

# Mid Term Review of TIM 2010

## Assistance in developing the management of the petroleum sector in Timor-Leste

Final Report

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The Bridge Group

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The report is presented in a series, compiled by Norad to disseminate and share analyses of development cooperation. The views and interpretations are those of the authors and do not necessarily represent those of the Norwegian Agency for Development Cooperation.

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Mid Term Review  
of  
TIM 2010 – Assistance in developing the  
management of the petroleum sector in  
Timor-Leste

Prepared for



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5. July, 2007

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### Assistance in Developing the Management of the Petroleum Sector in Timor-Leste – Mid Term Review

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### **ACRONYMS**

ADB	Asian Development Bank
BPA	Banking and Payment Authority
CMATS	Treatment on Certain Maritime Arrangements in the Timor Sea
DAC	Development Assistance Agency
DNPG	Direcção Nacional de Petroléo e Gas
EITI	Extractive Industries Transparency Initiative
HRD	Human Resource Development
IMF	International Monetary Fund
JPDA	Joint Petroleum Development Area
LNG	Liquefied Natural Gas
NINA	Norsk Institutt for Naturforskning
MFA	Norwegian Ministry of Foreign Affairs
MoPF	Ministry of Planning and Finance
MNRMEP	Ministry of Natural Resources, Minerals and Energy Policy
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
NPD	Norwegian Petroleum Directorate
NPRA	National Petroleum Regulatory Authority
OECD	Organisation for Economic Co-operation and Development
PSC	Production Sharing Contract
TSDA	Timor Sea Designated Authority
UNDP	United Nations Development Programme
UNTAET	United Nations Transitional Administration in East-Timor
USAid	United States Agency for International Development

# 0 Summary

The petroleum assistance project in Timor-Leste is clearly unparalleled to any other project Norway has been supporting within this sector. This is mainly due to the mobilisation of a large number of long-term advisers to be located in Dili.

Despite having an almost 100 year history as a petroleum province, Timor-Leste has just recently started an accelerated development towards becoming a significant oil and gas nation. The petroleum fund has now exceeded \$1.2 billion and is increasing by \$100 million per month. The main challenge for Timor-Leste today is to improve its capacity to implement the national budget.

The petroleum revenues today are coming from the Joint Petroleum Development Area. But Timor-Leste also has substantial potential within their offshore and onshore sovereign areas. Blocks within the offshore area were licensed in 2006. The present organisation reflects the different legal status of the areas, with the TSDA being responsible for the JPDA and DNPG within the Ministry of Natural Resources, Minerals and Energy Policy with responsibility for the sovereign area. The TSDA and DNPG are in the process of being merged into a new National Petroleum Regulatory Authority. This new organisation will represent a quantum jump in terms of capacity. The new NPRA should be the basis for planning an extension of the Norwegian support.

The petroleum assistance project was prepared with a basis in a request from Chief Minister Alkatiri dated 19 October 2001. The agreement between the Governments was signed 10 March 2003, and an institutional cooperation agreement between NPD and the Ministry of Development and Environment 10 September. Subsequent addendums have been signed in response to the approval of additional advisers to the project.

The goal of the project clearly reflects capacity building as the key focus of the assistance restricted to the upstream part of the value chain. The project matrix presented in the project description is kept very open with a limited definition of activities and output. This is probably done in order to have substantial flexibility for the implementation. Apparently the emphasis on flexibility has been at the sacrifice of a thoroughly prepared project implementation plan, including an exit strategy and risk assessment. A more comprehensive planning process could also better have detected the substantial voids in local capacity, and at an early stage identified the additional need for external resources. It should also have been clearly understood that the initial project period of 5 years would not be sufficient for a capacity building process to be completed.

A large part of the initial focus has been on the licensing of the Timor-Leste sovereign areas. This process has reached a milestone through the awards of PSCs to ENI and Reliance. The licensing process was accomplished in a very professional manner in full conformity with best international practices also for transparency and good governance. It may still be questioned why the large majority of companies with an initial interest did not submit an application. In this context the effect of the active role of the foreign advisers should be further assessed. It should also be discussed if a more moderate pace of implementation could have been followed to allow an improved sustainable capacity building to take place.

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The circumstances of the licensing round give background for a more principal discussion of the role of the advisers. The mandate of the advisers is incontestable to accomplish or act as a catalyst for capacity building in support of the project goal. Hence, their contributions in operational positions in the organisation should be limited, as well as acting as an adviser for issues that clearly fall outside the project scope.

The initial capacity both within DNPNG and the government institutions in general, was surprisingly low. Moreover, for several adviser positions no local counterpart was in place. The presence of a minimum of one counterpart for each adviser to be mobilised should be a firm requirement for the project implementation.

The flexibility included in the project has been utilised to accommodate various requests arising. Significant resources were made available to cover technical consultancy services for the Sunrise development. While the importance of improving the feasibility studies is undisputable, it is apparent that technical consultant services within the midstream segment hardly can be said to contribute to the effectiveness and efficiency of the project.

The Norwegian support to the petroleum revenue management has been substantial both as a part of the petroleum assistance project and as financial support for positions organised through IMF. The contributions from the advisers have been instrumental to the establishment of the petroleum fund and its operation. The potential impact as to transparency and good governance goes far beyond the fund itself.

Initiatives have been taken to initiate capacity building also within the environmental sector. The environment organisation however, appears to be weak and below a critical minimum to achieve sustainable capacity building.

The complex and fragmented support to the Timor-Leste petroleum sector suggests that improvements as to the organisation both in Dili and Norway should be considered. There is a need for focal point in Dili with a strengthened mandate. The project manager for the petroleum assistance project should have a revised and amended scope of work to include a responsibility for personnel and for the communication between advisers. This should include all advisers with Norwegian funding.

The scope of the Norwegian support is far outside the normal responsibility of NPD. The appropriateness of the institutional cooperation model for the Timor-Leste assistance project should be discussed. An alternative model may imply to outsource the project coordination responsibility to the private sector. NPD should maintain its responsibility for resource management and participate in the project reference group. A similar role should be assigned to the Ministry of Finance. The continued support within the area of revenue management should assume that MoF is prepared to act in a supporting role.

The large number of different contracts supporting the various assignments also raises certain legal issues. This is related to the principles for public procurement and to what extent a single source selection of advisers can be used.

The external education has met most of the indicators specified in the project description. Language training in English has well documented positive results. The introduction of the small grants programme in favour of Bachelor degrees in Indonesia has proven to be a highly efficient measure for a broad support.



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The project has been analysed according to the DAC principles. It has been concluded that the project has high relevance although no policy or strategic document exist that can verify conformity to the Government's priorities. The main goal of building sustainable administrative capacity in Timor-Leste will not be met and the effectiveness is only moderate. The lack of counterparts has reduced the efficiency of the project. The project will not be sustainable within the duration of the approved project due to the length of the petroleum life cycle. Direct positive impact is evident, and the applied principles of transparency and good governance may also have a significant indirect impact.

The continuation of the project should be based on the new National Petroleum Regulative Authority from the merger of TSDA and DNPG. The new organisation will have capacity on international level in a number of areas. The Norwegian support should only be as advisers to defined local counterparts. Operative positions in the organisation should be recruited and financed by Timor-Leste. The petroleum sector development should be discussed from the perspective of optimising capacity building and for the sector to function as a catalyst for generation of employment and development of local services and technology.

A security plan for the project should be issued and comprehensive security briefings made for the advisers before departure and at arrival in Dili. The security situation should be improved to ensure adequate support in emergency situations. Additional contract for security services should be considered. The medical emergency should also be strengthened and an immediate access to professional medical personnel needs to be secured. A dialogue with UN and other appropriate institutions in this respect is suggested.

# 1 Introduction

This review has been prepared in response to a request from NORAD and the Terms of Reference of 28 March 2007 (attachment 1). The review is addressing the project '*Assistance in Developing the Management of the Petroleum Sector in Timor-Leste*' registered with project number TIM 2010. The Norwegian support to the Timor-Leste petroleum sector however, has been provided in response to a set of different requests. Hence, the support has become complex and fragmented supported by a set of different contracts. This review will also look into these contracts to assess the overall picture and the interaction with TIM 2010.

The review is a 'Mid Term Review'. As the name implies the review should have taken place halfway through the project implementation. Indeed the review was on the agenda in the SCM on 25 May 2005, who '*agreed to the proposal of carrying out a mid term review now, and to include it in this year's budget*'.<sup>1</sup> At the next SCM on 16 November 2005, the following statement was minuted: '*Regarding the planned mid-term review, Mr. Kvadsheim, informed that NORAD had decided to take responsibility for the process, and that it would be carried out during first half of 2006*'.<sup>2</sup>

At the annual meeting on 26 January 2006 a further postponement was agreed with the following decision: '*An interim review of the project should be conducted late 2006 or early 2007. Norad will initiate the process and provide funding for the review outside the project funds*'.<sup>3</sup> In the same meeting it was pointed out that there was no provision or procedure in the agreement between Norad and MoPF for an external review and that the agreement should be amended. Finally the annual meeting on 1 February 2007 confirmed the intention to carry out the Mid Term Review, now with the intention to be completed by April 2007.<sup>4</sup>

The agreement regarding TM 2010 states that the project is going to be completed in 2008. The long series of deferments of the Mid Term Review has as a consequence that this activity now takes place far beyond the mid point of the project. Hence, the potential impact of the review on the implementation of the remaining part of the approved project will be limited. However, a process is presently ongoing to prepare a proposal for extension of the programme. With this perspective the review may come closer to a mid point for the total programme and also serve as an input in the decision process towards a possible continuation of the assistance to the petroleum sector.

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<sup>1</sup> SCM no 4, 25. May, 2005, Minutes

<sup>2</sup> SCM no. 5, 16. November 2005, Minutes

<sup>3</sup> Annual Meeting, 26. January 2006, Minutes

<sup>4</sup> Annual Meeting, 1. February 2007, Minutes

## 2 Timor-Leste Petroleum Sector

### 2.1 *History*

The petroleum sector of Timor-Leste comprises the onshore and offshore sovereign areas and the Joint Petroleum Development Area (JPDA). The JPDA is administered by the Timor Sea Designated Authority (TSDA).

Onshore Timor-Leste has been recognised as a prospective petroleum province since early in the last century. The occurrence of surface seeps of oil and gas has been widely documented and an initial attempt of commercial exploration commenced in 1914. Subsequent exploration campaigns however, did not document any basis for additional sustainable production. No onshore activity has taken place during the last 30 years.

In 1975 the Greater Sunrise oil and gas field was discovered in the Timor Sea, and in December the same year Indonesia invaded Timor-Leste. Indonesia and Australia conducted lengthy negotiations for a seabed boundary, but were unable to agree on a boundary to close the Timor Gap. However, they were able to make an agreement to share the oil revenues and signed the Timor Gap Treaty in this respect in December 1989. The treaty established a Zone of Cooperation (ZOC) between Timor-Leste and Australia north of the median line. It provided for Indonesia-Australia joint exploration of East-Timorese sea territory with revenues shared 50/50. The treaty was ratified and effectuated 9 February 1991.

This marked the start of the award of PSCs within the defined ZOC, which eventually resulted in series of discoveries, the most significant being the Bayu-Undan gas/condensate field operated by Conoco-Philips.

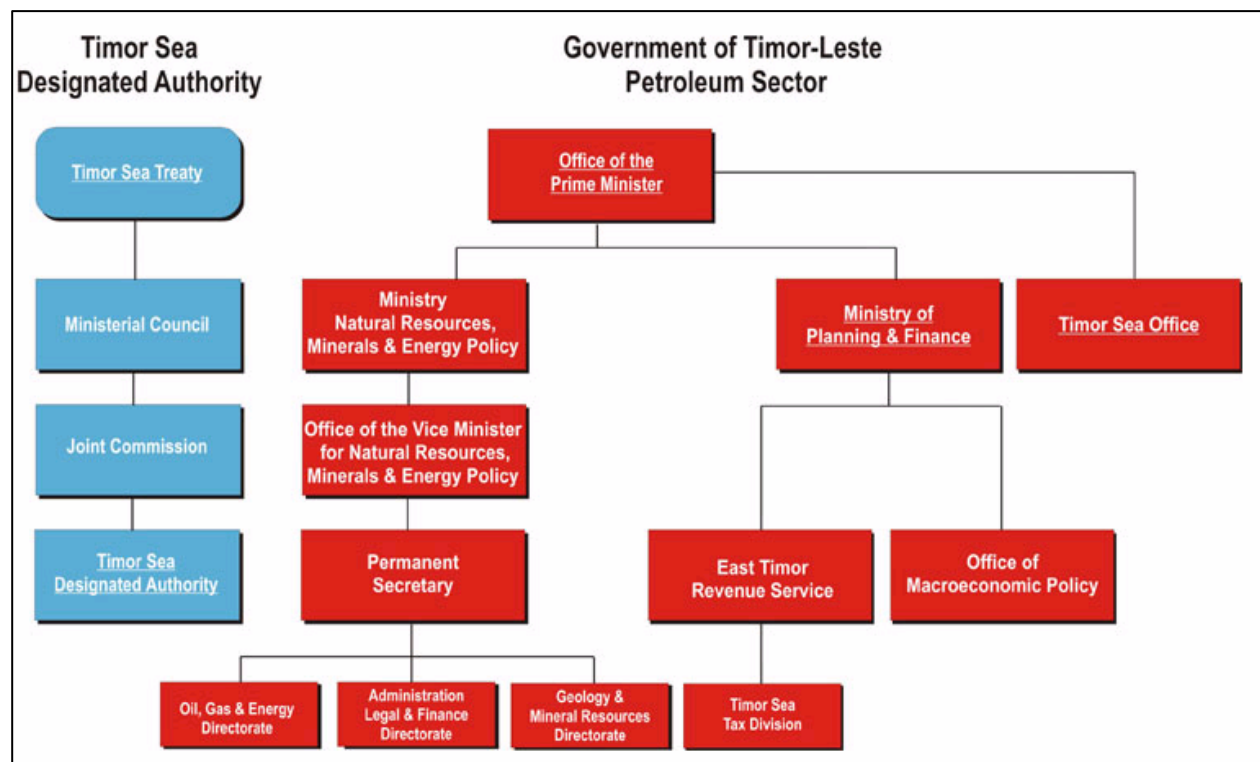
Following an interim Memorandum of Understanding after the Indonesian withdrawal in 1999, the Timor Sea Treaty was signed at the day of independence 20 May 2002. This treaty reflected a revised revenue sharing allocating 90% of the revenues to Timor-Leste. The treaty came into force 2 April 2003.

The condensate production from the Bayu-Undan field commenced in February 2004, and the first LNG was shipped from Darwin in January 2006.

For a comprehensive and excellent summary of the exploration history and the various agreements regulating area between Timor-Leste and Australia, reference is made to the report '*Norwegian Development Support to Timor-Leste's Public Petroleum Sector*' prepared by Michael Steinfeld.

## 2.2 Organisation of the sector

As a consequence of the Timor Sea Treaty and the definition of the Joint Petroleum Development Area, the structure of the petroleum administration is also complex. The Timor Sea Designated Authority (TSDA) was established pursuant to the treaty signed between the Timor-Leste and Australian Governments. The TSDA is the organisation responsible for the administration and authorisation of all petroleum related activities in the JPDA. In this capacity the TSDA represents the interest of both Timor-Leste and Australia.



The Government of Timor-Leste's petroleum sector is administered by the Ministry of Natural Resources, Minerals and Energy Policies (MNRMEP). In addition the Ministry of Planning and Finance (MoPF) and the Timor Sea Office have important roles in the government's petroleum policy, especially financial management, regulatory aspects and matters regarding sovereignty and jurisdiction.

The MNRMEP was until June 2006 under a bi-ministerial posting, in which then acting Prime Minister Mari Alkatiri was responsible as the Minister of the MNRMEP. The new Prime Minister devolved this arrangement and separated the MNRMEP from the PM's portfolio.

## 2.3 Revenues and economic impact

The petroleum fund in Timor-Leste has already exceeded \$ 1.2 billion and is increasing by about \$100 million per month. The substantial increase in the revenues started in October 2006 when the Bayu-Undan field reached the point for profit oil. Hence, the revenue will continue at a high level corresponding to the combined result of production and oil and gas

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prices. The Sunrise field will have a potential of generating revenues for Timor-Leste in the same magnitude as from the Bayu-Udan field. As there is still a discussion on the development of the Sunrise field and in particular as to the landing point of the gas produced from the field, the exact timing of this development is still uncertain.

An agreed level of withdrawal from the petroleum fund has been agreed. This level is 3% of the combined value petroleum fund account and the discounted value of the reserves remaining to be reduced. This will represent a level of about \$270 million per year that can be included in the budget. As this is more than 80% of the total budget, the petroleum revenues will be critical to the development of Timor-Leste. Today's challenge is the budget execution and only a small portion of the budget is implemented. The slow budget execution is due to heavy centralization of expenditure management, tight expenditure and procurement controls, weak capacity in ministries and poor communication between the MoPF and line ministries. Further, most of the line ministries and districts do not have the computer systems necessary to monitor their budget execution rate<sup>5</sup>.

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<sup>5</sup> World Bank (August, 2005): World Bank Country Assistance Strategy for Timor-Leste FY 06-08

## 3 Petroleum Development Assistance Project

### 3.1 *Background for assistance*

Assistance projects emerge through a process over time. When Chief Minister Alkatiri submitted his request for Norwegian assistance within natural resource management on 19 October 2001, the issue had probably already been an agenda item at a series of meetings. Visits both by development and parliamentary missions took place in 2000. The Minister of Development, Ms. A.K. Sydnes, visited Timor-Leste in March 2001, a visit that certainly matured the basis for bilateral Norwegian assistance.

This period also coincided with the general refocus of Norwegian assistance moving from being short-term humanitarian to take a long-term development perspective. It also implied changing the financial support from being channelled through the multilateral and international organisations to increasingly being allocated through bilateral programs.<sup>6</sup>

The request from Chief Minister Alkatiri was further addressed by a high level Norad visit to Dili in November 2001 and the re-visit of the minister to Norway the following month. Agreement was reached for a Norad/NPD fact-finding mission that took place February/March 2002.

A MoU outlining the main features of the future development cooperation was signed between the two countries on the day of independence, 20 May 2002. The MoU identifies ‘sustainable management of natural resources’ as one of three programme objectives.<sup>7</sup>

Apparently the Timor-Leste government put forward their request for Norwegian assistance following an internal assessment concluding on the Norwegian principles and system as the most appropriate to be used as a model for Timor-Leste in developing their petroleum sector management.<sup>8</sup> However, a main motivator is also likely to have been the well developed connections to Norway, and the expectations as to the Norwegian preparedness to continue the support to Timor-Leste also within the energy sector. As the driving force may have been less related to the subscription to “the Norwegian model”, there should perhaps also be less reason for disappointment or surprise if the Norwegian assistance team is not consulted on every issue.

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<sup>6</sup> Bilton: Guidelines for Norwegian Support to East Timor for the transition periode to independence

<sup>7</sup> MoU (2002). Between Norway and Timor-Leste concerning Development Cooperation

<sup>8</sup> Kvadsheim; 27.03.2007

### 3.2 *Petroleum assistance project design*

NPD presented their report from the mission on 12 June 2002.<sup>9</sup> In that document they present the recommendation for an institutional cooperation assistance project. A financial frame for the support of NOK 30 million is indicated, and an outline for a two-phased approach presented. The proposal was supported by Norad who also underlined the need for a flexible approach.<sup>10</sup> The extraordinary flexibility is a characteristic of the Norwegian assistance, which allows a demand-driven approach to be followed.<sup>11</sup> This aspect will be further discussed as it may compromise the need for project steering.

The approval document was approved by NORAD on 31 July with a financial frame of NOK 30 million in line with NPD's proposal. The document further states:

*'According to NPD there will be no need to have an expert on a permanent basis in Timor-Leste'*

With reference to the subsequent development of the project, this assumption could hardly have been more out of touch with reality. It is a valid question how this conclusion was reached. The reason is probably that the absence of competence within the Ministry and other institutions in Timor-Leste was difficult to fully comprehend. Presentation of the local staff stating various university degrees was interpreted in a western context, and the inadequacy of local degrees was not understood.<sup>12</sup> In hindsight a more in-depth analysis should have been made during the mission, but it was understandably difficult to grasp this point during the initial planning phase.

The reality of the situation emerged during the subsequent missions by the project team. And in the spirit of flexibility, the course of implementation was changed and the concept for having advisers present on a permanent basis prepared.

The approval document further refers to that NPD should enter an institutional cooperation agreement with a **relevant counterpart** in East Timor.<sup>13</sup> This vague term was used as no counterpart had been identified at this stage. This continued to be a headache for the project, as the authorities were unable to settle this question until March the following year. The absence of relevant institutions obviously makes the implementation of an institutional cooperation structure difficult and will have a negative impact on project efficiency.

The formal agreement between the governments of Norway and Timor-Leste for the project was signed on 10. March 2003. Following the clarification that the Ministry of Development and Environment should be the formal counterpart to NPD in the institutional co-operation, an agreement was signed in this respect in April. However, as the legal department in NORAD had some concerns and comments<sup>14</sup> a revised agreement was finally signed 10. September 2003.

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<sup>9</sup> NPD (2002): Mulig bistand til Øst-Timor innen petroleumssektoren

<sup>10</sup> Norad; Notat 21.06.2002

<sup>11</sup> Norad (2007); Evaluation of the Norwegian Petroleum-related Assistance, Evaluation Report 1/2007

<sup>12</sup> Kvadsheim; 27.03.2007

<sup>13</sup> TIM 2010 Appropriation Document, 31.07.2002

<sup>14</sup> Norad; Notat 28.05.2003

### **3.3      *Revisions of the project***

The Embassy received a request from the Ministry of Planning and Finance dated 19 May 2005 for the financing of 5 advisers to various functions related to the management of the petroleum revenues. On 25 August a second request was received from The Ministry of Energy, Minerals and Petroleum Policy for the financing of two experts, within geology and law respectively.

The requests were granted and two addendums to the initial agreement between Norway and Timor-Leste were made. Addendum 1 was signed 13 October 2005 providing a grant of NOK 3.5 million to finance a fiscal and petroleum fund advisor and an investment management adviser.

Addendum 2 was signed 27 January 2006 providing a grant of NOK 11 million for five additional advisers and contingency funds for extension of selected positions. Addendum 3 for an extension of the period for the BPA adviser was signed on 28 July 2006.

These amendments being made to the project created several challenges to the implementation as the scope of services became very wide and extended far beyond the competences of NPD who had signed the initial institutional cooperation agreement for the implementation of the project. This challenge will be discussed in more detail later in the review.

NPD eventually signed an addendum to the existing institutional cooperation agreement on 15 February 2006 with the Ministry of Natural Resources, Minerals and Energy Policy (MNRMEP) as the appropriate unit after the ministerial restructuring. The scope of services included the new group of advisers also with a major activity directed towards the management of the petroleum revenues.



## 4 Methodology

### 4.1 *Mid Term review – purpose*

The mid term review presented in this report is made in response to the Terms of Reference dated 28 March 2007. These ToR give the following statement as the purpose of the review:

*The purpose of the Mid term Review is to review the overall progress of the project and assess the extent to which the Project is achieving its objectives, as well as to make recommendations regarding steps to be taken that would enhance the overall efficiency and effectiveness of the Project. In reviewing the progress, due consideration should be given to administrative, technical and institutional aspects of implementation respectively.*

This purpose suggests that the review is expected to be conducted in line with general practices for such assessments. No specific issues or concerns are put into focus. As the review is performed closer to the end than the mid point of the project, it is expected to have limited impact to impose changes for the remaining implementation of the approved project. The scope of review however, states that the conclusions will form a basis for a decision of an extension of the project. A draft proposal for a project continuation is presently being prepared. This proposal however, has not been prepared in time for this review. The review is primarily looking backwards to evaluate what has been done. It will however, also be forward looking and provide recommendations to reflect some of the learning from the first phase.

### 4.2 *DAC principles*

The DAC (Development Assistance Agency) principles suggest that the review should be done with due emphasis on the following project characteristics: relevance, effectiveness, efficiency, sustainability and impact. These characteristics are also explicitly or implicitly reflected in the purpose and scope of work for the review provided in the ToR. Although the review has been presented in a more open format, a summary chapter where key project observations relative to the DAC principles have been made.

### 4.3 *Implementation of the review*

The review has been carried out by combining information from project documents and interviews with project stakeholders. The project documents represent a main challenge, as no complete files are available. While the key legal and decision documents can be identified, the supporting documents and correspondence appear to be incomplete. This is partly a function of the transfer of responsibility which has taken place from Norad to the Embassy

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and that no complete transfer of files have been carried out. It is also a result of far from perfect routines for electronic filing in general and a not too clear division of responsibility between NPD and the Embassy as to where different documents are kept on file.

During the preparation phase in Oslo and the mission to Dili (15 April – 4 May, 2007) most stakeholders have been interviewed. Unfortunately, Minister Teixeira was unavailable for more comprehensive discussions due to the ongoing election campaigns. Also the World Bank was not available in Dili during the mission period.

Still a large number of available stakeholders have provided a basis for a triangulation approach and allowing key topics to be discussed with different perspectives.

## 5 Project Implementation

### 5.1 *Project Goals and Objectives*

The project description dated 11. April 2003 is included as an annex to the contract between NPD and the Ministry of Development and Environment. The following project goal is stated:

*..... to assist in developing the management of the petroleum sector in Timor-Leste, such that the public sector petroleum administration in Timor-Leste will be capable of managing the upstream petroleum activity without significant use of foreign advisors.*

The goal is broad and ambitious which is commonly seen in an attempt to provide a solid justification for a project. Despite lacking a very specific formulation, there are still two elements providing guidance. Hence, the project goal is to ‘*develop the **management** of the petroleum sector*’. This implies a clear focus on capacity building. Further, the goal limits the project to the ‘*upstream petroleum activity*.’

The Project objective is stated to be:

*..... to provide institutional cooperation between the NPD and the MDE and associated institutions in Timor-Leste performing petroleum sector management functions for a period of six years at an estimated cost of NOK 30 million (4.2 mill USD), such that the Norwegian experience of developing a public sector petroleum administration can benefit Timor-Leste, and such that NPD’s technical expertise and other Norwegian and international expertise can be utilised in developing a well-functioning petroleum administration in Timor-Leste.*

The objective of a project should provide a description of the situation that is expected to prevail as a consequence of the project. Hence, the objective should describe the achievement of the Project outside the Project’s direct control. Clearly the institutional cooperation between NPD and the MDE is not a proper objective as this is not a situation that is targeted to prevail, but a structure of the cooperation to achieve the project goal.

### 5.2 *Project Indicators and Output*

The project description further gives a set of quantitative and qualitative indicators as well as a set of outputs. Again there appears to be a somewhat strange use of these terms. Hence, the indicators provided can in general rather be categorised as output while the given output statements are closer to being activities within the project. Although the project document would have benefited from a more specific and precise use of terms, there is a general a collection of statements within the project matrix supporting the overall goal of petroleum sector capacity building.

The outputs from the project are formulated as very open statements. This includes formulations as '*Workshop in relevant areas*' and '*Consultancy support in relevant topics*'. The purpose of an output statement is to describe what is considered to be the guaranteed results from the project. The output statements included in the project description in general express a far too low and imprecise ambition level. This may be an intended lack of details to allow a very flexible approach to project execution.

### **5.3      *Exit strategy and risk assessment***

Two important issues are lacking in the project description: the exit strategy and the project risk assessment. This must be regarded as a major weak point in the project document and the planning process. The petroleum assistance project is in its nature complex and would be implemented under difficult framework conditions. It would be prudent project planning to define the key risk factors and assess to what extent they could be mitigated or how the project should respond to changes in the assumptions.

But even more important is the exit strategy. First, it should have been realised that the project period would be too short to build a sustainable project administration in Timor-Leste. The characteristics of the petroleum cycle should strongly suggest that a longer perspective was used as a planning basis. Further, it should have been discussed how the Norwegian advisers should be phased out and how alternative capacity should be established.

### **5.4      *Key Activities and Results***

A review would normally assess whether the activities have been implemented in accordance with the project objectives stated in the legal documents. A strict interpretation of this mandate would conclude that a set of activities are outside the scope defined in the project document. This is however, to some extent necessary in order to respond to changes in the assumptions and to ensure efficient implementation. In certain cases it will also be important to accommodate specific requests from the Timor-Leste management. A very strict interpretation of the project frames can easily marginalise the advisers and reduce project effectiveness.

Several activities have taken place within the frame of the project. A selection of these activities will be commented in more detail below:

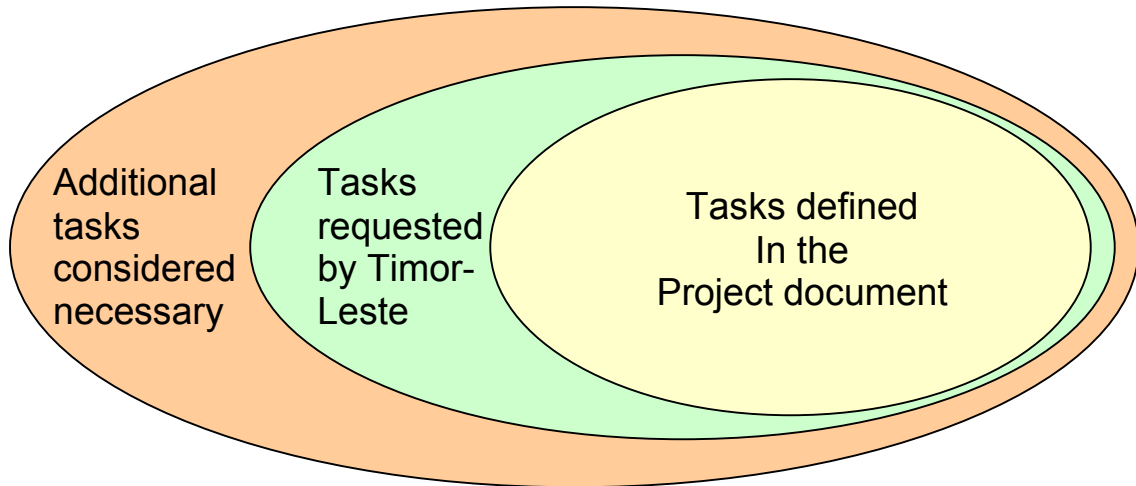


Fig. 5.1 Different activities performed as a part of the project

#### 5.4.1 Training needs assessment

Analysis of education needs and training capacity was identified as a specific output in the project document. This activity was implemented through the engagement of a long-term consultant working in Dili the first half of 2004, and producing an end report under the title *'Human Resource Development in the Timor-Leste Public Petroleum Administration'*. While this is a comprehensive document and provides some valuable overviews of educational institutions, the document seems to have limited value in serving as an educational needs assessment. The document is not used by the project today.<sup>15</sup> A training needs assessment can only be adequate if based on a functional analysis. As this was not done and also the ministry reorganised after the project was completed, the value of the document will be limited.

#### 5.4.2 Licensing of the Timor-Leste sovereign offshore area

When the first Project Manager, Mr. Geir Ytreland, took up his position in Dili in January 2004, he immediately started the preparation of a concession round for the Timor-Leste sovereign offshore areas. He devoted a major part of his capacity up to the termination of his assignment in March 2006 to this activity. This focus was in line with the brief received from NPD referred to in his report<sup>16</sup> which as one of four points states: *Create revenue generating activity, and activity in general within the petroleum sector*. This formulation however, can not be found in the Terms of Reference attached to his contract with NPD.<sup>17</sup> A reason for this focus on activities may be a response to statements made by Mr. Alkatiri who wanted the DNPG to be involved in operational tasks.

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<sup>15</sup> Denham; 18.04.2007

<sup>16</sup> Geir Ytreland (June, 2006); Final report – End of contract, advisor

<sup>17</sup> Contract between NPD and Geir Ytreland; Attachment 1

However, in his report Mr. Ytreland gives further arguments in support of the concession round. Hence, he states that it was the potential for revenue generation that was the main argument for putting focus on the licensing efforts: *GY decided to pursue a project management that concentrated on the earliest possible generation of petroleum revenue – to alleviate poverty....Time is very much at issue, and given the time it will take to develop the expected petroleum revenues in Timor-Leste, it is imperative not to lose any undue time.*

This focus on keeping the process on a fast-track schedule was a key motivating force for the implementation. The achievements were in many ways very impressive and both the initial seismic survey and the subsequent concession bidding round were taking place at a pace substantially faster than any expectation. However, this could only be achieved by putting less emphasis on the local capacity building and by the adviser moving into a very operative function.

It can be questioned if this fast implementation was necessary, and if not a more moderate schedule could have been followed with more focus on the local capacity building. One of the indicators in the project description states: *At least one sales/licensing round/establishment of a PSC should have been carried out without significant help from external advisers.* Both this specific indicator and the overall project goal of building the capacity for managing the petroleum sector strongly suggest that more focus should have been put on this aspect. Clearly, attempts for active involvement of the local staff was made during the process. But when the director of the DNPG as a main candidate for capacity building was abroad for education during a major part of the licensing process period, the overall result could not be optimal.

A key argument for the selected pace of implementation was the urgency in generating petroleum revenue. However, it was clear also in 2004 that Timor-Leste would receive major revenues from the Bayu-Undan field within the joint area. Today the accumulated revenue in the petroleum fund exceeds \$1.2 billion and continues to increase by \$100 million per month. The established procedure for sustainable withdrawal from the fund allows about \$270 million to be used in the national budget annually<sup>18</sup>. The main challenge for the government of Timor-Leste is not to increase the petroleum revenue, but to improve the capacity to implement the budget.<sup>19</sup>

The pressure exercised by the political leadership to develop activity is noted, and is an essential factor for the implementation of the project. However, no documentation have been found suggesting that alternative schedules were discussed to see how a licensing process could be conducted and at the same time focusing on the main goal of maximizing long-term capacity building. It is the conclusion of this review that the schedule for implementation was too fast and that this has reduced the effectiveness of the project.

The licensing process was without doubt conducted in a highly professional manner according to international best practices. Particular emphasis was put on the principle of good governance and that the whole process should be conducted with focus on transparency and clear criteria. This was a clear principle both for the initial seismic acquisition project and the subsequent bidding process.

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<sup>18</sup> Iversen; 30.04.2007

<sup>19</sup> Rasmussen; 30.04.2007

The process was implemented through a series of events and milestones starting with the road show and ending with the final awards made to the two companies ENI and Reliance.

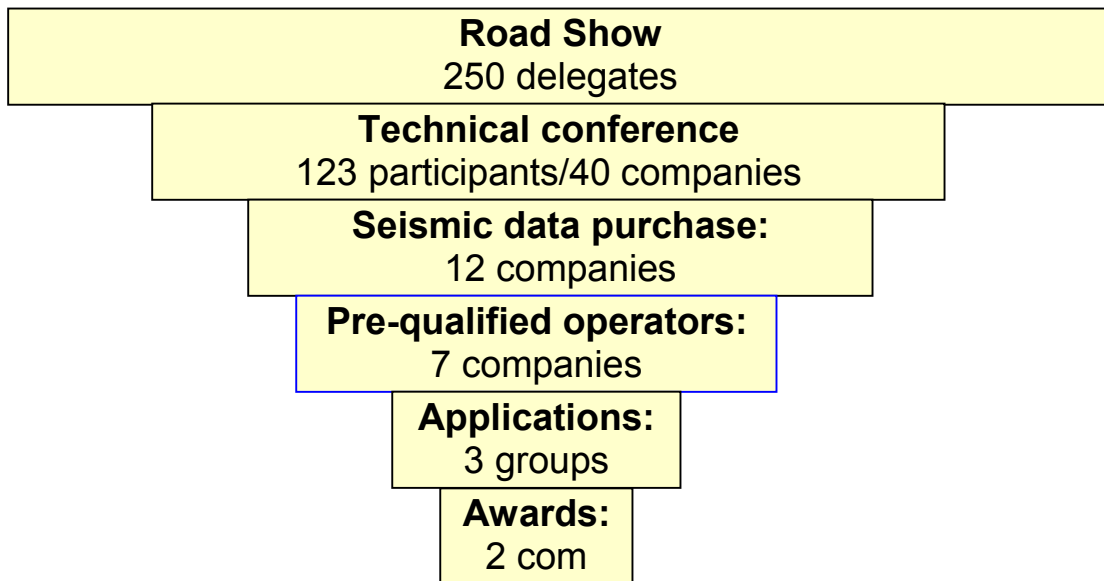


Fig. 5.2 Process followed for the Timor-Leste offshore licensing

The overview of the participating companies at each stage of the process documents a normal trend where a high initial interest is reduced when decisions involving major financial commitments have to be made. The reasons why companies select not to make an application for a license can be several including geological risk, poor data quality, substantial water depths, high exploration cost, portfolio considerations etc. Also the political risk will be an element of concern to some companies.

However, there are also some major reasons why companies should be attracted to the opportunities. Foremost, the Timor Sea area is a proven petroleum province with some major untested structures. Further, the region is characterised by several active petroleum companies; Indonesia has next to the US the highest number of license holders in the world. On this basis, it may be questioned whether 3 applications represent a full realisation of the investor potential.

Two additional reasons for the modest response may be offered. First, the Timor-Leste sovereign area was offered at the same time as relinquished areas were offered from the JPDA. As companies always will have a budget limitation to their engagement in a province, they will normally not be in a position to make applications for both areas. It can be questioned if presenting both the JPDA and the Timor-Leste sovereign blocks simultaneously to the market was an appropriate strategy.

A final question can be raised regarding the potential impact of conducting the license round with the advisers in a very dominant and visible role. While it is obvious that the contributions from the advisers have been instrumental in ensuring that a high quality concession round process has been conducted, the impact of this effort on the oil companies' final appraisals is uncertain. It can not be ruled out that oil companies can be concerned on this adviser dominance as they are aware that they will have to rely on the Timor-Leste

government for all long-term future issues related to their license. If the competence of the Timor-Leste government to act as a future competent counterpart is not visible, this may be a factor adding on to the political risk that the oil companies will apply in their appraisal process.

While it remains speculations what has been the reasons for more than 40 companies that selected not to proceed into an application phase, this could have been answered through a proper survey where companies were questioned about their decision process. This exercise has not been carried out by the project, but would obviously have a potential for providing valuable information.

### **5.4.3 Sunrise Field Development**

The Sunrise field was discovered already in 1974, but the undetermined legal framework made it impossible for the license group to take a decision on development. In 2004 a feasibility study was presented from the operator suggesting that the gas from the field should be brought to Darwin to be processed in a LNG plant. The report concluded that a pipeline to Timor-Leste would be an unfavourable alternative both in terms of cost and operational risk. The study had major weaknesses. This was pointed out by the adviser Mr. Tore Bjordal, leading Woodside to agree to additional studies of the issue<sup>20</sup>.

Mr. Sverre Lund was engaged as a pipeline expert for more detailed assessment of the operator's concept and arguments. Mr. Lund concluded that a pipeline to Timor-Leste both would be feasible and with a similar cost to the alternative pipeline to Darwin<sup>21</sup>.

It is obviously important for Timor-Leste to take an active position in order to ensure that the proper feasibility studies are carried out. As such the contributions from Mr. Bjordal and Mr. Lund were important to this process. Still the pipeline is only one of the key issues to a development. Hence, the feasibility study of the land facilities conclude that a LNG plant build in Timor-Leste will cost at least 23% more than a similar facility build in Darwin<sup>22</sup>. Also the purchasing price for the gas from a LNG plant would probably be to Timor-Leste's disadvantage<sup>23</sup>.

Some concerns regarding the Norwegian engagement in the Sunrise field issue can be raised. Mr. Sverre Lund was contracted through his company Lucon A/S for the pipeline review in what appears to be a single source selection despite a contract size of NOK 600,000 exceeding the normal threshold for competitive bidding. Also the rates exceeding NOK 1400 per hour for international work appears to be high compared to rates established under the Oil for Development program. The final cost for the consultancy provided exceeds NOK 960,000<sup>24</sup>, which further indicate that a competitive process should have been followed for this contract.

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<sup>20</sup> Kvadsheim; 26.03.2007

<sup>21</sup> Lucon A/S, (January 2005); Pipeline crossing of Timor Trench

<sup>22</sup> ConcoPhillips (August 2004); Sunrise Development Timor-Leste LNG Feasibility Study

<sup>23</sup> ECON (December 2006): Landing gas from the Greater Sunrise Field to Timor-Leste

<sup>24</sup> Annual Report to Norad 2004 and 2005



The scope of work for Mr. Lund was for consultant services only<sup>25</sup>. Hence, there was no element of capacity building in his terms of reference for the assignment. It can be argued that these services in principal should have been contracted directly by the Timor-Leste authorities and financed out of the petroleum revenues. The engagement of Mr. Lund however, may be defended as an emergency measure to ensure that a proper feasibility process could be followed.

Recently a new attempt was made to assist the Timor-Leste Government in the decision making process for the Sunrise field development. ECON was commissioned by the Oil for Development programme to conduct a mission to explore alternative ways forward and draft a roadmap. However, the mission following the meeting with Minister Teixeira, concluded that the government was convinced that the landing of the gas to Timor-Leste was to the benefit of the country and that they were not interested in a third party review. Adding to this was the Memorandum of Understanding that had been signed between Timor-Leste and the East Timor Development Company in Kuwait about the offtake and processing of the Sunrise gas<sup>26</sup>.

Norwegian support should only be granted where a request is submitted motivated from the need of additional information or evaluations to strengthen a decision process. For the Sunrise field development it appears that the political decision was already made. The present position of the Government on this issue does not encourage further support to the Sunrise field development from the assistance project.

#### **5.4.4 Data management**

The data management is addressed by a specific qualitative indicator in the project description: *Reliable, comprehensive and available petroleum data archive for use in promotion and for administrative purposes.*

The wording of this indicator apparently suggests a somewhat limited functionality of the data archive that is probably not intended. It is assumed that the database will be developed with a significant broader scope than just serving promotion and administrative purposes. As such it is believed that the database should be instrumental for the resource management in general.

As data management in a resource management perspective is a core area of NPD, the project has substantially benefited from the close cooperation with NPD on this issue. A number of workshops have been conducted assisting in the process of designing a functional data management system for Timor-Leste.

A key challenge has been to assemble pre-independence data of various vintages and forms and spread on different locations. Substantial progress has been made and the database now includes 23GB of data<sup>27</sup>. Apparently, further development is necessary to accommodate the requirements resulting from the need to handle the administrative and legal information from the PSCs<sup>28</sup>. It is further essential that the development of the data management system takes place with the perspective of the new organisation after the merger of TSDA and DNPG.

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<sup>25</sup> Contract between NPD and Lucon A/S

<sup>26</sup> MoU between Government of Timor-Leste and East Timor Development Company signed 6. August 2006

<sup>27</sup> Soares; 18.04.2007

<sup>28</sup> White; 26.04.2007

#### **5.4.5 Petroleum fund and revenue management**

The Norwegian assistance has provided important contributions to a wide set of issues for the government's administration of the petroleum sector. The contribution to establish a petroleum fund and establish proper regulations is one of these essential contributions. It is difficult to imagine the situation today with \$100 million per month coming in as revenues from the petroleum operations without a petroleum fund in place. The IMF was instrumental in identifying the requirement for an oil fund, but the Norwegian funded adviser Thomas Ekely was the key architect for structuring the petroleum fund. Together with the adviser for fiscal policy, this joint effort has established a modern petroleum fund with a structure that allows the principle of good governance and transparency to be employed.

The petroleum fund also appears to be an important reference for the government in general. As such it may have impact for promoting good governance far beyond the petroleum fund itself.

#### **5.4.6 Environmental assistance**

The report '*Assessing environmental needs and priorities in East Timor*' was published in February 2001. The study was conducted by the Norwegian agency NINA and commissioned by the UNDP. The report lists a set of priorities to be considered by the new government.

The subsequent discussions taking place under the project resulted in a workshop in November 2004 on environmental impact assessment (EIA). The workshop was conducted by NINA in cooperation with DNPG and the Environment Directorate. The workshop concluded on a series of action points for the future EIA work. NINA considers the situation in East Timor to represent a unique opportunity to integrate the petroleum aspect in the environmental policy from the start of capacity building<sup>29</sup>.

Provisions were made in the budget for 2005 for a follow-up EIA workshop. It was agreed that the Environment Directorate should respond with their priorities as a basis for this workshop. Despite repeated initiatives from NPD, the required input was never submitted. This lack of response recurred the following year, largely being a result of lack of competence and capacity with the authorities<sup>30</sup>. A joint mission of NPD, NINA and Norad was carried out in May 2006 as a new attempt to define an adequate future environmental program.

The Environment Directorate in Timor-Leste is a very weak organisation. The attempts to conduct capacity building through workshops and previous advisers from Portugal and Australia apparently have been unsuccessful in achieving sustainable results. The organisation appears to be below a critical level necessary to be predisposed to effective capacity building.

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<sup>29</sup> Thomassen; 12.06.2007

<sup>30</sup> Kvadsheim; 14.06.2007

## 5.5 *Project management*

The petroleum assistance project has been implemented within a standard contractual framework. This implies that it is the Annual Meeting that has the authority to approve the work plans and budgets as reflected in the country agreement.<sup>31</sup> The Steering Committee is defined in the contract governing the institutional cooperation between NPD and DNPG.<sup>32</sup> The SC is the unit responsible for the overall management of the project. It is the task of the SC to agree on budgets and work programs and to submit these to the AM for approval. It is also within the mandate of the SC to make corrective actions. However, these corrections should be made within the budget frames approved by the AM. Both in the annual meeting for 2005 and 2006 it was brought up that the SC had gone outside their authority by approving changes to the budget without consulting the AM for approval<sup>33</sup>.

As pointed out earlier the flexible approach has been a key for the implementation of assistance projects to the petroleum sector. This is also presented as one of the essential factors to the success of the project in Timor-Leste.<sup>34</sup> In the annual meeting for 2005, Norad also refers to flexibility and the authorisation provided for in the agreements to use this approach.<sup>35</sup> The AM's authority to discuss revisions and the SC's mandate to make corrective actions certainly provide an opportunity to make changes to the project. The country agreement however, makes no reference to flexibility beyond this standard management practise for complex and long-term projects.

It is important to maintain the structure for the project management and comply with the authority and mandate defined. This is of particular importance in this project due to its complexity with a large number of sizable contracts. The composition of the Steering Committee may represent a particular challenge in this context as the Minister of Energy is one of its members. This may actually put the SC at an unnecessary high level as it may be difficult to limit the authority of Minister to the frames given by the AM.

The agreement for the institutional cooperation also defines a Project Management Committee (PMC) to be established<sup>36</sup>. In addition to the institutional partners, the committee should have members from the Timor Sea Office, TSDA and the Environment Directorate. Apparently, this committee ceased to be active, but without any recorded discussion or decision. As some of the recent challenges have been associated with the lack of communication about the restructuring of the petroleum sector, it seems that an active PMC could have prevented the escalation of this problem.

It is also a need for a closer coordination within the project team. The core team working with the DNPG literally follows an open door policy and the need for shared information and coordination is mainly covered through the continuous interaction. However, the communication with the other advisers is substantially less frequent. Both to improve the exchange of information and for the team building, more frequent joint meetings are recommended. This should be reflected in a redefined responsibility for the project manager.

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<sup>31</sup> Agreement between Norway and East Timor, Article II.4

<sup>32</sup> Cooperation agreement between NPD and DNPG, Article 3.2 and 5

<sup>33</sup> Annual Meeting; Minutes 26.01.2006, 01.02.2007

<sup>34</sup> Kvadsheim, 27.03.2007

<sup>35</sup> Annual Meeting; Minutes 26.01.2005

<sup>36</sup> Cooperation agreement between NPD and DNPG, Article 3.3

## 5.6 *Accounting and financial management*

The funding of the petroleum assistance project with NOK 30 million was approved and an appropriation document issued 31 July 2002. To fund the adviser for fiscal policy and the advisor to the investment board, an additional appropriation document was approved 7 October 2005. The approved amount was NOK 3.5 million also to cover the recruitment of the next group of advisers. The funding for the adviser group was approved with NOK 11 million on 18 January 2006.

During the spring of 2003 NPD was approached by the TSO to carry out a baseline survey in accordance with international standards. It was decided to carry out this work under the established petroleum assistance budget on the understanding that the budget of NOK 0.5 million would be reimbursed at a later stage. This was done through a separate appropriation document approved on 7. December 2005. However, the supporting budget for the appropriation document of 18. January 2006 shows that the cost of the Baseline Survey is also a part of this approval. Hence, this activity has received a double funding.

The distribution of the total budget of NOK 44.5 million shows that 53% of total funds will be used to cover the cost of the advisers and project implementer. 16% of the funds will be used for external training as scholarships, grants and training. Also the initial training needs assessment study is included in this category. The NPD administration cost is 9% of the total

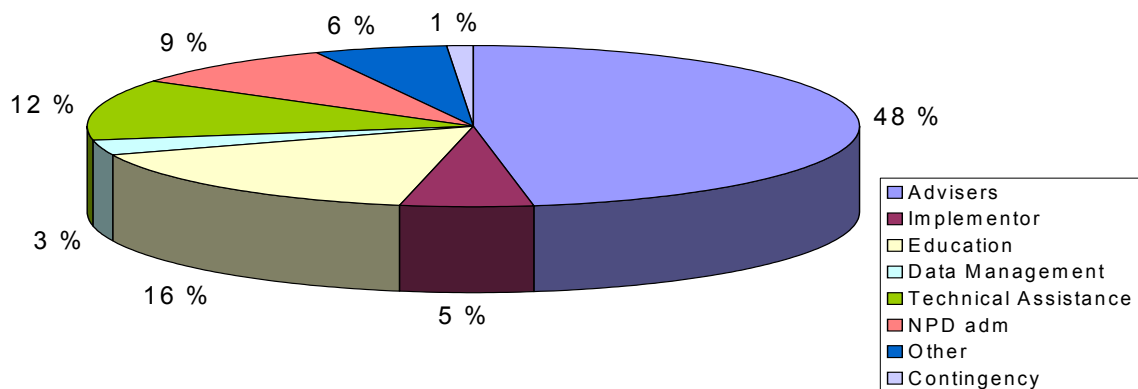


Fig. 5.3. Distribution of project funds on different activities

budget. This would have been a very modest level in a traditional institutional cooperation project where no personnel would be mobilised to stay in the receiving country on a long-term basis. For Timor-Leste a major part of the administration is carried out by the residential

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project manager and the project implementer. If we assume that they use 30% and 70% of their time for administrative purposes, a total project administration would be 17%.

The original budget was established with a considerable contingency item corresponding to 17%. This is a high level for contingency, which is typically, is 10% in assistance projects. This is probably a budgetary expression of the flexibility the project management has pointed to as an essential element in the project. The contingency item has mainly been used to cover additional adviser cost. It has also been assigned to cover the NPD administration cost which is almost 30% higher than assumed in the budgets.

Also the technical assistance is substantially higher than estimated, over 80% more than the original estimate. This budget item covers several activities, but is primarily intended for capacity building workshops. There are however, two main items causing the increase. The first is the consultancy for the Sunrise pipeline where the total resources used have exceeded NOK 1 million.

The second major item was associated with Prime Minister Alkatiri's visit to Norway. All delegation costs have been covered by the budget although the scope of this visit was far outside what can be said to related to the administration of the petroleum sector. The visit was combined with a seminar to address aspects of national oil companies. In total the event cost was close to NOK 1.2 million. This includes a generous compensation to ECON of NOK 323.000 for programme coordination and two lectures. It should be questioned whether the use of the budget for this item is appropriate and efficient.

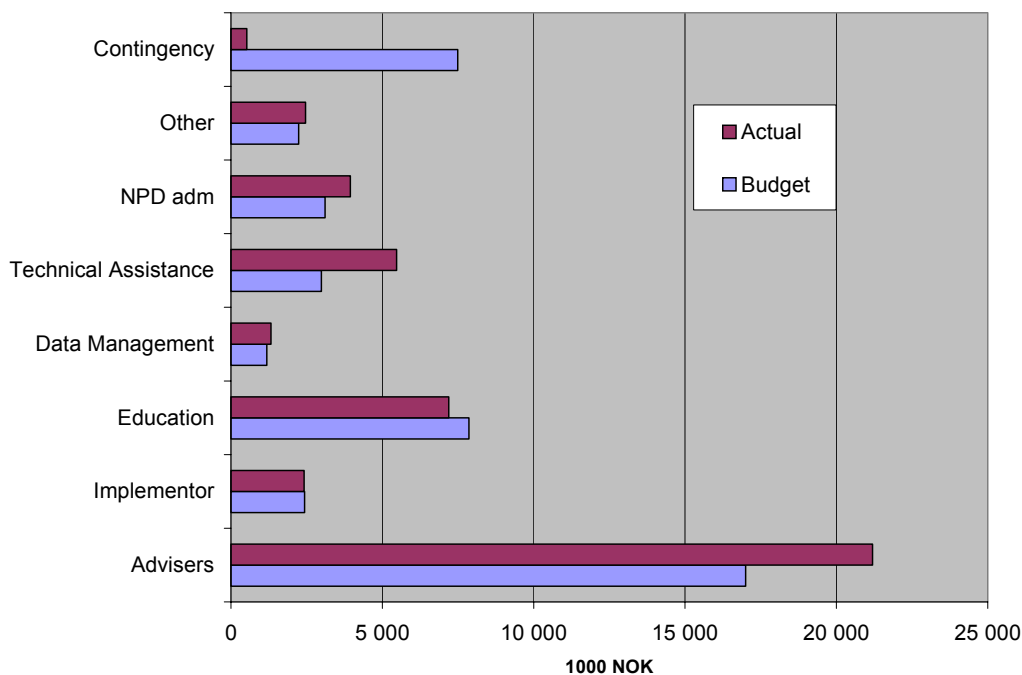


Fig 5.4. The budgets approved for TIM 2010 and the prognosis for actual cost

Discrepancies between the accounting figures reported in the annual report from NPD and the actual disbursement done by the Embassy, has been commented in the Annual Meetings<sup>37</sup>. Delays in submitting invoices from NPD represent a common challenge for several petroleum assistance projects. Also the proper use of an accrual accounting system to reflect the actual project commitments is a problem area. However, the problems with the project accounts in the Timor-Leste assistance project seems to be minor, and the presentations made in the annual reports are in general highly perspicuous.

## **5.7      *Coordination with other donors***

More than 340 different multilateral and bilateral organisations and NGOs have been registered with activities directed towards Timor-Leste. Although the number of organisations with any sizable and continuous activity is substantially lower, there is still an obvious need for coordination to avoid duplication of efforts and increase the overall efficiency.

The key organisations of importance for the Norwegian assistance have been UNDP, IMF and the World Bank. Discussion have also been held with organisations as USAid and the Asian Development Bank without identifying needs for further coordination.

### **5.7.1      United Nations**

The UN was instrumental for the administration of Timor-Leste from the autumn of 1999 up to the point when Timor-Leste was established as a sovereign and independent country on 20. May 2002. The administration during this period was established as the United Nation Transitional Administration in East-Timor (UNTAET). As a part of their support efforts the UN defined a large series of adviser positions to provide skills transfer and training. The Norwegian policy was to be very supportive of these efforts during the transition period and the Ministry of Foreign Affairs advocated a policy saying that:

*The Norwegian support should mainly go through the multilateral and international organisations working in Timor-Leste today. It is not desirable to support activities requiring independent project support<sup>38</sup>.*

As a part of the support to the UN efforts, Norway agreed to finance three of the adviser positions based on a request from the UNDP in 2002. The positions included a petroleum adviser for the Prime Minister, a second petroleum adviser for the Ministry of Energy and Development and an adviser to work on fiscal policies. The recruitment process for these positions was mainly carried out by NPD.

The feedback on the contribution of these Norwegian advisers has been unanimously positive. On a more general basis however, a large number of comments and concerns has been raised to the procedures followed by the UNDP related to adviser recruitment and use.<sup>39</sup> Apparently, the UNDP has insufficient quality control in the recruitment process. A number

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<sup>37</sup> Annual Meeting; 26.01.2005, 26.01.2006 - Minutes

<sup>38</sup> Ministry of Foreign Affairs (2000)

<sup>39</sup> Klakeg; 22.03.2007

of advisers are contracted without the necessary qualifications needed for the position. During the contract period there is also inadequate monitoring of the consultants performance if any at all. In some cases the advisers make more harm than benefit.

Finally the contract period of typically 6 months is regarded as too short to be efficient. The general view support a contract duration of 1 year as a minimum.

### **5.7.2 IMF – International Monetary Fund**

The cooperation with IMF has been close and fruitful as to the development of operation of the petroleum fund. IMF took early an active position in Timor-Leste and made an initial outline of the concept of a petroleum fund. The structure of the fund and the framework for its operation was to a large extent developed by Thomas Ekely who worked under a contract with IMF financed by Norway. The collaboration with the IMF has continued into the operational phase. Norway is presently funding an adviser position within the BPA to assist in the daily operations of the fund and to further develop the investment strategy and management. The IMF has proven to be a competent institution for these issues and a clear focus on securing the quality of their advices.

### **5.7.3 The World Bank**

The World Bank has demonstrated a clear motivation to be active in Timor-Leste. In the absence of lending projects however, the strategy appears to be lacking a clear focus. Several discussions have been carried out to coordinate efforts within the petroleum sector. Their initial initiatives to take a coordinating role appear as redundant in today's situation<sup>40</sup>.

The World Bank commonly also introduce individuals to the process without the necessary understanding of the sector and its operation. They also have a tradition for complex project processes that often prove to be too long-winded to solve the issues. An attempt to establish a co-operation regarding local content in the petroleum sector stranded as the World Bank approach proved to be inefficient<sup>41</sup>.

The Aliambata gas project can serve as one example on World Bank involvement. The project aims at collecting natural gas seeps and use the gas resources for local electricity generation. The project has a very interesting local potential as well as having a substantial positive environmental effect. The project was identified and prepared as a feasibility concept by the Norwegian advisers. However, after being transferred to the World Bank to be implemented the progress has been surprisingly slow.

In his final report Mr. Geir Ytreland gives a clear statement as to the alternative approached for development assistance<sup>42</sup>:

*Bilateral assistance works better than multilateral assistance in the petroleum sector.*

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<sup>40</sup> Kvadsheim; 27.03.2007

<sup>41</sup> Midsheim; 02.04.2007

<sup>42</sup> Ytreland (2006); Final report

## 6 Norwegian assistance

### 6.1 *Institutional cooperation structure*

Over the last decade Norway has provided about NOK 440 million in petroleum assistance to 30 different countries.<sup>43</sup> A major part of this support has been organised by means of an agreement for institutional cooperation where NPD has entered a contract with an equivalent organisation in the receiving country. Institutional cooperation has best meaning when two institutions have similar tasks and responsibilities.

The Norwegian institutional model is rather unique with a division of the petroleum sector management in three distinct areas of responsibility; the political, the regulatory and the commercial. The majority of the petroleum sector partner countries however, have different models following a history of a strong centralised economy. The industry has typically been dominated by large state-owned companies, having both a regulatory and commercial function.

In Timor-Leste the organisational model and the distribution of functions and responsibilities are still in the process of being established. Hence, there are no cemented power structures that will constitute particular challenges for the project. The responsible institutions however, have undergone reorganisation during the project period and the cooperation agreement originally signed with the Ministry of Development and Environment is now with the Ministry of Natural Resources, Minerals and Energy Policy (MNRMEP). The day-to-day implementation was originally with the Energy and Mineral Resources Directorate and is now with the National Directorate for Oil and Gas (DNPG). This primarily reflects a name change and has not imposed any difficulties for the project implementation.

A larger challenge for the traditional institutional cooperation structure however, may come from the change in character of the petroleum assistance. While the support previously to a large extent focused on the core responsibilities of NPD, the assistance now has a much broader scope. This is reflected in the Oil for Development initiative where the emphasis rests on three thematic pillars: resource management, revenue management and environmental protection. In Timor-Leste both the resource and revenue management have become major areas of cooperation. Environmental protection is proposed to be included in a possible continuation of the project. Already, the scope of support is far outside NPD's areas of responsibility and has represented considerable challenges in terms of organisation.

### 6.2 *Selection of advisers – legal aspects*

The advisers for the petroleum and the related financial sectors in Timor-Leste financed by Norway, have a set of different contractual arrangements for their engagements. This has

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<sup>43</sup> Norsk Energi (2005): The Norwegian assistance to the petroleum sector



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consequences for the project management and has certain legal implications as well. These implications relate to the employer responsibility following the different contracts and also the procurement process followed for selection of advisers. This review will only point to some aspects that deserve further evaluation.

<i>Project</i>	<i>Contract part</i>	<i>Contract type</i>	<i>Advisers</i>
TIM 2010	NPD	NPD Contract	Midseid, Waddams, Klakeg
	NPD	Consultant	Ytreland, Ender, Nordhaug, White
TIM 2015	UNDP	Consultant	Risa, Bjordal, Enoksen
TIM 2036	IMF	Consultant	Iversen
TIM 2039	TSDA	Consultant	Azevedo

Table 6.1. Different contracts for advisers within the Norwegian funded petroleum assistance

The main principle for procurement within the project is defined in the agreement for the institutional cooperation and states that<sup>44</sup>:

*All procurement shall be performed in accordance with generally accepted principles and good procurement practices, and in accordance with Timor-Leste procurement regulations.*

This review has not made any assessment of the Timor-Leste regulations, but it is stated that these procedures are in line with the regulations followed by UNDP. These are again largely in concurrence with other multilateral and international organisations and follow well established and accepted principles. As the majority of the advisers have been identified through processes coordinated by NPD, it has largely been the NPD procedures that have been followed. The review has not noticed any areas where these procedures should deviate from generally accepted procurement practices.

NPD has in general followed an open processes for the recruitment of advisers. The adviser for Human Resource Development (Elke Ender) was identified through an international tender process. For the other advisers the announcement of the positions have been restricted to the Norwegian press and public procurement systems. As these recruitments were secured through a competitive process, extensions of these contracts are generally not considered to raise any problems.

The price of the advisers was not a direct selection criteria. This is also commonly not a factor in the selection process for adviser positions where the competence and personal skills are the key issues. If the financial issues should have been included they would have a minor weight in the total picture. Hence, remuneration was left as a negotiable issue, which obviously had to be agreed within the frames approved by the project with due considerations to reasonable market rates. An additional factor making the financial issues inappropriate as selection criteria, was the fact that the advisers also would have the option to enter a NPD temporary employment contract.

<sup>44</sup> Cooperation agreement between NPD and DNPG, Article 6

Within an institutional cooperation contract it is understood that the employees of the institution being involved in activities agreed within this cooperation, are exempted from competition for these assignments. This is a logical consequence of the institutional cooperation. However, no NPD employee has been suggested for any of the adviser positions.

Within the approved adviser positions was also an adviser to work with fiscal policies within the Ministry of Planning and Finance. An employee with the Ministry of Finance in Norway, Mr. Sigurd Klakeg, was identified for this position. As a consequence this position was removed from the external recruitment process. Apparently, the recruitment of employees within the government structure for adviser positions is viewed as exempt from competition, although the Ministry of Finance has not entered any institutional cooperation agreement with a counterpart in Timor-Leste. While there is no doubt that a resourceful person was identified and that alternatives would be difficult to find outside the ministry, it should still be questioned how far a single source selection can be used in these situations.

As positions related to fiscal issues clearly are outside NPD's area of competence, alternative ways of managing these positions were attempted. A dialogue was held with the World Bank who expressed their willingness to take on the responsibility. However, the World Bank requested that a procurement process should be followed prior to the selection with a minimum of 3 CVs.<sup>45</sup> However, Norad considered the selection of Klakeg as a preferred solution and did not want any competitive process.<sup>46</sup> As a result NPD stepped in and assumed responsibility for the practical sides.

Mr. Terje Iversen was engaged through IMF to work as an adviser for the management of the petroleum fund in BPA. Apparently, the engagement was agreed based on an initiative from Mr. Iversen and made as a direct award without any further competition.

As a contribution to the large number of adviser positions identified by UN as important for the development of Timor-Leste, Norway agreed to finance three of these positions. The recruitment of the positions as petroleum adviser and financial adviser was carried out by NPD through an open process contracting Mr. Tore Bjordal and Mr. Halvor Enoksen for the two positions respectively.

The third position was a petroleum advisory position to the Prime Minister. Mr. Einar Risa was identified as a candidate for this position by the Ministry of Foreign Affairs in Oslo. Initially UNDP required that the selection should be based on a process where at least three alternative CVs could be considered. However, they later waived this condition without providing any statement to which legal basis was used for a single source selection<sup>47</sup>. Mr. Risa was subsequently engaged as the Director of the TSDA and also served as a member to the Commission of the Joint Area.

Towards the end of his term as director for TSDA, the Timor-Leste Government requested his position as adviser to be extended. This request was approved with a contract extending to year end 2006. It can be questioned whether a single-source-selection in favour of Mr. Risa is in accordance with good practices for procurement.

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<sup>45</sup> Berg, World Bank; email 05.08.2005

<sup>46</sup> Roti; email 08.08.2005

<sup>47</sup> Koreh; email 24.09.2002

The law on public sector procurement of 30 June 2006 and its corresponding regulations underlines competition as a main principle for all procurement processes<sup>48</sup>. This principle prevails regardless of the size of the contract although there are thresholds triggering different procedures to be followed. It is not clear from this law and regulations however, what will be acceptable criteria for granting exceptions. The World Bank guidelines for selection of consultants may serve as reference to the accepted international practices.<sup>49</sup>

*3.9 Single source selection shall be used only in exceptional cases*

*3.10 Single-source selection may be appropriate only if it presents a clear advantage over competition: (a) for tasks that represent a natural continuation of previous work carried out by the firm ... (d) when only one firm is qualified or has experience of exceptional worth for the assignment.*

*3.12 If the initial assignment was not awarded on a competitive basis....a competitive process acceptable to the Bank shall normally be followed in which the consultant carrying out the initial work is not excluded from consideration if it expresses interest.*

Mr. Risa has obviously developed a unique insight in the issues in Timor-Leste as well as the personal relations. Hence, a case for a single source selection may be made. However, as his initial engagement was made on a non-competitive basis, it is recommended that a competitive process is followed for further project extensions.

## **6.3      *Advisors; roles and reporting***

The traditional institutional cooperation agreement has in most cases been implemented by establishing a project unit in the receiving country with a local project manager who communicates with NPD through a project coordinator in Stavanger. The NPD project coordinator will then make Norwegian resources available for workshops and other agreed activities. In some cases the NPD project coordinator has been stationed in the receiving country to strengthen the dialogue.

The petroleum assistance project in Timor-Leste is clearly unparalleled to any other assistance project in mobilising a number of advisers to be located in Dili on a long-term basis. Further, none of the advisers are coming from the permanent staff of NPD, nor do they have any direct experience from the public sector resource management. Complicating the situation further is the fact that Norwegian financed advisers with assignments related to the upstream activities, also are engaged outside the petroleum assistance project. This is the situation both for Mr. Einar Risa who has worked as an adviser to the Prime Minister as well as serving as the Director to the TSDA and Mr. Renato Azevedo who serves as an adviser for the present director of the TSDA. This situation raises a set of questions as to the roles and reporting of the advisers:

- How far should advisers accommodate requests from the Timor-Leste government in areas clearly outside the agreed project scope?
- Are advisers free to provide advice according to their personal view?
- Should there be requirements related to cooperation between advisers?

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<sup>48</sup> Lov om Offentlige Anskaffelser 30. June 2006 no. 41, §5; Regulations §3.1

<sup>49</sup> World Bank (2004): Guidelines: Selection and Employment of Consultants by World Bank Borrowers

As discussed under chapter 5.4 the project will carry out activities that fall outside what is defined in the project document. This will also be the situation for individual advisers. To a certain degree this accommodating attitude is necessary to build trust and confidence and as such is needed to support effectiveness of the defined project. However, there have been situations where the requested assistance has been outside what can reasonably be expected to represent the advisers extended area. These issues require clarification at the level of the Steering Committee and the Annual Meeting.

NPD in their capacity of being a part of the institutional cooperation contract underline that they are instructed not to get involved in policy issues and only provide technical services and advise<sup>50</sup>. While it is understandable not to reflect positions that can be perceived as attempts to influence the government in their choices, it is naïve to label the project as technical. The project is indeed in the middle of the policy area as it has been instrumental in areas as licensing, national oil company and landing of gas. The position should rather be to stay neutral on the strategic choices, but stay active in outlining alternatives. This should be the position both of NPD and the advisers in the project.

There have been situations where disagreements have been evident among the advisers. There have also been cases where relevant and important information has not been shared. The difference in opinions is in general an asset and a basis for constructive discussions. The issue is how far these discussions should take place among the advisers and an agreed position developed before the advice is presented to the government. It is recommended that such a procedure be followed as conflicting positions may undermine the authority of the advisers and also be confusing for the counterpart. This principle should be reflected in ToR for the advisers. The requirement for cooperation and sharing of information should also be reflected as a principle for the adviser role. This should be a requirement for all advisers that are made available with Norwegian funding.

If issues of principle importance can not find a solution following a team discussion and in consultation with NPD, the matter should be referred back to the Embassy. One issue in this category was the process of recruiting an adviser for the TSDA director. An initial process approved by the Ministry of Foreign Affairs concluded on a Statoil employee for this position<sup>51</sup>. Apparently the selection was not made in consultation with the project<sup>52</sup>, nor was the Embassy consulted prior to preparing the recommendation<sup>53</sup>. Due to the ongoing licensing process and that Statoil had reflected interest for participation, the project team saw a potential conflict of interest and strongly recommended the recruitment to be aborted. Mr. Geir Ytreland presented this view to Minister Teixeira who was much surprised<sup>54</sup>. This issue was an unfortunate combination of poor judgement and management. The potential conflict of interest was evident which also should have been realized by the Norwegian authorities. Further, when the matter was brought up for the Minister's attention this should have been done by the Embassy and not by the adviser. The unfortunate way this issue was handled had a significant negative impact for the project and reduced its effectiveness and efficiency.

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<sup>50</sup> Kvadsheim; 18.04.2007

<sup>51</sup> Risa; 23.03.2007

<sup>52</sup> Kvadsheim; 27.03.2007

<sup>53</sup> Roti; 30.03.2007

<sup>54</sup> Ytreland;

## 6.4 *The adviser dilemma*

Advisers working in an organisation with major capacity deficiencies will face a constant dilemma as to what extent they should be involved in the operations. It will be easy for the advisers to step into a line-function and take on direct responsibility for activities rather than working through a local counterpart. This dilemma is experienced within the petroleum assistance project, but also similarly in other projects such as the Australian assistance project to the Ministry of Planning and Finance<sup>55</sup>.

Capacity building is the overall ambition for the project. This will obviously imply a slower process in implementing the activities than if it was carried out by highly experienced international advisers. Still the consistent work through the local counterparts must be the principal method of implementation. It is recognised that certain issues of emergency may necessitate a different approach, but in general activities should be planned with the perspective on how the capacity building can be maximised.

This also raises a question on the required competence of the advisers as it is not necessarily a correlation between technical and pedagogical skills. It is the conclusion from this review that the project has recruited individuals for the adviser positions with very high international technical and management competence. However, it is hardly any situation more contrasting than serving as an executive in a goal focused international oil company, and performing in a teacher role in a petroleum directorate in Timor-Leste. It is the impression that not all advisers have the same motivation and qualification for serving in this capacity building function. It is recommended that more emphasis is devoted to this aspect in the recruitment process.

But for capacity building to be implemented, it will clearly be a condition that a local staff is present to receive the competence transfer. It should be a clear condition that at least one counterpart exists for each adviser being mobilised. This is an obligation resting with the government and no advisers should be provided unless this condition is met. In the project no counterpart has been found for the legal adviser. That the minister has proclaimed himself as counterpart is clearly not an adequate solution. It is recognised that attempts have been made to identify local candidates without success. But the line function must ultimately be filled either by a local candidate or if not possible by a person recruited abroad. This principle of making a clear distinction between advisers and doers should be guiding also for the preparation of a continuation of the program and planning of an exit strategy.

The petroleum assistance project is agreed in legal documents signed by the two countries. The documents define the frames of the project, which also implies a clear scope for the advisers provided. Hence, the advisers are not for the free use of the government as a consultant contracted directly by the government would be. Apparently this limitation is not fully appreciated.

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<sup>55</sup> Gurr; 30.04.2007

## 6.5 *Managing the Norwegian support*

While the petroleum assistance project was planned within the concept of a traditional institutional cooperation structure between NPD and a local counterpart, the project has expanded far outside this model both in terms of scope and the practical management. This obviously has created practical challenges as well as raising questions of principle nature to the management of Norwegian funded petroleum assistance.

NPD carried out the recruitment process for the first advisers (Ytreland and Norhaug) as well as two of three positions within UNDP (Bjordal and Enoksen). As discussed previously Mr. Einar Risa was recruited on a single source basis through MFA.

Based on requests from MNRMEP and MoPF, the Norwegian Embassy agreed to finance two new advisers in DNPG, three advisers in MoPF and to recruit one adviser in BPA to be managed by IMF all to be included in the budget for 2006. The following adviser positions were defined:

- Geological adviser to DNPG
- Legal adviser to DNPG
- Petroleum fund adviser to BPA
- Fiscal policy adviser to MoPF
- Petroleum fund investment adviser to MoPF
- Petroleum tax adviser to MoPF

Due to the extent of the recruitment process, which also included a new project manager, it was decided to use a recruitment company to manage the process. Hartmark Iras was selected following a competitive process. A recruitment company is generally selected due to their ability to identify candidates through their networks and for quality assurance for permanent positions of major consequence to the development of a company. It is not common to use these services for short-term positions due to the cost involved. It was a costly process also in this case with total recruitment cost exceeding NOK 960.000. It is also to be noticed that none of the selected advisers were recruited as a result of head-hunting from the recruitment company, and they all responded based on the announcement made in the media. Although the motivation from NPD is understandable, the efficiency of using the recruitment company is questionable.

Clearly it was not NPD's ambition to have the role as an administration centre for Norwegian assistance for Timor-Leste. The situation is rather a result of the absence of viable alternatives. The Norwegian Ministry of Finance has not been willing to take any primary responsibility for support to Timor-Leste<sup>56</sup>. The assistance of the World Bank was explored as an option, which was positive, but requested the World Bank tender requirements to be followed. Following a lengthy discussion NPD agreed to manage the advisers on condition that a reference group was established<sup>57</sup>. The Ministry of Finance accepted to be a member of this group<sup>58</sup>.

The management of the advisers to Timor-Leste is far from ideal. The experiences reflect a basic challenge for the Norwegian funded assistance that is likely to represent an issue also

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<sup>56</sup> Ministry of Finance; letter of 03.05.2002

<sup>57</sup> Kvadsheim; email 04.08.2005

<sup>58</sup> Tandstad, email 19.09.2005

for future projects within the Oil for Development program. It should be a requirement that Norwegian institutions providing resources also must take on the required responsibility for management and support. If such a support cannot be provided, these services should be sourced and organised in an alternative framework.

## **6.6     *Alternative models for implementing Norwegian petroleum assistance***

The complexity of the Timor-Leste petroleum assistance project implies a challenges regarding how the project is organised in Dili as well as in Norway.

The project has a project manager in Dili, presently Mr. Roger White. And although the scope of work states that he should act as a project manager, it is unclear what this function implies both related to the personnel in the team and as to achieving the overall objectives of the project. There is an obvious need for a more explicit responsibility to be defined and assigned for the adviser group. This is both related to the practical challenges facing the advisers and the safety situation. There is also need for a focal point to ensure that communication within the team is effective and sufficient. It is recommended that these tasks are assigned to the project manager who will be a focal point for all advisory services. The establishment of an embassy office in Dili will obviously add capacity to handle certain practical challenges for the project.

The petroleum assistance project in its present format has a certain patch-work characteristics as a consequence of the amendments being made during the project life cycle. The amendments have been approved without making any comprehensive updates of the project documents. A revised project description and project matrix should have been made to reflect the full scope of assistance.

The composition of the project should also be reflected in the steering committee of the project that logically should include both the Ministry of Planning and Finance in Timor-Leste as well as the Ministry of Finance in Norway.

It should also be a subject of discussion if there are realistic alternatives to the institutional model. There is no doubt that the NPD project coordinator has done a very good job and also served as an important point of continuity. But this is hardly a function of the institutional model. NPD has their functional responsibility for resource management, which is an essential element of the government's management of the petroleum sector. Hence, NPD's contribution within their area of core competence will be important regardless of how the program is organised. Within the total scope of the project however, the core competence of NPD will just cover a minor part, which is also reflected that all advisers are recruited outside the NPD staff. Hence, it should be fully feasible to contract a company in the private sector to be responsible for the project coordination. Such a model is operational for other countries' bilateral assistance<sup>59</sup>.

Such a model implies that NPD should contribute directly within their core areas. It should also be established a reference group that reflect the full range of competencies required for

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<sup>59</sup> Gurr; 30.04.2007

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petroleum sector management. This model would release administrative burden presently loaded on the NPD organisation and allow more resources to be used for support to core areas.



## 7 Capacity building

### 7.1 *Capacity building – key challenges*

The goal of the project is to develop the Timor-Leste public sector to be capable of managing the upstream petroleum activity. As such the focus of the project is capacity building. Clearly the management of the petroleum sector requires both a regulative framework, procedures and technologies and it needs to be organised in a proper way to reflect the functions and responsibilities. All these issues will need to be addressed in a capacity building effort. Still capacity building is primarily about competence of individuals and their interaction.

The assistance project was initially planned without resources located in Timor-Leste. This conclusion was made following the fact finding mission in February/March 2002 where information as to the education of the local staff was collected. This process identified a number of employees with university degrees. However, only after the project was started it was realised that these degrees were in no way equivalent to degrees from western universities. Following this new knowledge, the project was redesigned and a decision to mobilise advisers to be working in Timor-Leste was made.<sup>60</sup>

There is apparently a number of institutions in Timor-Leste using the label university, but none of these are remotely close to adequate quality of curriculum or teachers.

### 7.2 *On-the-job-training*

An essential part of the capacity building should take place through a direct interaction between the adviser and his or her designated counterpart. Through a continuous dialogue the various challenges occurring related to the petroleum administration activities will be discussed and the proposed line of actions and decisions will be reviewed in the context of international best practices.

It has been pointed out that the licensing process of the Timor-Leste sovereign offshore area was dominated by the adviser. The process was forcefully driven forward with the adviser taking an operative command. The capacity building was neither in focus nor setting the pace for the process. As such the capacity building in this phase was far below its potential. This will in no way say that the process was void of capacity building. The local staff was actively involved in most activities including participation in the seismic acquisition, the road show preparations and the technical and commercial bid evaluation. Still the process was conducted too fast for a sustainable capacity building to take place.

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<sup>60</sup> Kvadsheim; 27.03.2007

It is argued that the conclusion on PSCs would be a necessity for the future capacity building, and that building capacity cannot be based on an imaginary petroleum environment. This is a sensible argument, but the alternative would be to agree on a revised schedule for the sector development with more emphasis on capacity building. The sector development is not up to the project to decide, but neither is the project obliged to accommodate priorities where the core intentions of the project can not be followed. At least this should form a basis for a discussion with the Timor-Leste leadership about the way forward.

The advisers in the project today are conscious about letting the capacity building primarily being demand driven and that counterparts identify the issues and request assistance<sup>61</sup>.

### **7.3      *External training and scholarships***

The project description specifies a set of quantitative indicators (or rather output as discussed earlier) related to external training and scholarships.

Indicator	Result
3 Master degrees in petroleum	One scheduled for graduation in 2009; indicator will not be met within project completion date
6 Bachelor degrees in petroleum,	4 scholarships running; 150 small grants awarded; In summary indicator will be met
All staff in workshop/courses	Indicator will be met
50 at English training	Indicator will be met

Table 7.1 Quantitative indicators defined in project description

Language is a particular challenge in Timor-Leste as the official language, Portuguese, is only spoken by a small minority of the population. The more widely spoken national language Tetum is not of substantial value as a basis for communication within the petroleum sector where the international working language is English. While English at the start of the project was only poorly mastered within the ministry, the training undertaken have substantially improved the level and English can now be used for daily communication.

The by far largest part of the HRD budget is used for scholarships in support of individuals selected for master or bachelor studies in Norway or Australia. As only a small number of individuals can be supported there is also a risk that the efforts are not sustainable should the individuals pursue an international career. The scholarship agreements imply an obligation to work for the Government for 5 years. However, such conditions are difficult to enforce.

It may well be argued that it is necessary also to support this high level education. However, it is suggested that it will more important to pursue ways of supporting the education of a larger number of individuals. The ‘small grants’ program seems to be an efficient instrument to support this goal. The grants will in general be used as part payment for the tuition fees for bachelor studies at Indonesian universities. Although an annual grant of \$600 seems to be a modest support, it is still a major contribution to a student’s total annual budget. A total of 50

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<sup>61</sup> White; 26.04.2007

grants are awarded annually. The program has been running for 3 years with a total of 150 grants awarded in support of about 70 individuals. This seems to be a highly efficient way of support.

A series of workshops and courses have been conducted some financed under the project budget, others through alternative support mechanisms. Apparently no systematic evaluation of these courses have been conducted and it is difficult to judge the benefit of the various contributions.

## **7.4      *Future needs and training plan***

The smaller grants program will most likely result in an increased number of Bachelor degrees. As these degrees are received at Indonesian universities where the education has been carried out in Bahasa language, it will be necessary to provide additional support for training in English. It should be possible to offer an efficient solution to accommodate this language training need in Timor-Leste.

It is important however, to focus on building university degree education in Timor-Leste. It is the understanding that the government want to channel the support towards the National University of Timor-Leste. An alternative institution apparently having a certain competence base is the Dili Institute of Technology. Hopefully, it will be possible for these institutions to coordinate their efforts to optimise the utilisation of the country's limited resources.

## 8 Analyses according to the DAC principles

The DAC (Development Assistance Committee) is the principle body through which the OECD deals with issues related to co-operation with development countries<sup>62</sup>. According to the DAC principles the aim for all reviews and evaluations is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, sustainability and impact<sup>63</sup>. As a summary of the findings during the review of the petroleum assistance project in Timor-Leste, some comments according to the five evaluation criteria is given below:

### 8.1 *Relevance*

This criteria refers to the degree to which the rationale and objectives are, or remain pertinent, significant and worthwhile in relation to the identified priority needs and concerns. The goal of the project is broad and very ambitious providing a solid justification for the project. With a documented petroleum resource potential, building the capacity to manage the petroleum sector will always be pertinent and significant regardless of any changes in circumstances.

It has been pointed out that the objective included in the project description is not an objective, but reflects some principles and frames for the implementation. As such the objective is not subject for assessment as to its relevance.

The project has been involved in a series of activities of operational and strategic importance including seismic acquisition and subsequent licensing of the Timor-Leste sovereign offshore area, landing of gas from the Sunrise field, local content, establishment of a national oil company etc. There is no petroleum policy or strategic document however, that can serve as a basis and reference for these activities. While they are all significant, it is still debatable to what extent they all reflect priority needs.

### 8.2 *Effectiveness*

Effectiveness is a measure of the extent to which a project is successful in achieving its objectives. It is obviously difficult to measure effectiveness as long as proper objectives have not been defined. As the qualitative indicators provided in the project description rather can be seen as a mixture of output and objectives, these can serve as a reference for an assessment of the effectiveness.

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<sup>62</sup> [www.oecd.org](http://www.oecd.org)

<sup>63</sup> DAC (2002); Glossary of key terms in Evaluation and Results Based Management

<i>Qualitative Indicator (Objective)</i>	<i>Effectiveness</i>
Well functioning administration with clear responsibilities and positive reputation in the T-L government	<b>Functioning administration</b> will need time beyond project termination. <b>Clear responsibilities</b> , still to be developed based on new decree <b>Positive reputation</b> is being developed
International acknowledgement for a fit-for-purpose legal and contractual framework for the petroleum industry	The framework presented during the licensing round was well received and characterised as transparent
Well functioning management and fiscal system for petroleum revenues	Major achievements have been reached for BPA; MoPF need further development. The petroleum fund has been well established with good procedures
Reliable, comprehensive and available petroleum data archive for use in promotion and for administrative purposes	The database system has been well developed in cooperation with NPD and will probably fulfil objectives

*Table 8.1. Qualitative Indicators defined in the project description*

The effectiveness apparently is high, but viewed against the overall goal of the project, the well functioning administration is the key objective. This will not be met during the duration of the project, and the total effectiveness can only be considered to be moderate.

It is also a point of reflection that the main goal of the project is to make Timor-Leste capable of managing the petroleum sector ‘...**without significant use of foreign advisers**’. The petroleum assistance project however, has apparently moved in the opposite direction ramping up the number of advisers. From 2006 a total of seven advisers were under the direct management of the project. The preliminary plans for the project extension suggest that this number may be further increased. Although it may well be argued that this increase in number of advisers is a necessity to meet the long-term goal, it is still a documentation to the fact that the goal is far outside reach for the approved project.

### **8.3      *Efficiency***

Efficiency is a measure of the productivity of the implementation process – how economically inputs are converted to outputs. It may be argued that a flexible approach is a good way to secure efficiency. This is based on the assumption however, that the flexibility is used to redirect resources towards the main goal of the project. To the extent flexibility is used to manage activities outside the project description, the effect on efficiency is not positive.

Despite the benefits achieved through flexibility, this should not serve as an argument not to establish a quality project matrix and project implementation plan. The restructuring of the project in 2005 and the wide use of advisers, will obviously not serve as an example for

efficient project execution. However, to what extent these capacity demands could have been identified earlier with more resources used in the planning phase, is uncertain.

An efficient use of advisers will only take place to the extent that counterparts are available. The scarcity or lack of counterparts has been an obvious problem both for the part of the project directed towards DNPG, as well as for the advisers working in the unit for macro economy<sup>64</sup> and for petroleum taxation<sup>65</sup>.

Other specific arrangements have obviously proven to be cost efficient efforts. One example is the small grants arrangement where a large group of students have been supported under a moderate budget. Overall the efficiency is considered to be moderate.

## **8.4      *Sustainability***

This criteria addresses the extent to which partner country institutions will continue to pursue the objective after the project assistance is over. Clearly the project will not be sustainable as the Timor-Leste petroleum administration will not have reached the stage where it will be in a position to take over the full responsibility when the project is completed. This is primarily a function of the long life-cycle of the development of petroleum resources. As such the initial time frame for the project was insufficient. The sustainability however, is within reach when the new merged organisation of DNPG and TSDA is in place. Although this merger may be implemented before the end of the project, the schedule is still uncertain.

## **8.5      *Impact***

Impact is the positive and negative changes produced, direct or indirect, as the result of the project. The most visible impact of the project is the seismic acquisition within the Timor-Leste sovereign offshore area and the subsequent award of PSCs. Perhaps of equal importance is the establishment of the petroleum fund and the approval of a legal framework for its operations. This also have an important further impact for the principles of good governance and transparency far beyond the petroleum fund itself.

The active use of advisers and that they in certain situation step into an operative position may have negative impacts by not allowing an optimal capacity building. The potential impact of the extensive use of advisers in the licensing process has been raised earlier in the review.

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<sup>64</sup> Klakeg; 22.03.2007

<sup>65</sup> Holterud; 22.03.2007

## 9 Continuation of the Petroleum Assistance

### 9.1 *Reorganisation of the petroleum sector*

As a condition of the treaty for the joint area between Timor-Leste and Australia it was agreed that the TSDA (Timor Sea Designated Authority) that had the responsibility in the initial phase to administer the Joint Petroleum Development Area, should be transferred to become a part of the Timor-Leste government within 2 April 2006. It was however in due time, agreed to postpone this transfer with one year. A further deferral with 3 months to 2 July 2007 has now been agreed.

The transfer of the TSDA was planned through a merger with DNPG and creation of a new National Petroleum Regulative Authority (NPRA). The creation of the new unit was seen as one element in a larger restructuring of organisation of the petroleum sector that also involved the establishment of a policy group and national oil company. The framework has been prepared and presented as three decrees. These decrees are still pending approval and are now unlikely to be processed before a new parliament and government is in place. Hence, an approval will at the earliest come within Q3. Following a formal approval the process on reviewing functions and allocate personnel to the different responsibilities can be initiated. We will probably see mid 2008 before a new structure comes into final shape.

TSDA has 42 employees today of which 10 are on international contracts. TSDA is significantly stronger than DNPG both in terms of the size of the organisation and the competence of individuals. For many functions TSDA already employs capacity on an international level. The merged organisation will have a completely different basis for the administration of the petroleum sector than DNPG today.

There are several challenges to be overcome for the merger to take place. One issue is the harmonisation of salaries. As a local employee to the TSDA today has the same salary as the Prime Minister, the issue will need to find a solution<sup>66</sup>. Still it has to be assumed that this merged organisation will come into operation within 2008. This will also have to be the planning basis for a potential extension of the petroleum assistance project.

### 9.2 *Policy and capacity building*

It is obviously a challenge to carry out both effective and efficient capacity building when no policy for the petroleum sector has been developed. With a policy it would be a simple process to prepare a set of objectives for the capacity building reflecting the key policy issues. The policy is now a collection of fragmented decisions. Hence, the licensing of the Timor-

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<sup>66</sup> Borgis; 27.04.2007

Leste sovereign offshore area has been carried out, while it is unclear what should be the process for unawarded offshore blocks and the onshore area. The landing of gas from the Sunrise field is still being discussed. And a draft decree in support of an ambitious national oil company has been prepared.

It is the sovereign right of the Timor-Leste government to make fully independent decisions regarding the development of the petroleum sector. It will be the role of Norwegian assistance to clarify alternatives and not to try to impact the decisions to be made. However, as the policy and strategic decisions are directly linked to capacity building, it is pertinent to present alternative sector development schedules in the context of providing a basis for a best possible capacity building process. Hence, the proposals presented in this review are solely made from this perspective.

### **9.3      *Completion of the present project***

Without an extension of the project, the remaining project period will focus on a soft landing. As the previous geological adviser has completed her contract and the legal adviser is soon to reach the end of her contract, these adviser functions will be phased out. The present project manager will have another 10 months left of his contract.

The last part of the project should focus on key resource management functions, which have not been extensively covered. One area to be covered in more detail will be to introduce a system for resource classification and perform training in resource assessment. Further, the efforts to establish a reliable and comprehensive database system should continue in cooperation with NPD.

The support to the education should also continue through scholarships and smaller grants. As the scholarships are in support of educations to be completed after the project will be completed, this support must continue also if a decision not to continue the petroleum assistance on a full scale was made.

### **9.4      *Key considerations for assistance extension***

Timor-Leste today has a petroleum fund exceeding \$1.2 billion. The fund is presently increasing with approximately \$100mill per month<sup>67</sup>. The total revenues to Timor-Leste from the Bayu-Udan field is expected to be a minimum of \$10 billion. The approved rules for a sustainable withdrawal from the fund to be included in the budget is about \$270 million under the present assumed oil and gas prices.

The Sunrise field was discovered in 1975, but is still pending an agreement as to where the gas from the field is going to be landed. However, this issue may be solved shortly and the development can proceed. An agreement for a sharing of the revenues from the field 50/50 between Timor-Leste and Australia has been reached. The Sunrise field may generate about \$10 billion for Timor-Leste.

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<sup>67</sup> Iversen; 30.04.2007



The present budget for Timor-Leste is in total \$320 million with more than 80% coming from the petroleum revenues. The challenge for Timor-Leste is the execution of the budget as their present system for procurement and management only has allowed a minor part of the budget to be implemented. Hence, the challenge for Timor-Leste is in the short and medium not to generate more petroleum revenue, but to build the capacity for proper and efficient execution within the framework of good governance. The petroleum resources of Timor-Leste will not vanish and the effect of development of these resources is essentially only to change the distribution on the nation's balance sheet from natural resources into cash. It will not change the total values for the society. In many ways it is far safer to keep the fortune as resources rather than cash.

The schedule reflecting a fast implementation of the first licensing round was established from an argument stating the urgency in generating revenues to alleviate poverty. Although the prognosis presented at that time for the development of the petroleum fund was more modest than the actual development that has taken place, this was hardly an essential reason. Hence, there is a basis to put more emphasis on optimising the capacity building within the Timor-Leste administration when the schedule for new licensing both onshore and offshore is discussed.

It is more essential for Timor-Leste today to use the petroleum activity as a catalyst for the generation of employment and development of local services and technology. However, this local capacity has to be developed before operating oil companies can contract these services. In the perspective of capacity building, an initiative for a discussion with the Timor-Leste authorities along these lines is recommended. As pointed out this discussion should only be motivated from the perspective of exploring the most efficient ways of supporting capacity building of the petroleum administration.

The merger of TSDA and DNPG will be essential for the design of a continuation of the project. TSDA will bring in international adequate experience to a series of the important functions that a new authority will be responsible for. This include legal services, human resource administration and a set of the technical disciplines. The new organisation however, will rely on using also employees recruited internationally as the TSDA do today. The new organisation however, will be capable of defining the terms of reference for such positions and also monitor and fully use the services provided.

This build up of the capacity to be administered and also financed by Timor-Leste will be an essential element in designing the exit strategy to reflect how the Norwegian support should be phased out. The extension of the project should clearly reflect these issues. To the extent advisers will be funded by Norwegian support, they should not be used in operative functions, but only serve as advisers to identified counterparts and within areas closely related to the presentation of the Norwegian experiences within petroleum management.

The support within the approved project has both been directed towards resource management and revenue management. This wide scope has added complexity and raised administrative challenges. For the extension of the assistance, a request for support within environmental protection is considered. As this represent the third thematic pillar in the Oil for Development initiative this request is logically being considered. It is however, a general lesson that successful strategies are associated with focus. This serves as an argument not to expand the Norwegian support further. Additional support to environmental protection should only be granted if this assistance could be closely integrated with the rest of the project. Apparently

the support is requested for building capacity within Environmental Impact Assessment in general and not with a particular focus on the oil and gas activities<sup>68</sup>. The mobilisation of an adviser within environmental protection further requires that the administrative and professional support from the relevant institutions in Norway will be confirmed. Alternative and less extensive support should be considered.

It should also be noted that the capacity of the Environmental Directorate appears to be below a critical minimum necessary to be predisposed to effective competence transfer. It should be considered if the new TSDA/DNPG can be a more appropriate organisation to nurture the petroleum related environmental capacity building at this stage of development of the petroleum administration in Timor-Leste.

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<sup>68</sup> Tacis; 02.05.2007

## 10 Emergency preparedness

### 10.1 *Safety situation in East Timor*

While the general working and living conditions for the advisers working for the project in Dili are satisfactory, there are certain safety aspects that imposes a risk to the team members. This is primarily related to the potential of civil disturbances as well as the lack of medical facilities. In addition the area is exposed to the possibility of natural disasters as East Timor is located in a seismically active area and within a weather zone where typhoons may occur.

The various risks can not be eliminated, but it is the general responsibility of the employer to ensure that the risks are identified and that steps are taken to reduce the risks and that adequate procedures are in place to meet various situations that may occur. A security plan for the project should be the first document to be prepared even before any advisers were moved in to stay in Dili for long-term assignments early 2004. Not until 2007 an Emergency Response Plan was prepared for the project.<sup>69</sup>

It is also regarded as essential that all new advisers receive comprehensive security information before leaving for Dili as well as a detailed briefing when arriving in East Timor. Also a comprehensive presentation of all aspects of being located in Dili should be made to potential candidates for adviser positions, making them in a position to fully understand also the risk issues.

### 10.2 *Security emergency*

The events taking place in April/May 2006 and also in early 2007 are testimonies to the fragile status of the country. While the presidential elections in April and May 2007 took place without civil disturbances, the upcoming parliamentary elections may be a new event that may nurture unrest.

While the project offices where subject to looting during last year's disturbances and cars targeted for rock throwing, non of the team members where hurt or exposed to high risk situations. The majority of the team selected to leave Dili during this period also because the local staff stayed out of the offices and no capacity building activities could take place.

As a safety measure the emergency response plan identifies the housing compound at Pantai Kelapa as a safe haven. This compound has security guards, independent power supply and satellite internet communications.

The Norwegian Embassy has a general responsibility for emergency preparedness in response to civil disturbances in East Timor. Norway has made an agreement with Australia that

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<sup>69</sup> Emergency Response Plan; 28. March 2007 NPD – Timor-Leste Project

Norwegian citizens will be offered transportation out of East Timor on Australian flights if they have capacity after accommodating Australian and Canadian citizens.<sup>70</sup> It is unclear to what extent Australia also will offer protection at the embassy's premises and also the necessary escort to the airport in case a departure is decided. This may prove to be a critical issue should an emergency situation occur.

The Ministry of Foreign Affairs has issued a general recommendation not to travel to East Timor at this stage. At the MFA home page the links to the US, UK, Australian and Canadian authorities are provided. They unanimously provide the advice not to go to East Timor. They all foresee the high possibility of new outbreaks of violence and that the situation can deteriorate at short notice. It is also the experience that the local police is not able to respond and offer the protection necessary. In an escalated situation, the capacity of the local police in providing assistance in emergencies is probably further reduced.

The Norwegian Embassy and MFA appear to follow conservative line as to issuing instructions to Norwegian citizens in Timor-Leste. In particular there seems to be a substantial reluctance to recommend evacuation, as this will impose an operational responsibility on Norwegian authorities. However, it should be expected that advises are issued and measures taken according to a risk assessment and not the resources available. As the safety of people is the key in any HSE policy, it must also be expected that a precautionary principle is followed. While there will be obvious limitation to what operational measures the Norwegian authorities can take, it is an expectation that the Norwegian Embassy will act as an authority in terms of providing advise to how the team should behave.

The project has issued a general entitlement for all advisers at any time to leave Dili if they find the situation insecure<sup>71</sup>. It is important that any adviser who decides to leave is fully respected for that decision.

It is recommended that further efforts are made to strengthen the safety of the project team members. This relates to security while in Dili and to secure the eventual transportation to the airport. There are companies offering security surveillance and support. It is recommended to assess and eventually contract these services.

### ***10.3 Medical support and emergency***

The medical capacity in Dili is limited and local facilities are of unacceptable standard. The Dili National Hospital premises also serves as a densely populated refugee campus with domestic animals and garbage. The hygienic conditions are obviously sub-standard.

The team has access to the Australian clinic in Dili. This clinic is run by doctor assigned to the Australian embassy and will have limited capacity and opening hours. The clinic can only treat minor complaints and will have to refer more severe cases to other facilities.

There is also an agreement with a medical centre in Darwin, which is available on 24 hours basis for telephone consultations. Darwin will also have the necessary facilities to treat all

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<sup>70</sup> Tuft; 07.05.2007

<sup>71</sup> Kvadsheim; 27.03.2007

medical cases. The daily commercial flight to Darwin will provide transportation for normal medical treatment.

The critical situation will be in case the need for acute medical attention occurs. The Australian clinic in Dili is not a regular 24 hour service, and may also be closed down for vacation. In two specific cases where the team has needed the medical services, contact with the doctor could not be established. Further, medical evacuation has to be requested from Darwin and may have commitments with response time exceeding 24 hours.

The travelling insurance will provide coverage for medical treatment including medical evacuation. Insurance companies as Europeiske will have an international emergency number to contact and from where also required evacuation will be decided. However, Europeiske will normally require a medical report or a discussion with the doctor in order to start an evacuation procedure. It will probably be difficult to have their emergency centre start evacuation based on a diagnosis without professional medical support.

The advisers formally being employed by NPD are also subject to NPD's travelling insurance. The advisers with individual consultancy contracts are responsible for their own insurances. It is recommended that the project considers to enter an insurance covering the whole team. This will ensure that a proper coverage of all advisers exists with identical emergency procedures. This will also provide a possibility for discussions with the insurance company about the challenges associated with East Timor.

It will be unavoidable that being located in Dili will represent a risk related to medical emergencies. However, the risk today is still not considered to be acceptable. The team should be guaranteed to have immediate access to professional medical personnel that can as a minimum make a diagnosis and ensure that an evacuation procedure can commence.

## ***10.4 Strengthening the emergency preparedness***

There is apparently several foreign doctors located in Dili. In addition to the Australian doctor that the team uses, also the US and Portugal have doctors to serve their units. Also the UN has medical personnel also providing services to the World Bank and IMF. However, these doctors are not available for others.

It is the position of this review that it should be a basis for discussions between Norway and the UN on medical support in emergencies. This is not an unreasonable request as Norway is a major donor to the UN system and also has financed UNDP adviser positions in East Timor. The request should be to allow the UN medical doctors be included as an emergency back-up to the Australian clinic.

There are more than 300 organisations registered related to providing assistance to East Timor with a high number of individuals present in Dili at any time. All these persons have the same basic needs regarding safety. Hence, it should be a basis for finding other shared solutions.

# 11 Conclusions and recommendations

As a result of the discussions and evidence gathered as a part of this Mid Term Review of the project ‘Assistance in Developing the Management of the Petroleum Sector in Timor-Leste’, a series of conclusions and recommendations have been made. The review is made well beyond the mid-point of the project, and hence the recommendations are mainly to be considered for an eventual continuation of the present project.

## *Project Design*

- ***A new project or a project extension requires a more precise project matrix.***  
The present project is established with a broad and ambitious goal, but with a clear focus on capacity building in the upstream part of the value chain. The project matrix however, is partly imprecise and inadequate. The output statements are very open and give limited understanding of the expected project results.
- ***The project document should reflect a realistic exist strategy and risk assessment.***  
The project description lacks an exit strategy and a project risk assessment. These are considered important for a complex capacity building project within challenging framework conditions.
- ***Project extension is required to achieve sustainable capacity building.***  
The project was granted with a five year implementation period. This is considered as a too short timeframe to achieve the goal of building the petroleum administration capacity of Timor-Leste. The nature of the petroleum life cycle necessitate that a longer perspective is used as a planning basis. It was not realistic to achieve sustainable capacity building within the approved project.

## *Project implementation*

- ***Flexibility in the implementation to be achieved by the use of the management structure***  
The imprecise project description is probably related to the wish of having large flexibility during implementation. The flexible approach has been important in Timor-Leste to accommodate changing assumption. However, flexibility should not be at the expense of a firm project description and project implementation plan. The country agreement and institutional cooperation agreement provide the necessary authority to the annual meeting and the steering committee to make the necessary revisions and corrective actions.
- ***Project steering committee and reference group to be revised.***  
The management structure of the project should be reviewed both as to organisational level included and the composition. The project steering committee has representatives

on a too high level. An active reference group for the full scope of the project is essential, in particular if an extended program implies a broader scope of support.

### ***Project results***

- ***An accommodating approach is important for project effectiveness.***

The project has carried out a broad set of activities also partly outside the frames of the project in response to requests from the Timor-Leste government. To a certain extent this accommodating approach is necessary for the advisers not to be marginalised and to strengthen project effectiveness.

- ***Efforts in revenue management essential for nurturing good governance culture.***

The design and implementation of the petroleum fund is considered as an essential contribution for the petroleum sector management. The fund has been established based on principles of transparency and good governance and may have an impact beyond the petroleum sector.

- ***Carry out survey to determine reasons for the response to the offshore licensing round.***

The licensing of the Timor-Leste sovereign offshore area was carried out with the project advisers as very active participants. The process was carried out following a fast-track schedule in line with best international practices. Despite a wide industry interest, only three applications were received. It is a question if this represents a full realisation of the investor potential. In a closer evaluation of the oil companies' decision process, the potential impact of very active advisers should be given particular attention.

- ***Pace of implementation to be closer attuned to the receptiveness of capacity transfer.***

The fast implementation of the licensing process did not allow an optimal capacity building to take place. As there was no urgency for Timor-Leste to secure additional petroleum revenues, alternative schedules with more focus on capacity building should have been discussed.

- ***Consultants without capacity building mandate to be financed by Timor-Leste.***

A discussion is still ongoing as to the feasibility of landing the gas from the Sunrise field in Timor-Leste. Norwegian consultants have been mobilised to ensure that the viable alternatives are considered. While this assistance can be defended out the urgency of this issue, the technical services are hardly within the scope of capacity building within the upstream area. Technical consultants should in general be financed by Timor-Leste.

- ***External education to prioritise the small grants program.***

Significant resources have been used for scholarships, grants and external training. The language training has been fruitful and substantial capacity improvements can be demonstrated. The smaller grants program in support of bachelor students in Indonesia has proven to be efficient. Scholarships for university degrees in Australia and Europe bear a too high risk related to sustainability.

- ***Additional language training for Indonesian bachelors to be made.***

The education in Indonesia is conducted in Bahasa language. The training in English for the students with bachelor degrees is important to make them qualified for positions in the petroleum sector.

### ***Adviser role***

- ***Adviser Terms of Reference to reflect principle of cooperation and information sharing.***  
Norwegian funding is supporting advisers both within the petroleum assistance project and in the multilateral organisations. There is a need for coordination and exchange of information between the advisers. This should also be a part of the formal obligations reflected in the scope of work for the advisers. Areas of importance and potential conflicting views should be discussed prior to presenting advice to the Timor-Leste government.
- ***Issues of principle importance to be handled by the Embassy.***  
It is important that the project management structure is adequately utilised. This implies that essential project issues are a matter for the annual meeting with the Embassy as the Norwegian representatives. Critical project issues during implementation should eventually be referred to the Embassy and not be brought forward by the advisers.
- ***Instructions for advisers to be addressed by Annual Meeting and SCM.***  
Advisers must find a balance between working within the frame of the project and accommodating requests from the government. The annual meeting and steering committee must clarify the guidelines for the advisers' contribution outside the project.
- ***More emphasis to be put on pedagogical skills during adviser recruitment.***  
Advisers mobilised through the project have capacity building as their primary objective. It is important that the adviser's pedagogical skills are given substantial weight in the selection process.
- ***Mobilisation of advisers should have a defined counterpart as firm condition.***  
The adviser should in principal work through a defined counterpart and never enter a line function in the local organisation. The presence of a counterpart should be a firm condition and no adviser should be mobilised if this condition cannot be met.
- ***Adviser contract length to be minimum 1 year, preferably 2 years.***  
The full appreciation of the local conditions and building a network is an essential and time-consuming effort for all advisers. The efficiency of the assignment is likely to improve significantly over time. A two-year assignment is preferable for all positions.
- ***The principles for single-source selection of advisers to be clarified.***  
The advisers are in general recruited based on a competitive process. The use of single-source-selection needs to be clarified in relation to public sector employees who are not a part of the institutional cooperation. The extension of contracts where the initial selection was made on a single-source basis also needs further evaluation.

### ***Organisation of the project***

- ***The project manager to receive extended responsibility for personnel and coordination.***



There is a need for a closer coordination and administration of the advisers located in Dili. The project manager should have an extended responsibility for personnel and the communication among all advisers.

▪ ***Alternatives to the traditional institutional cooperation model to be considered.***

The wide scope of activities in Timor-Leste has made the institutional cooperation model less appropriate. Alternative solutions for managing the project coordination should be considered. This could be both Petrad and the private sector. The Norwegian governmental organisations should contribute to their area of core competence and actively participate in a project reference group.

### ***Continuation of the assistance***

▪ ***The completion of the approved project to focus on resource and data management.***

In a situation where project extension should not be granted, the focus in the last phase of the project should be to develop key functions for DNPG to serve as a directorate. This implies a strengthened focus on resource and data management.

▪ ***A project extension should be based on the new merged TSDA/DNPG organisation.***

The merger of the TSDA and DNPG will be essential to the future support to Timor-Leste. The new organisation will have international capacity within several areas. This will have essential impact on the design of a project extension.

▪ ***Line functions should be recruited and financed by Timor-Leste.***

Additional line functions that need to be filled should be recruited and financed by Timor-Leste. The Norwegian support should be restricted to adviser positions of strategic importance where a local counterpart is defined.

▪ ***Keep project focused and be reserved with widening the scope of assistance further.***

The scope of support should be kept focused and only be widened if synergy with the rest of the project can be demonstrated and administrative and professional support from home-office confirmed. Support to the environmental sector should be carefully appraised as the local organisation appears to be below a critical level to nurture sustainable capacity building.

▪ ***Discuss sector development in light of optimal capacity building.***

A discussion of sector development in the perspective of optimal capacity building should be made. The prognosis for petroleum revenue generation suggests that more emphasis should now be put on the use of the petroleum activities as a catalyst for the generation of employment and development of local services and technology.

### ***Emergency preparedness***

▪ ***A safety plan should be issued and kept updated.***

A security plan should have been in place from the start of the project. The plan should reflect key procedures and information and be complete and current. Regular safety meeting should be held to review procedures and key issues.

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- ***Safety briefings should be made for advisers prior to departure and in Dili.***  
Comprehensive information on all security issues should be conveyed to all adviser candidates before signing a contract. A full safety briefing should be provided to all advisers when arriving in Dili.
- ***Contract with security company should be considered.***  
The security needs to be strengthened to improve security surveillance and emergency support. A contract with a security company may cover this demand.
- ***The medical emergency procedure should be improved.***  
The procedures in place to meet medical emergency situations are not fully adequate. An agreement to secure emergency assistance for the team should be discussed with UN, and other stakeholders with medical capacity in Dili. An insurance contract covering all team members should be established.

## Terms of Reference – Mid Term Review of TIM 2010

### 1. INTRODUCTION AND BACKGROUND

The agreement between the Government of the Kingdom of Norway and the Government of the Democratic Republic of Timor-Leste regarding “Assistance in developing the management of the petroleum sector in Timor-Leste” was signed 10 February 2003.

Under the agreement, a grant not exceeding NOK 44,500,000 has been made available to be used exclusively to finance the Project in the planned period 2002-2008.

The Goal of the Project is to assist in developing the management of the petroleum sector in Timor Leste. The Objective of the Project is to provide institutional co-operation between the Norwegian Petroleum Directorate and the relevant Ministry in Timor-Leste.

According to the agreement, Timor-Leste entered into a contract with the Norwegian Petroleum Directorate (NPD). A reference list is enclosed to this document.

The programme consists of the following elements:

- *Education and Training*; Formal training at university and high-school level in petroleum related topics, short courses and workshops, and courses in English.
- *Advisers*; Advisers on long-term assignments in the government ministries and associated institutions who will assist in petroleum management, transfer knowledge to Timorese counterparts and carry out managerial and technical tasks. The advisors will primarily be in the fields of institutional development, law, advise on issues related to Law-of-the-Sea and other international legislation, policy, resource management and financial management.
- *Data Management*; Develop petroleum data management systems, including provision of computer equipment and physical data storage facilities.
- *Technical assistance*; NPD will on an ad-hoc basis provide technical assistance within its areas of competence, i.e. Resource management, data management and health, safety and environmental issues. Other Norwegian and international experts will be used as required.
- *Workshops*; Technical workshops in selected topics conducted throughout the project.
- *Coordination with other donors*; Timor-Leste is in a situation where several donors assist in the restructuring of the country. Coordination between the donors in the petroleum sector will be an important task. The programme will be coordinated with the assistance provided by UNDP petroleum advisers and other advisers related to the petroleum sector that Norway has and will finance.

Separate contracts relating to petroleum assistance have been entered with UNDP, Diak, IMF, TSDA – a reference list is enclosed.

This Mid-term review is initiated to determine whether the assistance to the Timor-Leste petroleum sector is on track. The results of the review will be used to recommend a possible extension of the programme, and will be used to help define a scope for a possible extension

of the programme, including making any improvement to the programme considered necessary.

## **2. PURPOSE**

The purpose of the Mid-term review is to review the overall progress of the project and assess the extent to which the Project is achieving its objectives, as well as to make recommendations regarding steps to be taken that would enhance the overall efficiency and effectiveness of the Project. In reviewing the progress, due consideration should be given to administrative, technical, and institutional aspects of implementation respectively.

## **3. SCOPE OF WORK**

The Consultant will identify the overall status of the Project in relation to its objectives and goals. The Consultant will identify areas of concern, as well as areas of good performance in relation to the Project progress. The conclusions of the review will form a basis for a decision of an extension of the project, and to make improvements to a possible extension of the project in relation to the experience gained.

Specifically, the Consultant shall:

- Review the technical progress and the efficiency of the petroleum assistance project, and the extent to which activities have been implemented in accordance with agreed work plans and the project objectives stated in the Agreement and the Contract. The petroleum assistance project includes the work contracted between the Embassy and NPD, as well as with UNDP, DIAK, IMF (International Monetary Fund) and TSDA (Timor Sea Designate Authority).
- Review the financial progress of the Project and the extent to which the activities have been implemented in accordance with agreed budgets.
- Where possible assess which results have been achieved and which have not been achieved, and key reasons for achieving or not achieving results.
- Assess the relevance, as well as the quality of competence transfer, training, workshops and seminars aimed at strengthening the human resource capacity of the government ministries staff and others working with the petroleum sector. The need to develop a possible long-term training plan and its possible content, should be considered.
- Assess whether the planned activities for the remaining project period are relevant given the overall purpose of the project and whether MNRMEP and DNPG has the necessary human, physical and financial resources to carry out these activities within the project period.
- Assess the set-up of the organisation of the Norwegian project team, how it functions within the MNRMEP and DNPG, and within the Ministry of Finance. Special focus on interaction between the Norway team members and the local employees, and coordination amongst Norwegian team members located within different departments and organisations.
- Assess the level of coordination between different donors and donor countries in the petroleum sector.

- Briefly review the Project's emergency preparedness plans and Health & Safety issues relating to the Project staff. Make recommendations to possible further measures to be evaluated or implemented prior to a project extension.
- Give advice to improvements of the Project.

#### **4. IMPLEMENTATION OF THE REVIEW**

The review will consist of a study based on existing information and a field visit with interviews and discussions with relevant authorities, institutions and stakeholders in Timor-Leste. The Consultant will outline the approach and methodology for the review in the report.

The Consultant shall acquaint himself with the existing contractual arrangements and plans for the Project and the reporting related to the Agreement/Contract. Some of the key information is attached to this document. Information shall also be sourced through meetings with the various relevant stakeholders, beneficiaries, the Embassy, etc.

The Embassy will support in logistical arrangements, setting up meetings with stakeholders in Timor-Leste, and provide other information and documents as considered relevant for the review.

#### **5. TIME FRAME AND REPORTING**

Schedule for the review:

26.3 – 30.3	Interviews with NPD & other relevant personnel and institutions in Norway
10.4-20.4	Interviews with Project Team members available in Norway
25.4-30.4	Interviews with the Embassy in Jakarta (If possible in Dili) Interviews with the "Norway team", Ministry Natural Resources, Minerals and Energy Policy (MNRMEP) in Dili Interviews with Minister for Energy, Director Oil, Gas & Energy Directorate (DNPG) and other relevant personnel with the Ministry/Directorate Interviews with relevant personnel from Timor Sea Office (TSO), Timor Sea Designated Authority (TSDA), Ministry of Planning & Finance, Banking and Payment Authority (BPA) Interviews with other organisations of relevance such as World Bank, IMF and UN organisations
01.05	Preliminary Report provided in Dili
02.05	Present review at the first day of a Workshop with Project Team, NPD, Evaluation Team, Norad in Dili to establish a proposal for a next phase project.

A draft report in English language shall be presented to Norad within 1 May 2007. The draft report shall be submitted electronically. The draft report shall not exceed 30 pages, whereas the details of findings, working papers, tables etc. may be presented as an enclosure. The Timor-Leste Ministry of Natural Resources, NPD, Norad and the Embassy in Jakarta will submit comments to the report no later than 15 days after the receipt of the report.

The Final Report shall be submitted electronically and in 10 paper copies within 10 days after submission of comments from Norad and the Embassy.

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ATTACHMENT II

## Interviews for the review

Name	Position	Organisation	Location	Interview status
Amandio Gusmao	Director	DNPG	Dili	26/04/07
Manuel de Lemos	Director	Timor Sea Office	Dili	27/04/07
Jose Lobato	Director	TSDA	Dili	27/04/07
Nini Borgis	Director Law	TSDA	Dili	27/04/07
Aabarao Vasconcelos	Director	Central Bank	Dili	30/05/07
Angelo de Almeida	Commissioner	T-L Revenue Service	Dili	30/05/07
Tobias Rasmussen	Resident rep.	IMF	Dili	30/05/07
Roger White	Petroleum Adviser	NPD project	Dili	25/04/07
Anne-Lene Midseim	Legal Adviser	NPD Project	Dili	02/04/07
Ros Waddams	Geological Adviser	NPD Project	Dili	10/05/07
Carlos Soares	Implementer	NPD Project	Dili/Oslo	18/04/07
Rebecca Denham	HRD Adviser	NPD Project	Dili/Oslo	18/04/07
Håvard Holterud	Adviser	NPD Proj/Tax Office	Dili	22/03/07
Terje Iversen	Adviser	Central Bank/IMF	Dili	30/04/07
Steve Gurr	Adviser Petrol. Fund	Ministry of Finance	Dili	30/04/07
Mette Kottman	Counsellor	Norwegian Embassy	Jakarta	04/05/07
Eva-Irene Tuft	Ambassaderåd	Norwegian Embassy	Jakarta	07/05/07
Bjørn Blokhus	Ambassador	Norwegian Embassy	Jakarta	07/05/07
Einar Risa	Consultant	Ex-TSDA	Bruxelles	23/03/07
Erling Kvadsheim	Project Coordinator	NPD	Stavanger	26/03/07
Øystein Kristiansen	Director International	NPD	Stavanger	26/03/07
Tormod Slåtsveen	SC member	NPD	Stavanger	26/03/07
Geir Ytreland	Ex Petroleum Adviser	NPD Project	Oslo	23/03/07
Liv Marte Nordhaug	Ex Governance Adviser	NPD Project	Oslo	29/03/07
Sigurd Klakeg	Ex Financial Adviser	NPD Project	Oslo	22/03/07
Thomas Ekely	Ex Petroleum Fund Adviser	IMF	Oslo	29/03/07
Marit Roti	Ex Counsellor	NORAD	Oslo	30/03/07
Odd Terje Sandlund	Research Manager	NINA	Trondheim	10/06/07
Jørn Thomassen	Adviser	NINA	Trodnheim	10/06/07

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