

# Ministry of Finance Quality of Service Perception Survey

March 25, 2010

Conducted by The Asia Foundation on behalf of the Ministry of Finance:



**The Asia Foundation**



## Table of Contents

Executive Summary .....	4
I. Background .....	5
II. Key Findings .....	6
<b>II.1 Customs Findings .....</b>	<b>6</b>
II.1.a Customs – Recommendations for Service Improvement.....	7
<b>II.2 Tax Findings .....</b>	<b>9</b>
II.2.a Tax – Recommendations for Service Improvement .....	10
<b>II.3 Procurement Findings .....</b>	<b>11</b>
II.3.a Procurement – Recommendations for Service Improvement .....	12
III. Survey Methodology .....	13
<b>III.1 Questionnaires.....</b>	<b>13</b>
<b>III.2 Target group .....</b>	<b>14</b>
<b>III.3 Sample .....</b>	<b>15</b>
III.3.a Procurement .....	17
III.3.b Customs.....	17
III.3.c Tax .....	18
III.3.d Procedure.....	18
<b>III.4 Field Procedure .....</b>	<b>19</b>
III.4.a Research Team .....	19
III.4.b Interviewer Training .....	19
III.4.c Quality control .....	20
III.4.d Data Processing and Analysis .....	20

**IV. Findings..... 21*****IV.1 Customs ..... 21***

IV.1.a	Respondent profile.....	21
IV.1.b	Overall service satisfaction.....	23
IV.1.c	Satisfaction with service items.....	25
IV.1.d	Corruption .....	30
IV.1.e	Suggestions .....	32
IV.1.f	Summary .....	35

***IV.2 Tax..... 37***

IV.2.a	Respondent profile.....	37
IV.2.b	Overall service satisfaction.....	40
IV.2.c	Satisfaction with service items.....	42
IV.2.d	Corruption .....	44
IV.2.e	Suggestions .....	47
IV.2.f	Summary .....	49

***IV.3 Procurement ..... 50***

IV.3.a	Respondent profile.....	50
IV.3.b	Overall service satisfaction.....	54
IV.3.c	Satisfaction with quality items.....	57
IV.3.d	Corruption .....	62
IV.3.e	Suggestions .....	64
IV.3.f	Summary .....	65

## *Executive Summary*

The Asia Foundation, at the request of the Minister of Finance, entered discussions beginning May 2009 for the Foundation to conduct a survey of client perceptions of the Ministry of Finance's delivery of services. In late 2009, the Ministry of Finance and the Foundation narrowed the focus of the assessment to clients of MOF's Procurement, Tax, and Customs divisions. Later, clients of public procurement were expanded to cover other agencies.

With funding from The Asia Foundation, the objective of the MOF Client Survey was to independently gain client feedback to inform the broader service improvement objectives of the Ministry and to better meet client expectations in priority service areas. The assessment was designed to be completed on a periodic basis (e.g. every six months) to compare change over time.

Using a random selection method and a standardized survey questionnaire, the survey was designed and administered separately to clients of Tax, Customs, and Procurement services. Dili Institute of Technology (DIT) conducted the data collection for the survey in January of 2010, providing the oversight and quality control of data entry and cleaning. Kay Engelhardt served as Survey Methodologist. Bing Bonoan, Service Improvement Specialist, and Scott MacDonald, Public Finance Management Advisor, provided overall technical guidance.

The survey results find that while there is wide variation in client satisfaction levels among the three services, respondents place considerable importance on professional knowledge and honesty of staff as main drivers for their satisfaction. Access to information and a complaints mechanism were also important in influencing perceptions of fairness, trustworthiness and quality.

Understandably, perceptions of integrity and trustworthiness strongly correlated with the perceived prevalence of corruption in a service. Forty six percent said their trust is "not so strong" or "not at all" in Procurement, compared to 33 percent for Customs and 20 percent for Tax. 15 percent of respondents say they were asked to make unofficial payments to customs officials, compared to 5 percent who say they were asked to make unofficial payments by government officials in the Procurement process, and 2 percent who say they were asked to make payments to tax officials.

Since 2001, the Foundation has worked extensively with the Ministry of Justice, The Ministry of Foreign Affairs, Office of the President, and the National Parliament to build national capacity in such areas of expertise as legal aid, diplomacy and state craft, and legislative research. In the last ten years in Timor-Leste, The Asia Foundation has contributed timely empirical research to national reform efforts, including five nation-wide, household surveys in Timor-Leste as well as a host of program and tailored organizational evaluations.

In conducting this survey, The Asia Foundation in Timor-Leste drew extensively on expertise from other country programs in the Asia region, such as Philippines, Cambodia, Vietnam, Nepal and Sri Lanka, where The Asia Foundation has conducted a wealth of public perception surveys with the aim of informing institutional reform and development. The Asia Foundation's publications can be accessed through the Foundation's website [www.asiafoundation.org](http://www.asiafoundation.org).

Silas Everett  
Country Representative  
The Asia Foundation, Timor-Leste

## *I. Background*

In May 2009, the Ministry of Finance (MoF) in Timor-Leste requested The Asia Foundation to conduct a client satisfaction survey to improve the quality of its services. The Ministry of Finance selected the following three service units with the highest relevance and interaction with the public:

- Procurement;
- Customs;
- Tax.

The survey was designed to take a snapshot of the Ministry of Finance's services through the eyes of its clients – chiefly privately held companies – to determine the areas in which the services could be improved. The survey asked questions about the delivery of service at an operational level. This includes questions about specific details relating to the service delivery experience, such as how much time it took to be served, whether the staff were helpful and honest, how convenient the facilities were, and so forth.

Throughout the survey “Clients” are considered to be the direct recipients of the Tax, Customs and Procurement services via dealings with a service provider, whether delivered through a public or private entity. The term “Clients” is used in the report to refer to external clients (i.e. a private citizen who is not acting on behalf of the public sector), rather client inside government.

The findings of this research are intended to be used as an empirical basis for making recommendations for improvement and identifying priorities for action. Therefore, the results included in this survey report establish a baseline against which to measure the impact of Ministry of Finance's interventions and reforms in the corresponding services.

Understanding client satisfaction with any particular service includes identifying drivers of satisfaction, feelings of fairness, and trust. Familiar factors for satisfaction include process knowledge, wait times, complexity of process, and whether the process adheres to official rules and regulations. In this light, the survey includes questions regarding whether clients say they make unofficial payments and/or engage in other objectively corrupt practices.

It is important to note that the data gathered in the survey are the *clients' perceptions* of the services, including perceptions of corruption. Thus the survey results do not attempt to make a determination as to whether corrupt practices are in fact present in the respective services and in what dimensions. Instead the survey results are offered as suggestive indicators as to how people view corruption and the extent it is present.

.

## *II. Key Findings*

### *II.1 Customs Findings*

- Most survey respondents are generally not satisfied with the customs process. On perceptions of transparency, coherence, effectiveness, efficiency, timeliness, complexity, cooperation: More than one-third of respondents rate satisfaction of the customs process as fair or poor.
- Client profile of those accessing customs' services suggests the majority are small businesses, established within the last 3 years, with five employees or less who import, and rarely export goods (in fact less than 1 in 10 businesses say they exported goods in the last two years). For half of the businesses surveyed (52%), it took three days or less to have their goods cleared through customs.
- Three out of four (71%) of all respondents say that customs information was 'good'. However, less than half of the respondents (40%) get their information directly from the customs department. The rest of the information can be considered to come via indirect sources. When asked, how reliable respondents find the information based on the source, those who get the information directly from the customs department rate the quality of information slightly higher than those who get it from other sources.
- While a much larger part of companies that do not use a broker consider themselves to "very good" or "excellent" informed than those, who use one (17% versus 5%), it is interesting that at the same 9% (versus 4%) feel themselves to be poorly informed. This means that companies who are in direct contact with the customs department are always feeling to be better informed, underlining the need to for a better information policy for those companies.
- One out of three respondents (36%) consider the quality of the customs process to be "fair" or even "poor"; only 6% exhibit a high level of satisfaction ("very good" or "excellent"). The more frequent the respondent had an interaction with customs, the respondent was less satisfied. For example, survey respondents who import goods more frequently indicate less satisfaction. These respondents generally do not trust the customs process; feel the process is overly complicated, not efficient and lacks transparency. Conversely, fewer but many respondents indicate general satisfaction and that the process generally is good or very good. This mixed response is common in customer service surveys.
- Most survey respondents believe that use of a broker is necessary. This is not surprising if the system is viewed as overly complex and not transparent, thus time consuming. Brokers are believed to have expertise and knowledge to make the process more

efficient. Respondents' main reasons for using a broker are that the companies "do not have the time to do it themselves" (44%), that the chances to get through customs with a broker are better (29%) and that the process is deemed too complicated (16%). Considering the majority of companies of businesses are small with limited staff available, it makes sense smaller business would use brokers more often.

- Soliciting and payment of unofficial fees were common according to a large number of survey respondents. 15% of respondents say they made unofficial payments to customs officials. 38% of respondents think their competitors make unofficial payments to customs officials. 18% of respondents say they have paid additional money to avoid inspection. 22% say they have paid additional money to speed up the customs process. The most frequently reported sum for unofficial payments was US\$200.
- More than one-quarter of respondents (28%) feel they have been treated unfairly during the customs process. 9 out of 10 respondents who say they were they asked to pay unofficial fees also said they were treated unfairly. However, when respondents say they are treated unfairly, respondents indicate they are unlikely to complain. More than half of respondents are not satisfied with how complaints are dealt with. Nearly one-third of respondents believe nothing was done as a result of their complaint.

## ***II.1.a Customs – Recommendations for Service Improvement***

### **1.1.1.1.1**

1. To address the general level of dissatisfaction with the customs process and to improve transparency and access to information, actions to consider include:
  - Improve the quality and distribution of information related to forms, process, FAQs and general materials that explain "how to import goods." Key distribution channels to consider include: newspaper, TV, internet, and visits to customers/clients and business groups.
  - As over half of customs' clients use the internet to conduct daily business, greater internet presence should be considered as a low cost way of expanding the information gateway and timely access to other resources, such as forms and updates.
  - Develop of a monthly newsletter or other on-going publications that can highlight positive stories, improvements in the process, new technology, and other client/customer information.
  - Develop or enhance customer service trainings for employees, particularly for those who have direct interaction with the public. Make this training mandatory.
2. With proper incentives, brokers can be used to improve the customs system and reduce the negative perceptions. If brokers continue to be used, they should be the focus of workshops and trainings to disseminate better information (see #1 above). Also consider the following:

- Require an on-going training program and/or certification process for all brokers. Maintain a list of “approved brokers” and distribute this list in newspapers, brochures. “Audit” approved brokers on an annual basis to ensure that they are making correct customs information readily available, also a criteria for license renewal.
  - Create disincentives. Since perceptions of complexity/time required in the customs process drives people to use brokers, brokers have an incentive to maintain the perception that the system is complex. This may include brokers suggesting additional, ‘unofficial’ payments are necessary. To counter this, brokers caught paying an unofficial fee or other type of payment would have his/her license revoked for one year.
3. By large margins, respondents recognize that unofficial fees are wrong but they pay them because they feel it is necessary. Corrupt acts within the customs process can be mitigated through such as actions as:
- Adopt a “zero-tolerance” policy.
  - Provide a dedicated budget that includes education and training for current employees.
  - Develop a “whistle blower” program to encourage employees and clients/customers to report such incidents.
  - Cooperate with other agencies to share information and monitor.
4. Since complaints are a key indicator of where problems might occur, and provide an opportunity to improve services, consider taking the following actions:
- Assess current complaint process and develop a centralized intake system to track complaints and to set standard response process. A standard form should be used for all complaints.
  - Use performance monitoring to create incentives for current employees and/or groups within customs to reward meeting targets for the reduction in the number of complaints received and process delays.



## *II.2 Tax Findings*

- Satisfaction on the quality of NDDT staff is mix, 57% rated GOOD, 21% very good and only 2% average. However, when asked for their suggestions what could be done to improve the tax process, the main point of concern is staff: four out of ten respondents would like to see an increased professional knowledge (44%) and more honesty (35%). Another one in three respondents (32%) said they would like to see more qualified staff.
- Majority of the respondents (38%) say they obtain tax information from an official at the tax office. Another 24% quote the Ministry of Finance / Tax Directorate to be their main information source about the tax process. Around 30% indicate that they get their information from the media (TV, radio, newspapers).
- Majority (90%) of the respondents found it easy to fill up the tax documents. Translating the documents into local language (Tetum) is helpful. Forty to 51% of the respondents think that it is important that tax forms are easy to obtain, understand, and filled out. Similarly, the availability, quality and the language of instructions on the tax form is very important to the majority of the respondents.
- One in four respondents (23%) thinks that their level of information about tax is “very good” (22%) or “excellent” (1%). On the other side, 16% consider their level to be fair and “poor” (1%). Likewise, while 22% consider the process to be “very good” or “excellent”, one in seven respondents (15%) find the tax process to be “fair” or “poor”.
- While small companies with up to 5 employees are more critical of the service quality, the larger companies with 6 to 10 employees are considerably happier with it. However, the larger companies with up to 50 employees have a large portion of considerably unhappy respondents (more than 20% indicate the quality to be either “fair” or “poor”).
- It is interesting to see that there is only a few small differences in perceived knowledge between those respondents, who attended the taxpayer workshop and those who did not. However, companies, who took part in the taxpayer workshop, are slightly more satisfied with the service and feel a greater sense of trust in the system than those who did not take part in the workshop.
- One in five respondents (19%) say that their competitors pay unofficial payments to the tax office largely to speed up the process (60%). A smaller number of respondents (2%) say they made such payments themselves. In such cases, the payment claims range from 50-100USD. Important to note, the majority of the respondents (73%) pay

their business taxes in cash. 16 percent do not affirm that they get an official receipt for payment.

## *II.2.a Tax – Recommendations for Service Improvement*

- While the taxpayer workshop might not necessarily improved the knowledge of the tax process it itself, there are positive signs that previous workshops have contributed to more trust and more satisfaction. Therefore, the workshop curriculum should be reconsidered and perhaps improved to provide more information relevant to the client, while it continues to connect to the participants with the tax service.
- Visits to the tax office can be costly and time consuming, especially for simple inquiries and information. Consider improving the dissemination of information to the public through various media: newspaper, TV, radio and website. Clarity and timeliness of information is important. Newspapers, televisions and radio are the preferred channel for tax information by most of the respondents. While broadcast and print media has the added benefit of reaching a broader audience, there is a limit to the scope and depth of information possible to communicate, largely dependent on available airtime and space. With the directorate website, this is reversed. Consider a dual approach using mass media for high priority general information (e.g. notifications of changes in law, reminders on tax calendar, penalties, etc.) and the website for detailed or complex information (e.g. laws, forms, tax calculators, additional tax information, etc.).
- Introduce more transparency in the transaction. Clear information about the process or procedure, documents needed, forms to be filled up, transaction time required and the responsible office should be made available and communicated to the public/customers. There are two tracks to do this: first is through the media (see #1) and through the offices: posting of signs, flowcharts, distribute brochures, etc. It is important that information is translated into local dialects for ease in understanding. Predictability of the process is vital so people know what to expect from the government.
- Set up a clear mechanism for complaints. Thirty one percent of the respondents showed hopelessness and resignation in the system. Small actions like putting complaints boxes in each office, and ensuring that these complaints are addressed immediately is a significant towards gaining the trust of the people.
- Introduce reforms in the system by re-designing processes, particularly that of the frontline services (those with direct contact with the customers/taxpayers) such that monopoly and discretion of staff is minimize.

## *II.3 Procurement Findings*

- Survey results indicate generally low satisfaction with the government's procurement process overall independent of the particular procuring agent. Roughly one in four (25%) respondents indicate a "poor" overall satisfaction rating. Roughly one in five (20%) respondents said their overall satisfaction was only "fair." Conversely, more than half of the respondent's overall satisfaction is "good" or "very good." This mixed response is common in customer service surveys.
- Trust is a key issue to be addressed as indicated by the survey results. Nearly half of respondents (46%) indicate a weak level of trust in the procurement process choosing "not so strong" or "not at all strong" when asked to rate their trust level. Roughly one-third of respondents indicate a low satisfaction with transparency and efficiency in the bid evaluation process.
- A large percentage of survey respondents regardless of whether or not they have won a bid indicate a low level of knowledge about the government procurement process. More than 20% or one in five respondents believe their knowledge level is "poor" or only "fair."
- Newspapers are the main source of tender information. More than two-thirds of respondents (67%) relied on newspapers for information on their last tender. Respondents also give high ratings to the information they received through the newspaper with more than 80% choosing a "good" or better rating. The next most popular source for information is television (14%) and surprisingly no respondent indicated using the internet for any tender information. A possible opportunity, considering nearly half of respondents indicate using the internet regularly in their business.
- The survey indicates room to improve the quality of and access to tender information and the procurement process. Roughly one-third of respondents chose only "fair" or "poor" when rating their satisfaction with the comprehensiveness of public tender information. 41% indicated low satisfaction with ease of access to tender advertisements. Respondents also indicate that the work effort to make a bid is too high, takes too much time and costs them money.
- Survey results indicate that the deadline between advertisement and the bid deadline is not adequate. Respondents from companies with more employees tended to indicate less satisfaction with the tender deadlines.
- Procurement staff received a "poor" or "fair" rating from nearly half of the respondents.
- Unfairness is a key issue with nearly 25% of respondents indicating they have been treated unfairly in the procurement process.
- Soliciting and payment of unofficial fees is likely according to a large number (25%) of survey respondents.

### *II.3.a Procurement – Recommendations for Service Improvement*

- To address dissatisfaction and to improve dissemination of information actions to consider include: (1) Improve the quality and distribution of information related to bid requests, the procurement process, FAQs and general materials that explain “how to bid.” Key distribution channels should include: newspaper, TV, internet and more pre-bid meetings and/or workshops. (2) Develop of a monthly newsletter and/or other on-going publication that lists anticipated bids, awarded bids. (3) Develop or enhance customer service trainings for employees, particularly for those who have direct interaction with the potential and current bidders. Make this training mandatory. (4) Develop a template award notification to send to all bidders to inform everyone who received the award.
- Actions to consider: (1) Adopt a “zero-tolerance” policy. (2) Provide a dedicated budget that includes education and training for current employees. (3) Develop a “whistle blower” program to encourage employees and clients/customers to report such incidents. (4) Cooperate with other agencies to share information and monitor.
- When treated unfairly, respondents indicate they are unlikely to complain. Complaints are a key indicator of where problems might occur. Actions to consider include: (1) Assess current complaint process and develop a centralized intake system to track complaints and to set standard response process. A standard form should be used for all complaints. (2) Use performance monitoring to create incentives for current employees and/or groups within customs to reward meeting targets for the reduction in the number of complaints received.

### *III. Survey Methodology*

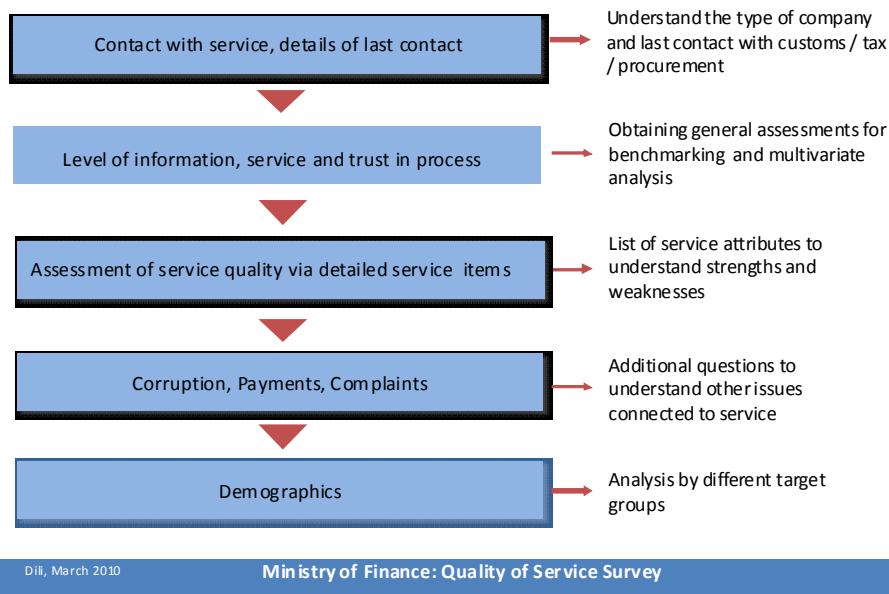
#### *III.1 Questionnaires*

Since the three services – Procurement, Tax, and Customs – differ widely from one another, three individual surveys were conducted to be able to capture the nuances within a particular service and give a more in-depth view of the drivers behind customer satisfaction. At the same time, the surveys were designed with enough similarity in order to make it possible to compare the services.

Draft questionnaires for each service were developed and discussed in detail with the client as well as with the heads of the respective directorates. After seeking comments and approval of the questionnaires, they were finalized and translated into Tetum by a professional translator at Dili Institute of Technology (DIT). To ensure that the translations convey the intended meanings, the translated questionnaires were also back-translated into English by qualified linguists. After the data collection team were trained, a total of 10 pilot interviews per target group were conducted and corrections in the Tetum wording were made.

Although the questionnaires themselves differed from each other, their structure was the same. All questionnaires started with understanding the type of the company (as relevant to the service, i.e. if it is an importing or exporting company or the number of government tenders it won), followed by three standard questions about the level of information about the service, the perception of the service quality as well as the trust in the process. The relative similarity of questions was chosen deliberately to be able to get internal benchmarks across the three services.

## Questionnaire: unified structure for all services



These questions were followed by a detailed assessment of quality items that characterize the overall service. Each respondent was asked to rank the quality items by their level of importance and their level of satisfaction with the item.

The last sections of the questionnaire explored issues of corruption and experience with complaints mechanisms, ending with a short section covering demographics of the respondents. Each questionnaire took an average of 30-40 minutes.

### III.2 Target group

Although companies who use the services provided by Procurement, Tax, and Customs exist throughout Timor-Leste, the overwhelming majority of businesses are located within the country's commercial centre, Dili. Although understanding the quality of service delivery in the other districts was considered to be important, for this first survey it was agreed to concentrate the research on the much larger pool of available companies based in capital.

In this regard, the target group of the research were:

- ☐ **private sector** companies in Timor-Leste located in Dili
- ☐ of **all sizes**
- ☐ and of **all economic sectors**
- ☐ both **locally and foreign** owned
  - who have submitted at least one proposal to the Ministry of Finance or other government agencies in the last 2 years (Procurement survey)
  - have imported or exported anything in the last 2 years (Customs survey)
  - are currently paying taxes (Tax survey)

Target respondents within these companies were either:

- ☐ **Owners** *or*
- ☐ **Heads of businesses** (CEOs, Directors, Associate Directors, etc.) or the most experienced personnel in the respective service (especially for large companies).

### *III.3 Sample*

To conduct the research, two databases were examined:

- First, a database of businesses based on a survey by the Peace Dividend Trust (PDT, 2009). This database was established in 2007 through a baseline survey that strived to get a complete picture of companies in Timor-Leste. Data was collected from 2,384 between November 1, 2007 and September 30, 2009. The survey was conducted by a team of interviewers, who were deployed to all 13 districts to go door-to-door to map companies and entrepreneurs. Additional ways to find new or previously overlooked businesses included newspaper ads, tips from contacts, or direct, personal communication with business owners.<sup>1</sup> Among the data collected were addresses, telephone contact numbers, and type of economic activity. The data for existing companies was routinely verified through telephone or personal contacts. The interviewers continued to look for new and previously overlooked businesses. By October 2009, the number of businesses in the PDT database was 2,384.
- Second, the Ministry of Tourism, Commerce and Industry database of registered companies (MTCI, 2009). The database is created from businesses seeking to gain official registration. Being registered with the MTCI is mandatory for each company to be legally registered, obtain a Tax Identification Number (TIN), make tax payments, import or export goods, and take part in government procurement. For this survey, the relevant information contained in the MTCI database is the street name, the name of the owner, the respective telephone number as well as the main economic activity of the company. In total 2,365 companies based in Dili were found in this database.

While the aim was to use the most comprehensive and most up to date database for the research, it was found that both databases suffered from shortcomings, although they both were said to have been updated in the year 2009. Comparing the companies to be found in both databases, a certain number of the entries found in one database cannot be found in the other database. The reasons for this might lie in how the data is collected. The PDT data, derived from door-to-door surveys, is based on businesses and entrepreneurs who may not have registered with MTCI and therefore do not have TINs. MTCI database is derived from those businesses who obtained a TIN. However, it was found that entries in the MTCI database were not up to date nor complete. The fact that the DIT survey team could not find a considerable portion of the business in the MTCI database suggests that the database is likely to include inactive companies or companies that exist, but have changed locations, e.g. moved to other districts.

An unsuccessful attempt was made to merge the two databases to capitalize on the strengths of each business. **It is recommended to merge the two databases to get one complete**

---

<sup>1</sup> Business Community in Timor-Leste, Part I – Overview, October 2009, Peace Dividend Trust

**universe of companies in Timor-Leste. A first step would be for PDT to consider attaching TINs to existing entries (where possible) and MTCI to consider differentiating tax and tax exempt companies from non-tax compliant companies (hence officially defunct) in the database.** This would require MTCI to crosscheck its database against the Tax database. In lieu of an official, verifiably up-to-date database from which to take samples from the following sampling method was used:

- With the registration with the MCTI being the basic requirement to take part in the 3 services offered by the MoF, this database was considered to be the master file from which the sample was drawn (details see below).
- While having more addresses than the PDT database, the danger that more “inactive” or hard to find businesses might be in the MCTI database, was acknowledged and subsequently additional time and effort was allocated to cover this. This existence of such invalid addresses and their effect on the field time was considered to outweigh the selectivity effects of the PDT database.
- Where possible, information from both databases was used (i.e. to complement or correct telephone numbers or additional contact information).

To obtain a maximum of robust data in the short time that was available for this research (3 months), it was agreed to settle for a maximum of 150 interviews per survey. However, due to difficulties in contacting and getting business representatives to meet for an interview once contacted, the final sample sizes for the research are the following:

	Target Sample Size	Booster
Procurement	45	43
Customs	150	
Tax	155	
Sutotal	380	
<b>Grand Total</b>		<b>393</b>

With these sampling sizes, the following sampling errors for the total interviews as well as for analysed subgroups should be kept in mind when considering the implications of the survey results:

No. of interviews	maximum sampling error (95% confidence, p=.5)
10	31.0%
20	21.9%
30	17.9%
40	15.5%
50	13.9%
60	12.7%
70	11.7%

No. of interviews	maximum sampling error (95% confidence, p=.5)
80	11.0%
90	10.3%
100	9.8%
110	9.3%
120	8.9%
130	8.6%
140	8.3%



150

8.0%

### *III.3.a Procurement*

The detailed sampling methodology for the different surveys will be described in the following sections.

For the Procurement portion of the survey, because currently no government database of bidders and winners of government tenders are available, the selection of target companies was the done in a two step process:

1. The “International Centre for Journalism”, a Timorese NGO, maintains and publishes since June 2008 a database of awarded tenders. According to this database, until October 2009, a total of 270 tenders were awarded<sup>2</sup>.
2. Comparing the list of winning companies with the MTCI database, a total of 103 companies located in Dili could be identified. To obtain a robust understanding of how these winning companies perceive the procurement process, all of these companies were to be contacted by interviewers, yielding at least 75 interviews.

In conducting the research it was assumed that companies who have lost one or more procurements, would have a significantly lower level of satisfaction in the service. Therefore, the Foundation took a random sample of companies with similar or the same characteristics to the known characteristics of the winning companies (i.e. size, main economic activity). The reasoning behind this was that it was probable that significantly similar companies are equally interested in procurement and are able to compete against one another. To screen the businesses for procurement experience, it was asked during the initial part of the interview if the company had taken part in a government tender process in the last 2 years. If the respondent answered “yes”, the interview was continued.

It was planned to obtain roughly 50 “booster” interviews with this group that would allow for comparisons of both procurement winners as well as with losers of the process.

### *III.3.b Customs*

For the Customs portion of the survey, the following methodology was used to choose the target companies:

All companies in the MTCI database, who were listed as active in “Importing” or “Exporting” were flagged. In addition, the Customs Directorate provided a list of the main importers and exporters in Timor-Leste as well a list of customs brokers. These companies were also flagged

---

<sup>2</sup> This number does not corresponds with the assumption that 270 different companies have been chosen: indeed up to four tenders were to the same companies (up to four).

to get a robust universe of all companies actively involved in the customs process. From all flagged companies, a random selection of 150 target companies was conducted.

### *III.3.c Tax*

As all companies in the MTCI are required to pay taxes (if they have any income), a random sample of 150 companies based in Dili were chosen from *all* companies in the database. As the majority of companies are micro enterprises or small companies (1-10 employees), an oversampling ratio was introduced for the larger companies (11+ employees) to enhance the robustness of the disaggregate findings by this groups, too. As in the customs sample, an oversampling ratio was introduced for the larger companies (11-50, 50+ employees) to enable the research to report findings for larger companies. The survey did not attempt to include businesses eligible to make tax payments but are not registered to pay tax nor did the survey attempt to identify the extent to which businesses are under/over paying taxes.

### *III.3.d Procedure*

At the end of the sampling procedure, a data file was completed, which consisted of the following details:

- ☐ Unique ID number
- ☐ The name of the business
- ☐ Name of the business owner
- ☐ Street address
- ☐ City
- ☐ Sampling information (Tax, customs, procurement winners and procurement non-winners).

This data file was provided to DIT (see chapter III.4) and used as the basis for the interviews. DIT interviewers then tried to contact the businesses/individuals first by telephone (if possible) to agree on an interview date. If contact by telephone was not successful (for such reasons as the telephone number was not available or the business did not have a telephone), the interviewers then went to visit the business in-person and establish contact with the target person in the business (owner or senior management). If the target person was present, an appointment was made for an interview. If the address did not exist or the location of the business was hard to find, the interviewers inquired with the *Chefe de Suco* (Village Chief), *Chefe de Aldea* (Hamlet Chief), or with other members of the local community.

In case the target person was not present, an appointment was made for a call back. Substitutions were made only after three unsuccessful call-backs (using different days and times of day), or if either the owner refused, the company moved out of Dili, the company was unknown or the owner was unavailable during the period of data collection.

### *III.4 Field Procedure*

#### *III.4.a Research Team*

The interviews with the companies were carried out by DIT. DIT provided a research team of 16 interviewers that were divided into four groups of four interviewers each. Each team was headed by one supervisor, who him/herself reported regularly to the DIT's Project Coordinator. Each interviewer had at least taken part in 10 previous surveys and as a Timorese National, was fluent in Tetum, the most widely spoken national language of Timor-Leste.

Each group of interviewers was assigned initially to conduct interviews of one service. When teams conducted all necessary interviews, they were assigned to help out the other teams<sup>3</sup>.

The Foundation furthermore provided the research institution with a consultant, who developed the questionnaire and trained the interviewers in the methodology and field procedures. The consultant was available during the whole research process both as a supervisor as well as to address and clarify any questions or doubts regarding the survey.

#### *III.4.b Interviewer Training*

The interviewer team as well as the supervisors were trained for two full days, on January 25 and 26, 2010. Although the interviewers were experienced in survey work, besides the questionnaire administration also basic themes (like interviewing skills) were refreshed.

The following issues were addressed during the training:

- ☐ Overview of the project's objectives
- ☐ Explanation of the survey methodology and sampling
- ☐ Detailed explanation of the here different questionnaires, the questions therein and how to administer it question by question.
- ☐ After each questionnaire, role play was conducted, where all interviewers took over the role of the respondent and the interviewer at least once. After these role plays, feedback sessions were conducted and open questions or doubts discussed.
- ☐ Due to the length and complexity of the questionnaires, two additional days of role playing and rehearsal were scheduled to ensure that each interviewer was able to administer these.
- ☐ After the training, each interviewer conducted at least one interview during a pilot test. The pilot test only yielded smaller changes in the wording of the interview (to adjust the language to the respondent group).

---

<sup>3</sup> This was possible because all interviewers underwent training in all three instruments and were retrained before taking over new assignments.

### **III.4.c**      *Quality control*

To ensure a high level of data quality, DIT conducted the following quality control measures:

#### **1. Internal and external Pilot Test**

On completion of interviewer training, all interviewers made several mock interviews with each other and their supervisors to ensure that both the interviewing process as well as the questionnaires are fully understood. After this internal pilot test, an external pilot was conducted to ensure the appropriateness of the instrument.

#### **2. Random 10% Quality Control**

A total of 10% of interviews gathered underwent a telephonic or physical back check (by separate personnel of the research organization). During this phase, the respondents were asked if the interview was actually conducted and a short number of questions were asked again to check the validity of the interview. Interviewers, who were found out during this phase to have cheated on the questionnaire were discontinued.

#### **3. 100% Questionnaire Validation**

After receiving the interviews, the team supervisors checked and validated the questionnaire to ensure that all questions have been asked by the interviewer. Interviewers, who failed to provide complete and correct questionnaires during the data collection phase were retrained and – if necessary – discontinued.

### **III.4.d**      *Data Processing and Analysis*

DIT also took over data processing, in which the quality controlled questionnaires were entered into an electronic database. Data processing was also quality controlled and a minimum of 20% of the coded questionnaires were back-checked by the team supervisor at DIT by comparing the data with the one to be found in the paper questionnaire. The deliverable from this phase was a 100% checked, “clean” and English labelled data file in the SPSS format. To check the validity of the datafile, a random sample of questionnaires were double-entered by the consultant and checked against the delivered data. In the case of errors, quality control was extended to 100% of the questionnaires.

“Other” or “open” mentions that were collected in the questionnaires were coded into variables (if possible) and entered into the database. The data was tabulated in such a way that all questions were analysed by specific subgroups of interest (case numbers permitting). Both the 3 resulting datasets as well as the 3 tables were then analyzed. The three datasets were furthermore analysed by a consultant using descriptive and multivariate methods, where adequate. The findings of these analyses are described in the following chapters.

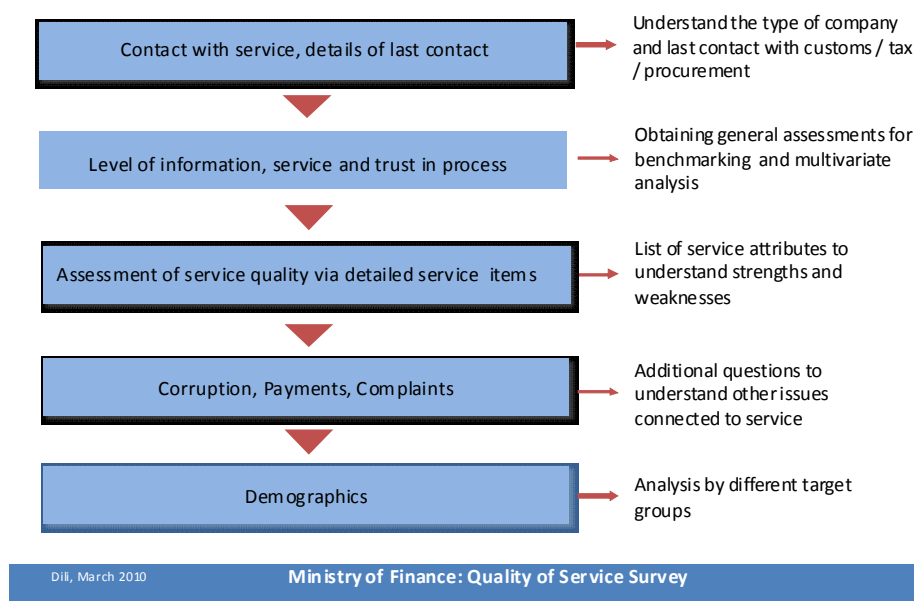
## IV. Findings

### IV.1 Customs

#### IV.1.a Respondent profile

- In total 150 companies that are importing or exporting goods for either themselves or other companies responded to the survey. More than half (57%) of the companies have 5 or less full-time employees, 23% employ 6-10 persons and 20% have more than 11 employees.
- In the last 2 years, 32% of the companies have imported or exported goods five times or less, and about one in seven companies (14%) 6 to 10 times. 30% of the companies indicated that they imported goods ca. every two months or more often (more than 11 times in the last 2 years).<sup>4</sup>

#### Questionnaire: unified structure for all services

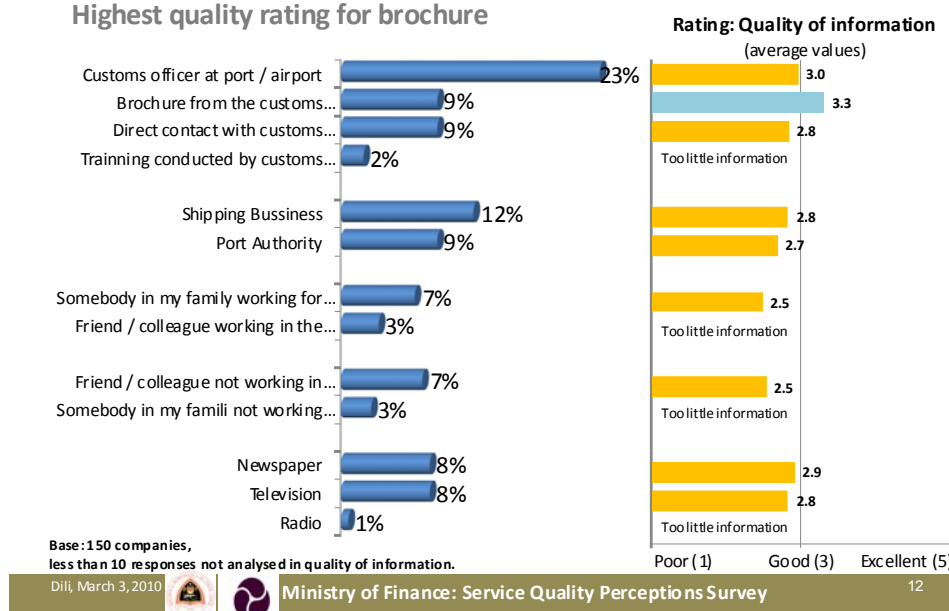


<sup>4</sup> An additional 24% declined to answer the question or did not know the company's frequency of importing / exporting goods.

- The vast majority (92%) of the responding companies say they import goods, only 2 percent indicate to export goods only and 6 percent indicate that they are both importing and exporting.
- Most goods are coming in or out of Timor-Leste through Dili Port (73%) or through the border to Indonesia (23%).
- Almost two out of three companies are using a broker or another middleman for the customs process.
- Respondents say the main reasons for using a broker is that the companies do not have the time to do it themselves (44%), that the chances to get through customs with a broker are better (29%) and that the process is deemed too complicated (16%). Therefore, the main reason to use a broker appears to have to do with limited time, which is understandable, considering that the majority of companies are ones with up to 10 employees.

## Main information about customs

Customs officer and port authority  
Highest quality rating for brochure



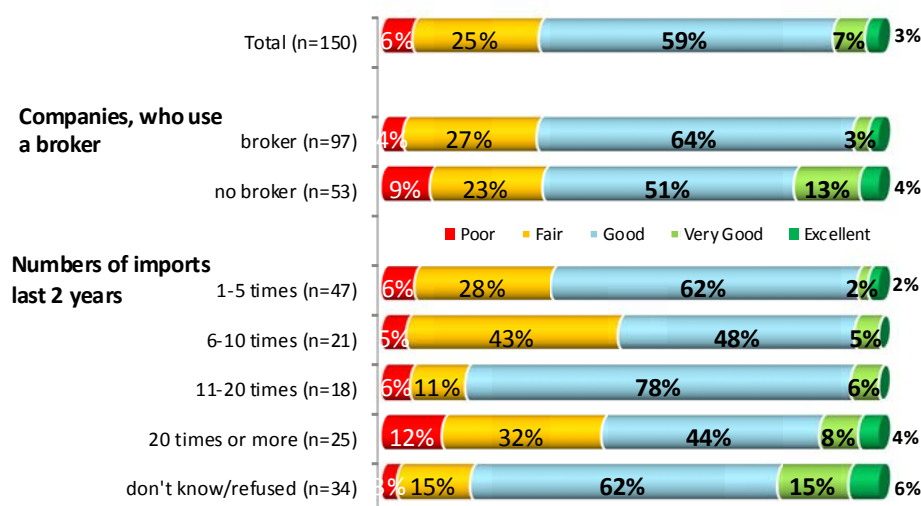
- Respondents say the main source of information about the customs process comes from customs officers (23%). Nine percent of respondents also declared that they get the information from a specific brochure or directly from a person in the customs department. Two percent revealed that they attended a specific training conducted by customs.
- Approximately 20% of respondents say they get their customs information from shipping businesses or the port authority.
- Another 20% get their information from the media (radio, TV and newspapers). The rest, get their information from friends or family either working within the Ministry of Finance (both 10%).
- This means that less than half of the respondents (40%) get their information directly from the customs department. The rest of the information can be considered more or less to be third-party information that might or might not be correct.

- Asked, how reliable they find the information from their main source, those, who get the information directly from the customs department, rate it higher than those who get it from other sources. However, the difference between these two groups is not significant, highlighting **the need to improve the information policy and quality of content**.
- The last import or export activity for 68% of respondents took place less than 3 months ago. For the majority (52%), it took three days or less to clear the goods.

#### IV.1.b Overall service satisfaction

- One in ten companies (10%) considers its knowledge of the customs process to be either “very good” or “excellent”. More than half (59%) assess their level of knowledge to be “good”. This means on the other side, that three out of ten businesses indicate to have a fair or even poor knowledge of the process.

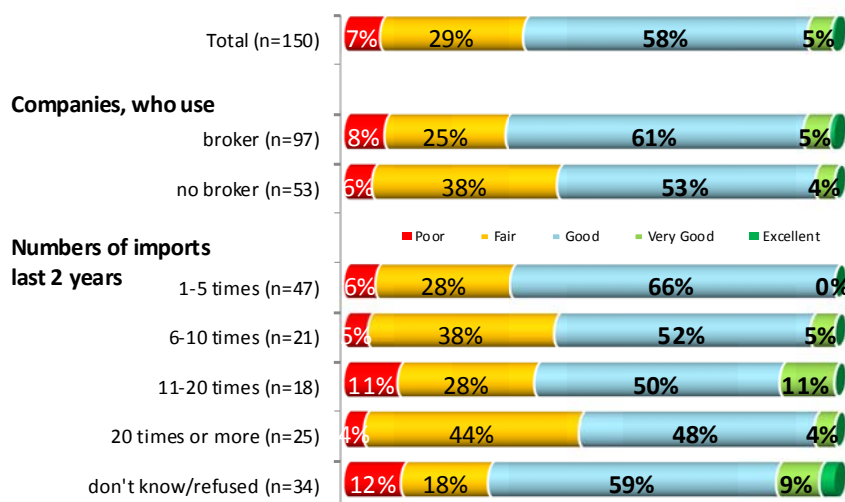
### Overall knowledge of Customs Process



- A much larger portion of companies that do not use a broker consider themselves to well informed compared to those who use a broker (13% versus 3%).
- At the same time those who do not use brokers are more likely to say they feel “poorly” informed (9% versus 4%).
- The frequency of importing or exporting goods does not have a significantly positive effect on actual knowledge of the process.
- **These results suggest the need to evaluate the information policy that exists between the Customs Directorate, importers/exporters and brokers.**

## Overall satisfaction with Customs Process

Majority perceives performance as “good”  
36% of companies critical



Dili, March 3, 2010



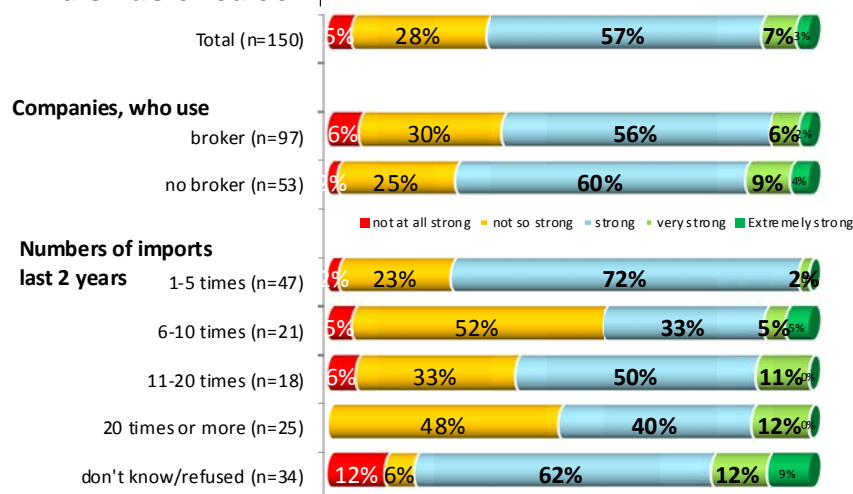
Ministry of Finance: Service Quality Perceptions Survey

17

- 36% of the companies consider the quality of the customs process to be “poor” to “fair”; only 6% say they have a high level of satisfaction (“very good” or “excellent”). However, the majority of respondents (58%) consider the process to be “good”.
- More frequent interaction with customs process trends toward lower satisfaction. Respondents who imported goods more than 5 times within the last 2 years say they have lower levels of satisfaction (44%) compared to those who have imported goods 5 times or less in the last 2 years (34%).

## Overall trust in Customs Process:

Majority has “strong” trust, but portions of disillusioned companies



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

18



- Companies, who use a broker, are slightly more satisfied with the process (66%). Conversely this means that companies, who are in direct contact with the customs department, are less likely to be satisfied (57%).
- Overall, the levels of trust in the customs process are considerably low. 33% of companies report to have no trust or not so strong level of trust. While those companies who take care of their customs procedures themselves have a slightly higher level of trust, only 14% of them indicate to have a “very strong” or “extremely strong” trust in the process.
- A correlation analysis shows that trust and satisfaction are very strongly linked, while the level of information only has small influence on the perception of the customs department. This means, that while the provision of more accurate information on how the customs process works is needed, it alone will not necessarily lead to more satisfaction. Indeed the perception of trust and satisfaction are dependent upon each other, so that besides more information more transparent and effective processes are needed to build up both.

#### *IV.1.c      Satisfaction with service items*

To get a thorough understanding of the strengths and weaknesses of the customs service, client companies were asked a total of 31 questions. These questions tried to gather in-depth information on perceptions within three service dimensions:

- Staff;
- Customs Process;
- Declaration form.

Each of these service dimensions consisted of roughly 10 items. For each of these items the respondents were asked about the importance of the item (ranked from “not at all important” over “not so important”, “important”, “very important” and “extremely important”). A follow up question was asked for the satisfaction with the same items. Respondents were given a scale ranging from “poor” over “fair”, “good” and “very good” to “excellent”. In a second step a multivariate analysis was undertaken to understand the influence of the service items on the overall satisfaction with the service.

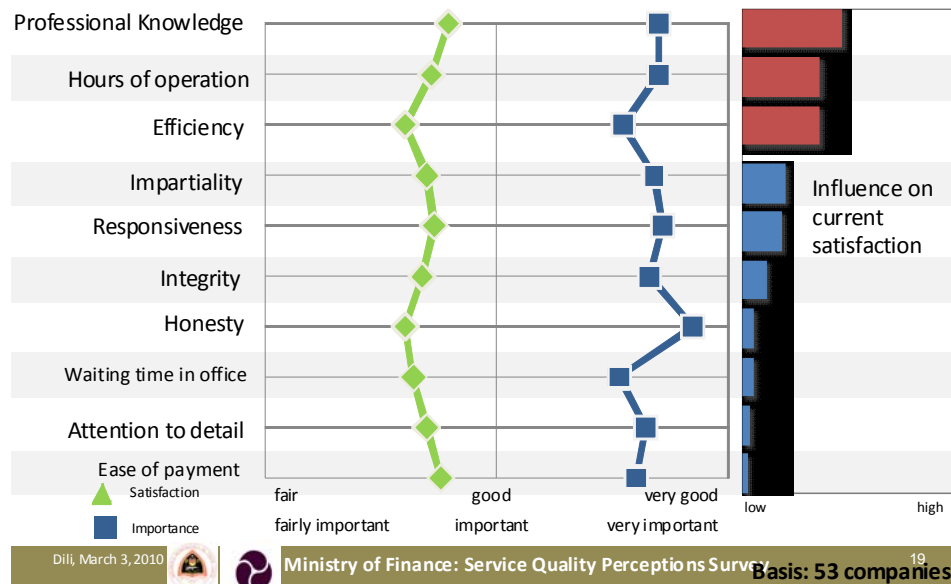
##### **Customs Staff:**

- In the service dimension “staff” the by far most important item was is “honesty”, followed by “responsiveness” and “professional knowledge”.
- At the same time, of all items, “honesty” scores lowest in the area of satisfaction, while “professional knowledge” and “responsiveness” have the highest scores in this dimension.
- With average scores below “good”, all items that deal with “staff” obtain considerably low ratings.
- The high importance of all items on the one side and the low satisfaction on the other suggests improvement all these items.

- Especially items like **honesty, impartiality and integrity** need **immediate improvement** as staff is the backbone of every service.

### Quality Items: staff

Professional knowledge, hours of operation and efficiency have most impact on current satisfaction



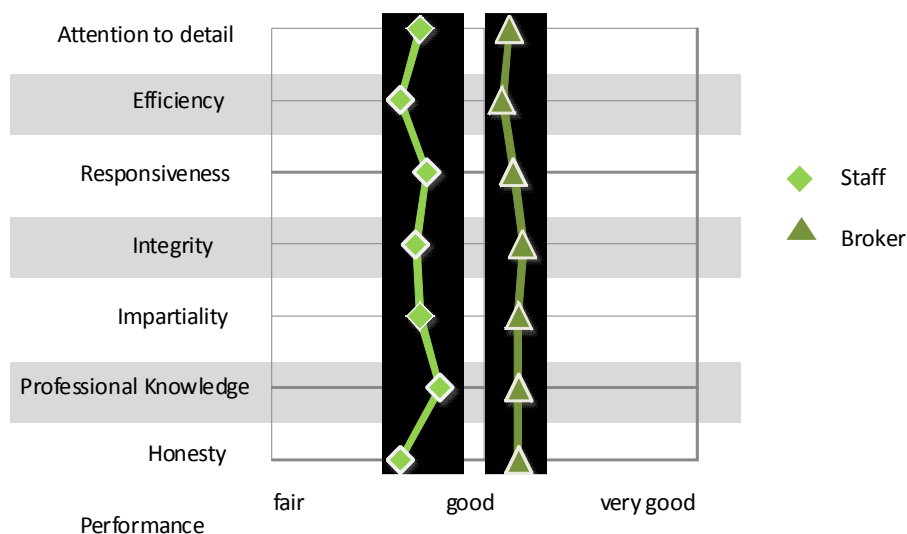
- It is interesting to note that “Professional Knowledge”, “Hours of operation” and “Efficiency” have considerably large influence on the current satisfaction, while honesty and integrity are lower. This points to a situation that, when the respondents think of the customs service, they have the practicalities of the transaction in mind. One side, this is a positive sign, but also means that “honesty” and “integrity” are underrated or even not expected.
- Change in staff performance requires a long run commitment and measurements such as the survey, should be routinely conducted to determine if progress has been made as well as to inform new initiatives for action. However, a first step would be to improve staff skills (i.e. via trainings and development of standard processes), and, a second step, simple to implement, would be to publicly make a commitment to honesty, fairness and professionalism (i.e. by developing, publicizing and then enforcing a code of conduct).

### Brokers Staff:

Due to the fact that the majority of companies use brokers, a set of questions were asked of these broker-using companies, specifically about the “staff” of brokers. These questions closely paralleled questions posed to customs staff, hence are compared here.

## Satisfaction Brokers vs. Customs Staff

Brokers score higher in all aspects, honesty and efficiency of staff mark main differences.



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

20

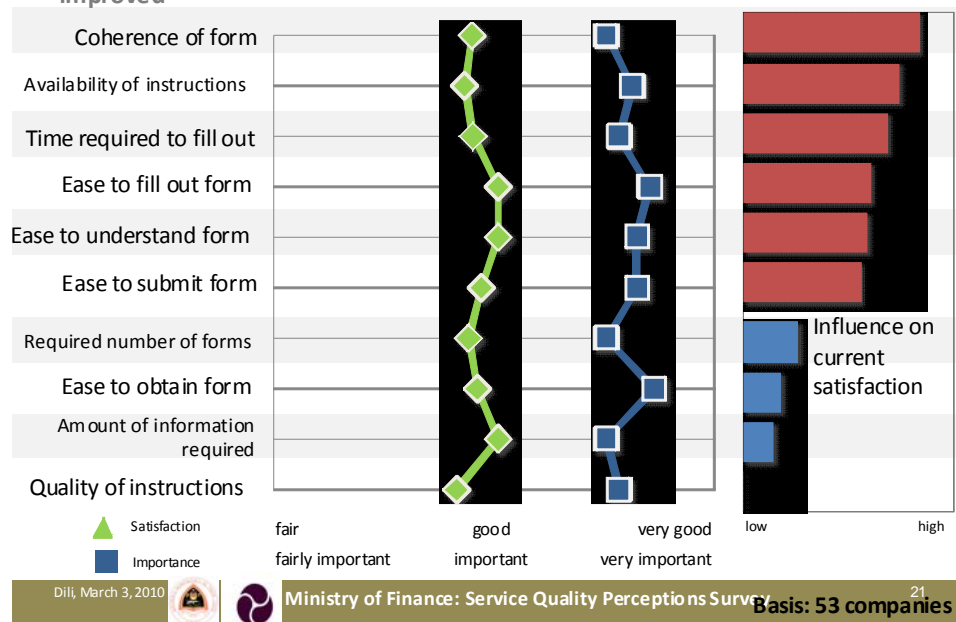
- The analysis of items relating to “staff” shows that the companies who use brokers are slightly more satisfied with their services than the clients who are in direct contact with the customs staff.
- However, none of these items attracts a better average grade than “good”. Therefore, the satisfaction with the brokers’ staff is higher while the overall quality of the brokers’ staff can be rated to be average.
- This finding is highlighted by the fact that most of the companies indicated practical reasons (e.g. no time to do oneself, better chances to get goods through customs with broker, etc.) rather than reasons that have to do with a better service quality.
- On the other side the comparison of the performance of the government staff versus the brokers’ staff highlights three main points that require immediate improvement for the customs staff: fundamental items like “honesty”, “impartiality” and “integrity” received results significantly lower than the brokers.
- These results suggest client distrust of customs staff related to their perceived lack of impartiality and fairness – a matter which suggests immediate attention.

### Declaration form

In addition to other documents, each importer or exporter needs to fill out a declaration form. As this is the only document required that has been developed by and can be obtained from the Customs Service, the respondents were asked to rate its different qualities.

## Satisfaction with „Declaration Form“

Availability of instructions and Coherence of the form could be improved

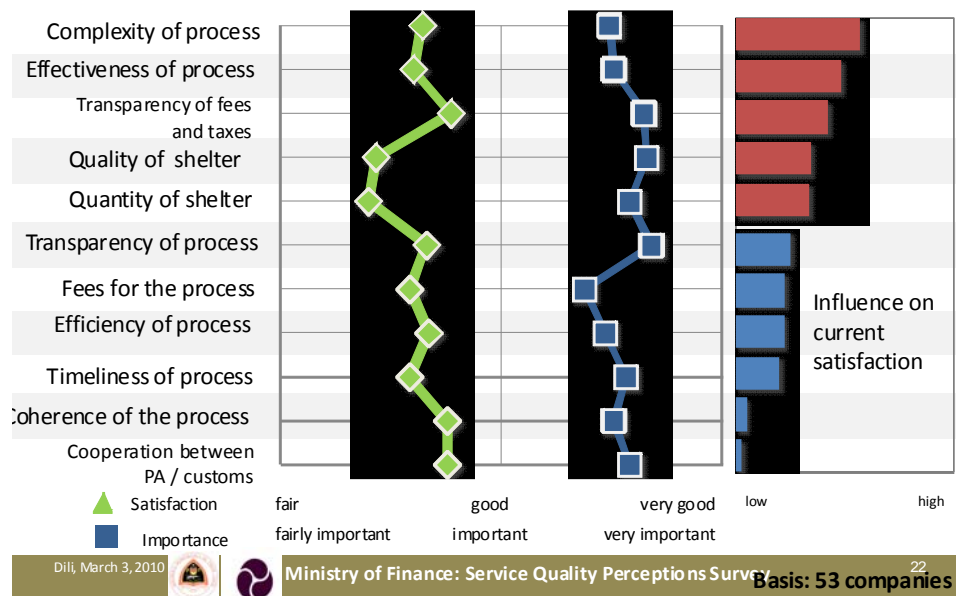


- Overall, with most items (except for “quality of instructions”), respondents had satisfactory perceptions.
- A strength of the declaration form is its ease to understand it and to fill out, while a weakness is the ease to obtain the form and the quality of instructions. Both are rated to be of high importance, but score considerably low in the area of performance.
- The declaration form items have greater influence than the staff items on the overall feelings of satisfaction with the process.
- This finding suggests that companies mostly rate the service on the practicalities of the transaction, rather than the quality of service.
- It is clear that a declaration form is another backbone of the customs process. While small changes might be needed to the declaration form, this finding does not mean that such changes will drive satisfaction upwards. Rather it means that filling out the form appears to be a key element in how the customs process is viewed. Other key issues, like the honesty of staff or the transparency of the process, are likely to be greater drivers of satisfaction. Therefore, key elements of the process (e.g. staff, transparency) are required to improve client perceptions of the services.

## Process:

### Satisfaction with „Process“

Complexity and effectiveness of process need to be addressed, as well as shelters



- Taking a look at the items that describe the customs process, the highest ranking items are its “transparency”, its “effectiveness” and the “transparency of taxes and fees”.
- While all items leave room for improvement the highest rated in terms of service quality is the “transparency of taxes and fees”, the coherence of the process and the “Cooperation between the Port Authority and Customs”.
- Relative weaknesses are the “quality and quantity of shelter” as well as the “timeliness” and “effectiveness” of the process.
- The items with the greatest influence on how the customs service is seen in this area is the “complexity”, “effectiveness” of the process as well as “transparency of taxes and fees” and the question of “shelter”.
- All these items require attention, and reinforce the findings from the previous sections: The overall effectiveness, but also transparency and complexity of the process are key areas to address.
- Additionally, addressing the question of shelter is important. According to respondents, the vast majority of imports required more than 1 day to be cleared, ample and satisfactory space for storing the goods is viewed as key to hinder the goods from being damaged while in the port.

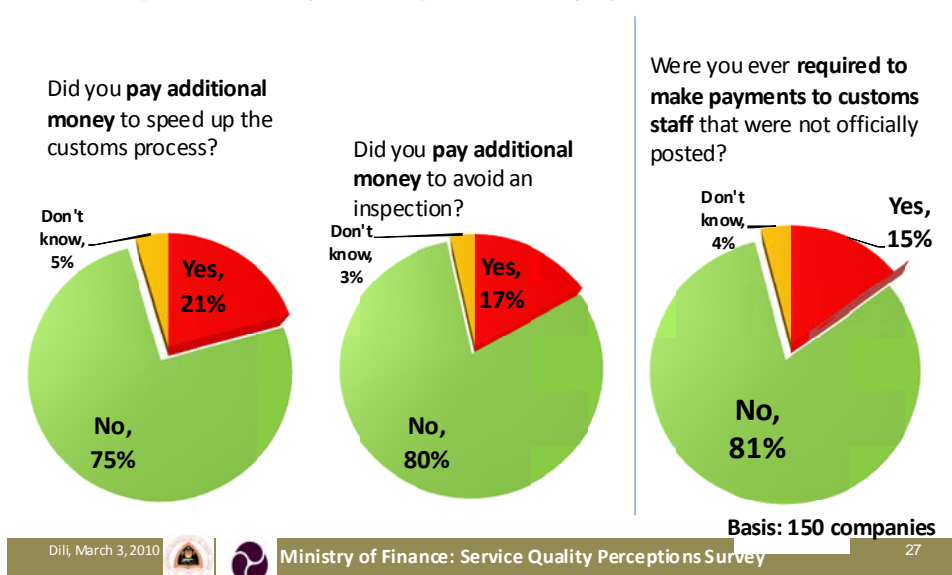
### IV.1.d Corruption

- 81% of responding companies reported that they were never required to make payments to officials, which were not officially posted.
- On the other side this means that 14%, which translates to one in seven companies, indicated that they were required to do so.
- Another 4% do not remember to have done so, indicating either a hidden confirmation or a degree of confusion on behalf of the respondent e.g. respondents did not know if certain fees were actually posted or not.

#### Payments to officials

around one in five gave money to official

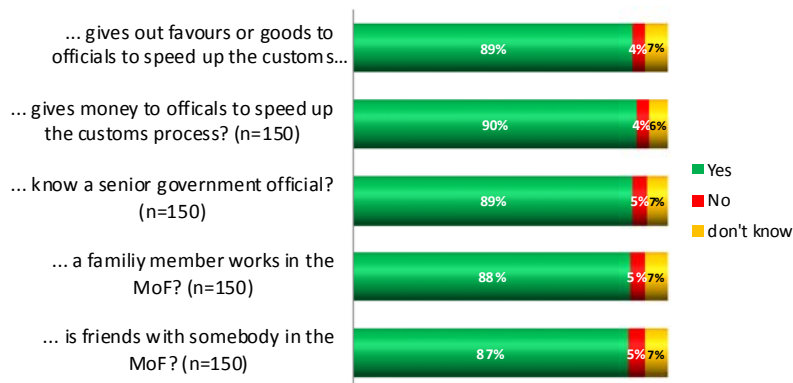
15% reported that they were requested money by customs staff



- 21% of respondents admitted that they gave additional money to speed up the process on at least one occasion. 17% reported that they bribed officials to avoid an inspection.
- A total of 17 companies admitted to be engaged corrupt practices, e.g. paid the requested unofficial payments by officials to speed up the customs process or to avoid inspection.

## Definition of corruption

--When people can shorten or evade the customs process because...



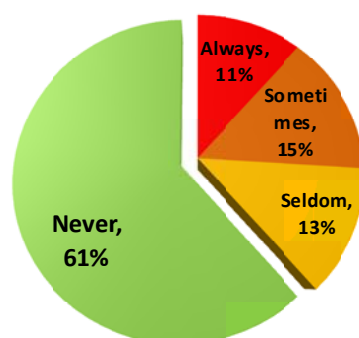
do you think this is corruption?

- The majority of respondents (> 80%), however, see that these kinds of behaviors actually constitute corruption. It is interesting, however, that around 7% of respondents are not sure if bribing officials or giving out favors to them to speed up the process is corrupt behavior.

## Corruption assessment

39% of companies think their competitors are bribing officials  
high level of skepticism might stem from own experiences

Do you think your competitors make unofficial payments to customs officials?



Basis: 150 companies

- 61% of the businesses think that their competitors never bribe officials, however, this means also that one in three companies imagine that this happens either “always”, “sometimes” or “seldom”. It is interesting that companies, who have either bribed

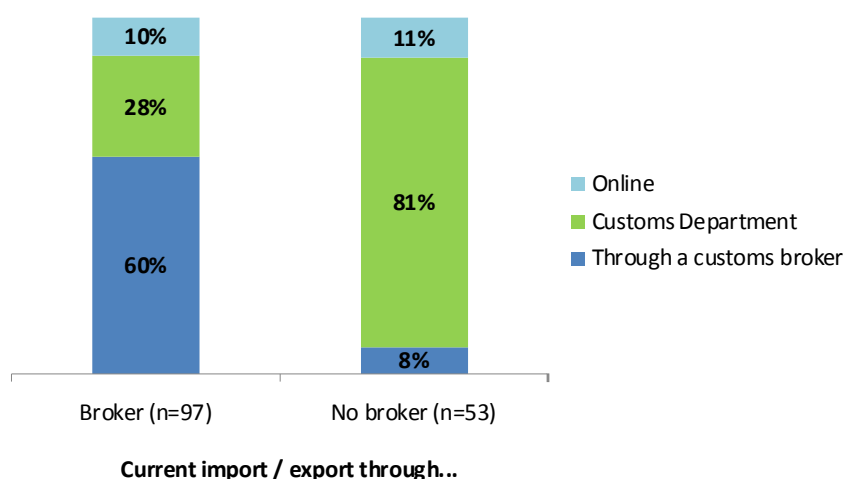
before or who were requested to make additional payments, tend to see corruption in the customs service to be far more rampant than those, who have never engaged in corruption.

- In the same vein, the companies who use bribes also tend to have a much lower trust in the system and exhibit a lower level of satisfaction in the overall quality of service provided.
- Although it needs to be considered that only a minority of respondents appear to engage in corrupt practices, the damage, however, for the image and the perception of the customs system as a whole, is immense.

### IV.1.e *Suggestions*

In the last section of the interview, companies were asked to give suggestions for improvement of the customs service.

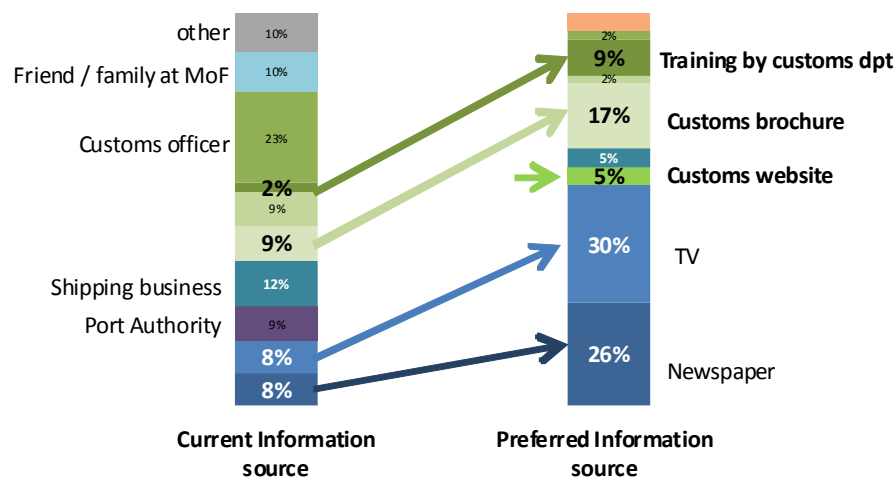
#### **Preferred way to conduct import/export** majority would stick to their current mode, 10% interested in online



- When asked about their preferred way to conduct their import/export activities, the vast majority of those, who do it now directly with the customs department would stick to it.
- On the other side, 28% of those, who currently use a broker, would prefer to do it directly through the customs department.
- In both groups, approximately 10% would be interested to conduct their customs businesses directly via a customs form on the internet.



## Preferred Information sources tendency towards printed materials



Dili, March 3, 2010

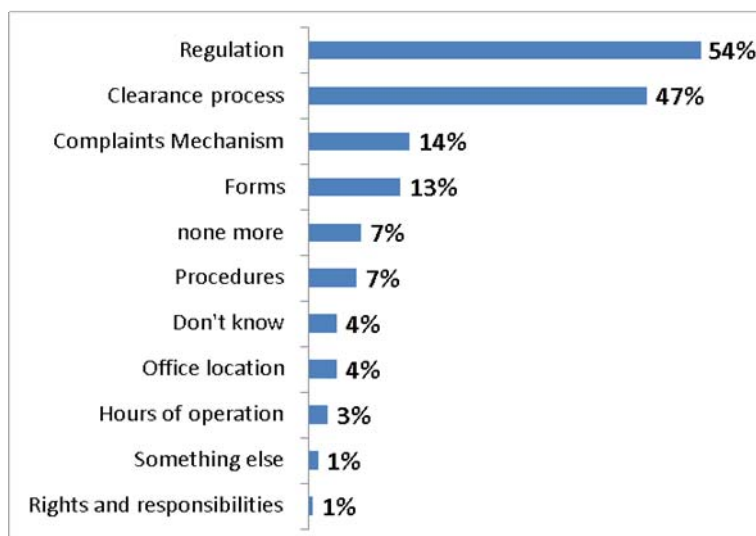


Ministry of Finance: Service Quality Perceptions Survey

13

- 61% of respondents named the media to be their preferred channel to get information about customs. It is interesting that from 23% who currently get their information through the customs officer only 2% actually prefer to get information from.
- By comparison, the main channel of information and the preferred one – except for the ones who use the media – only a minority using other channels would like to stick with their current channel of information.
- On the other side, while there is a strong preference to get information from the media, there is also a tendency towards printed materials, such as the brochure and the customs website.
- These findings again underline the small differences in the quality of information that were found in Chapter III.1.a. Again, a possible recommendation from these findings is that the quality of information – especially delivered directly by customs staff during the transaction – needs to be improved and existing channels of communication (website, trainings, brochure) should be extended.

## More information requested on Process and regulations



- The main information requested by the clients is on the Customs Process (47%) and Regulations (54%), suggesting a relative lack of information in these key areas.
- While transporting such complex issues via the media would be challenging, it would be recommended to send regular updates in the customs process to the media, together with a contact address where to get more information (i.e. on the website, in the customs department). In addition, the customs department should consider delivering the brochure also to shipping companies, the port authority, etc, which a large number of clients use to get their information.

## Suggestions to improve the process more professional knowledge, more honesty



- When asked for their suggestions what could be done to improve the customs process, the main point of concern is staff: four out of ten respondents would like to see an increased professional knowledge (41%) and more honesty (37%). 25% would like to see more qualified staff.
- These findings reinforce the results from the detailed service assessment – that honesty and professionalism of staff are key points of dissatisfaction.

#### *IV.1.f Summary*

The findings from the Survey highlight a number of strengths and weaknesses of the customs process.

- Knowledge, overall satisfaction and trust in the customs process are overall satisfactory, but leave room for improvement.
- Especially in the area of knowledge of the customs process, it was found that those companies, who deal with the customs service themselves do not feel themselves better informed.
- Analyzing the main sources of information and their content, it was found out that almost one in four (23%) of companies get their information directly from customs staff. However, the quality of information obtained was not rated to be significantly better than by those, who use the media or get their information from shipping companies.
- This fact highlights the need to give out more relevant and high quality information about the customs process.
- The majority of the companies use a broker. This is due to mostly practical reasons, such as that the companies do not have time for the process themselves or that brokers can get out the goods faster.
- The companies, who use a broker, are satisfied with it; however, the overall level of satisfaction leaves room for improvement in most aspects.
- Compared to the broker staff, the customs staff is rated significantly throughout all items. Especially “honesty”, “integrity” and “impartiality”, the backbone of every operation, were found to be underperforming.
- When assessing the overall service quality, it was found out that the respondents mostly connect it with the practicality of the transaction. What is seen most positively are items surrounding the declaration form, while the role of staff and the efficiency and transparency of processes have considerably less influence.
- This situation highlights the immediate need to improve staff performance as well as the processes, which should be the driving force of satisfaction.
- Corruption is an issue in the customs process. Although 81% indicated to have never asked for unofficial payments by customs staff, 14% told the interviewers that they were.
- 21% of the companies confessed that they had at least in one instance paid an official money to speed up the customs process; 17% said to have paid money to avoid an inspection.

- An additional analysis showed that there is a core group of nearly 10% of the responding companies, who were both requested bribes as well as to pay them to speed up the process or to evade inspections.
- Those companies, who are actively involved in bribes, have also a much more pessimistic view of the role of corruption in the customs process. Those, who are not involved, have been found to be more positive about it.
- This underlines the notion that corruption, while leading to short term gains for the involved persons, can be considered to become a long-term issue for the service. As mostly the corrupt companies have a negative image of the service, chances are high that this image becomes a popular belief, therefore slowly undermining the authority and credibility of the service.
- Suggestions for improvement of the customs service are mostly seen in the area of staff. Increased professional knowledge, more honesty and more qualified staff are seen as key items that should be addressed to improve service.

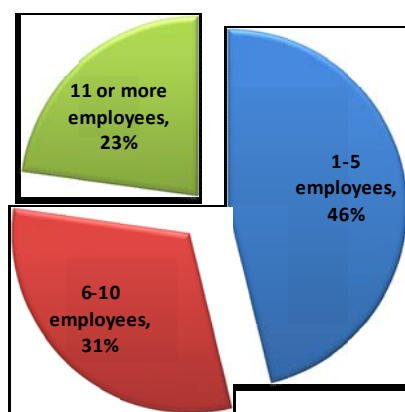
## IV.2 Tax

### IV.2.a Respondent profile

- For the tax survey, a total of 155 companies across all economic sectors were interviewed.
- All companies were selected randomly from the Ministry of Tourism, Commerce and Industry (MTCI) database of registered companies.
- To get also insights about larger companies, companies with 11 and more employees were slightly oversampled to get more robust data. For the data analysis, the dataset was weighted back to represent the actual distribution of company sizes.

#### Size of companies

almost half have less than 5 employees



Base: 155 companies.

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

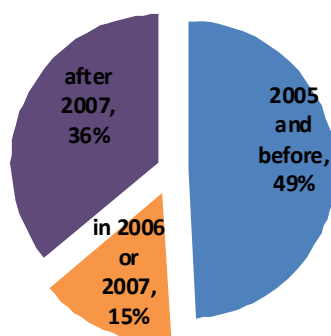
37

- Of the 155 companies, almost half (46%) have five or less employees, another 31% have six to ten employees. 22% of the companies have more than 11 employees, only 1% of the companies have more than 50 full-time staff.
- Almost half of the responding companies were founded before 2006. However, it is interesting that since 2007 36% of the companies were founded. Additionally while the majority of businesses say they started to pay taxes the same year they were founded, close to 10 percent say they only began paying after 3 years. These findings suggest that there are likely a significant number of businesses that evade taxes.

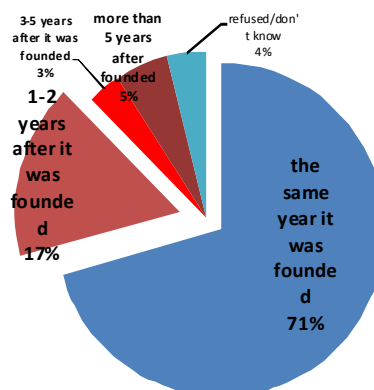
## Founding year

one third of companies founded after 2007;  
majority started paying taxes the same year they were founded

Company was founded...



Company pays taxes...



Base: 155 companies.

Dili, March 3, 2010



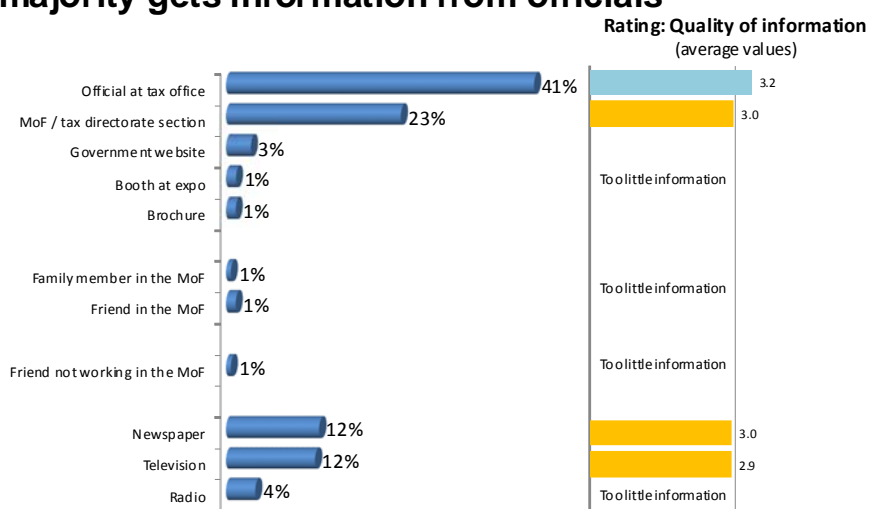
Ministry of Finance: Service Quality Perceptions Survey

38

- Close to 30% of companies indicated that they have attended a workshop organized by the taxpayer department (“taxpayer workshop”).
- 41% of the respondents indicate that their main source of information were officials in the tax office. Another 24% say the Ministry of Finance / Tax Directorate to be their main information source about the tax process. Around 30% told the interviewers that they get their information from the media (TV, radio, newspapers).

## Main information source

majority gets information from officials



Base: 155 companies,  
less than 10 responses not analysed in quality of information.

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

43

Poor (1) Good (3) Excellent (5)

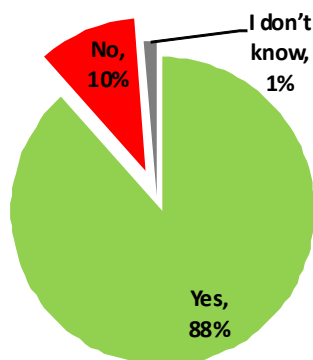
- Although the quality of information from the officials in the tax office is ranked higher than from the other sources, its overall score leaves room for improvement.

- The main contact with the NDDT is a personal visit. Only around 10% of the companies use telephone or a letter for communicating.

## Contact with the NDDT

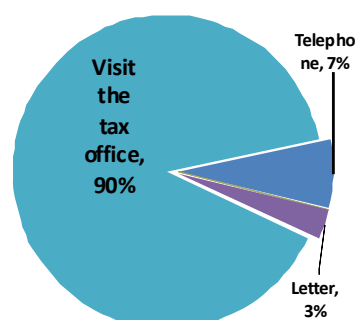
Majority has heard of the Taxpayer service department.  
Usual contact is a visit to the office.

Have you heard of the taxpayer service department?



Base: 155 companies.

How do you normally communicate with the NDDT?



Base: 155 companies.

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

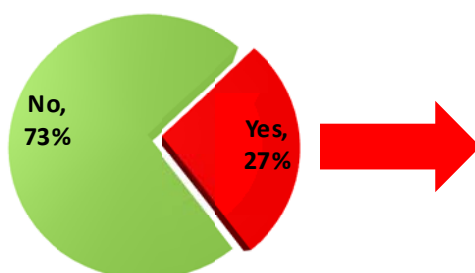
42

- One in four businesses (27%) has been audited in the past. Almost every company who underwent this confirmed that they knew the documents they were supposed to have and that they had all the appropriate documents.

## Audits

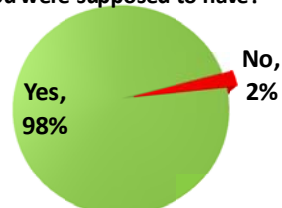
most companies know and have appropriate documents

Has your business ever been audited?

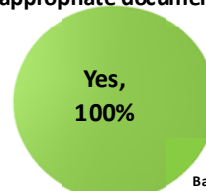


Base: 155 companies.

Did you know what documents you were supposed to have?



Did you have all the appropriate documents?



Base: 42 companies.

Dili, March 3, 2010



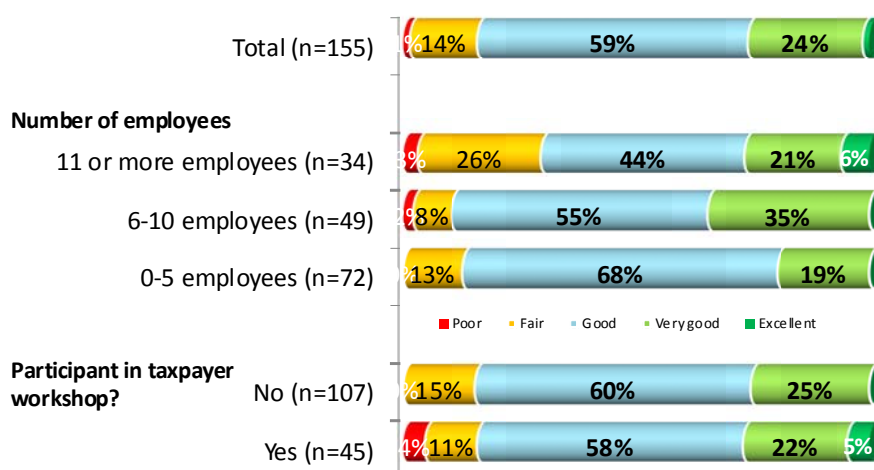
Ministry of Finance: Service Quality Perception

40

## IV.2.b Overall service satisfaction

- One in four respondents (24%) thinks that their level of information about tax is “very good” (22%) or “excellent” (1%). On the other side, 14% consider their level to be fair and a small minority even to be “poor” (1%).

### Overall knowledge of Tax Process majority rates knowledge “good” or better



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

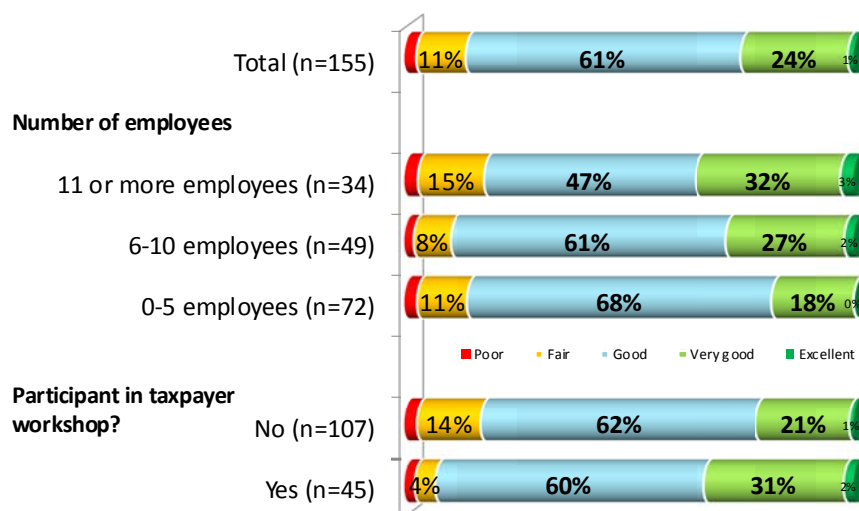
46

- It is interesting to see that there are insignificant differences in the perceived level of knowledge between those respondents who attended the taxpayer workshop and those who did not.
- One in seven respondents (14%) find the tax process to be “fair” or “poor”, while 25% consider it to be “very good” or “excellent”, 61% rate the performance “good”.



## Overall Satisfaction with Tax Process

### half of the clients rate performance “good”



Dili, March 3, 2010



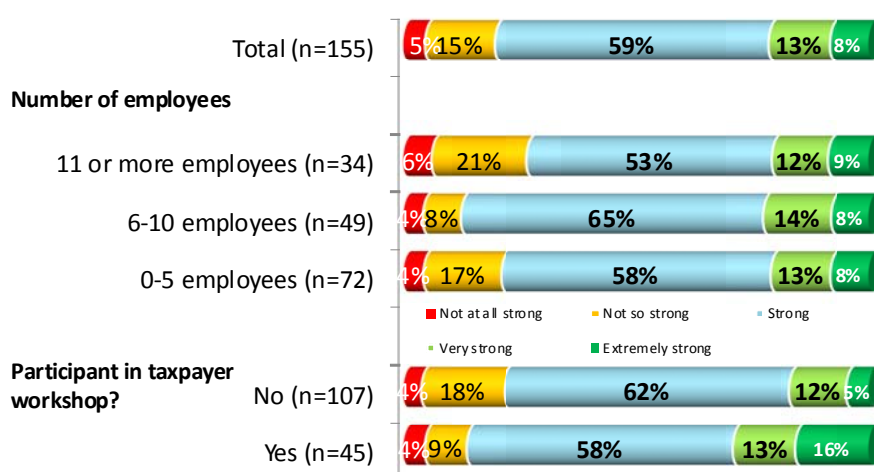
Ministry of Finance: Service Quality Perceptions Survey

47

- Although 35% consider tax services to be “very good” or “excellent”, 18% of the larger companies (11 or more employees) find the service to be “fair” or poor”.
- Questions on trust reveal findings that are similar to the overall level of satisfaction. The participants of the workshop show more significantly trust in the system than those who did not access the service.

## Overall trust in Tax Process

### majority has at least “strong” trust



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

48

- While the taxpayer workshop might not necessarily have improved participants’ knowledge of the tax process, the workshop itself appears to have contributed to greater levels of trust. Therefore, while the workshop curriculum could be improved

by giving out more relevant information based on client interest, workshops should also be viewed as a tool to connect clients to the tax service.

### IV.2.c *Satisfaction with service items*

To explore the tax process in detail, the respondents were asked to rate a total of 19 service items by their importance<sup>5</sup> and how well they were performed<sup>6</sup>. These service items were then broken into three categories:

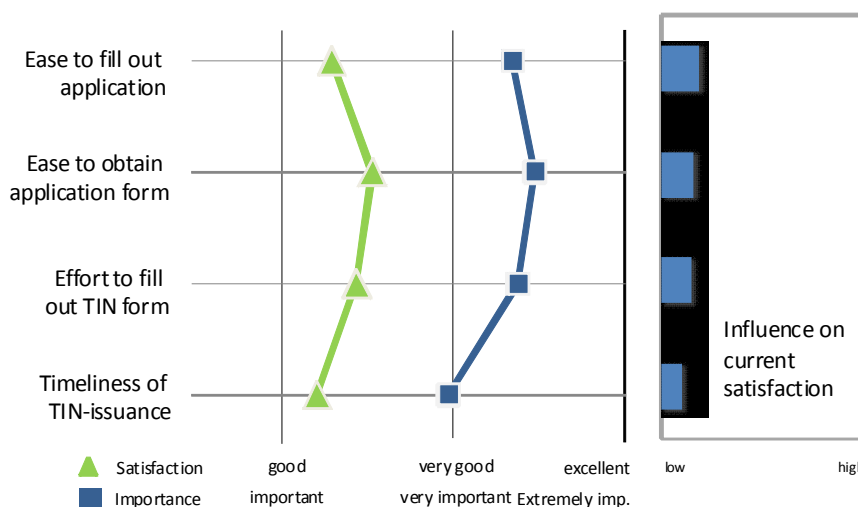
- TIN (Tax Identifier Number);
- Tax Form;
- Staff.

#### TIN:

- The TIN is the basic document that needs to be obtained to be able to pay taxes. Overall, the respondents consider the four items in this area to be all at least “very important”.

#### Quality Items: TIN

„Ease to fill out application“ is a relative weakness



Base: 155 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

49

- It is not surprising that the “Timeliness of issuance” is the item rated least important of these four, as there is no pressure for the companies to get the TIN in a timely fashion.

<sup>5</sup> Importance scale ranged from „not at all important“, „not so important“, „important“, „very important“ to „extremely important“

<sup>6</sup> The performance scale ranged from „poor“ over „fair“, „good“, „very good“ to „excellent“.

Therefore, the lower satisfaction ratings do not have much influence on the overall satisfaction.

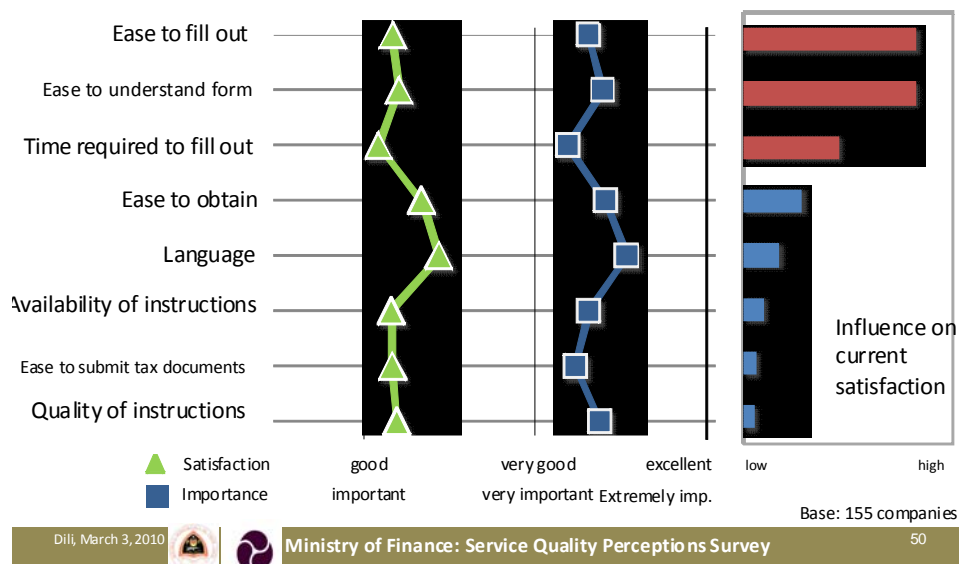
- On the other side, the findings suggest a gap between the importance of the “Ease to fill out the application” and the actual satisfaction. This suggests that the application form could benefit from small changes to simplify filling it out.
- Overall, the satisfaction with the TIN process did not appear to have a big influence on how the tax service is seen. This is plausible, as this application only needs to be filled out once in the lifetime of a company.

### Tax Form:

- In contrast to obtaining the TIN, filling out the tax form is a repeated activity. It is therefore not surprising that this cluster of quality items has a larger influence on how the tax service is seen.

### Quality Items: Tax Form

Language and ease to obtain for are strengths; time required to fill out relative weakness



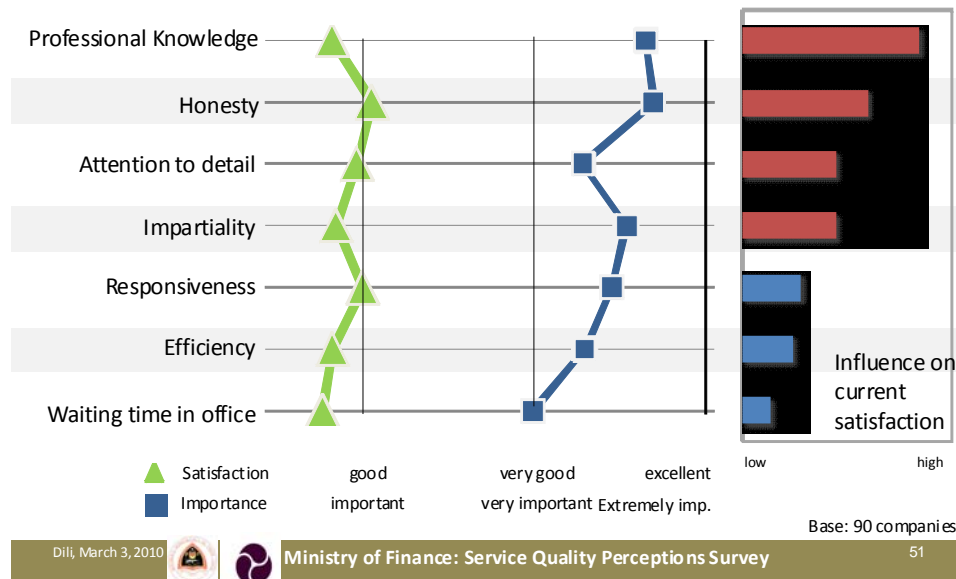
- Overall, all items in this category are perceived to be of above average quality and the main strengths of the tax form is its ease to obtain and its language.
- On the other side, although performance rates are satisfactory, the “Ease to fill out” together with the “Ease to understand the tax form” can be considered relative weaknesses: both are considered to be relatively important by the respondents and have a large influence on how the tax service is perceived.
- At the same time, the “**time to fill out the form**” scores lowest in the area of perceived performance. Tax forms inherently require assembling information from multiple sources (and therefore a lot of time to fill out). However, together with the perceived difficulty to understand and fill out the form, it may be possible to improve **the form to make it more comprehensive and self-explanatory without losing the key information.**

## Staff:

- Those companies, who indicated that they were in contact with tax staff recently, were also asked about their satisfaction with them.

### Quality Items: Staff

Staff items have high influence on current satisfaction. Professional knowledge, honesty and attention leave room for improvement



- In comparison to the customs survey, tax staff has a much higher level of satisfaction with key elements such as “Professional knowledge”, “honesty” and “impartiality”. On the other side, these elements score lowest of all asked items in the area of performance, while they are considered to be of utmost importance.
- Although at a higher level than the customs staff, all items leave room for improvement, especially the area of “professional knowledge”, “honesty” and “impartiality”, which both have a large impact on how the tax service is seen.
- While ratings on “honesty” and “impartiality” are based on feelings and perceptions rather than facts, these findings point to the need **to better inform companies about the tax process and therefore make the process itself appear more transparent.**
- Overall findings suggest that increasing the professional knowledge of staff would yield the greatest improvement in customer satisfaction levels.**

## IV.2.d Corruption

- The survey aimed to understand the level of perceived corruption in tax services, and clients’ definition of the term ‘corruption’. The first question strived to find out if a tax official ever requested a payment that was not officially posted.

- This question was answered positively by two percent of the companies, which translates to three cases.

## Payments to officials

only 2% reports to have been requested unofficial payments by an official  
high rate of „don't know“ highlights insecurities, what is an official fee  
and what not

Were you ever **required to**  
**make payments to tax staff**  
that were not officially posted?



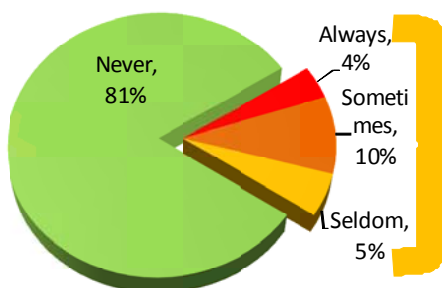
Basis: 155 companies

- Therefore, while such cases do exist, the prevalence of self-reported unofficial payments seems to be considerably low.
- On the other side, 10% of companies answered that they “do not know” if this was the case. Behind this answer could hide two issues: first, the unwillingness to disclose such a case; and second, difficulty in differentiating between “official” and “unofficial” payments. In the latter case, more clarity on what official fees are is an obvious entry point to enhance transparency as well as to help with building more trust in the institution and the perceived honesty of the staff.

## Corruption assessment

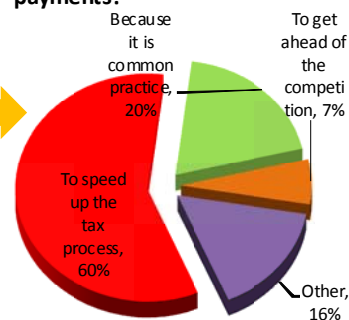
81% believe that the competition never uses bribes, if they do they are believed to speed up the process

Do you think your competitors make unofficial payments to customs officials?



Basis: 155 companies

Why do you think your competitors make unofficial payments?



Basis: 30 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

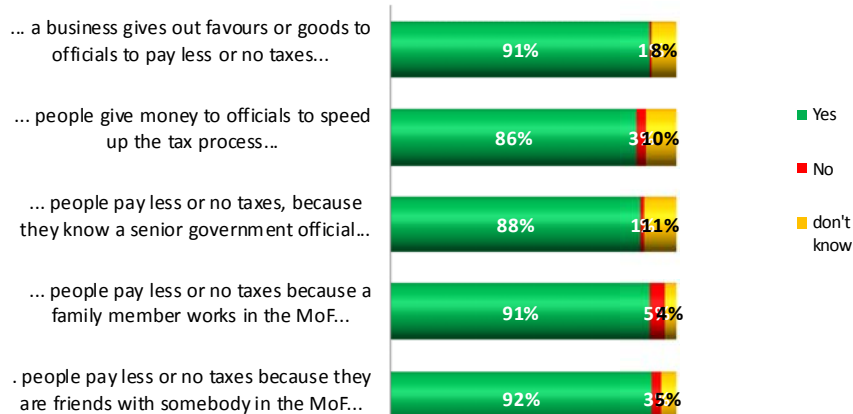
58

- 81% of the respondents think that their competition “never” pays unofficial payments to tax staff.
- Of the 19% that think their competitors pay some form of official payments, the majority think these payments are made in order to speed up the tax process.

## Definition of corruption

overall high agreements about corruption, but considerable levels of „don't know“ in specific areas.

When ...



do you think this is corruption?

Basis: 155 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

59

- For the vast majority of respondents (86% and more), using private contacts or bribes to pay less or no taxes is considered to be corruption.

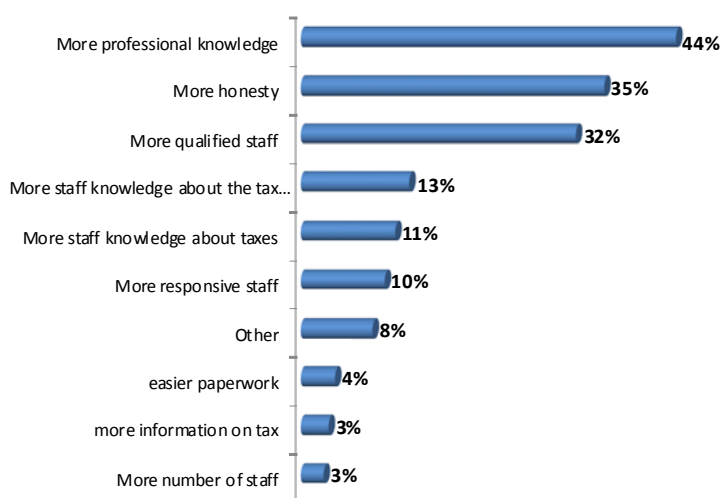
- A sizeable proportion of respondents (10%) is not sure if paying money to a senior government official to speed up the tax process, to pay less taxes or to avoid paying taxes completely should be considered corruption.
- It should be considered to **build consensus among business and government service providers (including Tax) to conduct a joint public information campaign** that clearly defines corruption and the mutual imperative to control corruption (e.g. explain consequences for corrupt acts).

## IV.2.e Suggestions

In the last section of the interview, companies were asked to give suggestions for improvement of the tax service.

- Eight out of ten companies (84%) would like to receive information about tax from the media; only 10% report their preferred source of information is the Tax Directorate.
- Comparing the current main channel of information and the preferred one shows that the around 90% of companies who get their main information directly from the government, would like to get this kind of information from the media. Only 12% indicate that the government would be their preferred source of information.
- These findings suggest a greater need for transparency and a relative ease of access to relevant information through the media.
- Indeed it has become clear that the quality of information from the tax department itself is only considered to be marginally better than from the media. Therefore, it would be recommended to generally improve the level of information, regardless of the channel.
- As the majority would like to get this information from the media, tax services should review its communication strategy to provide information that is up to date, practical and relevant to the customer.

### Suggestions to improve the process more professional knowledge, more honesty



- When asked for suggestions to improve the tax process, the main area of importance was tax staff: four out of ten respondents would like to see an increase in professional knowledge (44%) and more honesty (35%). Another one in three companies would (32%) would like to see more qualified staff.
- These results reinforce the findings from the detailed service assessment, which found that staff honesty and professional knowledge are the key points of criticism among clients of the tax service.



## IV.2.f *Summary*

The findings from the taxpayer survey were able to shed light on the process' strengths and weaknesses.

- Overall, the levels of knowledge, satisfaction and trust in the service are satisfactory with more than half of respondents considering it “good”.
- As in the customs process, one main point is the quality of information on the process. It was interesting to see that the perception of quality differed only marginally between the media and official sources. Being directly in contact with the officials did not yield a higher quality of information. As a consequence, most clients requested to be informed about the tax process by the media.
- This finding underlines the need for a higher quality of information on the tax process, as well as wider dissemination of this information through the media to ensure that all companies have the same high level of knowledge.
- One in four respondents indicated that they have been visiting a taxpayer workshop. Although no significant effects on the knowledge of the process or satisfaction with it could be found, evidence was found that it improved levels of trust in the system.
- Having these findings in mind, the taxpayer workshop should be revisited according to its intended impact and to tweak content accordingly.
- While tax staff was found to perform much better than the customs staff, there is still room for improvement. Especially the fundamental qualities “honesty” and “integrity” and “impartiality” need improvement. This could be achieved by developing, communicating and enforcing more transparent processes.
- Another key area for staff that requires improvement is “professional knowledge”.
- While the tax form was rated to be above average quality, main points to be addressed should be its usability. The companies saw shortcomings in the “ease to understand the form” “ease to fill the form out”, as well as the time required to do so. It would be recommended to review the tax form – if possible together with companies -- to improve usability.
- Corruption – or the inability to spot it -- is an issue in the tax process. Although 88% indicated to have never asked for unofficial payments by tax staff and only 2% confirmed this, 10% of respondents were not sure about the answer. This could point to a situation where companies are not sure which fees are official and which are not.
- Eight out of ten companies (81%) believe that their competitors never pay unofficial payments to tax officials. On the other side, there are 19% who believe they do this at least “seldom”. The most common perceived reason for making these payments is to “speed up the tax process”.
- While the vast majority of respondents (86%) categorize specific behaviours to be corrupt, a significant proportion of companies (10%) were not sure if giving money to officials to speed up the process should be considered corruption. A similar level of uncertainty was found in the question whether it would be corruption when people, who know senior government officials, pay less or no taxes. Such doubt could be clarified by communicating specific practices which are considered to be corrupt behaviour.
- Although corruption is not as overt as in the customs process, still the public perception of how many competitors are corrupt (19%) collides with the actual level of corruption (1% reported). Since the survey did not attempt to find companies that may have

avoided paying taxes altogether, the percentage of companies admitting that they had be involved in corrupt activities was naturally lower.

### *IV.3 Procurement*

For the procurement survey, 88 companies were interviewed. As outlined in chapter “Sample”, the responding companies were identified in two ways:

- All companies that were listed as winners of a procurement process on an NGO website (details see chapter “Sampling”). All these companies were approached for an interview.
- Companies that matched the winning companies in their size and economic activities were drawn randomly and contacted by interviewers. If the owner indicated that the company had taken part in a government tender process in the last 2 years, an interview was conducted.

Due to the fact that a database consisting of all companies who either successfully or unsuccessfully took part in a government tender process is not available, no information exists how representative this sample is for the whole tender process.

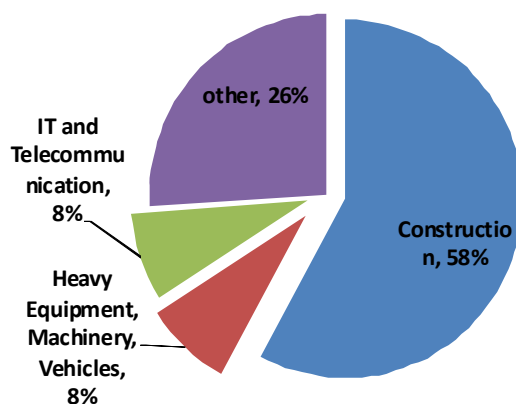
Therefore, the findings in this section should be considered to be illustrative rather than definitive.

#### *IV.3.a Respondent profile*

- The majority of interviewed companies (58%) which have submitted a proposal to a government procurement agent in the last two years are active in the area of construction, less than one in 10 companies indicated to be an IT or a telecommunications company.
- Another 8% of respondents said to work in the sector “Heavy Equipment, Machinery” or “Vehicles”. Another 27% are active in other sectors, such as “Food and Beverage”, “Health and Medicine”, etc.

## Type of companies bidding on Government contracts

### Majority construction companies



Base: 88 companies.

Dillj, March 3, 2010



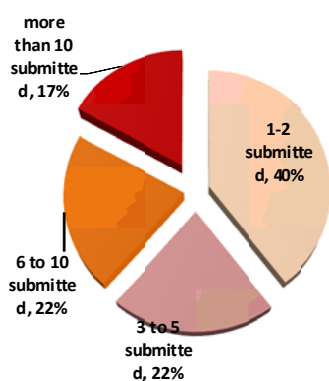
Ministry of Finance: Service Quality Perceptions Survey

65

- The majority of companies interviewed submitted not more than 2 proposals to government contracts in the last two years.
- On the other hand, one in six companies (17%) indicated to have submitted more than 10 proposals.
- Analyzed by the size of the company, there is no evidence that larger companies are more likely to take part in government tenders than smaller companies.

## Proposal submission

41% of companies submitted 1-2 proposals in the last 2 years



Base: 88 companies.

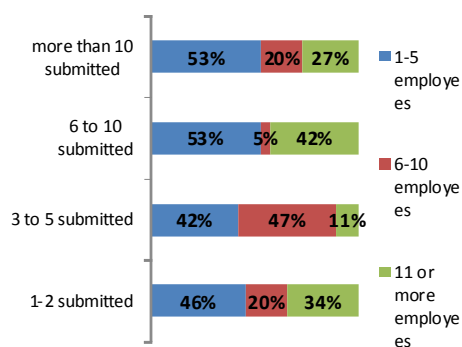
Dillj, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

66

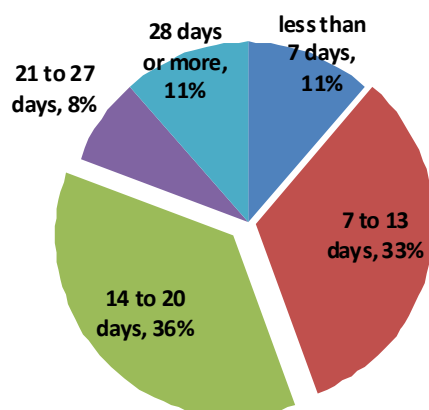
### Number of proposals by size of company



- To understand how the procurement process is viewed and how the size of the company affects whether the company wins government contracts, the questionnaire asked the company how many bids they submitted in the last 2 years, and how many they won and how many they lost.
- The analysis below shows that company size is not an obstacle. Together with the findings above, it appears that it is more the deliverables of the tender and the company's ability to deliver the services or goods, so that there is not necessarily a bias towards smaller or larger companies.
- The majority of businesses (67%) that responded to the tenders found the tender information in the newspaper, another 14% saw it on television and 13% were made aware of the tender directly by the government agency.
- More specifically, the majority obtained information from STL, Timor-Post or the television (TVTL).

## Time to prepare proposal

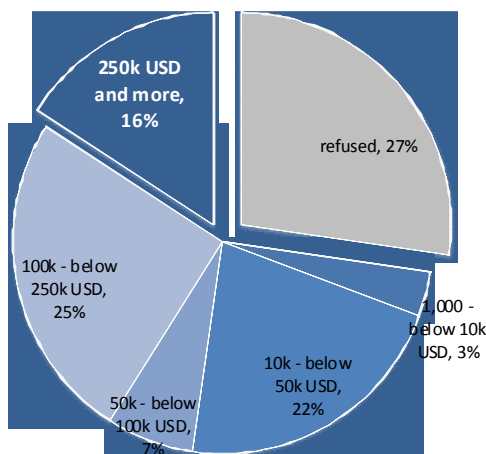
**44% had less than two weeks until deadline**



Base: 88 companies.

- Four out of ten companies indicated that for their last proposal they had less than 2 weeks to after the call for it was published. Indeed 7% of companies told the interviewers that they have had less than 7 days time to prepare a proposal.
- 17% of companies responded to have had more than 3 weeks.
- These findings suggest that there is a substantial amount of flexibility in the procurement procedure on how long tenders are published before the deadline. Clearly, the amount of time allocated to prepare a proposal depends upon the complexity and scope of the assignment. However, such wide flexibility creates a great deal of discretion among procurement agents, which in turn incentivizes corrupt practices at the expense of efficient service delivery.

## Volume of last tender



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

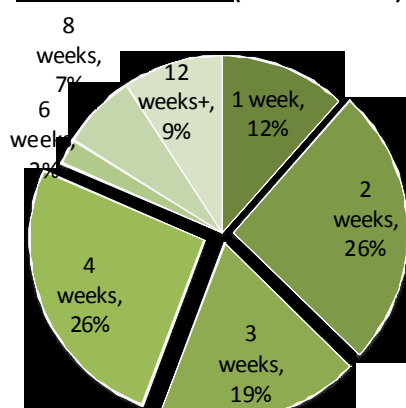
69

- The majority of proposals submitted had a value below USD 250,000. While a sizeable portion of the respondents (27%) refused to answer the question, 16% of the companies indicated to have submitted a tender worth more than USD 250,000.

## Time between submission and results

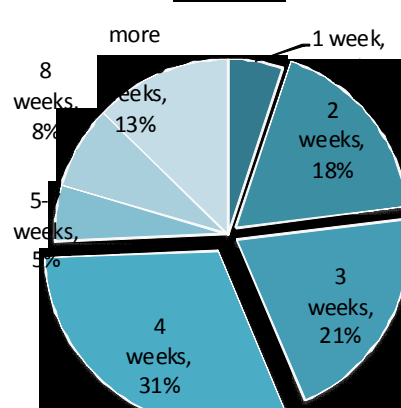
### majority gets results within 4 weeks

How long did it take until you were awarded the contract (last tender won)?



Base: 43 companies.

How long did it take until you heard you did not win?



Base: 37 companies.

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

70

- After the submission of the proposal, almost one in ten companies (12%) reported that they were awarded the contract within one week, 26% in two weeks and 19% in three weeks. On one side, this means that the majority of contracts are awarded within 4

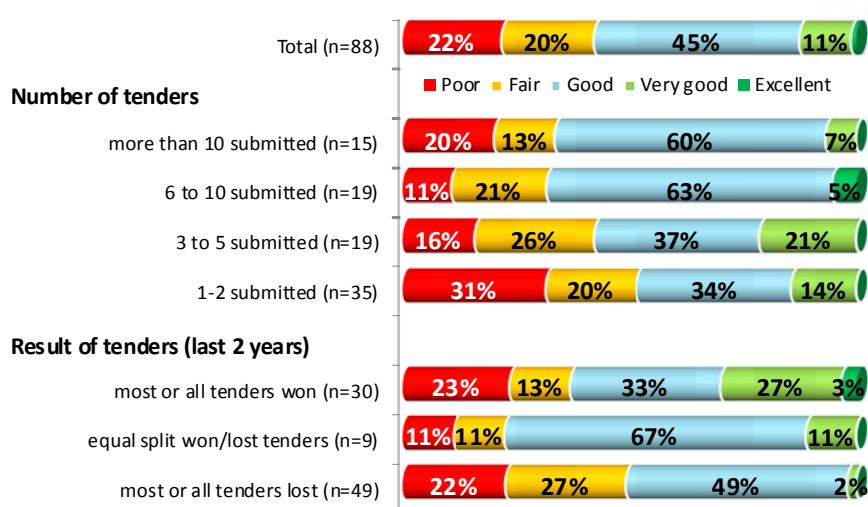
weeks after submission of the proposal. On the other hand, wide variation in award notification again suggests wide degree of discretion among procurement agents.

- A similar picture emerges when the companies, who did not win their last tender, were asked how long it took, until they heard the result. Again, the majority heard the result within 4 weeks.
- It is a legal requirement that all unsuccessful bidders receive an official notification. The survey reveals that only 70% of unsuccessful bidders were sent such a notice with an additional 5% who did not know if they received it or not.

### IV.3.b

### Overall service satisfaction

#### Overall information on Procurement Process more than half rate it “good” or better



Dillj, March 3, 2010

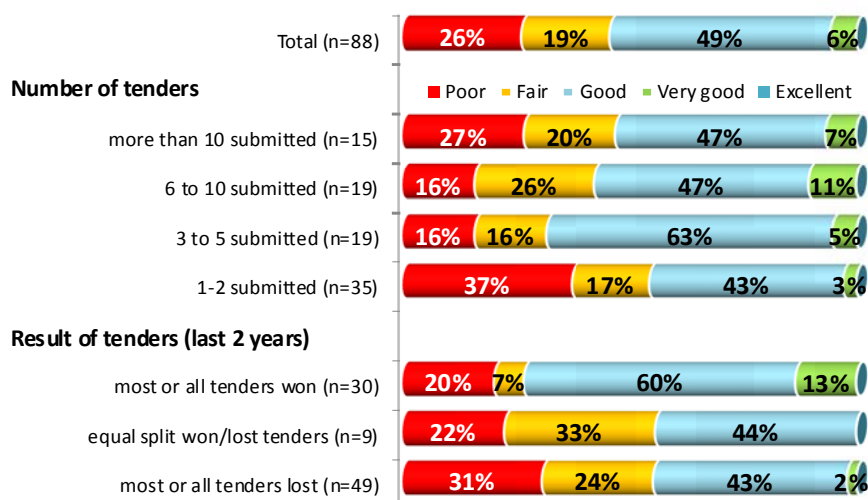


Ministry of Finance: Service Quality Perceptions Survey

74

- Overall knowledge of the tender process among the participating companies can be considered low.
- Four out of ten companies (44%) assess their knowledge to be “poor” or “fair” on the one end, and 13% on the other end of the scale (“very good” or “excellent”). 45% rate their knowledge as “good”.
- Analyzed by the frequency of taking part in government contracting bids, there is a small positive effect towards the companies who are more experienced. On the other hand, though, overall knowledge even of experienced companies still seems to be fairly low.
- While 30% of companies, who won most or all contracts they bid for in the last 2 years, believe to have a high level of knowledge, 36% of the same believe it to be “poor” or “fair”.
- Overall, these results show no conclusive evidence that more experience in tender processes actually contribute to a significantly higher levels of knowledge. This suggests that among the different government agencies there is little standardization such that companies do not have an experience of the “official” process.

## Overall satisfaction with Procurement Process more than half rate it “good” or better



Dili, March 3, 2010

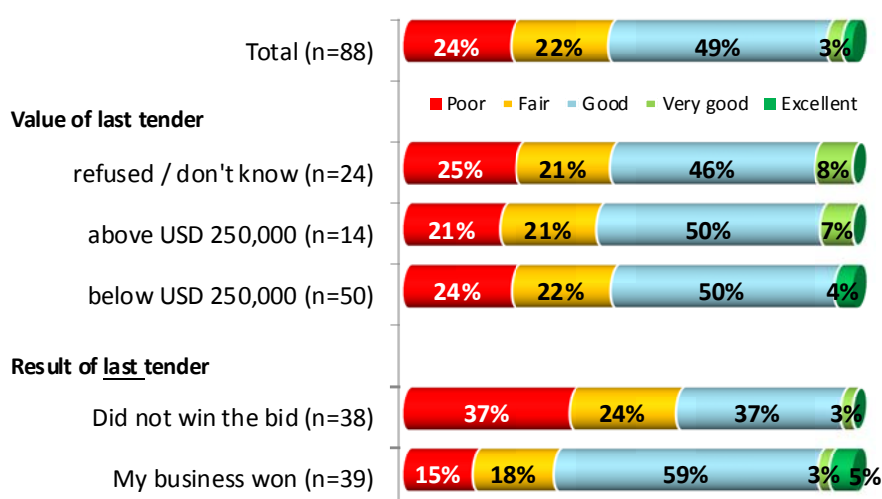


Ministry of Finance: Service Quality Perceptions Survey

75

- Almost half of the respondents (45%) consider the quality of the procurement process to be “poor” or “fair”. Only one in five companies believes it to be “very good”.
- There is no clear evidence that respondents who submitted a large number of proposals are more satisfied with the procurement process.
- Understandably, companies who have won all or most of their bids are considerably happier with the quality of the process. Yet, still, 20% in this group believe the performance of the process to be “poor”.

## Satisfaction with last Procurement Process no difference to general assessment



Dili, March 3, 2010

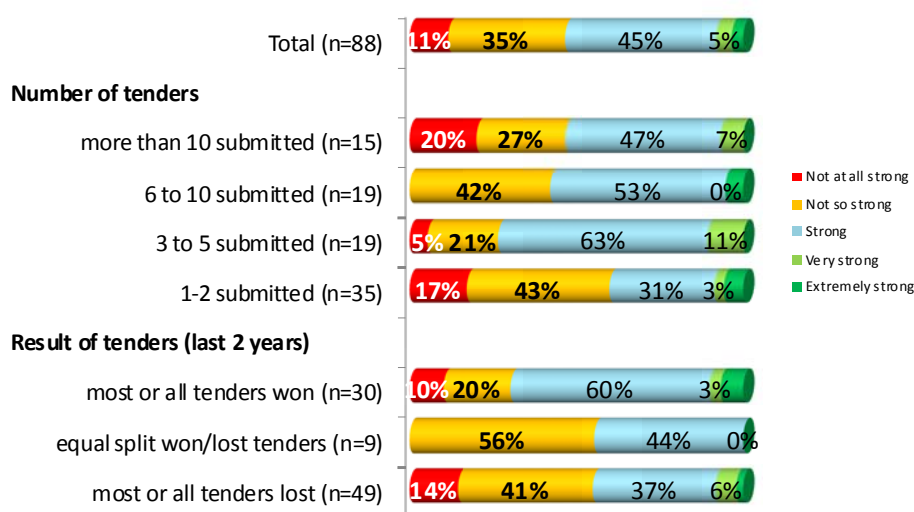


Ministry of Finance: Service Quality Perceptions Survey

76

- Businesses were also asked about their latest experience in the procurement process. This question was asked to understand if there are significant differences between the general assessment (which might be overly biased dependent on dominating experiences) and the most previous one.
- Indeed this analysis shows that in general there is not much difference between both assessments: close to 25% rate the overall and last process to be “poor”. The same low levels of variance can be found for “fair” (19% versus 22%) and “good” (49%).
- There is also no significant evidence that procurement processes for contracts for over USD 250,000 that need to undergo a central process within the Ministry of Finance, are perceived to be better of a better quality than the ones that can be handled by other procurement agents.
- It is evident that those businesses, who won the last bid rate their last procurement process more positively. However, as it can be seen from the findings described above, these can be considered to be short term positive effects that might have only minimal long term impact.

### Overall trust in Procurement Process more than have at least “strong” trust

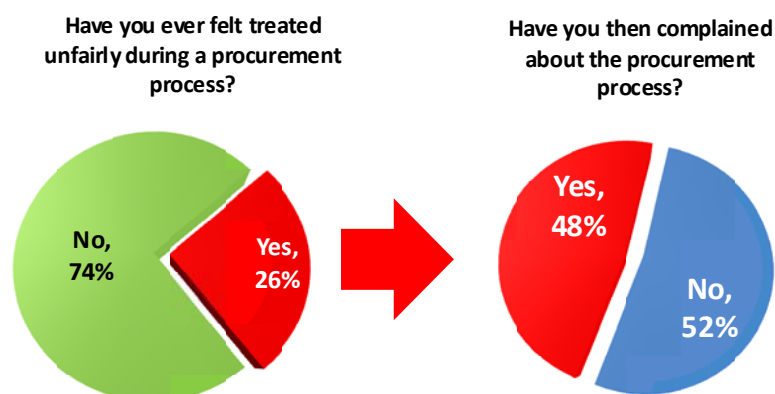


- An analysis by levels of trust in the procurement process shows that again close to half of the responding companies are skeptical and rate their level of trust to be “not at all strong” or “not so strong”.
- As in previous analyses, taking part in a lot of procurement processes does not yield more trust – and almost 30% of companies, who won all or most contracts they bid for, show themselves to be critical of the process.



## Unfair treatments and complaints

### 28% felt treated unfairly, half complained then



Base: 88 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

78

- Indeed 26% of companies indicated that they felt treated unfairly during a procurement process (half of these then complained about the process). It is understandable that the feeling of being treated unfairly in turn has a large negative impact on the trust in the process.
- The fact that almost one in four companies felt treated unfairly suggests the need to establish and/or enforce clearer, more standardized and transparent processes.

### IV.3.c *Satisfaction with quality items*

To get an in depth understanding of strengths and weaknesses of the procurement process, all respondents were asked a battery of 31 distinct items regarding the last tender process. The question on the last tender process was designed to anchor the ratings to a specific event – and therefore getting more accurate and timely data – rather than gathering data which might be based on previous, possibly outdated, experiences.

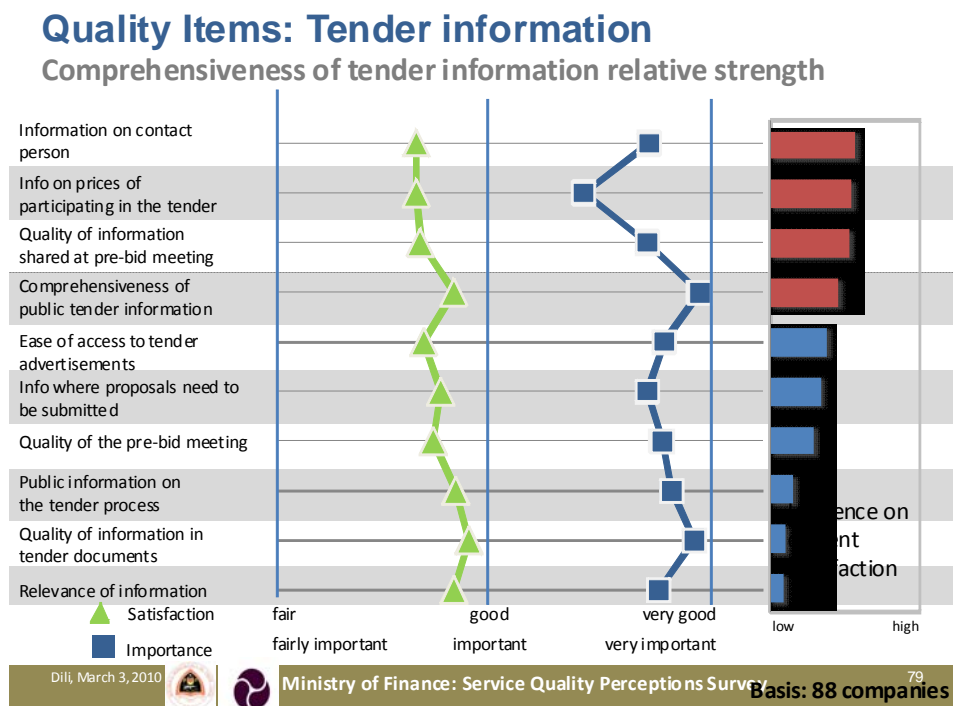
For all items the respondents were asked to rate its respective importance<sup>7</sup> and performance<sup>8</sup>. Overall, the items reference four main components in the procurement process:

- Tender information;
- Answering the tender;
- Tender process;
- Staff.

<sup>7</sup> The 'importance' scale used ranged from „not at all important“, „not so important“, „important“, „very important“ to „extremely important“

<sup>8</sup> The performance scale ranged from „poor“ over „fair“, „good“, „very good“ to „excellent“.

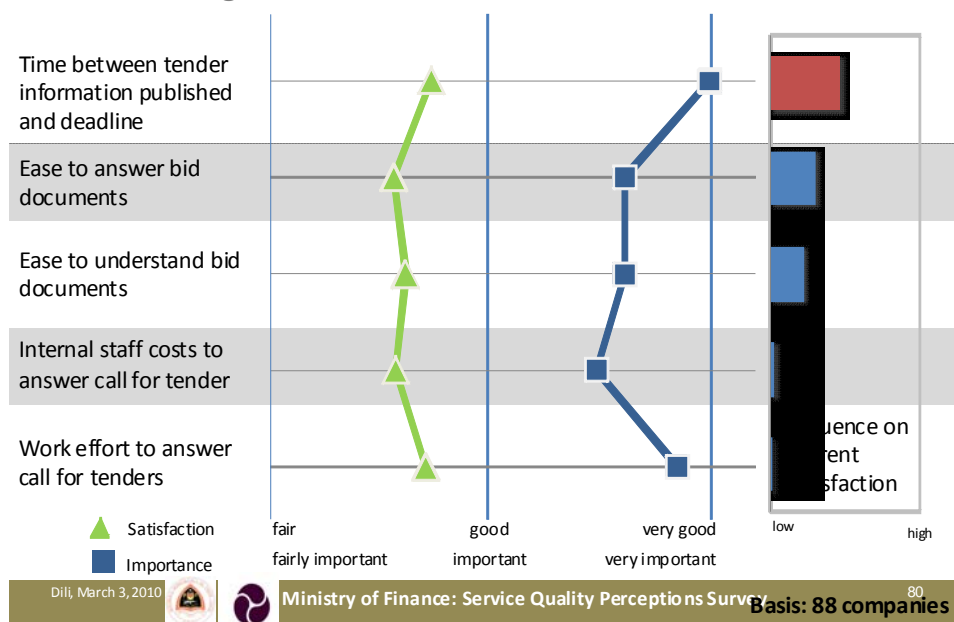
## Tender information:



- When it comes to the tender information, the respondents rated “Comprehensiveness” and “Quality” as the most important factors.
- At the same time, the quality of these two most important items are also ranked highest in the area of perceived performance, and thus can be considered relative strengths.
- It should be considered that all items received below average performance ratings, thus information on tenders overall should be improved.
- The results furthermore show that satisfaction with the last procurement process was to some extent influenced by the fact if the call for tenders included “information on a contact person” that could be called in case of questions and by the “quality of information shared during a pre-bid meeting” (if such was held). Considerably low values of satisfaction in these two areas indicated that these should get a special focus.

## Quality Items: Answering the tender

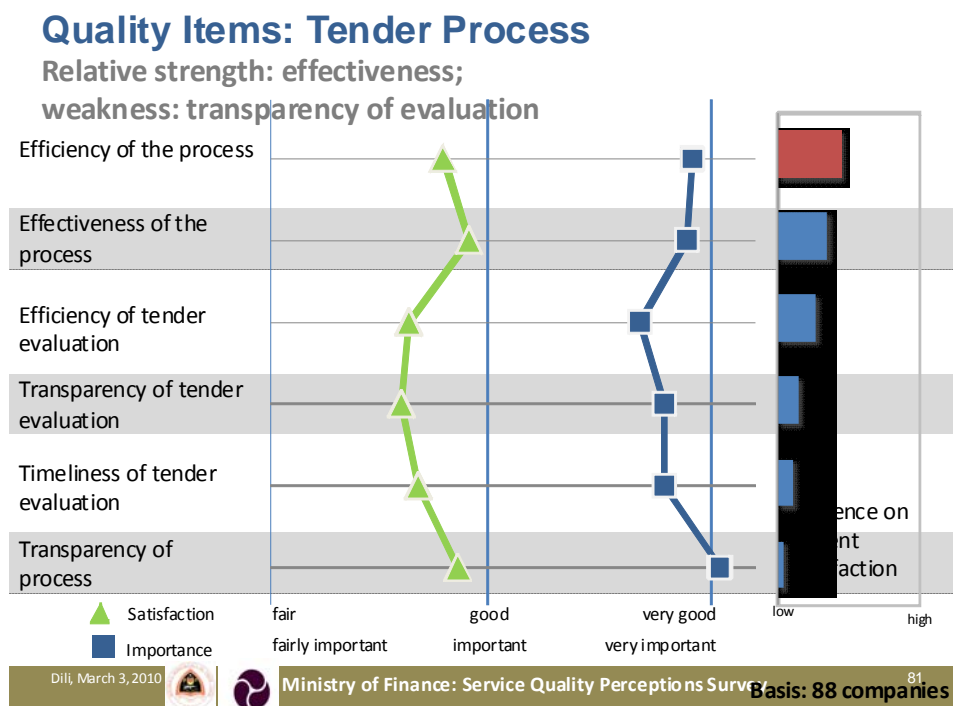
Relative strength: time to answer the call for tenders



### Answering the tender:

- By far the most important item for the companies taking part in a tender process is the available time to answer the tender, as well as the overall effort to prepare the proposal.
- As it was seen in earlier, a large number of companies indicated that they only had 14 days or less to answer the tender. In addition, there was a large variance in the amount of time each company claim they had to respond.
- Therefore, the considerably low satisfaction with the time available and its high importance for the companies underlines the need to enforce certain standard procedures across all government agencies. This should include provisions for minimum number of days between publishing the tender and the deadline.

## Tender Process:

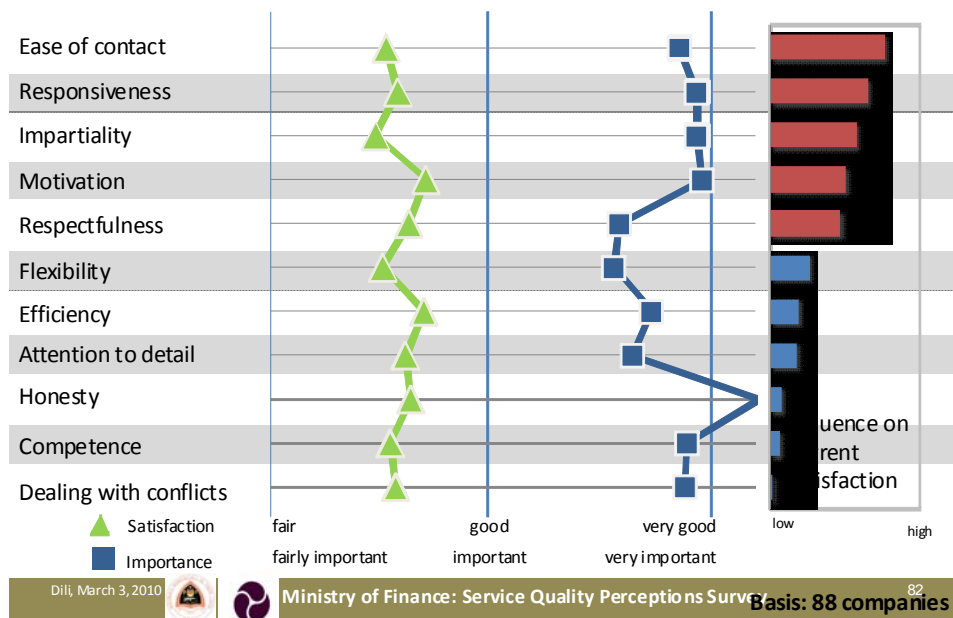


- Efficiency, effectiveness and transparency of the tender process are key elements for the responding companies. All of them rank highly both in the area of importance as well as rated performance.
- On the other hand, all elements connected to the tender process only get ratings that are below average.
- The reason that effectiveness and efficiency of the process are rated highly could lie in the fact that a number of contracts are being awarded within four weeks, as outlined in an earlier section.
- However, the higher levels of efficiency can be seen in light of the perceived weaknesses in the evaluation of the tenders.
- Overall process factors show low levels of influence on the respondents' satisfaction levels. This finding suggests that such factors are not at the forefront of one's mind when it comes to the procurement process. Explanations for this may include that clients believe there are stronger influencing factors other than those outlined in the official process.

## Staff

### Quality Items: Staff

Relative strength: motivation; impartiality critical weakness



- **Factors related to the role of procurement staff showed substantial influence on the client satisfaction levels, which this report highlights as a key finding.**
- “Honesty” was viewed by far as the most important factor followed by “Staff motivation”, “Impartiality” and “Responsiveness”.
- In the center of the companies’ attention is the question of “impartiality”, which scores lowest in the area of perceived performance – an indicator that the companies view staff to be partial.
- The notion of “partiality” of staff may taint the overall perception of the procurement process. The next chapter, covering the results of “Corruption” in procurement, suggests there is a strong correlation between perceptions of corruption and staff partiality.
- **These findings suggest that the companies tend to believe that staff is by far the most influential actor for winning or losing contracts.**
- The influence of a single element (such as staff) dominates how procurement is perceived. These results call for immediate action. A first step is to standardize procurement across agencies to support the impartial administration of the process.

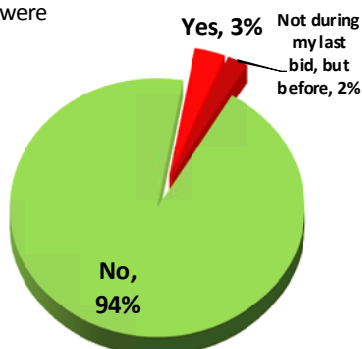
## IV.3.d

## Corruption

## Payments to officials

5% report to have been requested unofficial payments by an official

Were you ever **required to make payments to procurement staff** that were not officially posted?



Base: 88 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

89

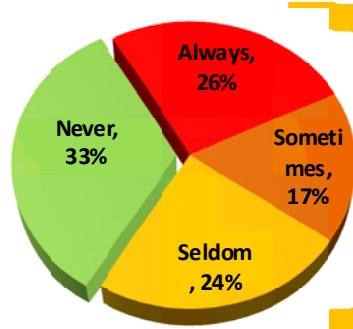
- Corruption and insider dealings are believed to play a role in the procurement process.
- Although 94% of companies indicated that they have never been asked to make unofficial payments to procurement staff, two thirds of the respondents believe that there is corruption in the procurement system.

## Corruption assessment

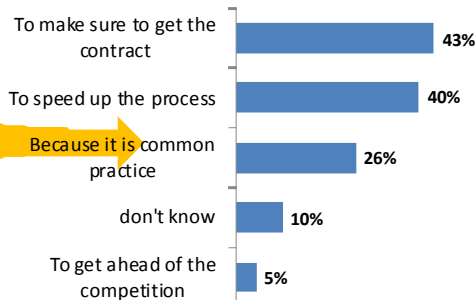
67% believe that the competition uses bribes

– to make sure they get the contract and to speed up the process

Do you think your competitors bribe officials to get contracts...?



Why do you think your competitors make unofficial payments?



Base: 88 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

90

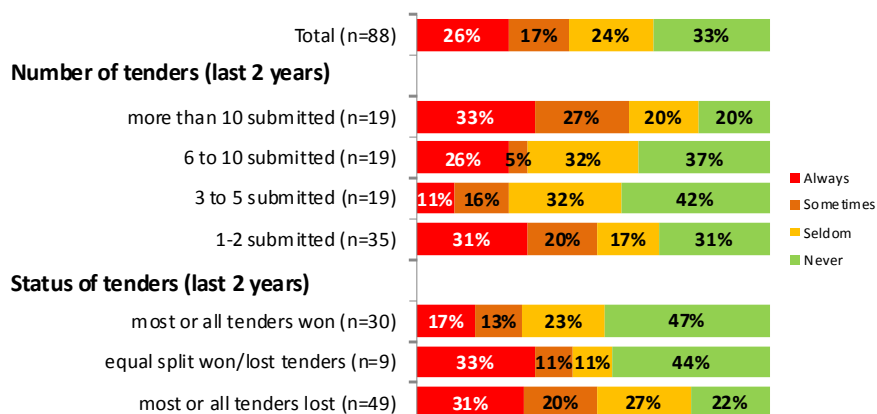
- Therefore, unlike the corruption in the customs process, which appears to be driven by both officials and clients, in procurement bribes are believed to be mostly driven by the bidders.

- The main reasons to offer bribes to officials, according to the companies, are to win contracts and to speed up the process.

## Corruption assessment

### especially unsuccessful bidders suspect corruption

Do you think your competitors bribe officials to get contracts...?



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

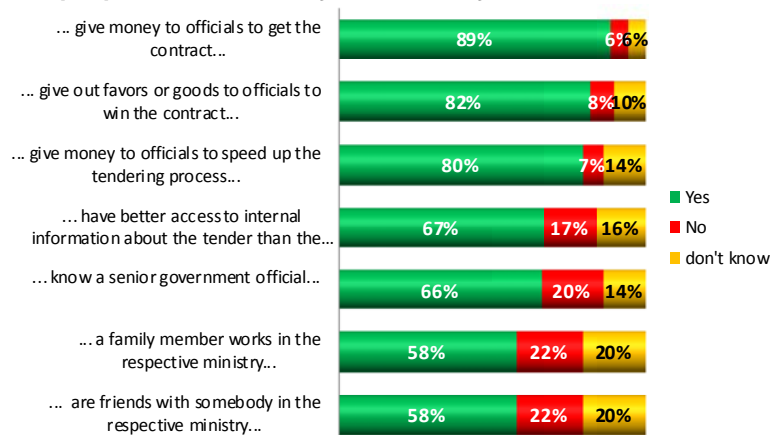
91

- It is important to point out that perceptions of corruption are known to be influenced by a bidder's record of success in the tender process. Therefore, it is plausible that those companies, who more frequently lose will be more likely to believe their competitors use bribes, while those, who have a higher ratio of wins have a stronger belief in the system and hence perceive lower levels of corruption.

## Definition of corruption

personal contacts used to win contracts not seen as corruption

When people win tenders only because they...



do you think this is corruption?

Base: 88 companies

Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

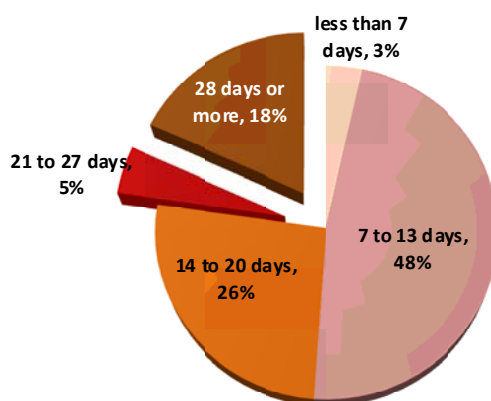
92

- What actually constitutes corruption in procurement is contested. 20% of companies mentioned that it should not be considered corruption if people win tenders only because they have friends, family or acquaintances in the respective ministry. Another 20% were not sure.
- These findings show that while giving money to officials is considered to be corrupt behavior, using personal relations to win a contract is not necessarily seen as corrupt.
- The results suggest that, as a first step, greater consensus needs to be built as to what constitutes corruption both within procuring agencies and between procuring agencies and the public, i.e. protocol and ethics training, and public information and outreach campaigns, etc. However, such measures are unlikely to curb corrupt practices in themselves without addressing the institutional context in which corruption is occurring.

### IV.3.e Suggestions

- From the point of view of the companies, at least 7-13 days should be granted between the call for proposals and the deadline for the proposal. 23% of all companies would prefer more than 20 days until submission.
- This finding does not suggest that less than 2 weeks are sufficient in all cases: it is clear that the time granted should be in line with the complexity of the proposal, so this finding only gives an indication of the *minimum time* needed.

### Time preferred to answer call for tenders majority prefers up to 13 days

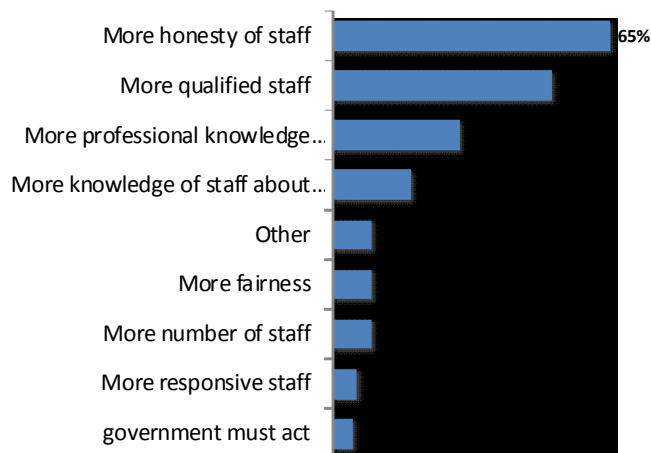


- Considering that the vast majority of companies already use the media to obtain information about tenders it is not surprising that the preferred channel to receive information is the media.



## Suggestions to improve the process

### key element: more honesty, more knowledge



Dili, March 3, 2010



Ministry of Finance: Service Quality Perceptions Survey

95

- The main issues for the companies taking part in the procurement process are transparency of processes, honesty of staff and professional knowledge.
- Almost one in three companies (65%) mentioned “more honesty” and more than half “more qualified staff”.
- These results reinforce the findings about how to improve the procurement process. As in the results from the tax and customs surveys, improvement of staff is considered to play a key role in improving the overall service.

#### IV.3.f

#### Summary

- The majority of interviewed companies submitted not more than 5 proposals in the last two years for government contracts.
- The majority of companies in the survey is active in the area of construction and has submitted proposals worth below USD 250,000 in the last two years.
- Overall, the companies reported below average levels of satisfaction with the procurement process. It became apparent that high performance ratings were short lived (after winning a proposal), as the overall assessment of the service is considerably low.
- Only a slight majority of companies considers itself to be well informed about the procurement process, while almost one in three companies think their knowledge is only “fair” or even “poor”. The fact that no positive significant effects were seen with companies, who have submitted larger number of proposals already, suggests a certain degree of intransparency on behalf of the procurement section or a system that is not unified across different government agencies.
- The overall level of trust in the process was also found to be below average, again throughout inexperienced and experienced bidders. On the other side, evidence was found that almost one in four companies have felt to be treated unfairly at some stage, resulting in a significant loss of trust in the system.

- Rather than standardized and transparent processes, the performance of staff plays the largest role in how the procurement process is perceived. At the same time, the performance of staff is considered to have room for improvement, having a strong negative impact on the whole process. Among the responding companies, a degree of distrust in staff could be found, especially in the area of neutrality and honesty.
- The detailed service assessment furthermore suggested the need for higher quality information in the call for tenders as well as more time for the companies to answer calls for tenders.
- Besides a degree of distrust in staff, a considerably high degree of suspected corruption was found in the procurement process. In addition, while bribes were considered to be corrupt behavior, winning government contracts by having family or friends in the respective ministry, was only seen by around 60% of respondents to be corruption.
- These elements, namely the suspicion of corruption, neutrality towards nepotism and favoritism as well as a perceived low level of honesty negatively reinforce each other.
- To obtain a higher level of service satisfaction, therefore, a more transparent, neutral and standardized procurement process should be enforced and communicated.