are procured through centrally managed contracts with suppliers.

The centralized system for fuel procurement was adopted to avoid budget overruns and shortages as well as concerns about diversion of resources. In practice, though, this system does not control overspending of the budget, and does not yield the expected bulk discounts (Chapter 2). Beyond the slow processing of payments, other problems include the late signing of the contract(s) with fuel supplier(s) and failure to communicate (and initiate) timeous renewal of contracts leading to uncertainty among suppliers and a reluctance to deliver fuel at the end of the year (Chapter 2).

Management of contracts for vehicle repair and maintenance services has also been weak. Contracts are extended through amendments that are approved well after the lapse of the initial agreements (Chapter 3). Contract terms define a range of repairs and maintenance
services, but do not include terms for the transport of vehicles to and from Dili should they be immobilized. There are also no specific terms that allow for the option of district-level provision of routine maintenance.

**Recommended Measures to Improve Goods and Services Contract Performance**

**Ensure that the annual procurement cycle starts promptly.** Management of contracts needs to be strengthened, both in terms of the time taken to initiate the contracts, and the time taken to extend or modify existing contracts. Another recommended measure is the development of provisions that allow for the extension of the previous year’s contract on a month-by-month basis, as well as implementation of the 1/12 regime (duodecimo) to allow payments to be made even if there are delays in the passage of the national budget.

**Set performance criteria for the supplier and for MoH.** Supplier contracts for fuel and vehicle maintenance and repair should include maximum response times, ensuring sufficient stocks of spare parts, and routine maintenance timetables with related penalties. The MoH could also set performance standards for itself to improve internal payment performance (Chapter 2). Contracts also need to clearly specify who is responsible for the recovery of immobilized vehicles and might also include incentive payments for good performance, or minimum standards to be met for contract renewal (Chapter 3).

**Decentralize some simpler maintenance and/or repair, and fuel provision.** Decentralization requires (i) ensuring that technical capacity for these services exists at the local level, and (ii) adjusting the financial and administrative systems to allow for local contracting and payment if available (Chapter 3). Moving toward a mixed system where central provision is combined with some flexible budgeting for local purchases of fuel or repairs might ease the problems caused by delays in completing contracting at the start of the year.

**Consider a more ambitious solution of outsourcing to the private sector a comprehensive package of fleet provision and management services, including the provision of fuel.** Similar services are currently being piloted for the ambulance fleet, while the International Finance Corporation (IFC) is also exploring options for the privatization of some health inputs with the MoH, including outsourcing vehicle management. Currently, the many challenges and PFM issues associated with providing these services directly may mean that outsourcing these services is a more efficient, and effective, alternative. However, this approach would not be without its challenges. The MoH’s capacity to manage straightforward goods and services contracts is currently extremely lacking and there may also be limitations to the extent to which the MoH can realize the normal cost advantages of privatization via the competitive bidding process. Any effort to introduce a system of framework contracting would require a major effort to upgrade contract management capacity, as well as improvements to national regulatory capacity. Such upgrading would either require support to existing structures to improve their performance, for example through introducing performance criteria as outlined above, or the wholesale creation of a new MoH contract management unit and national regulatory institutions. In light of this, it may be most prudent to proceed simultaneously on two tracks: immediately implement the incremental reforms described above within the existing system of vehicle maintenance/repair and fuel provision, while exploring the feasibility of a more ambitious outsourcing that would require cross-government buy in and a large investment in management capacity (likely supported by development partners), and possibly best undertaken as part of an inter-ministerial effort.
Conclusions and Next Steps

Together, these cross-cutting issues contribute to a self-perpetuating cycle. The district goods and services budgets are not well linked to national policy or district-level plans or needs, making the budget a poor expression of primary healthcare goals and needs and increasing the likelihood that the budget would be over- or under-run. Also, a lack of internal controls in the execution of these budgets means that the district health services are not effectively constrained to operate within their budgets, instead obligating large amounts to suppliers and creditors that then becomes debt. This may in fact be a blessing, to the degree that these budgets do not match the needs, but the accumulation of debt and the poor budgeting exacerbate problems year after year and are unsustainable.

The late passage of the national budget, cumbersome processes, long payment processing times, and poor contract management result in delays in the initial, and subsequent, payment for all three inputs—operating cash, fuel and repairs. Districts cope with this by reducing services and or accumulating unauthorized debt to meet service requirements. Since, especially at the beginning of the year, these debts are created before any commitment is authorized, this creates liabilities for the government and contributes to shortfalls in the available budget later in the year. Both debt and the lack of budgeted imprest funds result in some districts requesting emergency funds. The existence of two different spending agencies for the same budget—the central level and the DHSs—further contributes to the tendency to overspend. Reporting on spending is then effectively redistributed among line items to match the budget ex-post, without controlling or reflecting the actual use of funds.

The biggest question raised by this study is what the MoH as an organization should do to deal with what is clearly an unsustainable situation. The basic challenges facing the Ministry of Health, and also a number of the other line ministries, are as follows:

1. How to make sure that the approved budget for each district meets the needs of the population expressed through sound activity plans, within the constraints of available resources?

![FIGURE 4.3 Poor Planning, Budgeting and Execution Reinforce Each Other](source: Authors.)
2. How to ensure an adequate, timely, and uninterrupted fund flow for operating expenditures to districts?

The answer lies in a combination of (i) a more rational, and larger, allocation of health resources for district level primary services matched to expenditure plans that are aligned with needs; (ii) modifications to the system for providing operating expenditure through changes to the imprest payment cycle or a quarterly allotment; (iii) improving the efficiency of document processing in the requisitions and payments system; and (iv) preventing overspending by different budget holders through more effective internal controls that authorize spending before it takes place. Any reform initiatives should be considered against these broad requirements.

The analysis and recommendations in this study (summarized in Table 4.1) should be translated into an action plan drawn up with inter-ministerial and subnational involvement that clearly identifies responsibility for each reform undertaken. This action plan should take as its starting point the PFM roadmap for health that has already been developed. The emphasis should be on immediate implementation of the incremental reforms that are described in Table 4.1, while simultaneously assessing the likely impact and feasibility of more ambitious initiatives, such as framework contracting with the private sector for fleet management (see Chapter 3). This discussion, led by the MoH, should include stakeholders in the Budget and Treasury departments of the Ministry of Finance, as well as district health staff.

**TABLE 4.1 Summary of Recommendations**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Cross-cutting Recommendations</th>
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<tbody>
<tr>
<td>Carry out an audit of all debt at district-level, including that which is off-the-books</td>
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<tr>
<td>Use national program goals and targets to guide district allocations and provide timely district budget envelopes</td>
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<tr>
<td>Utilize program/activity based budgeting codes in the chart of accounts, in addition to line item codes</td>
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<tr>
<td>Implement the <em>duodecimo</em> provision in order to ensure fund availability even when national budget is slow to pass</td>
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<tr>
<td>Submit the CPV for the operating budget at the start of year, and “push” first payment based on approved expenditure plans</td>
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<tr>
<td>Improve the speed of processing requisitioning and payment documents</td>
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<tr>
<td>Consider providing some flexible operating cash to the districts and CHCs, using a budget norm or formula</td>
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<tr>
<td>Ensure that contract procurement starts early to avoid delays</td>
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<tr>
<td>Include performance criteria in supplier contracts and set performance standards for MoH Logistics and Finance departments</td>
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<tr>
<td>Consider decentralizing vehicle maintenance and/or simple repair services and fuel provision to the districts, within a framework to ensure technical capacity and quality</td>
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<tr>
<td>Consider outsourcing fleet provision and management to the private sector</td>
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<tr>
<td>Clarify and standardize guidelines on expenses included in district level operating cash expenditures</td>
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<tr>
<td>Modify or replace the imprest with quarterly allotments for the majority of operating expenditures in order to allow uninterrupted release of district operating cash</td>
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<tr>
<td>Provide training to the districts on finance and reporting</td>
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<tr>
<td>Address delays in the flow of funds between district- and community-level by having clear guidelines for CHC-level imprests and “push” the funds based on these</td>
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(continued on next page)
**TABLE 4.1 Summary of Recommendations (continued)**

<table>
<thead>
<tr>
<th>Recommendation</th>
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<tbody>
<tr>
<td><strong>Fuel</strong></td>
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<tr>
<td>Plan for the fuel budget allocation based on district needs, including vehicles, travel and distance requirements</td>
</tr>
<tr>
<td>Clarify specifically how motorcycle fuel should be planned for, where it is budgeted, and at what levels it can be procured since this is not well understood by facility staff</td>
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<tr>
<td>Consider a complementary period for fuel payment requests in order to reassure providers that they will be paid to minimize interruptions in service toward the end of the year</td>
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<tr>
<td>Improve budget reporting on fuel expenditures and use</td>
</tr>
<tr>
<td>Permit local procurement of fuel in addition to or in place of in-kind delivery</td>
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<tr>
<td>Modify the voucher system to include district-specific or reserve vouchers</td>
</tr>
<tr>
<td>Produce guidelines for, and provide required, equipment to ensure adequate CHC-level fuel supplies and reserves</td>
</tr>
<tr>
<td><strong>Vehicle Maintenance and Repair</strong></td>
</tr>
<tr>
<td>Establish an easily and regularly updateable asset register for vehicles and motorcycles</td>
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<tr>
<td>Perform vehicle economic evaluation and establish guidelines for replacement and disposal of defunct vehicles</td>
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<tr>
<td>Rationalize the distribution of existing vehicles according to terrain and need</td>
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<tr>
<td>Establish a planning and budgeting process for district-level maintenance and repair requirements</td>
</tr>
<tr>
<td>Distinguish budgeting, requisition and payment processes for maintenance from that of repairs</td>
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<tr>
<td>Build performance incentives into the contracts of national suppliers of repair services</td>
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<tr>
<td>Consider decentralizing maintenance and/or repair to the districts under framework contracts for the whole district fleet</td>
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<tr>
<td>Staff districts with dedicated transport managers, or expand the training of drivers to include routine maintenance</td>
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<tr>
<td>Provide back-up vehicles for use when vehicles are being repaired</td>
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<tr>
<td>Consider outsourcing fleet provision and management services to the private sector</td>
</tr>
<tr>
<td>Develop a consolidated transportation policy and manual, and disseminate it widely</td>
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</tbody>
</table>
Endnotes

1 As described in Chapter 1, there are inconsistencies in the existing guidelines on eligible imprest items. For the purposes of this overview, however, these are considered to include all line items except fuel for vehicles, fuel for generators, utilities, rental of property, and vehicle maintenance.