


The Analysis of the Implementation of Good Financial Governance in Public Sector Financial Management in Timor Leste

Fonseca de Jesus Maia¹, Elias Ximenes², Petronela M. Boquifai³, Tri Ratnawati⁴

^{1,2,3}Universidade da Paz. CGPW+4J6 Rua. Osindo 1, Manleuana, Timor Leste, ⁴Universitas 17 Agustus Surabaya, Jl. Semolowaru No. 45, Sukolilo, Surabaya 60118, Indonesia.

Article Info	ABSTRACT
<p>Keywords: Good Financial Governance, Public Financial Management, Transparency, Accountability, Public Participation, Timor Leste, Fiscal Reform, Institutional Capacity</p>	<p>This study analyzes the implementation of Good Financial Governance (GFG) in public sector financial management in Timor Leste, focusing on transparency, accountability, and public participation. Using a qualitative-descriptive approach and case study method, data were collected through document analysis and literature review from international institutions such as the IMF, World Bank, and PEFA. The findings reveal partial progress, notably through the adoption of the Integrated Financial Management Information System (IFMIS), which has improved transparency. However, challenges remain in enforcing audit recommendations, institutionalizing citizen participation, and aligning national policies with local implementation. Comparative case studies from Cambodia, Jamaica, and Scotland highlight the importance of institutional reform, leadership, and legal enforcement. The study recommends enhancing fiscal literacy, strengthening oversight capacity, and establishing participatory budgeting mechanisms. Overall, the research underscores that effective GFG is essential for sustainable development, requiring both technical innovations and structural reforms to ensure inclusive, transparent, and accountable financial governance.</p>
<p>This is an open access article under the CC BY-NC license</p> 	<p>Corresponding Author: Fonseca de Jesus Maia Universidade da Paz. CGPW+4J6 Rua. Osindo 1, Manleuana, Timor Leste jeckamaia77@gmail.com</p>

INTRODUCTION

Effective financial management in the public sector is a cornerstone of good governance, particularly in developing countries seeking to ensure transparency, accountability, and public trust. In the global governance discourse, the concept of Good Financial Governance (GFG) has emerged as a critical framework for assessing and improving how governments manage public resources. GFG encompasses the principles of transparency, accountability, and public participation, forming a foundation for responsible fiscal practices (Kaufmann, Kraay, & Mastruzzi, 2010). These principles are especially relevant in contexts where state institutions are still evolving and vulnerable to inefficiencies or corruption.

The role of GFG in shaping public sector performance has been widely acknowledged in both academic literature and international development policy. According to Schick (1998), successful public financial management (PFM) goes beyond technical competence and must be rooted in institutional systems that enforce discipline, promote performance-based

budgeting, and ensure rigorous oversight. Transparency International (2008) further stresses that budget processes should be fully documented, independently audited, and made accessible to the public, thereby allowing for scrutiny and reducing the space for misuse of public funds.

Timor Leste, which gained independence in 2002, represents a unique case in Southeast Asia. As a post-conflict nation heavily reliant on natural resource revenues, it faces the dual challenge of building institutions while avoiding the pitfalls of resource dependence. Over the past two decades, the government has launched several reforms aimed at strengthening public finance, including the Public Financial Management Reform Strategy (PFM-RS) and the adoption of Integrated Financial Management Information Systems (IFMIS) (FreeBalance, 2018). These efforts signal a commitment to fiscal modernization, yet evidence suggests that actual governance practices often fall short of intended policy goals.

A number of international evaluations have raised concerns about the quality and consistency of GFG implementation in Timor Leste. The IMF (2022) reported that internal audit functions remain underdeveloped and that many audit recommendations are not systematically followed up. Likewise, the World Bank (2020) and PEFA (2018) assessments pointed to ongoing deficiencies in budget transparency and public involvement. Although budget documents are publicly available, there are gaps between planned and realized expenditures, which diminish public confidence in fiscal governance.

Furthermore, Timor Leste's dependence on revenues from its Petroleum Fund introduces additional risks to its fiscal health. This reliance on a volatile revenue stream makes it imperative for the government to adopt robust financial governance systems capable of withstanding external shocks. According to World Bank (2021), without more transparent and accountable institutions, fiscal planning will continue to be reactive and vulnerable to inefficiencies. In this context, the principles of GFG are not merely theoretical ideals but essential tools for sustainable development.

Despite the existence of formal oversight institutions such as the Tribunal de Contas and the Anti-Corruption Commission (CAC), their effectiveness in promoting accountability remains limited. Public audits often face delays, and there is insufficient enforcement of audit findings. Moreover, civil society engagement in the budgetary process is still minimal and often symbolic. The lack of participatory budgeting mechanisms prevents meaningful dialogue between government and citizens, undermining the inclusive spirit of GFG (EEAS, 2020).

Comparative studies also provide valuable lessons. For instance, Jamaica has demonstrated how political consensus and fiscal discipline can reduce debt-to-GDP ratios substantially, while Cambodia's PPWSA offers a model for transparency and community involvement in service delivery. Conversely, Scotland's failure in regulating Scottish Water highlights the consequences of weak oversight. These cases show that effective GFG requires not only systems and strategies but also political will and institutional integrity.

Given these issues, this study seeks to explore how GFG is being implemented in Timor Leste's public financial management. Specifically, it aims to analyze the progress made in achieving transparency, accountability, and public participation; to identify the institutional

and operational challenges that persist; and to offer strategic recommendations grounded in international best practices. By doing so, the research intends to contribute to the ongoing efforts toward enhancing fiscal governance in Timor Leste and strengthening the broader framework of democratic accountability in emerging economies.

METHODS

This study employs a qualitative-descriptive research design aimed at systematically and accurately describing the implementation of Good Financial Governance (GFG) principles in public financial management within Timor Leste. The qualitative approach allows for an in-depth understanding of the context, institutional processes, and underlying dynamics influencing transparency, accountability, and public participation in the management of public funds. According to Sugiyono (2017), qualitative research is suitable for exploring complex phenomena that involve human behavior, institutional structures, and policy implementation.

The research adopts a case study method, focusing on key public institutions in Timor Leste that play strategic roles in the budgeting and financial oversight process. These institutions include: (1) the Ministry of Finance, (2) the National Directorate of Budget, (3) the Tribunal de Contas (Court of Auditors), and (4) implementing units at the local level. This purposive selection of cases aims to capture both macro-level fiscal planning and micro-level budget execution and control.

Data collection was carried out through a combination of document analysis and literature review. Sources include official government reports, strategic planning documents, audit findings, and policy reviews from international institutions such as the International Monetary Fund (IMF), World Bank, and PEFA. The use of secondary data ensures that the analysis is grounded in empirical evidence while allowing for triangulation from multiple credible sources.

The research applies thematic analysis as the primary analytical technique. This involves identifying recurring themes and patterns that reflect the implementation of GFG principles in practice. The analysis process consists of four main stages: (1) transcription and review of textual data, (2) coding of content based on GFG dimensions (transparency, accountability, participation), (3) interpretation of thematic findings, and (4) synthesis into broader institutional and policy insights. This approach is based on the procedures outlined by Miles and Huberman (2014), which emphasize iterative analysis and contextual understanding.

To ensure analytical rigor, the study integrates insights from comparative cases in other countries, such as Cambodia, Jamaica, and Scotland, where lessons on successful or failed financial governance can offer contextual benchmarks. These comparative cases are not used for generalization but for analytical generalization, allowing the researcher to assess Timor Leste's progress against globally recognized standards and practices. The methodological framework allows for a structured yet flexible analysis of GFG implementation in Timor Leste, combining empirical evidence with contextual interpretation. The findings from this study are expected to support policy development and institutional strengthening efforts aimed at improving fiscal governance in the country.

RESULTS AND DISCUSSION

The findings of this study indicate that the implementation of Good Financial Governance (GFG) principles in Timor Leste's public sector financial management has yielded partial progress but still faces significant institutional and structural challenges. The analysis focuses on three core pillars of GFG: transparency, accountability, and public participation.

Transparency in Budget Management

One of the noteworthy advancements in Timor Leste's pursuit of Good Financial Governance is the implementation of the Integrated Financial Management Information System (IFMIS). This system has significantly enhanced fiscal transparency by centralizing and digitalizing financial data, allowing for better visibility into the government's budgeting and expenditure practices. Through IFMIS, budget documents and financial reports are now more readily available to the public, a key requirement for transparent governance. This move aligns with international best practices, where financial digitalization is recognized as a mechanism to reduce corruption and increase administrative efficiency (FreeBalance, 2018).

Despite these positive developments, substantial challenges persist, most notably, the persistent gap between budget forecasts and actual expenditures. This variance suggests underlying issues in fiscal planning, such as unrealistic revenue projections, weak expenditure controls, or delays in fund disbursement. According to the World Bank (2020) and the Public Expenditure and Financial Accountability (PEFA, 2018) assessment, such inconsistencies diminish the credibility of the budgeting process. When budgetary plans are not translated into timely and accurate financial outcomes, it reflects not only technical inefficiency but also institutional weaknesses in forecasting and coordination between ministries and agencies.

Moreover, this misalignment between planned and actual spending undermines the government's ability to implement evidence-based policy decisions, as financial data becomes less reliable for tracking performance and setting future priorities. The disconnect also erodes public confidence, as communities may not see promised programs or services materialize, despite their inclusion in national budgets. This can foster skepticism toward state institutions and contribute to public apathy or disengagement in fiscal governance processes.

Although access to key fiscal documents has improved in recent years, the quality of public communication remains limited. Budget reports and financial statements are often presented in technical language that is difficult for non-experts to interpret. The lack of simplified summaries, visualizations, or fiscal education initiatives further reduces the ability of ordinary citizens to engage meaningfully with government data. In this regard, transparency becomes superficial, information may be available, but it is not accessible in a functional sense. As emphasized by Transparency International (2008), true transparency requires not only disclosure but also clarity and usability of information for the broader population.

Therefore, while the establishment of IFMIS marks a step forward in modernizing public financial management, its effectiveness is constrained unless supported by improvements in budget reliability, data literacy initiatives, and the institutionalization of transparency standards that bridge the gap between technical reporting and citizen understanding.

Accountability and Oversight

The study reveals that accountability mechanisms in Timor Leste, while structurally present, are functionally weak and inconsistently applied. Oversight institutions such as the Tribunal de Contas and the Anti-Corruption Commission (CAC) have clear legal mandates to ensure financial integrity and prevent misuse of public funds. However, these mandates are not matched by strong enforcement power or operational capacity. Many audit reports produced by these bodies identify irregularities in budget execution, yet follow-up actions are either delayed or absent. This disconnect between audit diagnosis and corrective action significantly undermines the accountability loop within public financial management.

A core issue contributing to this weakness is the limited autonomy and capacity of the oversight institutions. Both the Tribunal de Contas and CAC face budgetary constraints and shortages of skilled personnel, limiting the scope and frequency of audits. Their dependence on political approval for funding and staffing decisions compromises their independence, reducing their ability to operate effectively and without external pressure. According to the IMF (2022), these conditions contribute to a pattern of superficial oversight, where findings are produced but rarely enforced, weakening internal control systems across government agencies.

Furthermore, the absence of legal consequences for non-compliance with audit recommendations further erodes the effectiveness of these institutions. Without statutory requirements that compel ministries and agencies to act on findings, accountability becomes voluntary and often neglected. This absence of enforcement mechanisms diminishes public confidence and perpetuates a culture of fiscal impunity. To enhance accountability, Timor Leste must not only strengthen institutional capacity but also introduce a clear legal framework that mandates corrective action and sanctions in cases of financial misconduct.

Public Participation in Budgeting

Despite formal commitments to participatory governance, public involvement in Timor Leste's budgetary process remains largely symbolic and fragmented. Community consultations are often conducted as procedural requirements rather than as meaningful exercises in inclusive policymaking. While platforms to engage civil society organizations (CSOs) and local stakeholders exist, they are frequently limited to information-sharing sessions rather than genuine deliberative forums. This results in a superficial level of participation, where citizens are informed of budgetary decisions but have minimal influence over fiscal priorities or resource allocation.

The lack of institutionalized mechanisms for public feedback is a major barrier to effective participatory budgeting. According to the European External Action Service (EEAS, 2020), the country faces widespread limitations in fiscal literacy, particularly among rural populations and marginalized groups. Without adequate knowledge or tools to interpret budget data, citizens are unable to evaluate whether government spending aligns with their needs. Furthermore, there is no formal process to incorporate citizen input into budget planning or monitoring, leaving decisions concentrated within a narrow circle of government officials and technocrats.

As a result, public trust and ownership over fiscal outcomes remain weak. The absence of participatory structures deprives the government of valuable grassroots insights that could enhance budget responsiveness and equity. Moreover, failure to engage the public in a meaningful way reduces accountability and fosters disengagement. To move beyond tokenistic participation, Timor Leste needs to develop a comprehensive participatory budgeting framework supported by public education campaigns, digital engagement platforms, and institutional reforms that embed citizen input into every stage of the budget cycle, from formulation to evaluation.

Comparative Insights from Other Countries

To provide a comparative perspective and broaden the analytical depth of this study, international case studies were examined to assess how other countries have implemented Good Financial Governance (GFG) principles. In Cambodia, the Phnom Penh Water Supply Authority (PPWSA) serves as a model of successful institutional reform. Through strong leadership, operational restructuring, and community engagement, the PPWSA reduced non-revenue water from 72% in 1993 to just 6% by 2008. This transformation was driven by a combination of technological improvements, human resource capacity building, and transparent tariff-setting mechanisms, which enhanced both service delivery and public trust. The Cambodian case illustrates how GFG can be effectively implemented even in developing contexts when reforms are grounded in clear objectives and supported by consistent leadership.

In contrast, Jamaica's macroeconomic reforms demonstrate how fiscal discipline and political consensus can reshape national financial management. Facing a severe debt crisis in 2012, Jamaica launched a comprehensive fiscal reform program that included the establishment of an Economic Programme Oversight Committee (EPOC). This independent body played a central role in monitoring government compliance with fiscal targets and ensuring transparency in public reporting. As a result, the country's debt-to-GDP ratio declined from 144% in 2012 to 72% in 2023. This success underscores the critical role of sustained policy commitment, independent oversight, and inclusive dialogue among stakeholders. It also illustrates how public accountability and financial prudence can go hand-in-hand in restoring fiscal health.

On the other hand, Scotland's experience with Scottish Water offers a cautionary tale about the consequences of weak oversight and opacity in managing public funds. An audit conducted in 2023 revealed significant inefficiencies and failures in financial supervision, leading to declining public confidence. Despite being situated in a high-capacity governance environment, the lack of adequate monitoring mechanisms and transparency in expenditure decisions undermined institutional credibility. This case reinforces the notion that GFG is not solely about resource availability but hinges on the consistent application of oversight, clear communication, and responsive governance. For Timor Leste, these diverse experiences highlight that context-appropriate reforms, grounded in political will, citizen engagement, and institutional strengthening, are essential for building a resilient and trustworthy public financial management system.

Benefits and Opportunities

The gradual implementation of Good Financial Governance (GFG) in Timor Leste has yielded preliminary but promising benefits, particularly in areas that intersect with technological innovation and capacity building. One of the most notable achievements is the deployment of the Integrated Financial Management Information System (IFMIS), which has automated a wide range of financial processes. This digital transformation has not only improved operational efficiency by reducing processing time and manual entry errors but has also provided a foundation for data accuracy and traceability in public expenditure. Automation also allows for better real-time monitoring and reporting, essential for enhancing fiscal discipline and reducing opportunities for misappropriation.

In parallel, efforts to strengthen the human resource base in financial governance are beginning to take root. Targeted training programs aimed at budget officers, internal auditors, and civil society representatives have enhanced awareness and technical capabilities related to financial oversight. These initiatives are essential in creating a more informed and capable network of stakeholders who can contribute to budget transparency and accountability. Although still limited in scale, such capacity-building measures have started to foster a culture of shared responsibility in public finance management, empowering local actors to demand more transparency and integrity from government institutions.

Nevertheless, these emerging gains remain fragile and uneven, particularly in the absence of comprehensive institutional reform and enforceable legal frameworks. Without sustained political commitment and the full integration of GFG principles across all levels of government, the risk of regression is high. Improvements in transparency, for instance, may not translate into long-term accountability if not coupled with effective follow-up mechanisms and public engagement strategies. Therefore, consolidating these early successes requires not only technical solutions but also systemic governance changes, including stronger audit enforcement, legal accountability for non-compliance, and the institutionalization of citizen participation in budget decision-making.

Remaining Challenges

Despite incremental progress in certain areas, the implementation of Good Financial Governance (GFG) in Timor Leste continues to be hindered by several persistent structural challenges. One of the most pressing issues is the limited institutional capacity across key government agencies involved in public financial management. Many institutions lack adequately trained personnel, modernized systems, and technical expertise necessary to carry out complex budgeting, auditing, and fiscal monitoring tasks. This capacity gap leads to inefficiencies in public spending, delays in financial reporting, and a reliance on external consultants or donors for critical governance functions, conditions that are not sustainable in the long term.

Compounding these institutional weaknesses is the absence of a robust legal framework that ensures enforceable accountability. While oversight bodies such as the Tribunal de Contas and Anti-Corruption Commission exist, their ability to impose legal consequences for fiscal mismanagement is constrained by outdated or underdeveloped legislation. The lack of clearly defined penalties for non-compliance with audit findings or

budget regulations diminishes the deterrent effect of these institutions. Consequently, fiscal discipline becomes inconsistent, and there is little institutional incentive for government units to adhere to transparency and efficiency standards.

Additionally, weak policy coordination between national and sub-national levels of government further undermines the implementation of GFG. Many local authorities lack the resources or autonomy to effectively implement national budget directives, resulting in fragmented service delivery and unaligned fiscal priorities. This challenge is magnified by Timor Leste's heavy reliance on petroleum revenues, which introduces macroeconomic volatility and hampers the development of stable, countercyclical fiscal policies. In the absence of diversified revenue sources and long-term budget planning frameworks, public finance risks becoming reactive and politically motivated, rather than strategic, inclusive, and resilient to economic shocks. Addressing these challenges is imperative for transforming short-term improvements into sustainable governance reforms.

CONCLUSION

This study concludes that the implementation of Good Financial Governance (GFG) in Timor Leste has made incremental progress but remains constrained by structural and institutional limitations. The adoption of the Integrated Financial Management Information System (IFMIS) has improved fiscal transparency and efficiency, while initial training programs for budget officers and civil society actors have begun to build a foundation for accountability. However, the benefits of these developments are still fragile due to limited institutional capacity, inadequate enforcement of audit findings, and the absence of a legal framework that mandates corrective action. Transparency, though supported by digital systems, is weakened by inconsistent budget execution and the technical inaccessibility of fiscal information to the broader public. Accountability mechanisms exist but lack effectiveness due to weak follow-up and political dependence of oversight institutions such as the Tribunal de Contas and the Anti-Corruption Commission. Public participation remains superficial, as citizen engagement in budget formulation is not yet institutionalized and fiscal literacy remains low. Comparative cases from countries such as Cambodia, Jamaica, and Scotland offer valuable insights: strong leadership, political consensus, and institutional reforms are essential to achieving meaningful governance improvements. Timor Leste must prioritize the development of legally binding oversight mechanisms, expand participatory budgeting frameworks, and ensure cross-level coordination between national and subnational governments. The continued reliance on petroleum revenue adds urgency to the need for sustainable and resilient financial planning. Strengthening GFG is not only a technical necessity but a strategic imperative for achieving inclusive development and democratic accountability in Timor Leste.

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