

NOTE TO THE MEMBERS OF THE COMMITTEE

Annual Action Programme 2016 in favour of Timor-Leste to be financed from the European Development Fund

1. Identification

EDF allocation	11 th EDF – Envelope A
Total cost	<p>EUR 57 million of EU contribution</p> <ul style="list-style-type: none">• Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO): EUR 30 million• Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU and Germany: EUR 27 million
Basic act	Council Regulation (EU) 2015/322 of 2 March 2015 on the implementation of the 11th European Development Fund

2. Country background

Timor-Leste has made considerable progress in just over a decade in establishing and consolidating the institutional framework to strengthen its public finances, as well as economic and democratic governance. Checks and balances are provided in the constitutional and legislative framework. Independent oversight of government activities and performance is vested in a number of institutions/organisations such as the National Parliament, the Câmara de Contas (Chamber of Accounts), the Anti-Corruption Commission (CAC), the Office of the Inspect-General, the Ombudsman, etc. The Government recognizes the important role Civil Society Organizations (CSO) and Media play in terms of oversight. The Government has also acknowledged the need to enhance the quality of public spending to foster quality, sustainable and inclusive growth, especially in light of rapidly declining oil revenues, which peaked in 2012, are expected to end during the next decade.

The majority of the population of Timor-Leste are farmers, many of whom operate at a subsistence level. They face considerable constraints to increase the production of subsistence and commercial crops to achieve surpluses, and to participate meaningfully in markets and value chains. A wide range of Development Partners (DPs) currently supports Timor-Leste's agriculture and fisheries (i.e. aquaculture) sector, with an increasing degree of cooperation and division of labour. Whilst Timor-Leste's agriculture sector has recorded some notable achievements and gains during the past decade (for example, in horticultural production and linkages with markets), the sector remains fragile, agricultural productivity and production has not increased. The Ministry for Agriculture, Forestry and Fisheries (MAF) continues to be

constrained by limited human capacity and small operational budgets¹. In general MAF's institutional constraints will certainly lead toward a Sector Reform that should be prepared and supported by major DPs.

3. Summary of the Annual Action Programme

1) Background

The proposed two actions, i.e. the PFMO project and the PSAF project, meet the needs of the EU-TL National Indicative Programme (NIP) for the period 2014-2020, which defines two main focal sectors of cooperation: **1) Good Governance** – through capacity building of state institutions and civil society to improve the effectiveness, transparency, accountability and participatory-nature of the delivery of Government services to the population, including through strengthened public finance management, and **2) Rural Development** – with specific emphasis on rural access, skills development in rural areas in the context of productive sectors (agriculture, road construction and maintenance) and on nutrition, with a view to reduce food insecurity and malnutrition and foster economic development.

The Overall Objectives of the 2 projects are:

a) **Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)**

To improve sustainable development in Timor-Leste through an enhanced effectiveness, integrity, transparency, accountability and citizen-orientation of public service delivery in Timor-Leste, in line with the national Strategic Development Plan 2011-2030 (SDP).

b) **Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU and Germany**

To contribute to a peaceful, inclusive and sustainable and climate-resilient development in Timor-Leste, through improved and safe rural access, the creation of employment, economic and domestic revenue opportunities, and a durable, climate-resilient reduction in food insecurity and malnutrition in rural areas.

To finance the two actions, EU is allocating EUR 57 million and the programme will be implemented over 5 years (2017-2021).

Three external agencies will co-finance this action:

For **PFMO**: Portugal through Camões - Instituto da Cooperação e da Língua, I.P. (Camões I.P.) for indicative amount of EUR 0.6 Million;

For **PSAF**: Germany through BMZ for an indicative amount of EUR 3.5 Million and International Labour Organization (ILO) for an indicative amount of EUR 0.2 Million.

¹ the budgeted public expenditures in Agriculture have decreased in 2016, compared to 2015

2) Cooperation related policy of beneficiary country

Government's Strategic Development Plan 2011-2030 (SDP) identifies as a key pillar for the social and economic development of Timor-Leste, the strengthening of its institutional framework. The SDP outlines that only through the development of transparent, accountable and competent institutions the country can achieve stability, security, rule of law enforcement and access to justice for all citizens. Underpinning the SDP, the Justice Sector Strategic Plan for Timor-Leste 2011-2030 (JSSP) emphasises that transparency of administrative acts and access to information are crucial pre-requisites for the effective accountability of public powers.

The Ministry of Finance (MoF)'s Strategic Plan for 2011-2030, and the rolling 5-year operational plans, focus largely on the continued strengthening of public finance management and the Government is giving more emphasis to work closely with Civil Society Organisations, the Media and Timorese citizens in general to better strengthen democracy and assure the national interests.

MAF's Strategic Development Plan 2014-2020 (MAF SDP) was developed based on the priorities for the agriculture, fisheries and forestry sectors outlined in the Timor-Leste National Strategic Development Plan 2011-2030. MAF SDP's main objectives are to: (i) focus on agricultural and rural development which supports small farmers and promotes improved markets in order to reduce poverty; (ii) ensure food and nutrition security, and sovereignty; and (iii) promote economic growth and employment in rural areas, and thus across the nation.

Furthermore, the Government of Timor-Leste adopted the new UN Sustainable Development Goals (SDGs) and has integrated SDG goals, indicators and targets into all Government planning and budgeting for 2017.

3) Coherence with the programming documents

The EU-TL NIP 2014-2020 defines two main focal sectors of cooperation: **1) Good Governance**, with the overall objective to strengthen economic and democratic governance in Timor-Leste by improving the effectiveness, transparency, accountability and participatory-nature of the delivery of Government services to the population, and **2) Rural Development**, with the overall objective to improve the socio-economic development in rural areas in Timor-Leste through improved access, the creation of economic opportunities and a durable reduction in food insecurity and malnutrition at district level.

4) Identified actions

The Actions builds on the 11th EDF support in the sectors:

a) Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO).

Overall Objective:

- To improve sustainable development in Timor-Leste through an enhanced effectiveness, integrity, transparency, accountability and citizen-orientation of public service delivery in Timor-Leste, in line with the national Strategic Development Plan 2011-2030 (SDP).

Specific Objective:

- To strengthen the planning, management, auditing, monitoring, accountability and oversight of the use of public finances for a better delivery of public services.

Activities will be supported by transfer of EUR 30 million over 5 fiscal years. The programme will be delivered through a combination of:

1. Budget support to assist the Ministry of Finance's ongoing implementation of PFM reforms through:
 - Improved budget planning and execution throughout Government;
 - Improved taxpayer and customs clearance services resulting in an improved collection of custom and domestic revenues;
 - Strengthened internal and external audit;
 - Strengthened accounting, revenue reconciliation and debt management;
 - Implementation of fiscal decentralisation supported;
 - Improved budget transparency;
 - Improved budget gender sensitivity
2. Capacity development to the above-mentioned state and non-state institutions in partnership with Camões - Instituto da Cooperação e da Língua (Camões I.P.) with:
 - Enhanced parliamentary role in national budget processes in terms of analysis, decision, oversight and audit of budget execution;
 - Strengthened institutional capacity of the Chamber of Accounts at the Court of Appeal: its development into the full High Administrative Tax and Audit Court (HATAC) is under consideration;
 - Strengthened prevention, investigation and forensic capacities in terms of economic and financial crimes, corruption and money laundering (CAC, PCIC, OIG);
 - Enabled and strengthened institutional capacity of the Public Prosecutor's Office for the technical analysis and follow up of the financial responsibilities appointed at the reports of the Chamber of Accounts and of the criminal investigation reports;
 - Increased capacity of non-state actors' and citizens' in the policy process and oversight of public institutions and public service delivery (through the implementation of the Social Audit initiative);
 - Improved regulatory framework and professional capacity of journalists to provide impartial and accurate reporting to citizens;

b) Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU and Germany.

Overall Objective:

- To contribute to a peaceful, inclusive and sustainable and climate-resilient development in Timor-Leste, through improved and safe rural access, the creation of employment, economic and domestic revenue opportunities, and a durable, climate-resilient reduction in food insecurity and malnutrition in rural areas.

Specific Objectives:

- To develop sustainable, market oriented, competitive, climate resilient and prosperous agro-forestry systems in order to increase employment and income in rural areas.
- To implement a capacity building and labour-based programme to rehabilitate and maintain climate-proof rural roads in order to improve safe access to the agro-forestry areas, employment and economic opportunities for local population.

Activities will be supported by transfer of EUR 27 million over 5 fiscal years. The programme is expected to be delivered through:

1. Technical cooperation from GIZ to support MAF's efforts to prepare a Sector Reform Contract (SRC) and foster a conducive environment for agro-forestry activities along the value-chain, as well as to support agro-forestry development, sustainable land and natural resources management and technical skill development and market linkages:
 - Production and productivity of agro-forestry systems is increased.
 - Capacities of beneficiaries along selected agro-forestry value chains are strengthened.
 - Market access for specific agro-forestry value chains (agriculture, horticulture, and wood production and processing) is improved.
 - Institutional and organisational framework for the promotion of agro-forestry is improved.
 - Relevant and credible multi annual and costed Agro-Forestry sector strategy formulated and endorsed by stakeholders
2. Technical support from the International Labour Organisation (ILO) to strengthen local training institutions and local authorities, prepare the SRC and train and contract local construction companies to rehabilitate/maintain rural roads which service agro-forestry areas in order to facilitate market access.
 - Improved market access, through rural; roads being rehabilitated and maintained by local contractors, using labour based approached.
 - Skills of construction companies and local authorities improved.

5) Expected results

The main expected results are:

a) Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)

- Strengthened public finance management systems and processes;

- Enhanced capacity of state and non-state actors performing checks and balances to participate fully in the decision-making and oversight of the use of public finances for a better delivery of public services;

The Expected Results are fully aligned with the NIP 2014 to 2020 and will eventually contribute to poverty reduction in Timor-Leste, particularly through better delivery of public services.

The action will contribute to SDG 16 – Peace, Justice and Strong Institutions and to SDG 17 – Partnerships for the Goals and will thus also lay the foundation for sustainable development in other sectors.

In terms of cross-cutting issues, Gender Equality will be mainstreamed throughout implementation of the action. Even though environment and climate change are not directly targeted, the EU will enhance policy dialogue, notably in terms of more sustainable budget allocation to invest in the much needed diversification of the currently fossil-fuel based economy. Good Governance is at the very centre of this action.

b) Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU and Germany

- Production and productivity of agroforestry systems is increased;
- Capacity of beneficiaries along selected agro-forestry value chains are strengthened;
- Market access for specific agro-forestry value chains (agriculture, horticulture, and wood production and processing) is improved;
- Institutional and organisational framework for the promotion of agro-forestry is improved;
- Relevant and credible multi annual and costed Agro-Forestry sector strategy formulated and endorsed by stakeholders;
- Improved market access, through rural roads being rehabilitated and maintained by local contractors, using labour based approach;
- Skills of construction companies and local authorities improved.

The Expected Results are fully aligned with the NIP 2014 to 2020 and will eventually contribute to poverty reduction, particularly by creating better market orientation for and improving the capacities of subsistence farmers and by employment generation within rural areas of Timor-Leste.

The action will contribute to SDG 1 – Poverty Reduction and SDG 2 – Zero Hunger. Furthermore, it will indirectly contribute to SDG 8 – Decent Work and Economic Growth, SDG 12 – Responsible Consumption and Production and to SDG 15 Life on Land. Sustainable Agro-Forestry systems will last but not least have a positive effect on SDG 13 – Climate Action.

In terms of cross-cutting issues, Gender Equality will be promoted throughout the action, e.g. through employment generation for women (and youth). The action is very relevant in terms of Environment, not only through supporting biodiversity, but also by enhancing the resilience of existing Agro-Forestry systems to Climate Change and to external shocks. The action will

address Good Governance aspects at local and at national level, e.g. through the promotion of participatory land use planning and through EU's engagement in the policy dialogue on land tenure/rights and tree ownership. In addition, peaceful development, social stability and conflict sensitivity will be an over-arching guiding principle for all the interventions funded by PSAF.

6) Past EU assistance and lessons learnt

The Mid-term review of the 10th EDF Support to Democratic Governance stressed the good quality of the training delivered in line with national strategies and the concrete outcomes in terms of institutional strengthening. Nevertheless, it also noted that the different programme components were uncoordinated, and that there was a risk that the programme results would not be sustained after the end of the programme, as there was a lack of national training policies and a weak role of national training institutions. The strategic evaluation of EU-TL cooperation over 2008-2013 highlighted, amongst other findings, the fragmentation of EU support, the lack of strategic analysis by the EU during programme design, and the lack of strategic partnerships. On the other hand, the budget support modality introduced under the 10th EDF PFM programme has created a positive environment for improved policy dialogue between the EU and MoF about continued PFM reform.

Rural development has been a focal sector of concentration of EU cooperation in all previous EDF programmes and remains highly relevant in Timor-Leste's context. The Global evaluation of EU-TL Cooperation 2007-2013 has been quite critical highlighting a limited vision/strategy, not based on sound assessment of problems and limited policy/political dialogue. PSAF aims at developing a valid alternative sector (and thus revenues) to the oil – non sustainable resources. At the same time, there is a need to work on creating an enabling the institutional environment to channel future cooperation through a SRC.

The mid-term review of the fourth Rural Development Programme (RDP4, 2011-2016, EUR 23 million), conducted in late 2013, supported the continuation of EU support to this sector and provided important lessons learnt, including the need to limit the number of implementing agencies as well as to focus more on farm groups, cooperatives and private sector involvement, along the lines of value chain and market development of agricultural commodities. It also stressed the need to continue to give high priority to road rehabilitation projects as they bring major benefits to isolated rural communities by providing access to health and education services and markets for agricultural products, while the labour-based rehabilitation approach adopted provides employment and training for local contractors.

7) Complementary actions/donor coordination

The EU, together with Portugal, has been the main supporters of the creation and capacity building of the Chamber of Accounts and PCIC, and of capacity building in the Media sector. The programme will take into account Germany & UNODC ad hoc support to the CAC, as well as a possible continuation of UNDP support to Parliament. Strong complementarity exists with the 10th EDF PALOP-TL regional projects "Strengthening technical and functional skills of Supreme Audit Institutions (SAIs), National Parliaments and Civil Society for the control of public finances", implemented by the UNDP; and the "Support to improvement in quality and proximity of Public Services" and "Support the Consolidation of Rule of Law", implemented by Camões I.P. With regard to the specific support to MoF, the programme will

continue to be integrated with Australia's budget support programme for PFM reforms (including through joint annual assessments) under the lead of the MoF and to coordinate with Australia's contribution to a multi-donor Trust Fund managed by the World Bank to provide advisory and analytical services at the demand of the MoF in different policy areas.

There are more than 50 ongoing and foreseen programmes in rural development, with EUR 200 million allocated to this sector. Some of the most important complementary projects are: (i) Australia's TOMAK (rural livelihoods and market linkages which covers main aspects of nutrition as well); (ii) the World Bank MIRT (institutional reform and transformation) and the Sustainable Agriculture Productivity Programme (SAPIP) (farm income generation and institutional strengthening); (iii) the EU-funded Global Climate Change Alliance (GCCA) project; (iv) United States' new horticulture, nutrition and cash crop project (AVANSA); (v) New Zealand's Aquaculture Project; (vi) Australia and Australian Centre for International Agriculture Research (ACIAR)'s Livestock Production and Livestock Health Projects; and (vii) Japan's new Agriculture and Irrigation Master Plan. In addition, there are numerous smaller-scale but effective and demonstrative activities which are implemented by International NGOs and funded by some of the larger DPs.

The Development Partners' Working Group on Agriculture and Fishery sector (DP-AFWG) was relaunched in September 2014. The EU was designated as Chair of this group and Australia as Co-Chair. The EU is currently funding technical assistance to support DP/sector coordination within MAF. The MAF Minister is chairing a regular (every 2-3 months) joint MAF-DP meeting where MAF and DP priorities/programmes are presented and discussed. Sub-sector coordination groups are gradually being established to ensure full coordination and joint planning and monitoring at the technical level. This should be further strengthened through the WB-funded MIRT and SAPIP projects. It is also expected to establish concrete synergies with the EU 11th EDF PFMO that will support the preparation of PSAF - phase 2.

4. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above (under the contract with GIZ and ILO). Strong emphasis on communication, under the responsibility of highly skilled permanent specialists, has to be ensured by the management unit in coordination with the EUD, the NAO, Portugal (Camões - Instituto da Cooperação e da Língua, I.P. [Camões I.P.]), GIZ and ILO as the projects addresses political and social sensitive issues. The visibility of the action will also be ensured through the visibility service contract concluded under the 11th EDF Cooperation Support Facility, which aims at implementing a coherent and coordinated visibility strategy for the overall EU-TL cooperation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. (http://ec.europa.eu/europeaid/work/visibility/index_en.htm_en) EUD will manage directly a budget line in communication and visibility.

5. Cost and financing

a. Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)

Programme Components	EU contribution (in EUR million)	Indicative Camões I.P. contribution (in EUR million)
Budget support (Sector Reform Contract)	15	
Complementary support (Indirect management with Camões I.P.)	12	0.6
Evaluation and audit (direct management)	0.3	
Contingencies	2.7	
Total	30	0.6

b. Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU and Germany

Programme Components	EU contribution (in EUR million)	Indicative contribution (in EUR million)
5.4.1.2. – Indirect management with GIZ	13	3.5 (by BMZ)
5.4.1.3. – Indirect management with ILO	12	0.2 (by ILO)

5.9 – Evaluation	0.4	
5.10 – Audit	0.1	
5.11 – Communication and visibility	0.3	
Contingencies	1.2	
Totals	27	3.7



This action is funded by the European Union

Action Document for the
Partnership for Sustainable Agro-Forestry between Timor-Leste, the EU & Germany
(PSAF)

1. Title/basic act/ CRIS number	Partnership for Sustainable Agro-Forestry (PSAF) between Timor-Leste, the EU & Germany CRIS number: FED/2016/38767- Financed under the European Development Fund			
2. Zone benefiting from the action / location	Pacific, Timor-Leste The action shall be carried out at the following location: Timor-Leste			
3. Programming document	Democratic Republic of Timor-Leste - European Union National Indicative Programme for the period 2014-2020 (11 th EDF)			
4. Sector of concentration	NIP Focal Sector 2 – Rural Development	DEV. Aid: YES		
5. Amounts concerned	Total estimated cost: +/- EUR 30,700,000 Total amount of EDF contribution: EUR 27 Million This action is co-financed in joint co-financing by: <ul style="list-style-type: none">•BMZ (German Government) for an <i>indicative</i> amount of EUR 3.5 Million•ILO for an <i>indicative</i> amount of EUR 0.2 million			
6. Aid modalities and implementation modalities	<ul style="list-style-type: none">• Management mode:<ul style="list-style-type: none">•Direct management – procurement of services•Indirect management with GIZ•Indirect management with ILO			
7. DAC code(s)	Main DAC code : 311 "AGRICULTURE" Sub-code 2: 31120 "Agriculture development" Sub-code 3: 31210 "Forestry policy and administrative management" Sub-code 4: 31220 "Forestry development" Main DAC code : 210 “TRANSPORT and STORAGE” Sub-code 5: 21020 "Road Transport"			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective

	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Flagship 1. Global Climate Change Alliance (GCCA) Flagship 2. Biodiversity for Life Initiative (B4LIFE) Flagship 3. SWITCH GREEN – Supporting Private sector-led inclusive green growth			

SUMMARY

The Overall Objective of the **Partnership for Sustainable Agro-Forestry (PSAF)** between Timor-Leste, the EU and Germany is to contribute to a peaceful, inclusive and sustainable and climate-resilient development in Timor-Leste, through improved and safe rural access, the creation of employment, economic and domestic revenue opportunities, and a durable, climate-resilient reduction in food insecurity and malnutrition in rural areas. The Specific Objectives are: 1) To develop sustainable, market oriented, competitive, climate resilient and prosperous agro-forestry system in order to increase employment and income in rural areas; and 2) To implement a capacity building and labour-based programme to rehabilitate and maintain climate-proof rural roads in order to improve safe access to the agro-forestry areas, employment and economic opportunities for local population.

The programme is in line with the priorities of the Ministry of Agriculture and Fisheries' (MAF) Operational Plan 2014-2018, with regard to agro-forestry and market access. The programme will use a time-phased approach by promoting agro-forestry production systems which enable farmers to address multiple short-term objectives, whilst at the same time building diversified and climate resilient assets (timber). The focus on agro-forestry will create employment opportunities along the value chain, especially for women and youth in rural areas, and eventually result in increased domestic and (potentially) export revenues. PSAF will also promote sustainable natural resource management. In doing so, PSAF will contribute to the Peacebuilding and State building Goals (PSGs) in relation to prevention of violent conflict, generation of employment and improvement of livelihood (especially in rural areas), management of natural resources, and increased domestic revenues. This will support the Government of Timor-Leste's goal of consolidating the ongoing peace and stability building process in the country.

PSAF is allocated +/- EUR 30.7 million and will be implemented over 5 years (2017-2021). The remaining EUR 20.0 million under Focal Sector 2 – Rural Development of the National Indicative Programme (NIP) 2014-2020 for Timor-Leste, will be allocated to a second phase of the PSAF programme, if the first phase will be successful. Particular attention will be given to the preparation of a second phase PSAF where Sector Reform Contract (SRC) for the Agriculture and Forestry sectors will be included. Meanwhile, EU Delegation will establish a conducive policy dialogue as essential key element towards the design of a Road Map to a SRC in Agro-Forestry and explore Government of Timor-Leste's interest in a SRC in the Rural Roads Sector. The programme is expected to be delivered through; i) **technical cooperation from GIZ** to support MAF's efforts to prepare the SRC and foster a conducive environment for agro-forestry activities along the value-chain, as well as to support agro-forestry development, land and natural resources management and technical skill development and market linkages; and ii) **technical support from the International Labour Organisation (ILO)** to strengthen local training institutions and local authorities, prepare the SRC and train and contract local construction companies to rehabilitate/maintain rural roads which service agro-forestry areas in order to facilitate market access.

Crosscutting issues such as gender, youth, human rights, environment and climate change are highly relevant and will be fully integrated in the design of this partnership. In addition, peaceful development, social stability and conflict sensitivity will be an over-arching guiding principle for all the interventions funded by PSAF.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

The 13 year UN presence was concluded successfully in late 2012, following peaceful parliamentary and presidential elections. A new Government of national unity was formed in February 2015, which led to several important institutional changes in Ministries. The new Government of Timor-Leste has approved the legislation introducing administrative deconcentration, which should lead to considerable staff movements/re-assignments in the agriculture and public works sectors, in particular.

The country's economy is based on oil and gas revenues since 2004. Annual non-oil GDP growth averaged 11.3% over the period 2007-2012, with oil GDP contributing up to 80% of total GDP.

Timor-Leste is one of the least developed economies in the region and is essentially agriculture-based. In a country where over two thirds of the population live in rural areas and over 63% of all households are engaged mainly in subsistence crop production¹, agriculture is still the main economic activity and focus of action for Government of Timor-Leste and Development Partner (DP) programmes. Agricultural productivity is low when compared with other countries in the region and it suffers from insufficient diversification and poor infrastructure, namely rural roads.

The NIP 2014-2020 for Timor-Leste highlights the very high dependence on (declining) oil revenues and the lack of economic diversification. The urgency of diversifying the economy was again highlighted recently by the IMF (2016 Article IV mission).

1.1.1 Public Policy Assessment and EU Policy Framework

MAF's **Strategic Development Plan 2014-2020** (MAF SDP) was developed based on the priorities for the agriculture, fisheries and forestry sectors outlined in the Timor-Leste National Strategic Development Plan 2011-2030. MAF SDP's main objectives are to: (i) focus on agricultural and rural development which supports small farmers and promotes improved markets in order to reduce poverty; (ii) ensure food and nutrition security, and sovereignty; and (iii) promote economic growth and employment in rural areas, and thus across the nation.

The Government's National Priorities for 2017 were announced in July 2016 by the Prime Minister. Next year priorities are: Agriculture (combating hunger and malnutrition); health; education; water and sanitation; basic infrastructure and the elections. To monitor achievements, the Government of Timor-Leste, adopted the new UN Sustainable Development Goals (SDGs) and has integrated SDG goals, indicators and targets into all Government planning and budgeting for 2017.

MAF commenced in 2015 a **review of the National Forest Law** with support from the Food and Agriculture Organisation (FAO) and is currently developing a long-term forestry investment plan to diversify from the largely oil-dependent economy, which is a strong signal of the renewed priority being placed in the development of the forestry sector.

Furthermore, in June 2016 the Government of Timor-Leste sent to the National Parliament the draft new **Land Law**. While this initiative is commendable, notably given the urgency for the agro-forestry to have a modern legal framework giving more security and ownership to local assets (i.e. land and trees), there are concerns with regard to the low level of consultations with rural communities. Customary rights are mentioned in the new proposed Land Law but there is a lack of provision on how communities' rights will be protected and how to create an enabling environment that would sustain agro-forestry development in the country.

At the moment of writing this present document (July 2016) Timor-Leste has not yet submitted their **Intended Nationally Determined Contributions (INDCs)** to the UN Framework Convention for Climate Change (UNFCCC), with which the PSAF programme could be aligned.

¹ 2015 Census is confirming a prevalence of population in the rural area.

As for the Road Sector the Government has in place policies and strategies that are outlined in the Strategic Development Plan (Road SDP). The recent Rural Roads Master Plan and Investment Strategy (approved by Council of Minister in 2016) has defined a set of priorities in support of the road sector and clearly outlined the importance of the private sector in the rehabilitation/maintenance of rural roads.

The overall objective of the second focal sector of the **NIP (rural development)** is to improve the socio-economic development in rural areas in Timor-Leste through improved access, the creation of economic opportunities and a durable reduction in food insecurity and malnutrition at district level. Three specific objectives were defined to guide the programming of EU interventions in this sector: i) To develop a sustainable, market oriented, competitive and prosperous agricultural sector (note: including livestock, fisheries, and forestry) in order to increase employment and income in rural areas; ii) To implement a capacity building and labour-based programme to rehabilitate and maintain rural roads in order to improve access, employment and economic opportunities for local population; and iii) To reduce malnutrition and micronutrient deficiency among children and women. The proposed action is fully in line with the **EU Food Security communication**² which underlines the importance of working at the same time on the four food security pillars (increasing availability of food, improving access to food, improving nutritional adequacy of food intake and enhancing crisis prevention and management). One of the most important impact pathways to address undernutrition is improving diets through better access to nutritious food, higher incomes and the empowerment of women. This action will contribute to this objective; in line with the strategy presented by EU communication on **Nutrition**³ of 2013. The EU is also strongly involved in addressing the challenge of **climate change** allocating 20% of funds for cooperation to climate change related issues and this programme is expected to make a positive contribution to implement the climate change global agenda. The **EU's objective for the forestry sector at global level** is to work towards improved forest governance and law enforcement and, ultimately, the sustainable management of the world's forests, as a means of realising their potential to support the eradication of poverty and contribute to sustainable, inclusive development, particularly in rural areas⁴.

The proposed partnership is fully aligned with the above-mentioned Government and EU objectives for food security and agro-forestry. It will support the Government of Timor-Leste's broader goal of diversifying its economy and consolidating peace and stability in the country.

1.1.2 Stakeholder analysis

The PSAF AD is a result of extensive consultations (17 months) and has been designed with a wide range of stakeholders, including the beneficiary institutions⁵ as well as development partners and EU Members States present in Timor-Leste.

With regard to the Specific Objective 1 (SO1) on agro-forestry, **MAF and local/international NGOs** will have an important stake in this programme. MAF, and to a broader extent the Coordinating Minister for Economic Affairs, has a leading role in developing a conducive business environment for Timor-Leste's emerging agro-forestry systems. This will include disseminating and facilitating consultations for the drafting of a new Land law and a Forestry Sector Master Plan and relevant legislation related to land and tree ownership. MAF's Directorates for Agriculture and for Forestry and their municipal-level staff (who will be responsible for delivering extension and technical services to rural communities interested in agro-forestry) will receive from PSAF a wide range of training and capacity building programmes in order to develop the public sector skills required for a successful

² An EU policy framework to assist developing countries in addressing food security challenges

³ Enhancing Maternal and Child Nutrition in External Assistance: an EU Policy Framework

⁴ The EU uses a range of policy instruments to achieve these goals. It is at the forefront of global efforts to fight illegal logging with the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan and to reduce deforestation and forest degradation (REDD) notably in the framework of the REDD+ process.

⁵ MAF for SO1 and National Directorate of Road, Bridges and Flood Control (NDRBFC) for SO2

programme. Integrated watershed management can effectively be enhanced through local and international NGOs that have successfully implemented community based planning programmes during the last 15 years in Timor-Leste. The **Secretary of State for Land and Property** and its municipal offices are also an important stakeholder with regard to land-related issues in the agroforestry system.

The main target group of SO1 will be **farmers** with a focus on the poor and women farmers, including rural youth and farmer organisations. The programme will actively engage participants across the agro-forestry value chain. Specific emphasis will be placed on the **young population (including girls/women) that lives in the rural environment because youth** has very limited skills development and job opportunities in rural areas, which is an underlying factor for urban migration and social instability. They also generally lack basic professional skills which are crucial in relation to employability. PSAF will thus place particular attention to this group to ensure that they are involved and fully benefit from this intervention. The **private sector**, especially Small and Medium Enterprises (SME), along the agro-forestry and forestry value chain will also be an important target group that will require considerable support and mentoring, particularly in terms of the more commercial aspects of agro-forestry product harvesting, processing and marketing.

With regard to SO 2 (improved access), an important stakeholder will be the **Directorate of Road, Bridges and Flood Control (NDRBFC)**. The ongoing decentralisation process may require an important capacity building effort for municipal offices/authorities. NDRBFC will also play a key role in the prioritisation and maintenance of access roads, which service agroforestry areas. Additional stakeholders for SO 2 will be those **institutions that are involved in vocational training** in Timor-Leste⁶.

The main target group for SO 2 will be the **private sector** for their important role in the provision of services, especially in road rehabilitation and job creation. Communities are the ultimate beneficiaries and are expected to benefit directly from training and work opportunities related to the labour-based rehabilitation/maintenance of rural roads.

1.1.3 Priority areas for support/problem analysis

The NIP 2014-2020 for Timor-Leste highlights the **very high dependence on (declining) oil revenues and the lack of economic diversification**, which remains a crucial challenge to generate much needed employment and reduce poverty, especially in rural areas, in order to contribute to continued peace and stability. The urgency of diversifying the economy (from oil revenues) was again highlighted recently by the IMF (2016 Article IV mission). The IMF advised the Government of Timor-Leste to take advantage of global and regional integration trends, including its application to ASEAN membership, and to enable the private sector to leverage comparative advantages in line with Timor-Leste's fundamentals, by expanding labour-intensive sectors such as agriculture and tourism.

Food shortages and household food insecurity remain a concern during the period October to March, especially in upland areas, and child malnutrition is high (the 2013 nutrition survey showed that 50.2% of under-five children were stunted). Studies have shown that malnutrition in Timor-Leste is more related to diet habits, poor sanitation, and low income, rather than food availability.

⁶ Secretariat of State for Professional Training and Employment Policy (SEPFOPE) which has the responsibility for Government's employment and training policy and programs; (ii) the National Institute for Labour Force Development (INDMO) which is the regulatory agency responsible for accrediting courses and trainers; (iii) the Agriculture Technical Schools (ATSs) ; (iv) Instituto de Apoio ao Desenvolvimento Empresarial (IADE) which provides training in business management; and (v) Don Bosco which provides training in rural road construction - will all have skills development and capacity-building roles under PSAF

Following the ND GAIN Index⁷, Timor-Leste is the 12th most vulnerable country and the 72nd least-ready country. Climate change represents a further threat to agriculture and food security, as the country faces a number of natural hazard risks which include floods, droughts, sea level rise, and cyclones. Climate variability is also likely to negatively impact agriculture, while projected increase in rainfall intensity may increase the risk of floods and droughts. The production of rice represents the most vulnerable aspect of local subsistence production, with a need for production diversification.

The PSAF will focus mainly on SO 1 – Agriculture (i.e. Agro-Forestry) and SO 2 – Market Access / Rural Roads of the NIP, while SO 3 – Malnutrition will be dealt with a separate programme, which will be designed in a synergetic and coherent way with this action. It is also important to note that rural development, through the creation of economic opportunities, local employment and income generation, especially for youth, is highly important with regard to maintaining social stability and preventing violent conflicts. This is an important objective of German cooperation in Timor-Leste.

There are several significant constraints to the development of the agriculture and forestry sectors in the country. On the **production** side the areas for suitable agriculture are limited⁸, equipment and tree seedlings of commercially viable local species is lacking. Lack of access to productive inputs and machinery is a limiting factor. Soil degradation and erosion linked to the vulnerability to climate change and environmental conditions make the agricultural activities extremely challenging. Agro-forestry products **processing and marketing** is very limited due to high pre- and post-harvest losses, poor infrastructure (particularly rural roads) and inadequate market access⁹. The lack of preservation, conservation and processing facilities and infrastructure is evident. At the same time market/prices incentives as well as access to rural credit are not there.

Capacities and technical knowledge are extremely limited at all level of the value chain (particularly about agro-forestry techniques). Farmers associations are not really organized neither trained.

At institutional level the situation is similar: organisational and individual staff capacity of MAF and other key agencies/institutions are very limited and the budget allocated to the sector (% budget) does not reflect its importance in term of employment and potential development.

Unclear regulation of **land ownership** is a key challenge for this programme.

The **forestry sector** in Timor-Leste is particularly poorly developed and forest cover is decreasing at 1.7% annually, one of the highest rates in Asia, and causing high loss of carbon storage potential. The domestic demand for building poles and sawn wood for construction and furniture has increased and the consumption of fuel wood alone has contributed to a decline in forest cover which has direct implication in land erosion and land degradation. Current wood harvest and primary processing practices using chainsaws are extremely wasteful and inefficient, capturing only an estimated 15% of the volume grown. Current Government fees and permit/licencing procedures are inefficient and do not provide a conducive business environment for the sector. Until now, MAF has focused mostly on forest management and reforestation, and there has been no large-scale programme to support the long-term development of the commercial forestry sector due to the immediate focus on food security and agriculture production. The new Minister has made it a key priority to embark on a long term forestry investment programme.

⁷ The ND-GAIN Country Index, a project of the University of Notre Dame Global Adaptation Index (ND-GAIN), summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

⁸ Arable land and permanent pasture each account for just under 10% of total land area.

⁹ The rural road network in Timor-Leste is largely underdeveloped and in poor condition. The Rural Road Master Plan (2014) (RRMP) team surveyed 3,700 kilometres out of a total of over 5,000 kilometres, and only 10% was in good condition, 25% in fair condition and 65% in poor condition. Since independence the rural road network has suffered from a lack of rehabilitation and maintenance funding, a fragmented institutional framework, and the lack of competent and capable road construction companies.

In this regard, following a thorough assessment of the challenges and opportunities in the agricultural and forestry sectors and the funds already committed by DPs in agriculture and nutrition, the EU and German Government have agreed with the Government of Timor-Leste to support **the development of smallholder-based agro-forestry farming systems, which include food and cash crops (and where suitable, livestock) to ensure short-term returns to farmers (increased incomes) and improved food security and nutrition; and in the longer-term, increased income from cash crops, and improved forest protection and management, including increased climate resilience and mitigation of CO₂ emissions.** In addition the agroforestry approach will assist with farm product diversification, and have a positive effect on long term ecosystem services and protection of terrestrial biodiversity. This time-phased approach to rural development through the promotion of agro-forestry systems will enable farmers to address multiple short-term objectives, whilst working towards the development of diversified and climate resilient assets in the form of tree and timber crop plantations. Economic opportunities in rural areas can help mitigate migration to urban areas which is a potential source of conflict. **The rehabilitation and maintenance of rural roads will have an evident impact on market development for agro-forestry products (wood and non-wood).** It will improve rural communities' access to all other services (health, education) as well. At the same time it will allow building capacities of local construction companies and communities and increase incomes (through the high intensity labour works strategy).

PSAF will pay particular attention to the **environment** by limiting the cutting of trees not planted for commercial purposes, supporting improved forest management and reforestation, and producing fuelwood as by-product from agro-forestry systems. The programme will actively promote the positive environmental effects of using agro-forestry systems, such as habitat functions, and reduced soil erosion and water pollution. Furthermore, the programme will support the implementation of the Convention on Biological Diversity (CBD) and the achievement of respective Aichi targets by using native species and facilitating the natural regeneration of local flora.

Field assessments and market analysis indicate that the proposed activities in agro-forestry, landscape management and livelihood improvement are sustainable and will improve on-farm resilience against **climate change** and disasters (such as the short-term El Nino weather phenomena). The proposed project will provide additional benefits, such as the potential of planted trees to reduce carbon emissions and store carbon within the transition/buffer zone between natural forests and agricultural land; their short, medium and long term benefits in terms of economic diversification; their positive impacts on ecosystem services (as compared to cultivation of annual crops only); their roles and functions linked to the conservation of natural resources and (agro) biodiversity; and their contributions in terms of Integrated Watershed Management and Participatory Land Use Planning.

2 RISKS AND ASSUMPTIONS

Risks	Level (H/M/L)	Mitigating Measures
Institutional (Governance & public services)		
Unpredictable changes in Government (regulations and procedures, agriculture-forestry sectors strategy) which disadvantage the programme and target beneficiaries	M	Monitor appropriate regulations and procedures with objective of reacting to changes which might impact on target beneficiaries; engage with decision-makers to advise/ advocate the pro-programme position; and be prepared to adjust/ revise design if required. EU and GIZ continue to work closely with Government and MAF to monitor potential changes, to be prepared if changes occurs, and to adjust design accordingly in the event of change
Lack of budget to maintain rural roads rehabilitated under the project	M	Co-financing from the Government with committed funds toward rehabilitation of rural roads should mitigate this risk. Roads should be selected in close consultation with NDRBFC, considering the Rural Road Master Plan

		Investment Plan; strong engagement with local authorities to ensure that the maintenance of the roads is gradually taken over in their budgets; build the capacity of local authorities to plan, budget and tender for road maintenance
Land tenure/ownership issues	M	Monitor the review and promulgation of new Land Law, and engage with Government through policy and political dialogue; liaise with Land and Property and national cadastral mapping; if the new Land Law is not passed, build on customary land laws recognised by communities; support dialogue on land ownership amongst communities, and between communities and Government (including the NSA-LA Land project); use a PLUP approach; support/advise on legislation/ regulations to secure tree ownership, and to separate tree from land ownership
Programme progress delayed by decentralisation , and associated re-allocation of MAF's and MPWTC's development activities to the municipal level	H	Work closely with the World Bank's MAF institutional strengthening projects (MIRT and SAPIP) to support decentralization; build on start made by SoL with municipal-level planning; run training on the programme's implementation arrangements for relevant municipal officers; embed Programme Office in municipal office
Climate		
Natural disasters (like El Nino) event/s, and negative effects of extreme weather events and climate change	L	The programme cannot address this risk, other than by promoting best practice agroforestry agronomy to protect food and tree crops, and in the event of El Nino to conserve moisture
Climate change causes rapid deterioration of rural roads over their economic life.	M	Selection of roads and design of infrastructure should consider anticipated 30 year climate change (sea level will raise and intense rainfall are expected).
Social inclusion		
Cultural risks: uncontrolled grazing, vandalism, intra- and inter-community conflicts	M	This risk will have to be managed internally by target communities, with assistance in terms of advice on and support for conflict resolution through the use of conflict sensitive approaches, and Participatory Land Use Planning (PLUP)
Women do not receive their share of benefits, and are either excluded from activities or are overworked by doing "traditional men's work"	M	Implement gender equality plans from the beginning and specify roles; allocate responsibilities and benefits on a family basis; ensure training times suit women, particularly for home economics and financial literacy training; ensure facilitators/ extension officers are aware of responsibilities regarding gender equality; organise specific gender information sessions with beneficiary communities; include gender quotas in training and development activities
Youth do not participate due to the perception that agriculture is not an attractive career, and that returns from working and investing in the sector are too long-term	M	Ensure that the programme prioritizes engagement with and support for youth - with specific training, technical support and incentive activities; engage with parents and families to communicate with youth and promote an improved sectoral image, and of the career and income-earning opportunities supported by the programme

Value Chain (production, processing, markets)		
Markets for agriculture and forestry products decline or fail	L	Manage by monitoring price trends, national production figures, export volumes (if relevant), updating value chains, and facilitating farmer access to this and other information on markets and prices
Indiscriminate grazing and wild fires causes losses of all types of crops and trees	H	Prepare watershed management plans which include grazing and fire management plans; only support farmers who fence agroforestry areas; train farmers in, and supply materials and equipment for, fire prevention; prepare and implement community-based participatory forestry fire management plans; assist communities to access fencing materials to control livestock
Lack of seed and planting material of improved Seeds of Life food crop varieties, now that Project has ended and MAF's budget has been reduced	M	Monitor seed supplies and timely availability in programme areas; liaise with MAF and emerging private sector seed production and marketing businesses to understand supplies (and react to deficiencies); coordinated with TOMAK which will focus on cash crops in programme area; and assist farmers to self-save and store seed. Establish seed orchards in Timor-Leste to produce high quality seed
Assumptions <ul style="list-style-type: none"> (i) Government adopts and implements a revised Forestry National Law and National Forest Conservation Plans. (ii) A revised and approved National Land Law (based on the 2010 version) is approved in the next three years. (iii) Government allocates increasing resources in its annual national budget towards the diversification of the economy, notably in the agriculture, agro-forestry and forestry sector. (iv) MAF's new organic structure and staffing schedules remain stable until the next election (and beyond), and MAF stays committed to the programme's objectives throughout implementation. (v) National Government and municipalities are interested and allocate Government of Timor-Leste resources in maintaining rural roads leading to forestry plantations. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Rural development has been a focal sector of concentration of EU cooperation in all previous EDF programmes and remains highly relevant in Timor-Leste's context. The **Global evaluation of EU – Timor-Leste Cooperation 2007-2013** has been quite critical highlighting a limited vision/strategy, not based on sound assessment of problems and limited policy/political dialogue. PSAF aims at developing a valid alternative sector (and thus revenues) to the oil – non sustainable – resources. At the same time, there is a need to work on creating an enabling the institutional environment to channel future cooperation through SRC. Policy dialogue will be essential to achieve this objective.

The mid-term review of **the fourth Rural Development Programme (RDP4, 2011-2016, EUR 23 million)** conducted in late 2013 supported the continuation of EU support to this sector and provided important lessons learnt, including the need to limit the number of implementing agencies as well as to focus more on farm groups, cooperatives and private sector involvement, along the lines of value chain and market development of agricultural commodities. It also stressed the need to continue to give high priority to road rehabilitation projects as they bring major benefits to isolated rural communities by providing access to health and education services and markets for agricultural products, while the labour-based rehabilitation approach adopted provides employment and training for local contractors. One of the best practises of RDP IV and GCCA projects is the Participatory Community Planning

where agro-forestry was requested by the beneficiaries. Both projects also revealed a very strong interest of communities in forestry activities due to potentially higher earnings than through purely agriculture activities.

There are a number of large DP-funded pipeline projects in the sector - *see Section 3.2 for details*. These development interventions intend to build on the agriculture extension and technical skills platforms developed with sequential support from the series of EU-funded RDPs. In addition, the MAF Minister, who is also responsible for coordinating economic affairs, called for all DPs to support the development of the forestry sector, which had been neglected in the past in spite of its high potential to support economic diversification, especially in rural areas. Following an extensive analysis of the sector as well as ongoing and future major DP programmes, **the identification mission made a strong recommendation for EDF 11 to support agro-forestry and forestry interventions: to develop a "nation-wide multi-species agro-forestry/forestry programme based on community watershed planning and resource management"**. In this regard the identification took into account lessons learnt from analysis of the domestic and international wood market, survey of the existing forestry and wood businesses in Timor-Leste, as well as successful smallholder forestry initiatives in the region and lessons learnt from various DP projects (WB, USAID, EU) on land management and conflict/mediation.

3.2 Complementarity, synergy and donor co-ordination

There are **more than 50 ongoing and foreseen programmes in the Rural Development sector, with EUR 200 million allocated to this sector**. Some of the most important complementary projects are: (i) Australia's Seeds of Life (SoL) (new varieties of staple food crops and seed production) and a new programme named TOMAK (rural livelihoods and market linkages which covers main aspects of nutrition as well); (ii) the World Bank MIRT (institutional reform and transformation) and the Sustainable Agriculture Productivity Programme (SAPIP)¹⁰ (farm income generation and institutional strengthening); (iii) Germany's Agriculture Bio-Diversity Project, and the EU-funded Global Climate Change Alliance (GCCA) project; (iv) United States' new horticulture, nutrition and cash crop project (AVANSA); (v) New Zealand's Aquaculture Project; (vi) Australia and Australian Centre for International Agriculture Research (ACIAR)'s Livestock Production and Livestock Health Projects, plus ACIAR's Seeds of Life follow-on project; and (vii) Japan's new Agriculture and Irrigation Master Plan. In addition, there are numerous smaller-scale but effective and demonstrative activities which are implemented by International NGOs and funded by some of the larger DPs.

The Development Partners' Working Group on Agriculture and Fishery sector (DP-AFWG) was relaunched in September 2014. The EU was designated as Chair of this group and Australia as Co-Chair. The EU is currently funding technical assistance to support DP/sector coordination within MAF. The MAF Minister is chairing a regular (every 2-3 months) joint MAF-DP meeting where MAF and DP priorities/programmes are presented and discussed. Sub-sector coordination groups are gradually being established to ensure full coordination and joint planning and monitoring at the technical level. This should be further strengthened through the WB-funded MIRT and SAPIP projects. It is also expected to establish concrete synergies with the EU EDF 11 Public Finance Management and Oversight (PFMO) that will support the preparation of PSAF 2nd phase.

The proposed action will also benefit of **Food and nutrition security Impact, Resilience, Sustainability, Transformation (FIRST) programme, an EU-FAO funded initiative** which aims at increasing policy coherence and performance in our beneficiaries countries (through a medium-long term technical assistance based in key line ministries).

There were lots of inter-DP consultations in 2014 and 2015 during the formulation of the major new DP programmes and efforts were made to synchronise the thematic and geographic scope of the new

¹⁰ WB – SAPIP programme will strengthen capacities at local, district and national level in Integrated Watershed Management (IWSM), using a Participatory Land Use Planning (PLUP) approach.

DP programmes to avoid overlapping and duplication, while looking for complementarity when relevant (WB institutional reform, Australia agriculture and nutrition in the western part of the country, USAID horticulture, coffee and private sector, JICA irrigation and rice, New Zealand aquaculture and coffee and EU/Germany agro-forestry in the Southern and Eastern part of the island). This **division of labour** and the significant funding already allocated to supporting agriculture, horticulture and aquaculture was an important factor in the EU and Germany's decision to focus more narrowly on the agro-forestry sector, which has considerable unexpressed potential and was neglected by MAF until now. Furthermore, most DPs programmes are implemented in the mountain region of the western part of the country (coffee area) while only few actions are implemented in the eastern districts that have a higher potentiality in terms of forestry development. Other DPs could be “leveraged in” by PSAF to focus on non-tree crop products which are beyond the scope of an agro-forestry programme. It will be important to ensure coherence with international initiatives supported by the EU such as GCCA, FLEGT, REDD+, SWITCH TO GREEN and Biodiversity for Life (B4Life) flagship initiatives. In addition coherence will be ensured with the separate nutrition programme under the rural development focal sector of the EDF 10 and EDF 11 NIP, including through the coordination mechanism led by the Government's Council for Food Security and Nutrition (KONSANTIL).

Increased tree cover through farmer and smallholder engagement will result in a net Carbon increase over the landscape. For the purposes of **carbon accreditation and carbon accounting** under REDD+, the agroforestry component could be considered an *Afforestation Project* providing *Alternative Livelihoods* with a period of *Planned Conversion* to meet the needs of site preparation. The uncleared adjacent regenerating forests might be considered *Avoided Deforestation* for the purposes of carbon accounting and considered as *Enhancement of Forest Carbon Stocks*.

In the Road Sector this programme will closely coordinate with an EU EDF 10 EUR 20.5 million District Road and Rehabilitation and Maintenance implemented by ADB. Furthermore, EU has signed a Delegation Agreement with EIB, financed through the EDF 10 Investment Facility for the Pacific (IFP), which will prepare feasibility studies for future blending projects.

In the absence of publicly-available, measured data for Timor-Leste, it is challenging to make assumptions for conversion of grass and shrub lands to agroforestry and smallholder woodlots or the additions of trees to agricultural systems. During the lifetime of the project, data might be assembled to offer a reasonable approximation of the increases in carbon sequestration and improvements of carbon avoidance by farmers and tree growers in Timor-Leste.

Prior to the Inception Phase, the EU Delegation will establish contact with the Southeast Asia Regional Office of CGIAR's World Agroforestry Centre (ICRAF) in Jakarta, Indonesia, with the aim to involve ICRAF in the initial baseline survey.

3.3 Cross-cutting and other issues

Peaceful development and social stability, climate change, environmental protection and restoration, and gender equality are the four most important cross-cutting issues to be taken into account during formulation. Conflict sensitivity will be an over-arching guiding principle for all development interventions funded by PSAF, particularly given the fact that the effects of climate change can increase the likelihood of disputes over access to resources, especially land. It is expected that an important number of people especially rural youth and women will be trained and directly employed by the agroforestry, road rehabilitation and maintenance activities. The forestry activities will provide employment opportunities for rural women, especially in nurseries and early tree maintenance programmes, and small groups of women could be encouraged to form forestry production groups. Forestry development plans will be part of larger community based natural resource management plans (at the municipal, watershed and *suco* levels) and cross cutting issues are to be integrated into all these community development plans.

The programme for improving rural access will mainstream environmental and climate change concerns in road design and rehabilitation. The mitigation measures will consider, among others, the alteration of hydrological cycles, the risks of inundation and compensation of natural vegetation

destroyed. Access to quality roads will also allow to better face climate risks: it is expected that climate-proof roads will facilitate a constant communication for rural people also when affected by extreme events (i.e. floods), and facilitate their access to food, which remains a major challenge in upland areas and remotely located villages.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This PSAF is relevant for the **2030 Agenda for Sustainable Development**. It contributes primarily to the progressive achievement of targets n° 2.3 (double agriculture productivity and income small scale food producers) and target n° 8.5 (achieve employment and decent work for all women, including for young people) but also promotes progress towards Goal n° 1 "End poverty in all its forms everywhere". This does not imply a commitment by the Government of Timor-Leste benefiting from this programme.

The Overall Objective is **to contribute to a peaceful, inclusive and sustainable and climate-resilient development in Timor-Leste, through improved and safe rural access, the creation of employment, economic and domestic revenue opportunities, and a durable, climate-resilient reduction in food insecurity and malnutrition in rural areas.**

The Specific Objectives are:

SO 1: To develop sustainable, market oriented, competitive, climate resilient and prosperous agro-forestry systems in order to increase employment and income in rural areas.

With the following outputs:

- 1.1 Production and productivity of climate-smart agro-forestry systems is increased.
- 1.2 Capacities of beneficiaries along selected agro-forestry value chains are strengthened.
- 1.3 Market access for specific agro-forestry value chains (agriculture, horticulture, and wood production and processing) is improved.
- 1.4 Institutional and organisational framework for the promotion of agro-forestry is improved.
- 1.5 Relevant and credible multi annual and costed Agro-Forestry sector strategy formulated and endorsed by stakeholders

SO 2: To implement a capacity building and labour-based programme to rehabilitate and maintain climate-proof rural roads in order to improve safe access to the agro-forestry areas, employment and economic opportunities for local population.

With the following outputs:

- 2.1 Improved market access, through rural roads being rehabilitated and maintained by local contractors, using labour based approach, also ensuring safer movements of people.
- 2.2 Skills of construction companies and local authorities improved.

4.2 Main activities

During the Inception Phase, a comprehensive baseline survey will be conducted, based on which the log frame matrix will be updated. In anticipation of a respective request being forwarded by MAF, it is

envisaged to prepare a digital land cover map of Timor-Leste, based on SENTINEL satellite images, which the Commission will provide free of charge through Copernicus services. Additional layers, such as a map of the agro-ecological zones, might be generated as well, depending on Government of Timor-Leste's demand and available resources.

Output 1.1 – Production and productivity of agro-forestry systems is increased

The programme envisages increasing production and productivities of 50 rural communities during the first 2 years. The communities will be selected jointly by GIZ, EU Delegation, ILO and MAF. Once the communities will be identified, the implementing agency GIZ will initiate the participatory land use planning process, which is at the core of the action. During the participatory land use planning exercise, particular attention will be given to gender and youth. Strong community engagement is essential for the ultimate success of any tree planting initiatives, whether as smallholder plantations, community forests, annual or perennial crop and independently of the choice of agro-forestry product. Within communities, strong customary laws and traditions influence land use decisions and the management of forests, and should be utilised to engender community involvement in forest establishment and management.

Indicative activities: (i) focus group for participatory land use planning, (ii) promote cultivation and use of nutritious crops and wood trees, (iii) technical training on production: seedlings, planting, intercropping (taking into account soil conservation), (iv) training on conservation and planting of indigenous species.

Output 1.2 – Capacities of beneficiaries along selected agro-forestry value chains are strengthened

Agro-forestry and forestry techniques will be earmarked in the training courses (in different institutions and at Government level). Particular attention will be paid to the respect of environmental standards.

Indicative activities will focus on assisting target agro-forestry practicing communities to (i) introducing and running agro-forestry related training courses in agriculture schools; (ii) establishing a Timor-Leste Agro-Forestry Training Centre; (iii) building a cadre of well-trained trained agro-forestry-extension technicians, and using these MAF staff to provide technical support to PSAF's target timber and non-timber producing farmers; (iv) establishment of tree planting infrastructure, e.g. high quality central nurseries, associated pilot nurseries with reliable water supplies and cuttings technologies, seed orchards and seed delivery mechanisms developed and (v) conducting agro-forestry and forestry adaptive research at selected representative locations across Timor-Leste's agro-ecological zones with the objective of identifying improved local and introduced tree varieties, and identifying efficient and profitable wood production systems.

Output 1.3 – Market access for specific agro-forestry value chains (agriculture, horticulture, and wood production and processing) is improved

It is important to recognize that national markets for agro-forestry products already exist and are serviced by local wood dealers, small transport companies, saw millers and carpenters. The PSAF will provide training support for each step of the post farm-gate value chain making sure that courses and events are adapted to Timor-Leste's specific conditions. Some beneficiaries must be supported in increasing their competences for developing wood and non-wood processing enterprises.

Indicative activities designed for small private enterprises: trainings focusing on (i) economic, (ii) managerial and (iii) entrepreneurial skills across the whole agro-forestry and intercropping value-chains: nursery management, tree planting and maintenance services, wood harvesting, transport and processing skills (sawmills, carpentry and furniture).

Output 1.4 – Institutional and organisational framework for the promotion of agro-forestry is improved (output 1.4)

Timor-Leste's agro-forestry (and forestry) sectors are just beginning to develop. Therefore it will be important for the "regulatory environment", which to a considerable extent is managed and controlled by Government, to be conducive to investors along the whole value chain (recognition of community land ownership, legal and regulatory frameworks, research and development, etc.). Specifically about land ownership regulation: in recognition that land titling and accessibility is an ongoing constraint in Timor-Leste, the programme will closely monitor the outcome from Governments current land reform initiatives to address this constraint.

Indicative activities: (i) ensuring that Timor-Leste's Forest Law and related regulations are approved and socialised with target communities; (ii) work with Government for establishing legislation and regulations for the certification of Timor-Leste's wood industry-related businesses; (iii) training and sensitization of central- and municipal-level officials in these regulations, certification and monitoring;

Output 1.5 – Relevant and credible multi annual and costed Agro-Forestry sector strategy formulated and endorsed by stakeholders.

PSAF activities under this output will provide support to MAF to pave the way for a future SRC. In close coordination with World Bank (SAPIP), the programme will develop a Road Map for the SRC by formulating a relevant, credible multi annual and costed Agro-Forestry sector strategy to be broadly endorsed by stakeholders. The implementing agency will work at central level to improve planning, monitoring and budgeting. The activities under this output will link with current EU SRC in PFM and will improve procurement process at MAF.

The EU Delegation in Dili will pay particular attention to policy dialogue with the authorities on sector policy implementation taking into account agricultural/food security issues. This policy dialogue will be preferably held in the context of the Sector Donor Coordination chaired by EU. The policy dialogue is a key and essential element toward the design of a Road Map to SRC in Agriculture and at the same time EU will explore Government of Timor-Leste willingness of SRC in Road Sector.

Indicative activities: (i) sector policies review, (ii) assessments of regulations, policies and laws related to Timor-Leste's agro-forestry (iii) support planning and budgeting at central and municipal level, (iv) support training on procurement, (v) prepare a road map for SRC.

Output 2.1 – Improved market access, through rural roads being rehabilitated and maintained by local contractors, using labour based approached

Rural roads providing access to agro-forestry plantations, markets and public services selected in collaboration with GIZ, R4D and local communities will be rehabilitated by trained and certified small and medium sized contractors. The technical standards applied will be in conformity with the specified norms provided by NDRBFC and works will be executed using locally available resources including labour-based work methods. Particular attention will be paid to ensuring the roads are safe for all means of transportation, including bicycles. Local community groups, sub-contracted and managed by certified contractors, will provide maintenance of completed roads. Maintenance contracting will gradually be introduced to local administrations (Municipalities), provided the planned decentralisation process takes place. Particular attention will be paid to the beneficiaries (labour intensive work) targeting process: food and nutrition security will be seriously considered in the selection process.

Indicative activities: (i) carry out overall implementation plan and identify rural roads to be rehabilitated and/or maintained, (ii) Plan, program and implement rural road works in collaboration with GIZ and R4D and close association with central / local authorities on the procurement process (output 2.2) on construction and maintenance of public infrastructure (also to be linked to the current PFM SRC), (iii) develop and introduce community based road maintenance system, (iv) Carry out detailed assessment, design and prepare bidding documents, (v) Implement rehabilitation and maintenance contracts, (vi) develop a methodology/protocol for the targeting process.

Output 2.2 – Skills of construction companies and local authorities improved

The domestic construction sector in Timor-Leste is in its initial development phase. Although there are thousands of so-called ‘contractors’ registered, most of them are micro enterprises with little or no contracting capacity for civil works. Through the ERA project and other programmes (R4D, SEFOPE) a number of locally based construction firms have been introduced to and trained in the execution of labour-based rural road rehabilitation and maintenance contracts. However, these firms are neither sufficient in numbers nor have they yet a capacity to represent a sustainable rural infrastructure implementation capacity and a competitive private sector market. To provide reliable access to agro-forestry sites, markets, business centres and social institutions more small-scale contracting firms have to be trained and their performance sustained.

Indicative activities: (i) Establish and support Private Sector Development and Coordination Section within the Directorate of Roads Bridges and Flood Control, (ii) Carry out formal contract and business management courses, (iii) Carry out formal trial contract coaching and mentorship programmes, (iv) Raise awareness on public infrastructure management among local leaders, executives, agency staff and community representatives.

4.3 Intervention logic

The intervention logic is based on a 2-phased approach having a short/medium term dimension, supporting the agro-forestry sector during the 1st phase, thus possibly building the base for a longer term vision towards a solid agro-forestry and emerging forestry sector, benefitting specially smallholders, which could become a valid alternative towards the diversification of the currently oil-dependent economy. This time-phased approach will enable farmers to address multiple short-term objectives, whilst at the same time building diversified and climate resilient assets. Maintaining a “balance” between immediate and longer-term objectives will be achieved through a community-based approach to participatory land use planning (PLUP) which reflects communities’ objectives, their natural resource bases, and access to markets. The project will cooperate closely with the WB SAPIP on land use planning, and will work through civil society on land-related conflict mediation/resolution. In addition, land management issues will continuously be followed through policy and political dialogue.

PSAF will result in the development of sustainable, diversified and more profitable smallholder farms which: (i) are increasingly resilient to face climate change and capture carbon; (ii) grow more nutritious food; (iii) implement techniques to reduce soil degradation; (iv) generate increased incomes from diversified products; and (v) progressively accumulate national assets in the form of agro-forestry-based perennial tree crop plantations that contribute to the promotion of biodiversity and agrobiodiversity in agricultural landscapes. **Nutrition** will be earmarked in all capacity building activities and the programme will measure the impact on under-nutrition reduction at outcome level.

The rehabilitation and maintenance of rural roads will have an evident impact on market development agro-forestry products (wood and non-wood). It will improve rural communities' access to all other services (health, education) as well. At the same time it will allow building capacities of local construction companies and communities and increase incomes (through the high intensity labour works strategy).

There will be strong complementarity between the programme’s two main components (SO 1 – agroforestry production and SO 2 – rural roads) with the latter expected to be designed to service and support the former. Current access to parts of the programme area is difficult due to the bad road conditions and therefore it will be important to plan the two components together, and at the same time during the inception phase. Initially, access to training and communal nurseries will be highest priority for the supply of inputs, and once seedlings are ready for planting, access to villages for agriculture inputs will be required. Once the agroforestry areas become productive (relatively early for increased and possibly surplus food production, and after about six years for the early-maturing timber trees) access for small (4 Mt) trucks will be essential to transport grain and forest products.

It has been foreseen that the 1st phase will contribute to the preparation of the following SRC. PSAF will establish collaboration with World Bank (through the SAPIP programme) and FAO (through FIRST), the main partners which are pursuing the same objective: strengthening the MAF: planning, finance, management, M&E, procurements. Private sector development will be at the core of the 2 components of the programme.

Coordination among DPs is essential. Several programmes in the agriculture, fishery and forestry sectors will start in 2015-2016 and the Agriculture and Fisheries Development Partners' Group (AFDPG) as well as sub-sector technical working groups were recently established to strengthen sector coordination and foster policy dialogue, as well as to start to implement an effective division of labour. EU Delegation is chairing this group.

Geographical coverage The initial activities will most likely be in Manatuto, Viqueque, Baucau and Lautem districts in the east; Manufahi, Ainaro and Covalima in the south. These Municipalities have historically received less support on rural development and roads and their agro-ecological environment is suitable for agro-forestry activities. The baseline survey will eventually determine the exact geographical coverage of the PSAF project.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of the Annex to Regulation (EU) No 322/2015.

5.3 Implementation of the budget support component

N/A

5.4 Implementation modalities

5.4.1.1 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Mid-term review	Services	1	2018-Q1
Final evaluation (if deemed relevant)	Services	1	2021-Q2
Audit	Services	1	2021-Q4
Communication and visibility	Services	1	2018-Q1

5.4.1.2 Indirect management with a Member State agency

A part of this action may be implemented in indirect management with the GIZ of Germany in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of

Article 17 of the Annex to Regulation (EU) No 323/2015. This implementation entails all activities under result 1.1; 1.2; 1.3 and 1.4. This implementation is justified because GIZ has substantial previous relevant experience in supporting peace consolidation processes and rural development in Timor-Leste (including community agro-forestry projects and natural resource management) and vocational training specifically on TVET system at international level and in Timor-Leste, including in working with agriculture municipal officials on agriculture and forestry activities. Another important reason for this proposed partnership is that it offers the opportunity of improving synergies among development partners by implementing a joint project with German development cooperation, with a co-financing of 3.5MEURO from Germany.

The entrusted entity would carry out the following budget-implementation tasks: carrying out procurement and grant award procedures; awarding, signing and executing the resulting procurement contracts and grant contracts, notably accepting deliverables, carrying out payments and recovering the funds unduly paid.

GIZ will provide international expertise in land tenure, land management related issues and capacity building to support the implementation of all the activities related to agro-forestry and reforestation (technical assistance and management of budget implementation tasks). Part of the activities delegated to GIZ should be implemented through NGOs. GIZ could establish a partnership with the FAO to work on land management issues if the land law will approved and the Government of Timor-Leste will need specific support in defining the rules governing the community land demarcation.

5.4.1.3 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the International Labour Organisation (ILO) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of Regulation (EU) No 323/2015.

This implementation entails all activities under result 2.1 and 2.2. This implementation is justified because ILO has a long experience of working in Timor-Leste including successfully implementing the EU financed RDP4 road rehabilitation and maintenance component, which focussed on labour based road rehabilitation and private sector development. The evaluation of the previous EU Rural Development Programme (RDP4) showed substantive achievements in terms of quality and sustainability, as well as of social impact through the generation of employment and the strengthening of the capacities of local contractors in the poorer districts.

The entrusted entity would carry out the following budget-implementation tasks: carrying out procurement and grant award procedures; awarding, signing and executing the resulting procurement contracts and grant contracts, notably accepting deliverables, carrying out payments and recovering the funds unduly paid.

ILO will tender/supervise road construction/rehabilitation/ maintenance using and further consolidating trained companies, training and coaching capacity for supervision and maintenance systems developed under the EU-funded Enhancing Rural Access Programme, in cooperation with Ministry of Public Works / Ministry of State /local authorities.

The entrusted international organisations are currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of Regulation (EU) No 323/2015. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisations can be entrusted with budget-implementation tasks under indirect management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

Programme Components	EU contribution (in EUR million)	Indicative contribution (in EUR million)
5.4.1.2. – Indirect management with GIZ	13	3.5 (by BMZ)
5.4.1.3. – Indirect management with ILO	12	0.2 (by ILO)
5.9 – Evaluation,	0.4	
5.10 – Audit	0.1	
5.11 – Communication and visibility	0.3	
Contingencies	1.2	
Totals	27	3.7

5.7 Organisational set-up and responsibilities

A Programme Steering Committee (PSC) shall be set up to oversee and validate the overall direction and policy for the implementation of the programme. It would be made up of representatives of the beneficiary institutions/entities concerned (MAF, MPWTC), the National Authorising Officer (NAO) in the Ministry of Foreign Affairs and Cooperation and MAF, the EU Delegation, GIZ and ILO. The NAO and the EU Delegation will jointly co-chair the PSC. However, modalities and roles of PSC will be decided by representatives upon the signature of the financing agreement.

GIZ and MAF will be responsible for the SC secretariat. Other participants could be also included according to specific issues to be dealt with by the Steering Committee. The latter will meet every 12 months and ad hoc as might be required. It will be responsible for reviewing progress and achievements, reports as well as considering priorities and general principles for the Programme. It will specifically advise the programme management teams on proposals for opportunistic innovations that would allow for expanded sharing of data and knowledge in support of best practices; leveraging strategic and/or financing opportunities, if any; ascertaining the results and impact of its contributions as part of the overall monitoring and reporting system.

With regard to the agro-forestry (GIZ) and rural roads component (ILO), each implementing agencies will set up Programme Implementation Management Units (PIMU). These units will be established with the overall responsibility of coordinating, managing and implementing the project activities as described in this document. The PIMUs, with the responsibility of full and final delivery of programme objectives and result areas, shall have offices in municipalities or regions where the activities are implemented. Furthermore, the regional PIMU should be ideally located within the premises of respective competent regional authorities, as to avoid isolation and their detachment from national counterparts.

GIZ and ILO will organise at least quarterly meetings at Municipal or Regional level to quickly address possible bottlenecks and ensure a smooth implementation of the support. Each beneficiary

institution will nominate a focal point to attend those meetings, where the NAO and the EU Delegation will attend as observers.

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the indicative log frame matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

During the first two years of the Programme, a biannual external monitoring will be organised. It should be sourced under the contract for technical assistance to the NAO services, financed under 11th EDF EU – Timor-Leste Co-operation Support Facility (CSF) or from Communication/Visibility budget Line (chapter 5.11).

The baseline Survey will be undertaken by third parties and relevant budgets are to be including in the DAs with GIZ (e.g. ICRAF- World Agro-Forestry Sector) and ILO respectively. Targets in Appendix 1 (list of results indicators) might be revised according to the baselines surveys results.

5.9 Evaluation

The intervention logic of this programme is based on a 2-phased approach having a short/medium term dimension, supporting agro-forestry during the 1st phase thus possibly building the base for a longer term vision towards a forestry sector benefiting especially smallholders.

The first phase of approximately 30 months will be the object of a **mid-term evaluation** that will be carried out focusing to the adequacy of the intervention logic with the broader development of the forestry sector. The overall objective would be to assess overall progress and appropriateness of implementation, to reach meaningful conclusions and to recommend adaptations as necessary. During this mid-term evaluation, the intervention logic and the set of indicators will be reviewed.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in Q1 of 2018 and in the last quarter of the indicative implementation period.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in the third/fourth quarter of 2021.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above (under the contract with GIZ and ILO). Strong emphasis on communication, under the responsibility of highly skilled permanent specialists, has to be ensured by the management unit in coordination with the EU Delegation, the NAO, GIZ and ILO as the projects addresses political and social sensitive issues. The visibility of the action will also be ensured through the visibility service contract concluded under the EDF11 Cooperation Support Facility, which aims at implementing a coherent and coordinated visibility strategy for the overall EU-Timor-Leste cooperation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. (http://ec.europa.eu/europeaid/work/visibility/index_en.htm_en)

EU Delegation will manage directly a budget line in communication and visibility (reference to paragraph 5.1.1).

APPENDIX 1 - LIST OF RESULT INDICATORS¹¹

	Results chain	Indicators	Baselines (incl. reference year)	Targets ⁴ (incl. reference year)	Sources and means of verification	Assumption
Overall Objective: Impact	To contribute to a peaceful, inclusive and sustainable and climate-resilient development in Timor-Leste, through improved and safe rural access, the creation of employment, economic and domestic revenue opportunities, and a durable, climate-resilient reduction in food insecurity and malnutrition in rural areas.	1. Household income and expenditure survey (gender disaggregated)	1. 2017: Programme baseline	1. 20% more than the baseline	1. Programme baseline and end surveys	
		2. Number of youth employed along the agroforestry value chain (long-term jobs) ¹²	2. 2016: Programme baseline	2. 20% more than the baseline (both male and female)	2. MAF and programme records, Labour Force Survey ¹³	
		3. Number of youth related conflicts in target communities	3. 2016: Programme baseline, Belun data	3. 20 % of Conflicts less than baseline	3. Programme reporting, Belun monthly reports on conflicts in municipalities	
		4. Minimum Dietary Diversity Score in women * ¹⁴	4. 2017: national survey	4. 2021:targeted households consuming more than 5 food groups as increased by 20%	4. SDG goal DHS	
Specific Objective 1 (SO1)	To develop sustainable, market oriented, competitive, climate resilient and prosperous agro-forestry systems in order to increase employment and income in rural areas.	1.1 Area where agroforestry production techniques are implemented according to programme specifications.	1.1 2017: none	1.1 X + 6,000 ha area under agroforestry	1.1 MAF and programme records	MAF's new organic structure and staffing schedule remain stable until the next election (and beyond), and MAF stays committed to the programme's objectives throughout
		1.2 Number of Sucos that have adopted a (conflict sensitive and participatory) land use planning including agroforestry systems. **	1.2 2017: 0	1.2 2021: 40 Sucos (Suco = large community unit composed by villages); 4,000 households	1.2 MAF and programme records	

¹¹ Mark indicators aligned with the relevant programming document (NIP) mark with '*' and indicators aligned to the EU Results Framework with '**'.

¹² Related to SDG goal n° 1, indicator n° 56

¹³ Last Labour Force Survey has been conducted on 2013. Next survey will be conducted in 2018.

¹⁴ Related to SDG goal n° 2, indicator n° 12 (at National level)

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	Results chain	Indicators	Baselines (incl. reference year)	Targets ⁴ (incl. reference year)	Sources and means of verification	Assumption
		1.3 Number of men and women employed in off-farm activities related to agroforestry value chains (definition of employment to be determined during the inception phase).	1.3 2017: Programme baseline	1.3 ...more employment than baseline	1.3 Programme baseline and end surveys	implementation.
		1.4 Area planted to indigenous species**	1.4. 2017: 0	1.4 2020: 300 ha (100 ha/year in years 3-5)	1.4 MAF and programme records	
Specific Objective 2 (SO2)	To implement a capacity building and labour-based programme to rehabilitate and maintain climate-proof rural roads in order to improve safe access to the agro-forestry areas, employment and economic opportunities for local population.	2.1 Number of people benefiting from improved access to markets and social services due to rehabilitated/maintained roads under this programme	2.1. 2017: 0	2.1 2021: tbd after preliminary identification of roads to be rehabilitated	2.1 Census and programme records	National Government and municipalities are interested and allocate Government of Timor-Leste resources in maintaining rural roads leading to forestry plantations.
		2.2 Number of working days of employment provided (including youth and women) under labour-based road rehabilitation and maintenance programmes*	2.2. 2017: none	2.2. 300,000 working days of which 30% for women and 50% of unemployed youth in the targeted communities participate road works	2.2 Programme records	
		2.3 Number of contracts awarded by <u>Government</u> to companies trained under this programme for road rehabilitation and maintenance.	2.3 2017: 0	2.3 2021: 20	2.3 Programme records	
Output 1.1	Production and productivity of agroforestry systems is increased	1.1.1 Average yields in the targeted municipalities before and after the programme, of selected food and intercropping products (maize, soya bean, mung bean, ground nuts, vegetables, roots	1.1.1 2016: see MAF records	1.1.1 2020: 20% higher yields (production) compared to baseline,	1.1.1 MAF, programme records and DP progress reports	Farmers involvement and motivation to increase production remains consistent

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	Results chain	Indicators	Baselines (incl. reference year)	Targets ⁴ (incl. reference year)	Sources and means of verification	Assumption
		and tubers, and other crops that will be identified during the inception phase)* ¹⁵				during programme implementation.
		1.1.2 Efficiency in wood processing (sawn wood recovery using modern technology).	1.1.2 Sawn wood recovery of 15%	1.1.2 Sawn wood recovery improved to 35%	1.1.2 Programme documents	
		1.1.3 Number of tree seedlings produced - fruit trees, cash crop trees and commercial forest trees.	1.1.3 2017: 0	1.1.3 3,000,000 seedling number and types will be determined during inception phase	1.1.3 MAF/programme records	
Output 1.2	Capacity of beneficiaries along selected agro-forestry value chains are strengthened.	1.2.1 Regional Forestry Training Centre established in Natarbora (specific attention to soil conservation)	1.2.1 2017: none	1.2.1 2021: training and courses established in Natarbora	1.2.1 Programme and MAF records	
		1.2.2 Number of Ministry of Agriculture, extension officers, programme technical staff, NGOs, and lead farmers from target communities trained in all stages of the agroforestry value chain*,**	1.2.2 2017: 0	1.2.2 Number to be decided according to needs assessment during inception phase	1.2.2 MAF and programme record	
		1.2.3 Status of Adaptive agroforestry research programme (focused on a mixed local and introduced tree varieties).	1.2.3 2017: No programme	1.2.3 2018: established and functional research programme	1.2.3 MAF and programme report	
Output 1.3	Market access for specific agro-forestry value chains (agriculture, horticulture, and wood production and processing) is	1.3.1 Number of new agro-business enterprises established in the programme target areas.	1.3.1 2017: none	1.3.1 2021: 20 to 30% to be confirmed at inception phase	1.3.1 Programme record	Domestic and international markets for food, cash and tree products remain attractive to small investors
		1.3.2 Number of farmers trained on business management and marketing (women and men)	1.3.2 2017: 0	1.3.2 2021: 1000 to be confirmed at inception phase (at least 30% women)	1.3.2 Programme record	

¹⁵ Related to SDG n°2, indicator n° 13

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	Results chain	Indicators	Baselines (incl. reference year)	Targets ⁴ (incl. reference year)	Sources and means of verification	Assumption
	improved.	1.3.3 Volume of smallholder production that is marketed (wood and non-wood like maize, soya bean, mung bean, ground nuts, vegetables, roots and tubers and other crops).	1.3.3 2017: Programme baseline	1.3.3 2021: 25% more than the baseline	1.3.3 Programme record	
Output 1.4	Institutional and organisational framework for the promotion of agro-forestry is improved.	1.4.1 Community awareness of rights and obligations of Forest and Land Laws and able to solve related conflicts.	1.4.1 2017 Text of the forestry and land laws are available	1.4.1 2021 Laws, strategies, plans and regulation are known by beneficiaries	1.4.1 MAF's and Government records SDG goal	Government remains committed to passing and adopting new laws and legislation on Land and Forestry.
		1.4.2 Transparency of procedures for wood sector (tree ownership, wood product harvesting and processing) and agro-business creation.	1.4.2 2017: procedures not transparent (baseline survey)	1.4.2 2021: transaction costs reduced	1.4.2 Programme record	
		1.4.3 Status of stakeholder coordination mechanisms for agroforestry value chains.	1.4.3 2017: none	1.4.3 Cohesive Group of stakeholders Defined by the end of 2017	1.4.3 Programme record	
Output 1.5	Relevant and credible multi annual and costed Agro-Forestry sector strategy formulated and endorsed by stakeholders.	1.5.1 Quality of Agroforestry related Policies	1.5.1 - 2017 : Policies are poor quality	1.5.1 - 2018: Policies are relevant, credible multi annual, costed and well monitored	1.5 Endorsement of the related agro forestry sector policies by the Cabinet	SAPIP supports institutional reforms within MAF
Output 2.1	Improved market access, through rural roads being rehabilitated and maintained by local contractors, using labour based approach.	2.1.1 km of rural road to support the agroforestry production areas, rehabilitated/maintained under the programme *, **	2.1.1 2016: none	2.1.1 2020: 60 km	2.1.1 MPW statistics, contractor records, MAP and Programme records	National Government and municipalities are interested and allocate Government of Timor-Leste resources in maintaining rural roads leading to
Output	Skills of construction	2.2.1 Number of certificates issued by	2.2.1 2017: 0	2.2.1 2020: 400	2.2.1 Training records	

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	Results chain	Indicators	Baselines (incl. reference year)	Targets ⁴ (incl. reference year)	Sources and means of verification	Assumption
2.2	companies and local authorities improved.	training providers to contractors staff and Government supervisors			from training providers, Programme Reports	forestry plantations number of companies will apply for the training and local authorities will release staff for training
		2.2.2 Percentage of companies that integrate HIMO Standard targeting (accounted to food and nutrition security)	2.2.2 2017: programme record	2.2.2 2021 : 100%	2.2.2 Programme record	
		2.2.3 No of Municipal officials and village leaders actively managing roads and maintenance according to set criteria, notably through transparent procurement processes for attribution of works	2.2.3 2017: 0	2.2.3 2020: 40	2.2.3 Programme Reports	

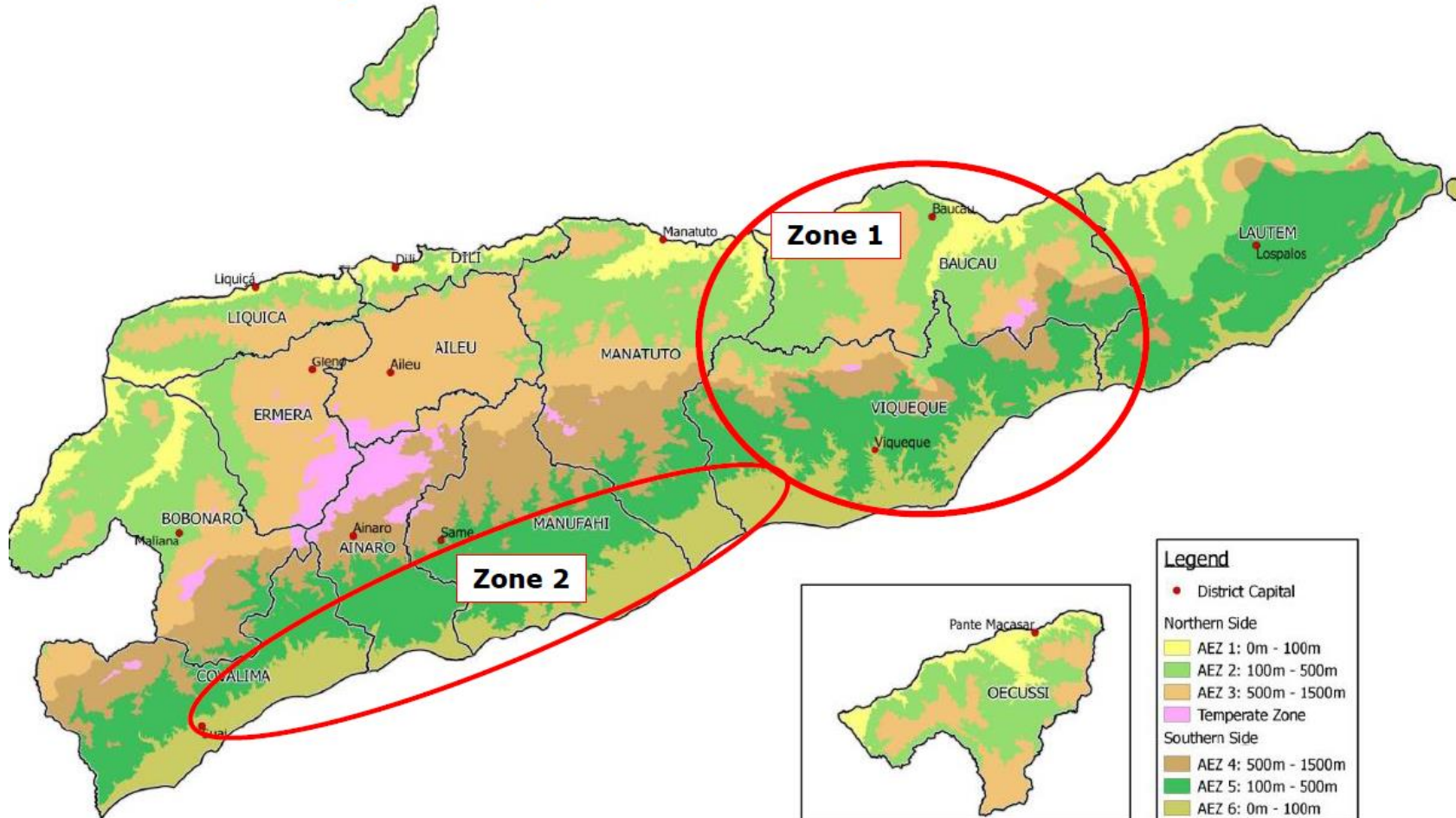
LIST OF ACRONYMS

ACIAR	Australia Centre for International Research
ACP	African Caribbean and Pacific Group of States
AFDPG	Agriculture and Fisheries Development Partners' Group
ASEAN	Association of Southeast Asian Nations
B4LIFE	Biodiversity for Life Initiative
BMZ	German Federal Ministry for Economic Cooperation and Development
C	Carbon
CBD	Convention on Biological Diversity
CGIAR	Consultative Group on International Agriculture Research
CSF	Co-operation Support Facility
DAC	Development Assistance Committee
DHS	Demographic and Health Surveys
DP-AFWG	Donor Partners-Agriculture and Fisheries Working Group
DPs	Development Partners
EDF	European Development Fund
ERA	Enhancing Rural Access
EU	European Union
FAO	Food and Agriculture Organization
FIRST	Food and Nutrition Security Impact, Resilience, Sustainability, Transformation Programme
FLEGT	Forest Law Enforcement, Governance and Trade.
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Aid Agency)
GPGC	Global Public Goods Challenges
HIMO	Haute Intensité de Main d'oeuvre
IADE	Instituto de Apoio ao Desenvolvimento Emprezarial
ICRAF	World Agroforestry Centre
IFP	Investment Facility for the Pacific
ILO	International Labour Organization
IMF	International Monetary Fund
INDMO	National Institute for Labour Force Development
IWSM	Integrated Watershed Management
JICA	Japan International Cooperation Agency
KONSSANTIL	The National Council of Food Security, Sovereignty and Nutrition for Timor-Leste (Konsellu Nasional Seguransa, Soberania Ai-han no Nutrisaun Timor-Leste)
MAF	Ministry of Agriculture and Fisheries
MAF SDP	MAF's Strategic Development Plan
M&E	Monitoring and Evaluation
MIRT	MAF Institutional Reform and Transformation
MPWTC	Ministry of Public Works, Transport and Communications
Mt	Metric Tonne = 1,000 kg
NAO	National Authorising Officer
NDRBFC	National Directorate of Roads, Bridges and Flood Control
NIP	National Indicative Programme
NSA-LA	Non State Actor – Local Authorities
PFM	Public Finance Management

PFMO	Public Finance Management Oversight
PIMU	Programme Implementation Management Unit
PLUP	Participatory Land Use Planning
PSAF	Partnership for Sustainable Agro-forestry
PSC	Programme Steering Committee
PSGs	Peacebuilding and State Building Goals
R4D	Road for Development
RDP IV	Rural Development Program Phase IV – EU funded
REDD	Reducing Emissions from Deforestation and Forest Degradation
RRMP	Rural Road Master Plan
SAPIP	Sustainable Agriculture Productivity Improvement Program
SDG	Sustainable Development Goal
SDP	Strategic Development Plan
SEPFOP	Secretariat of State for Professional Training and Employment Policy
SO	Specific Objective
SoL	Seeds of Life
SME	Small and Medium Enterprises
SRC	Sector Reform Contract
TOMAK	Farming for Prosperity project
TVET	Technical and Vocational Education Programme
UN	United Nations
USAID	United States Agency for International Development
AVANSA	USAID's Integrated Food Security, Climate Change Adaptation, and Private Sector Competitiveness
WB	World Bank

Programme Areas

- **Zone 1** - roads and agroforestry intervention
- **Zone 2** – agroforestry intervention





This action is funded by the European Union

Action Document for the

EU – Timor-Leste “Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)”

1. Title/basic act/ CRIS number	EU – Timor-Leste “Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)” – CRIS number: FED/2015/37957 - Financed under the European Development Fund			
2. Zone benefiting from the action / location	Timor-Leste The action shall be carried out at the following location: Timor-Leste			
3. Programming document	Democratic Republic of Timor-Leste - European Union National Indicative Programme for the period 2014-2020 (11 th EDF)			
4. Sector of concentration	NIP Focal Sector 1 - Good Governance			
5. Amounts concerned	Total estimated cost: EUR 30.6 Million Total amount of EDF contribution EUR 30 Million of which (indicatively): <ul style="list-style-type: none"> • EUR 15 Million for budget support and • EUR 12 Million for complementary support. This action is co-financed by: <ul style="list-style-type: none"> • Portugal (Camões - Instituto da Cooperação e da Língua, I.P. [Camões I.P.]) for an amount of EUR 0.6 Million (5% of the Delegation Agreement set as EUR 12 Million) 			
6. Aid modalities and implementation modalities	Budget Support <ul style="list-style-type: none"> o Direct management – Budget Support (Sector Reform Contract) o Direct management – Services o Indirect management with Camões I.P. 			
7. a) DAC codes	Main DAC code: 151 (Government and civil society) 100% Sub-code 15110: Public sector policy and administrative management 4% Sub-code 15111: Public finance management 50% Sub-code 15113: Anti-corruption organisations and institutions 16% Sub-code 15150: Democratic participation and civil society 6,5% Sub-code 15152: Legislatures and political parties 8,5% Sub-code 15153: Media and free flow of information 5%			
b) Main Delivery channel	Channel 1: Recipient Government (Democratic Republic of Timor-Leste) 12000 Channel 2: Third Country Government (Delegated co-operation to Portugal) 13000			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Flagship 6: EU Resource Transparency Initiative (EURTI) Flagship 10: Domestic Revenue Mobilisation Initiative for Inclusive Growth and Development			

SUMMARY

The overall objective of the proposed EU – Timor-Leste “**Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO)**”, is to improve sustainable development in Timor-Leste through enhanced effectiveness, integrity, transparency, accountability and citizen-orientation of public service delivery in Timor-Leste, in line with the national Strategic Development Plan 2011-2030 (SDP). Its specific objective is to strengthen the planning, management, auditing, monitoring, accountability and oversight of the use of public finances for a better delivery of public services.

It will be implemented over a period of 5 years (2017-2021) and focus on two main components:

1. Strengthening the effectiveness, integrity, transparency, accountability, citizen-orientation and control of **public finance management** (PFM) in order to improve the implementation of fiscal and development policies;
2. Enhancing the **checks and balances’ capacity of state and non-state actors** (mainly the National Parliament, Office of the Inspector General, Chamber of Accounts, Anti-Corruption Commission, Scientific Police for Criminal Investigation, Media and Civil Society Organizations) so that they can fully play their role of checking/monitoring policies and thus actively participating in the policy-making process as well as providing regular oversight and control of the delivery of Government services – while informing citizens about it.

The programme’s strategy is to enhance capacity and to promote dialogue and mutual understanding among different actors, within the state and with non-state organisations, toward a common objective of having better managed public finance and more coherent development policies, resulting in improved services delivered to the citizens. The programme will be delivered through a combination of i) **budget support** to assist the Ministry of Finance's ongoing implementation of PFM reforms and ii) **capacity development** to the above-mentioned state and non-state institutions in partnership with *Camões - Instituto da Cooperação e da Língua* (Camões I.P.), particularly thanks to “institution-to-institution” cooperation. There will be a strong emphasis on on-the-job coaching / mentoring, training of trainers (men and women) and strengthening public training institutions (rather than technical assistance performing some functions of the institution) to ensure a gradual transfer of competences and full sustainability at the end of the programme. Gender-balanced participation in training as well as gender sensitive planning and policy will be promoted.

1. CONTEXT

1.1. Sector/Country context

Timor-Leste has made considerable progress in just over a decade in establishing and consolidating the institutional framework to strengthen its public finances, as well as economic and democratic governance. Checks and balances are provided in the constitutional and legislative framework. Independent oversight of government activities and performance is vested in a number of institutions/organisations such as the National Parliament, the *Câmara de Contas* (Chamber of Accounts), the Anti-Corruption Commission (CAC), the Office of the Inspector-General, the Ombudsman, etc. Improved compliance with court decisions and other oversight institutions has been reported; and important efforts have been made – led by the CAC and the Prosecution Office – to investigate and prosecute in public trials allegations of mismanagement and corruption by public officials and civil servants. The National Parliament, Civil Society Organizations and the Media are playing an important role in the annual discussions about the State Account and with the respective opinion and report presented by the Chamber of Accounts, as well as budget discussions. The country has shown a strong commitment to implement relevant PFM reforms and increase budget transparency, with positive progress reported in different external assessments.

Nevertheless, capacity development remains a significant challenge to ensure fully functional and effective state institutions, which still rely on international staff to do line-function work, with limited time or effort placed on skills transfer and capacity development of the national counterparts. The Government recently approved new regulations to frame the recruitment, the implementation and the monitoring of technical assistance benefiting line Ministries in order to ensure full ownership, effectiveness, impact and sustainability of this type of assistance. In addition, the effectiveness of budget allocations and the quality of budget spending has been increasingly questioned by checks and balances institutions. There is still no national/sectoral multi-annual Monitoring Framework to report on the gradual achievement of the objectives of the SDP. This results in a weak performance accountability framework for the use of public finances as acknowledged by the new Government. The Government has also acknowledged the need to enhance the quality of public spending to foster quality, sustainable and inclusive growth, especially in light of rapidly declining oil revenues, which peaked in 2012 are expected to end during the next decade. A sustainable path of public expenditure should thus be established in order to avoid rapidly depleting the Petroleum Fund. In this context, 2016 budget focus is more on mega infrastructure projects than on social sectors: Budget allocations in Health and Education have decreased, compared to 2015. The strategy of diversification of the Economy seems to lag behind: the budgeted public expenditures in Agriculture have decreased in 2016, compared to 2015.

1.1.1. Public Policy Assessment and EU Policy Framework

The main priority policies and strategies supported by the programme are:

The **Strategic Development Plan 2011-2030** (SDP) that identifies as a key pillar for the social and economic development of Timor-Leste, the strengthening of its institutional framework. The SDP outlines that only through the development of transparent, accountable and competent institutions the country can achieve stability, security, rule of law enforcement and access to justice for all citizens. The first phase of the SDP (2011-2015) requires a review of targets achieved and lessons learnt. This Monitoring and Evaluation is led by the Prime Minister Office, with the support of the EUD, across all Line Ministries.

Underpinning the SDP, the **Justice Sector Strategic Plan for Timor-Leste 2011-2030** (JSSP) stresses as one of the key principles that justice institutions and its individual members should be held accountable for their acts and for the use of State Public resources, while it also emphasises that transparency of administrative acts and access to information are crucial pre-requisites for the effective accountability of public powers.

The main policy to be supported through this budget support programme is The Ministry of Finance (MoF)'s **Strategic Plan for 2011-2030**, and the rolling **5-year operational plans, which focus largely on the continued strengthening of public finance management**. The PFM reform strategy is geared towards strengthening MoF capacities in the first place. This will enable proper financial management across line management under the technical guidance of a more able, fitted and highly competent MoF. In that regard, it is aimed towards the achievement of five general objectives: a) Making budget formulation more strategic by linking policies and priorities with budgeting and the Medium-Term Expenditure Framework (MTEF); b) Making the budget credible and results oriented for better service delivery; c) Improving budget execution and reporting; d) Capacity Building of the workforce, and e) Accountability for results (M&E). Based on the rolling 5-year Operational Plan, Annual Action Plans and key performance indicators (KPIs) have been adopted since 2013, to monitor the performance of each MoF Unit in achieving the Plans' objectives. DPs actively involved in the sector (Australia, EU, World Bank) have been invited to participate in the MoF Coordination Council for Financial Management (internal senior management meeting). MoF is well resourced to implement the PFM Reform Agenda as it has been getting additional funding for hiring technical assistance, thanks to Australia and EU budget support. Nevertheless the PFM Reform led by MoF does not integrate all the aspects and actors related to PFM reforms (Fiscal Reform Commission, Chamber of Audit, National Parliament, Anti-Corruption Commission, Inspectorate General, Prime Minister's Unit for Planning and Monitoring, etc) and there is at present no PFM working group gathering all these institutions to ensure a fully coordinated and coherent implementation of an integrated PFM reform. Thus this EU – Timor-

Leste partnership includes a heavy capacity building component to support these PFM-related institutions and aims at facilitating the coordination of all PFM reforms.

Moreover, the **Program of the VI Constitutional Government (2015-2017 Legislature)** points out 4 main objectives such as: 1) Social development, in which the government assumes that in order to assure social and economic development of Timor-Leste it is necessary to improve the professional qualifications of its citizens; 2) Infrastructure developments; 3) Economic development, in which the government recognises the importance of decentralisation policies to strengthen local democratic participation and support economic development; 4) Governance development, where recognises that reform is needed in several areas such as management and leadership, systems and procedures, administration, accounting and finance, budget execution and procurement, knowledge and document management, and strategic planning and monitoring. The Government is giving more emphasis to work closely with Civil Society organisations, the Media and Timorese citizens in general to better strengthen democracy and assure the national interests. The recently established **Social Audit Unit** under the PM's Cabinet is aimed at promoting dialogue and a participative approach to national development – from policy development to implementation, monitoring and evaluation – with a view to improving service delivery to the Timorese people.

The EU – Timor-Leste **National Indicative Programme for the period 2014-2020** defined two main sectors of cooperation: 1) Good governance – throughout capacity building of state institutions and civil society to increase the effectiveness, transparency, accountability and participatory-nature of the government's service delivery to the populations, including through strengthened public finance management; and 2) Rural development. As stated in the NIP and the conclusions of the 2016 Political Dialogue, a crucial aspect of EU – Timor-Leste cooperation, including through policy and political dialogue, will be to strengthen the planning, budgeting, implementation, monitoring and evaluation of public service delivery. The NIP is in line with the EU Agenda for Change by centring its actions on the support and promotion of democracy, human rights and the rule of law, gender equality, civil society and local authorities, public-sector management, corruption, tax policy and administration. PALOP – Timor-Leste provided complementary support of a crosscutting nature to the NIP. All actions of PALOP – Timor-Leste contribute towards the objective of promoting employment and building governance capacity into the PALOP – Timor-Leste economy.

Under the 10th EDF, the EU has confirmed its commitment to the New Deal approach by pioneering with Australia the use of budget support (sector reform contract to start in mid-2014) to support public finance management (PFM) reforms (EUR 4 million), in recognition of Timor-Leste's impressive progress in strengthening governance, establishing well-designed national and sector development strategies, and implementing stability-oriented macroeconomic policies and PFM reforms. Budget support is a means of delivering better aid and achieving sustainable development objectives by fostering Timor-Leste's ownership of development policies and reforms. Not only is this approach fully in line with the implementation of the New Deal, strongly pushed by the Government of Timor-Leste, but this enables EU – Timor-Leste cooperation partnership to evolve from a project-type approach to a genuine sector policy partnership.

The EU made a positive and constructive contribution to the development of the 2030 Agenda for Sustainable Development. At the core of the Agenda are the SDGs, but there are also important elements on the Means of Implementation and Follow-Up and Review. The EU plays a leading role as we move into the implementation of this ambitious, transformative and universal Agenda that delivers poverty eradication and sustainable development for all. When National Parliament of Timor-Leste adopted the SDGs in September 2015 the Government of Timor-Leste moved to establish a national level SDG Working Group comprised of all Government agencies and directorates and representing all line ministries. This group is working on the SDG implementation strategy of Timor-Leste, aligning the SDGs with the Strategic Development Plan 2011-2030 and developing a national SDG monitoring tool.

1.1.2. Stakeholder analysis

The main potential stakeholders targeted by this programme were involved in the formulation process in

order to assess their needs and to define in a participatory way the strategy to adopt. A rapid functional review of each institution was undertaken during the formulation phase to support this process. The Ministry of Finance will be more involved in the Public Finance Management component, whereas the others play a great role in the field of oversight:

Ministry of Finance (MoF): has benefited from substantial external support to capacitate its staff and implement PFM reforms but it still relies on technical assistance to perform its work. However, there is a growing cadre of very capable and motivated professionals leading reforms and decision-making. Strong leadership, increased internal capacity and a solid performance monitoring framework has effectively supported a gradual improvement of PFM in the Ministry and across Government. This encouraged Australia and the EU to provide budget support to the Ministry to support PFM reforms. The Ministry of Finance also established a Public Financial Management Capacity Building Centre which tested in 2015 over 1000 civil servants (from all government agencies) in core PFM competency areas and is currently drafting training materials and curriculum to match the PFM training needs to the training available through the centre.

National Parliament (NP): According to the 10th EDF MTR of the Support to Democratic Governance, the NP has improved the way it functions as a result of mentoring and training provided under this programme¹. However, both Members of Parliament and staff still need support in executing the oversight function of Parliament as such action is often focused on budget execution and physical progress rather than on overall policy, programme performance or scrutiny of value for money. Budget oversight has improved but it is still too reliant on international advisors. Moreover, several weaknesses persist, namely with regards to Human Resources, IT, archiving, transcription, legal drafting and analysis, legal research data collection and analysis especially in key sectors, budget and public expenditure analysis, financial control and procurement, and linguistics.

Chamber of Accounts (CoA): a critical institution for effective public finance management and a key element on any national PFM, accountability, transparency and anti-corruption strategies. The CoA (to be integrated in the future HATAC - High Administrative Tax and Audit Court, which is still to be created as foreseen in the Constitution and the JSSP 2011-2030) received substantial mentoring and training under the 10th EDF Governance programme which has been crucial in enabling the judges and auditors to perform their tasks, particularly in producing the first Opinion and Report about the annual State Accounts presented to NP as well as several audit reports. However, further capacity development is needed to ensure full independence and technical autonomy.

Anti-Corruption Commission (CAC): mandated, among others, to undertake preventive action and criminal investigation action against corruption in any of its forms, embezzlement and financial participation in public affairs. It was established by law in 2009. However, it has been operating in a legal vacuum as the Anti-Corruption Law has not yet been approved: the Law should pass through the National Parliament in autumn 2016. It presents several fragilities on the implementation of its activities, especially specific technical unpreparedness of the technicians already playing functions and leading investigations and evidence collection. On another note, the recruitment of over 10 researchers is currently being finalised and it is of utmost importance that these will receive initial specific training appropriated to the functions each will develop.

Scientific Police for Criminal Investigation (PCIC): established by law in May 2014 to assist judicial authorities to develop and promote actions for prevention, detection and investigation within its jurisdiction or which is committed by competent judicial authorities, as well as to ensure centralisation of national criminal information and respective operational coordination and international police cooperation. Under the 10th EDF Governance programme, personnel were trained during eight months in specialised institutions in Portugal followed by a two-year internship in Timor-Leste. The National Director, 47 investigators and 31 experts, were sworn into their roles in February 2015. This very young institution needs further support to conduct its first official investigations namely with regards to

¹ There has been an improvement in the quality of laws in 2013 and 2014, and an increase in the quantity and quality of reports on oversight field visits, public audiences and budget execution discussions; there has been an increase in the number of requests from Parliamentary commissions to the Government for specific information on budget execution, and in the number of audit reports from the Chamber of Accounts that were sent to the NP for analysis and deliberation.

criminal investigation, cyber-crime, documentation forgery, counterfeiting of currency, fiscal fraud, etc.

Office of the Inspector General of State (OIG): it has the competence to supervise the activities of the government and control the legality of public expenditure and the proper use of financial, material and human resources; monitoring efficiency, productivity and leading the fight against corruption in the Public Administration in Timor-Leste. Therefore it is responsible for the implementation of independent audits and investigations in order to contribute in creating an environment of transparency and accountability. Its achievements are reflected in the number of control works undertaken in the Government including: investigations, inspections and audits that have been carried out at the national level despite the difficult condition of lack of skilled human resources, still achieving major achievements in the fight against corruption in order to improve the management of the government. Its main identified weaknesses are related to capacity on: legal and financial mechanisms, legal analysis and procedures, and linguistics – with particular focus on Portuguese - report drafting.

Public Prosecutor's Office (PPO): the Attorney General is the highest authority within the Public Prosecutor's Office (*Ministério Público*) in matters of public prosecution and includes the Attorney General, the Deputy Attorney General, the Superior Council of the Public Ministry and the Technical and Administrative Support Services. Its staff (prosecutors and technicians) still needs specific technical preparation/training, in particular concerning its capacity to analyse and follow-up CoA's reports. Moreover, it is still unable of prosecuting following the criminal investigation reports presented by CAC, allegedly because of the shortcomings of these reports and due to the limited knowledge of the prosecutors and officials of the Prosecutor's Office in matters related to crimes of economic and financial nature and its investigation.

Media: The media sector in Timor-Leste is characterised by the existence of many news organisations (several daily/weekly newspapers and radio stations). In spite of the training courses provided under the 10th EDF good governance programme to increase their professional skills, journalists and news organisations in general still need further reinforcement, in order to contribute for the good accountability of the public powers through the dissemination of accurate information to the public. The Secretary of State for Media (SSM) is the governmental department responsible for the media sector having focused much of its action in the development of the regulatory framework resulting in the Media Law.^o 5 /2014 and, more recently, the Press Council Statute. SSM still faces constraints in terms of qualified legal technical staff and in facilitating the strengthening of journalists' professional skills and ethics.

Civil Society Organisations (CSOs): play an important role to hold the government, the parliamentary representatives and the public officials accountable for the use of public funds to effectively deliver services to the citizens, as recently reaffirmed by the Prime Minister in his most recent speeches. A number of CSOs have been increasingly involved in providing information and debating with Parliament on Government policies, planning, budgeting and performance, yet further capacity building is still needed. The recently established Social Audit Unit (approved on 19th November 2014) within the Cabinet of the Prime Minister represents an important entry point for improved dialogue among state and non-state actors but, as a very young institution tasked to implement a new initiative, it requires technical guidance and capacity to fulfil its mandate. A Social Audit NGO Network (RENAS) was established in 2015 within the structure of the NGO Umbrella Organisation FUNGTIL and will also need considerable support to develop and implement the Social Audit initiative.

Training providers: in particular the **Legal Training Centre (LTC)** - the technical body under the Ministry of Justice, responsible for training and research in the areas of justice and law), the **PFM Training Centre** and the **National Institute of Public Administration (INAP)** - for the capacity building of public officers). LTC aims to carry out technical-legal, linguistic and professional training of magistrates (judges and prosecutors), public defenders and other officials of justice, with a view to contributing to the good administration of justice and improving the knowledge and practice of law. Although it could be used in the training of public officers, its curricula still need to be further developed - in specific legal specialisations - as well as its language trainings. Furthermore, it still relies on international trainers to provide the training courses. There are several universities in Timor-Leste, although UNTL is the only one with recognised capacities making it a natural partner for capacity

building of public officers. It holds some protocols with the LTC and INAP, but needs to be strengthened and to envisage the inclusion of specialised course within the department of Social Communication and of Law. Finally, as mentioned above, significant progress has been achieved in terms of establishing a high quality PFM training centre – the PFMCBC within the Ministry of Finance and this will be the focal point for all PFM related training in the future.

1.1.3. Priority areas for support / problem analysis

While significant progress has already been achieved to build and support state institutions, the Government recognises that further efforts are needed to strengthen the effectiveness and efficiency of public service delivery to the population, men and women, in a context of a very high dependence on rapidly declining oil revenues. In this regard, PFM reforms and the monitoring of Government performance were identified as key strategic priorities by the new Government. As noted above, some key issues which need to be addressed in this context relate to the limited capacities of young institutions, the lack of a national/sectoral monitoring framework which limits performance accountability, the lack of an integrated PFM reform strategy covering all PFM aspects and actors, and the need to ensure fiscal sustainability. There is therefore a need for further support to reinforce, institutionalise and fully implement PFM reforms with a special focus on domestic revenue mobilisation (including fiscal policy), fiscal decentralisation, internal audit, procurement, budget transparency and the continued roll-out of PFM reforms to line ministries, as well as to capacitate relevant state and non-state institutions which play an important role in overseeing the use of public finances to effectively deliver public services and ultimately achieve the SDP goals.

The above-mentioned institutional assessment made on the relevant national checks and balances institutions showed critical constraints in terms of human resources specifically with regards to their capacity to oversee the allocation, management and use of public resources for an effective delivery of public services. Main identified weaknesses are transversal to all institutions and lay in areas related to administration (i.e. archiving, transcription, IT), legal matters (i.e. legal research, drafting and analysis), financial issues (i.e. data collection and analysis, budget and public expenditure/procurement oversight, and reporting); linguistics – especially Portuguese - that does not allow for the adequate understanding of official documents drafted in Portuguese or the active participation in the democratic decision-making processes. The MoF PFMCBC testing against PFM Competency Standards has confirmed the low level of capacity of many staff in line agencies (especially with regard to numeracy skills as well as payment and procurement procedures), providing the basis for effective targeting of training and development activities.

1.2. Other areas of assessment

1.2.1. Fundamental values

Timor-Leste as a young nation-state has achieved significant outcomes in building a stable democracy and strengthening human rights and the rule of Law. Elections in Timor-Leste have been judged as free and fair. There is a relatively good governance framework that gives space for an active civil society and diversity of the Media. Timor-Leste's constitutional framework guarantees the protection of personal, economic, social and cultural rights and other fundamental freedoms. Key secondary legislation to ensure the exercise and protection of these fundamental rights has been adopted (e.g. Penal Code, Criminal Procedure Code, Law Against Domestic Violence, Law for the Protection of Witnesses, etc.) and other legislation is being contemplated namely in the areas of child protection, human trafficking and access to justice.

The centralised decision-making adopted by the former Prime Minister was crucial in ensuring stability. The focus is now shifting to fully capacitate the state institutions to fulfil their mandate in the framework of the separation of powers between the executive, legislative and judiciary branches. The Government has embarked in an "administrative pre-deconcentration" process, which is progressing slowly. The Government has also favoured reconciliation with Indonesia over concerns regarding the impunity for past serious crimes committed during Indonesian occupation. Access to formal justice is still very difficult for local communities in remote areas and traditional justice is still used for conflict

resolution. Constraints in terms of shortages and language skills (Portuguese is the main language used in the judicial system) of judicial staff, the slowness of the process and the high level of pending cases also contribute to a lack of trust in the judicial system.

1.2.2. Macroeconomic policy

Timor-Leste is now considered a low middle-income country with estimated non-oil GDP per capita of US\$ 1,283 (WB, 2015). The economy is very dependent on natural resources with oil Revenue accounting for about 50% of GDP and up to 90% of Government revenues. The Government established a Petroleum Fund (PF) which reached a balance of US\$ 16.5 billion by the end of 2015. Government spending fuelled by oil revenues has driven rapid non-oil real GDP double-digit growth over the period 2008-2012 but non-oil growth decreased in recent years (5.5% in 2014, 4.3% in 2015)². The non-oil trade deficit expanded rapidly between 2007 and 2015 with imports (electrical equipment, fuel, iron, rice, water, cement, etc.) substantially exceeding exports (mainly coffee). Trade Balance is US\$ -764 million in 2015, similar to 2014. Despite recent concessional borrowings to international development agencies, Timor-Leste continues for the moment to show a low risk of debt stress for the moment. Consumer price rises have slowed significantly since 2013. The inflation in 2015 was 0.6% (WB). The IMF considers that the use of the US dollar, adopted as the official currency in 2000, remains appropriate given the limited capacity for independent monetary and exchange rate policies, and the denomination of the oil economy in US dollars.

The period of high growth was characterised by a heavy dependence of the economy on Government spending, high inflation, a loss of competitiveness, and weak employment generation, as the contribution from labour intensive sectors such as agriculture and manufacturing has been limited. The quality and economic return of large infrastructure projects has also been questioned and maintenance and investment-related recurrent costs remain a challenge. The economy continues to face important sustainable development and structural challenges notably high youth unemployment, high malnutrition rates and income inequality.

The Government is committed to a transparent and accountable fiscal framework that has allowed oil revenues to be saved through the PF. The Government has also recently taken important steps to ensure fiscal discipline and it approved a prudent and strict policy for international loans. Although the Government is committed to fiscal sustainability with the establishment of an Estimated Sustainable Income (funds which can be withdrawn from the PF without depleting it over time), the Government has adopted a frontloading policy approach for major capital projects with withdrawals well in excess of the ESI based on their expected economic returns. In accordance with the last published IMF Article IV conclusions and as noted in the swearing-in speech of the current Prime Minister, the main current challenges in relation to the macroeconomic framework are: (i) fall in oil prices, declining oil production and uncertainty about the development of a major new oil field, which call for the need to urgently increase non-oil revenues and ensure fiscal sustainability; (ii) the need to focus Government expenditures on social and productive sectors as well as to enhance the effectiveness and efficiency of public service delivery in order to support private sector development, economic diversification and a higher quality and inclusiveness of growth; and (iii) the need to establish a solid financial system.

1.2.3. Public Financial Management (PFM)

There is a very strong commitment by the Government to strengthening PFM systems and improving transparency, accountability and effectiveness in the use of public funds, so that it can deliver on the economic and development goals set in the country's SDP. Please refer to the description of the PFM Reform strategy in section 1.1.1. The PFM Reform agenda pursued by the Government is considered highly relevant, credible, and successive PEFA assessments as well as bi-annual independent assessments have shown good progress in implementing these reforms. The rolling out of Annual Action Plans with Key Performance Indicators started in 2013 and is progressing well up to now, and there is an ongoing effort of simplification and prioritisation of KPIs within the MoF. The change in Government in February 2015 caused some political uncertainty thus resulting in delays in the approval

² World Bank Estimates

of key fiscal management reforms and PFM-related legislation notably in the areas of procurement, taxation and internal financial controls, but these reforms are now actively pursued again.

An EU-funded PFM assessment made by an independent consultant, as part of the April 2015 Joint Performance Monitoring Mission (JPMM), concluded that the PFM reforms showed solid progress in a range of key areas within MoF, external audit and legislative scrutiny. A rapid PEFA assessment was performed in 2015 to provide an update on the PFM performance since the last PEFA review (2013) and the results indicate that PFM has improved steadily in several dimensions.

Progress was revealed in areas such as macro-fiscal policy analysis, taxpayer re-registration, establishing of the Treasury Single Account, settling of payments through banking systems, testing of ASYCUDA World and FMIS/GRP modules such as purchase orders and contractor management, internal audit, the implementation of examinations for all Government officials involved in PFM in order to establish a training needs assessment baseline, etc. Capacity building within the Customs and Revenue Directorates has progressed slowly but steadily thus placing growth of domestic revenues in a sustained basis. Efforts will continue towards establishing district treasuries as part of the fiscal decentralisation process and that focus would shift more towards building core PFM capacities within line ministries over the next five years. The independent review also assessed the reporting of performance information, asset management and public investment management, and revenue planning, budgeting and accounting. It concluded that all capacities are either quite deficient or, for the most part, lacking in line management. Similar conclusions were made in a recent Public Expenditure Review (PER) carried out in three main economic infrastructure sectors by World Bank and MoF in 2014.

The independent review noted that performance of PFM can be further optimised as long as weaknesses are addressed in a more coordinated manner. Performance of PFM still reveals low capacities in certain key areas and the lack of mutually agreeable results targets and performance indicators within a range of PFM institutions is not enabling PFM to operate fully - these include budgeting and planning, financial planning and programming, results monitoring and performance-based payment authorisations. Deficiencies prevail within the Civil Service Commission (CVC) and the National Procurement Commission (NPC).

1.2.4. Transparency and oversight of the budget

In general, Timor-Leste has made solid progress in strengthening PFM and achieving budget transparency over recent years. The Budget has been published in all recent years on the Government website.

The PFM reform strategy is formulated so as to improve planning and budgeting and the scope and frequency of reporting which will serve to better measure performance and hold public officers accountable of institutional results. It started with MoF and is intended to establish a human capital management performance culture in other PFM institutions and line agencies. The Government is also committed to sustain improvements in fiscal discipline supported by clear institutional rules and accountability for performance and adopt program-oriented budget management that underpins performance and service delivery.

The last PFM review mission concluded that reforms in budget transparency and oversight of the budget have progressed satisfactorily, in light of the Government's strong commitment and good progress in gradually improving budget transparency and oversight. A Transparency Portal, which enables citizens with internet connection to access Government financial information, is regularly updated. A citizen budget was produced and published in 2014. Budget documentation is overall very comprehensive. Capacity of the Chamber of Accounts (CoA) has increased, notably with EU support. The CoA prepared their second audit report on the Government Annual Financial Statements (State Account). Although there are still some weaknesses in the analysis performed, a more comprehensive and insightful audit report is now being produced. The Parliamentary scrutiny of the draft Budget has improved in terms of coverage and content, notably with EU support.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures (where EU has a role)
Social instability: Although stability and internal security has improved, underlying conflict factors and drivers persist and have the potential to escalate. Land disputes remain unresolved and increasing rural-urban migration, lack of rural opportunities and unemployment in Dili (especially for youth) create potential future sources of conflict.	M	This will be partially mitigated through an enhanced policy/political dialogue on Government budgeting priorities and support to the National Parliament's Commission for Constitutional Affairs, Justice, Public Administration, Local Power and Anti-Corruption – responsible for Land right's issues – as well as to CSOs working on the same subject and promoting the attention and accuracy of the media on the public discussion of this issues.
Uncertainties related to the political transition: the appointment of a new Government in 2017 may lead to changing priorities and slow down the implementation of the programme.	M	The establishment of relations with the new Government should be facilitated by the use of country systems (budget support). This will also require some flexibility in the definition and update of the BS indicators and complementary support under this programme in order to quickly respond to changing policy developments.
Deviation from Government commitments to promote fundamental values related to democracy, rule of law and human rights: The quality of the rule of law in Timor-Leste suffered following the forced departure in October 2014 of the foreign judges hired by UNDP, that created some tensions in the diplomatic relations between Timor-Leste and Portugal, preventing in 2015 for legal specialists to participate in the programme.	M	Reinforced political and policy dialogue between the EU and the Government of Timor-Leste – the use of budget support will give a stronger basis for this dialogue on fundamental values. Mobilise legal specialists from other PALOP countries - with similar legal systems if possible. And if necessary use the EU Instrument for Democracy and Human Rights to support relevant CSO interventions.
Slippages in macroeconomic and fiscal indicators and slow pace in implementing PFM reforms, especially non-oil domestic revenue mobilisation. Delay of necessary fiscal adjustment in light of declining oil revenues.	M	The use of budget support will encourage the Government to maintain stability-oriented macroeconomic and fiscal policies in line with the recommendations agreed with the IMF and to actively pursue the creation of fiscal space through fiscal consolidation and public finance management reforms. Budget support to PFM reforms will continue to focus on domestic revenue mobilisation, which is part of the fiscal reform that was prioritised by Government.
Slow pace in approving/implementing crucial legislation related to public procurement, decentralisation, anti-corruption, and land reform.	H	The programme (and other EU-funded projects) will provide technical support in these areas and this will be the subject of regular policy/political dialogue. The current PM made it very clear that the fight against corruption is a top priority of the new government.
High turnover of staff/Lack of skilled human resources: Difficulty in identifying skilled human resources capable of absorbing specialised technical training and the high staff turnover rate.	M	The programme will support public training institutions and the implementation of institutional systems and procedures to ensure institutional capacity development (not limited to individual training) to address the gaps identified by the national PFM test.
Assumptions		
<ul style="list-style-type: none"> The country remains stable. Following the 2017 elections, the new Government pursues a similar governance, macroeconomic and PFM agenda. The Government maintains its commitment to promote fundamental values on democracy, rule of law and human rights. A concerted action is agreed by political parties to broaden PFM reform so as to strengthen the central regulatory and oversight capacities within MoF and other key PFM institutions and improve the efficiency of service delivery at local level. MoF, line ministries and beneficiary institutions, stakeholders and implementing agency contribute to the project management and implementation, ensuring the integration and complementarities of the two components. 		

The EU Delegation has analysed the political and macroeconomic environment and has objectively assessed the level of risks based on current trends and recent policies and measures put in place in PFM and anti-corruption sectors, in relation to the provision of budget support. Despite the substantial level of inherent risks notably in the developmental and corruption/fraud areas, the Delegation is of the opinion that the overall PFM reform agenda of the country continues to be relevant, credible and fully country-led with a high degree of ownership and commitment at the highest political level. Progress in

PFM reforms continues to remain satisfactory overall. Progress in PFM systems ultimately enables a better delivery of social services, which contributes to maintain stability. The proposed approach of providing budget support programme together with parallel capacity development to key oversight institutions is deemed to be the most appropriate combination of aid modalities to help Government achieve its governance and development objectives. Moreover, budget support has opened the door for a more meaningful policy dialogue and encouraged full ownership of the PFM reform by showing trust in the country systems in a context of fragility.

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1. Lessons learnt

The Mid-term review of the 10th EDF Support to Democratic Governance stressed the good quality of the training delivered in line with national strategies and the concrete outcomes in terms of institutional strengthening. Nevertheless, it also noted that the different programme components were uncoordinated (3 different contracts and 2 different implementing agencies), and that there was a risk that the programme results would not be sustained after the end of the programme, as there was a lack of national training policies and a weak role of national training institutions. The implementation of the project was also slowed down due to the centralised management of Camões I.P. as well as rigid EU procedures, particularly related to the rule of origin and the 3 year deadline to sign contracts after the signature of the programme (which prevents to finance additional ad hoc technical assistance, training and events three years after the agreement is signed). The strategic evaluation of EU – Timor-Leste cooperation over 2008-2013 highlighted, amongst other findings, the fragmentation of EU support, the lack of strategic analysis by the EU during programme design, and the lack of strategic partnerships. On the other hand, the budget support modality introduced under the EDF10 PFM programme has created a positive environment for improved policy dialogue between the EU and MoF about continued PFM reform.

With a view to take into account these lessons learnt, it was agreed to scale up budget support to PFM and combine it with complementary support to MoF and oversight institutions/organisations into a single programme with a clear strategic objective related to the allocation, management, use and control of public resources to ensure effective and efficient service delivery, which has become a top national priority for the VI Government. In addition, it is recommended to regroup all the capacity development support under one single Contract with Camões I.P., as the most strategic partner to support its implementation. The design of programme interventions has to put stronger emphasis on on-the-job coaching/mentoring, training of trainers and strengthening public training institutions (rather than on performing line functions) to ensure a gradual transfer of skills and full sustainability at the end of the programme. Moreover, public training centres, particularly the PFM CBC, have to be taken into more account to develop courses that focus on PFM, organisational development, ethical behaviour and foster a citizen centric public service culture.

The PFM training elements will be coordinated through the PFM CBC. Programme's co-financing (contribution expected from Portugal.) introduces more flexibility in the procedural requirements. Finally, the design of the intervention should remain flexible enough to enable a rapid response to any new policy development given the young institutional context in Timor-Leste. It is thus suggested that the annual budget support targets for the 3rd, 4th and 5th year of the intervention remain indicative at this stage, and could be subject to change after the 2017 elections. Special attention should be dedicated to the drafting of a comprehensive PFM Reform Strategy, including all major stakeholders: a PFM Working Group should be launched in order to improve coordination and monitoring of the PFM Reform Strategy.

3.2. Complementarity, synergy and donor coordination

The EU together with Portugal have been the main supporters of the creation and capacity building of the Chamber of Accounts and PCIC, and of capacity building in the Media sector. The programme will take into account Germany & UNODC ad hoc support to the CAC, as well as a possible continuation of

UNDP support to Parliament. Strong complementarity exists with the 10th EDF PALOP – Timor-Leste regional projects "Strengthening technical and functional skills of Supreme Audit Institutions (SAIs), National Parliaments and Civil Society for the control of public finances" implemented by the UNDP; and the "Support to improvement in quality and proximity of Public Services" and "Support the Consolidation of Rule of Law" implemented by Camões I.P. With regard to the specific support to MoF, the programme will continue to be integrated with Australia's budget support programme for PFM reforms (including through joint annual assessments) under the lead of the MoF and to coordinate with Australia's contribution to a multi-donor Trust Fund managed by the World Bank to provide advisory and analytical services at the demand of the MoF in different policy areas. There will also be a need to closely coordinate and integrate as much as possible Portugal's bilateral "institution-to-institution" cooperation between similar institutions like the Ministries of Finance (to support the implementation of the expected tax reform in the country, including several areas such as legislation, policies, administration and collection), the National Parliament, the Ministries of Justice, the Judicial Police (PJ/CAC/PCIC) and in the Media sector (RTP/RTTL). Finally, relationships with the IMF should be strengthened, including within the framework of the support provided by the Pacific Technical Assistance Centre (PFTAC) to Timor-Leste. Development partners' support to MoF is coordinated by a specific unit in the MoF. This programme should pave the way for the launch of the Phase 2 of "Partnership for Sustainable Agro-Forestry between Timor-Leste, the EU & Germany" (PSAF) project, in 2018: Sector Budget Support (SBS) / Sector Reform Contract (SRC) in Agro-Forestry. Moreover, at a regional level, the RIP 2014 to 2020 for the Pacific Region, includes future complementary activities on "Transparent and Effective Policies and Public Management", which should start during the 2nd semester of 2017.

3.3. Cross-cutting issues

Gender will be a crosscutting theme of the partnership programme, ensuring that systems and mechanisms for gender-sensitive and gender-responsive oversight are developed. Even though Timor-Leste has one of the highest proportions of women parliamentarians in the world and the highest in Asia and the Pacific (women hold a 38% share of the 65 parliamentary seats), persistent barriers remain for women to take on leadership roles in Government and for the Country to achieve its SDP vision to become a «gender-fair society ». The partnership programme will keep on strengthening the capacity of the Group of Women Parliamentarians, Commission F, and other commissions in gender analysis of laws and budgets. Furthermore, training will target women in priority. Progress reports will provide information on achievement of gender indicators for all results and activities. In addition, the MoF is currently working with UN Women to include some gender-sensitive indicators in its KPIs and on gender-sensitive budgeting. The involvement of gender-specific CSOs (RedeFeto) should be also promoted to reinforce their capacity and participation in the budget debate and the social audit initiative.

The programme does not specifically addresses human rights or environmental issues, while it has as its main objective to reinforce good governance. However, it is hoped that more efficient spending and improved domestic revenue mobilisation will free Government resources to finance climate change-related interventions. The EU Delegation is currently discussing with Government the submission of its (Intended) Nationally Determined Contributions (INDCs) in the framework of Paris Agreement on Climate Change. Emphasis on Climate Change will be also be made through an enhanced policy dialogue, notably in terms of more sustainable budget allocation to invest in the much needed diversification of the currently fossil-fuel based economy.

4. DESCRIPTION OF THE ACTION

4.1. Objectives/results

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of **SDG targets**:

Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

16.5: substantially reduce corruption and bribery in all its forms

16.6: develop effective, accountable and transparent institutions at all levels

16.7: ensure responsive, inclusive, participatory and representative decision-making at all levels

Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development,

17.1: strengthen domestic resource mobilization, including through international support to developing countries to improve domestic capacity for tax and other revenue collection

The **overall objective** is to improve sustainable development in Timor-Leste through an enhanced effectiveness, integrity, transparency, accountability and citizen-orientation of public service delivery in Timor-Leste, in line with the national Strategic Development Plan 2011-2030 (SDP).

The **specific objective** is to strengthen the planning, management, auditing, monitoring, accountability and oversight of the use of public finances for a better delivery of public services.

Expected Results are as follows:

Component 1: Strengthened public finance management systems and processes.

Result 1.1 Improved budget planning and execution throughout Government;

Result 1.2 Improved taxpayer and customs clearance services resulting in an improved collection of custom and domestic revenues;

Result 1.3 Strengthened internal and external audit;

Result 1.4 Strengthened accounting, revenue reconciliation and debt management;

Result 1.5 Implementation of fiscal decentralisation supported;

Result 1.6 Improved budget transparency;

Result 1.7 Improved budget gender sensitivity

Component 2: Enhanced capacity of state and non-state actors performing checks and balances to participate fully in the decision-making and oversight of the use of public finances for a better delivery of public services.

Result 2.1 Enhanced parliamentary role in national budget processes in terms of analysis, decision, oversight and audit of budget execution;

Result 2.2 Strengthened institutional capacity of the Chamber of Accounts at the Court of Appeal: its development into the full High Administrative Tax and Audit Court (HATAC) is under consideration;

Result 2.3 Strengthened prevention, investigation and forensic capacities in terms of economic and financial crimes, corruption and money laundering (CAC, PCIC, OIG);

Result 2.4 Enabled and strengthened institutional capacity of the Public Prosecutor's Office for the technical analysis and follow up of the financial responsibilities appointed at the reports of the Chamber of Accounts and of the criminal investigation reports;

Result 2.5 Increased capacity of non-state actors' and citizens' in the policy process and oversight of public institutions and public service delivery (through the implementation of the Social Audit initiative);

Result 2.6 Improved regulatory framework and professional capacity of journalists to provide impartial and accurate reporting to citizens;

The list of indicators related to the objectives and expected results are presented in Appendix 1, and the specific targets related to the budget support modality are presented in TAPS Annex 2.

4.2. Main activities

4.2.1 Budget support

Budget support will consist of regular policy dialogue and monitoring, an annual formal joint performance assessment, as well as annual financial disbursements related to the implementation of PFM reforms, focusing on domestic revenue mobilisation (including fiscal policy), fiscal

decentralisation, internal audit, procurement, budget allocation and transparency and the continued roll-out of PFM reforms to line ministries. The proposed indicators and targets are listed in TAPS Annex 2.

4.2.2 Complementary support (capacity building) under Component 2

Common and specific activities to strengthen the capacity of the targeted institutions will include (a more detailed indicative list of activities per each beneficiary included in appendix 3):

- on-the-job coaching/mentoring and training on legal drafting and analysis, legal research, sectoral research and analysis based on real case-studies, data collection and analysis, budget and public expenditure analysis, strengthening the MTEF process, fiscal reform, procurement planning and financial programming, human resources management, IT, archiving, transcription, etc.;
- technical advisory and ad hoc technical assistance according to the needs identified along with the beneficiaries (namely the National Parliament and Public Institutions);
- establishment/reinforcement of cooperation between institutions (namely from Portugal and PALOP) as well as through joint training/capacity building activities for prevention and investigation (PCIC+CAC+CoA+PGR or OIG+IA/MoF);
- promotion of dialogue and cooperation between state and non-state actors, by supporting the Social Audit Unit and other identified mechanisms;
- support CSOs on data collection and analysis, monitoring and evaluation to increase oversight and advocacy capacity;
- advocacy activities and awareness raising campaigns at the central and local level to increase citizenship and public participation and oversight on public service delivery;
- support the sensitisation and capacity building of the media to perform its democratic role on the promotion of an enlightened and active public opinion ;
- cooperation with training centres (LTC, INAP and eventually the future National Centre for the Training of Journalists – NCTJ) for the implementation of specific training courses;
- language skills improvement (Portuguese and English) and documents translation;
- specific transversal research, communication, advocacy and awareness raising activities for civil society organisations, universities and media.

The above capacity building activities (on-the-job training, mentoring) will principally focus on the functions of the targeted institutions related to the decision-making on, and oversight of, the use of public finances for a better delivery of services. Any training module should be complemented by a Portuguese language module in order to improve the impact of the trainings delivered. All PFM related training will be coordinated through the PFM CBC. It is not expected that the targeted institutions will benefit from a full capacity building programme covering all their mandate/functions. Capacity building activities for the social audit initiative will be based to a large extent on the priority sectors identified by the Prime Minister's Office (agriculture, education, health, infrastructure).

4.3. Intervention logic

The programme's strategy lays on the building of capacities and promotion of dialogue, mutual understanding and cooperation amongst the different actors - within the state and with non-state organisations - towards a common objective: better allocation, management and use of public finances to effectively deliver public services in accordance with SDP development policies and goals.

The programme aims at supporting the whole PFM cycle: public policies implemented through efficient and transparent PFM systems; enhanced budget, expenditures and public service delivery oversight; and enhanced participative budget policy decision-making, with a view to improve the effectiveness of public service delivery in achieving SDP goals.

Each actor plays a specific and complementary role in this regard: the MoF which is gradually strengthening PFM systems and building capacities of relevant institutions to use them to manage public funds effectively and transparently; the National Parliament by proposing stronger policies, analysing and supervising the public expenditure; institutions of checks and balances (CAC, COA, OIG, PCIC, PPO) working in the prevention, investigation and prosecution of misuse of public funds, financial crimes, corruption and money laundering; the CSOs by providing evidence and advocating for improved financial management at the central and local level (especially in the framework of the Social

Audit initiative and the on-going decentralisation process to oversee the local use of public funds and the delivery of public services); the Media by reaching the population and by disseminating accurate information on budget allocations, use of public funds and public service delivery; the Academia and Training Centres by building students and civil servants' capacity and conducting researches and studies on public expenditure and oversight.

Therefore, it adopts a twofold but integrated approach to promote good economic and democratic governance by: 1) reinforcing the PFM systems and the capacity of their users; and 2) strengthening the capacity of state and non-state actors to oversee and actively participate in the policy-making processes related to the allocation, management and use of public funds for better service delivery.

Component 1 is implemented through budget support and the provision of ad-hoc technical assistance to support the MoF and other institutions/officials involved in the planning and management of public funds.

Component 2 is aimed at strengthening the capacities of checks and balances institutions through two kind of approaches: institution to institution cooperation programmes between similar bodies (principally from Portuguese-Speaking Countries), institutional capacity development and on-the-job mentoring and training of staff of state checks and balances institutions (namely CoA, CAC, PCIC, OIG) as well as the National Parliament (including its commissions), including support to sectoral training centres (CFJ, INAP), the Prime Minister Social Audit Unit and the Social Audit NGO Network (RENAS); specific training and grants for research, communication, advocacy and awareness raising activities for civil society organisations, academia and media in the framework of the Social Audit Initiative and based on real case-studies in the context of Timor-Leste (note: this type of support could be complemented through grants financed under the EU budget line for Non-State Actors). Limited Portuguese language skills are a transversal key constraint and will be tackled under this programme. Information and communication, including capitalisation of methodologies and practices, is also covered by this component.

During the 12 month Inception Phase of the second component, a complete functional analysis of all the stakeholders will be undertaken. This analysis is aimed at specify the current institutional and capacity gaps against the actual mandate of each stakeholder in the framework of the current legislation. During this Inception Phase and following the 2017 elections, a phasing of the activities should be aligned with the priorities of the new Government in order to increase ownership.

Furthermore, a proper programme coordination and monitoring mechanism will be established to ensure integration and consistency among activities and components, as well as among the several actors, the Government, the EU, Portugal/Camões I.P and other Development Partners active in this area (see section 5.7). Thematic support from DEVCO.B.1 – Human Rights, Gender, Democratic Governance will be involved and mobilized as needed and requested.

5. IMPLEMENTATION

5.1. Financing Agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) No 322/2015.

5.3. Implementation of the budget support component

5.3.1. *Rationale for the amounts allocated to budget support*

The amount allocated for budget support component is EUR 15 million, and for complementary support is EUR 12 million. This amount is based on a rough estimate of the financial gap for Government to cover technical assistance, supplies, maintenance and recurrent costs related to the development and implementation of the PFM reform agenda in the next 5 years. The large amount allocated to the complementary support is explained by the large number of institutions to be supported during 5 years under this programme which depends of different Ministries or are autonomous, which would make it very difficult to support through sector budget support. In addition several of the institutions to be supported still have limited capacities to procure themselves quality technical assistance and supplies, and organise peer-to-peer cooperation, which are foreseen under this programme. Finally, several institutions (NP, PCIC, CoA) expressed the desire to partner with Portuguese peer institutions, which is easier to organise if coordinated through Camões I.P.

5.3.2. *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Credible and relevant PFM Reform Agenda that supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance, including drafting of a comprehensive and holistic PFM reform strategy by the Government of Timor-Leste to be adopted before the end of 2017, and creation of a PFM working group including all relevant stakeholders to monitor the PFM Strategy on a regular basis (sector policy assessment);
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the Public Finance Management Five Year Operational Plan of the Ministry of Finance (2013-2017, and subsequent plan) to improve public finance management (PFM assessment);
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are detailed in TAPS Annex 2.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Ministry of Finance of Timor-Leste may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties. In addition the indicators and targets for 2019-2020 are only indicative at this stage and will be refined following the Mid-Term Review of the Programme and the national elections foreseen to take place in 2017, by an exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3. *Budget support details*

Both fixed and variable tranches are used as specified in TAPS Annex 2.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into US Dollars (USD) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4. Implementation modalities for complementary support of budget support

5.4.1. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Mid-term review	Services	1	2018-Q4
Final evaluation (if deemed relevant)	Services	1	2021-Q2
Audit	Services	1	2021-Q4

5.4.2. Indirect management with a Member State

A part of this action may be implemented in indirect management with Camões - Instituto da Cooperação e da Língua (Camões I.P.) from Portugal in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of Regulation (EU) No 323/2015.

This implementation entails activities aimed to enhance the capacity of checks and balances institutions to play fully their role of adjudicating on policy choices and delivery mechanisms and thus actively participating in the policy-making process as well as providing regular oversight and control of, and informing citizens about, the delivery of Government services. This implementation is justified because Camões I.P. has implemented similar projects in Timor-Leste in particular and in the Portuguese-speaking countries in Africa in general, and has built strong relationships with Governments, non-state institutions and CSOs in those countries, and has developed an extensive network in the sector which it could draw upon for this programme. Furthermore, the support provided to the Chamber of Accounts, PCIC and the Media under the 10th EDF governance programme by Camões I.P. has been very effective, especially through the implementation of institution to institution cooperation with Portuguese bodies (which confirmed their availability to continue the partnership) and professionals performing similar functions. The CoA and the PCIC have expressed a strong interest to continue this partnership (with *Tribunal de Contas* and with *Polícia Judiciária*), and the National Parliament has also indicated its preference to use this aid modality and to strengthen the existing cooperation with *Assembleia da República*. Camões I.P. also has a wide experience in the capacity building of the media sector, since the independence of Timor-Leste, mainly in the support to the public service broadcasting through a cooperation bilateral programme with RTTL which has several years of existence. In addition, the MoF is currently developing with the Ministry of Finance of Portugal a cooperation partnership to support fiscal reform. Camões I.P. has also a clear comparative advantage to work in this sector due to its institutional capacity, namely the fact that Timor-Leste's public administration, regulatory and judicial/legal system set-up is largely inspired on the Portuguese model. In addition, Camões I.P. indicated that they would provide up to 5% co-financing to this programme calculated on the amount of the Delegation Agreement (to be later confirmed). Nevertheless and in order to avoid the implementation constraints suffered by on-going projects as highlighted in the lesson learnt section and by the mid-term evaluation of the 10th EDF Programme, a proper management system and a coordinating/monitoring mechanism that can ensure efficiency and effectiveness based on performance indicators will be established by Camões I.P. Furthermore, proper communication and decision flows between a specific back-office unit based in Lisbon, with well-defined roles and responsibilities, and the staff based in Timor-Leste with delegated capacity for decision-making and local management of funds is proposed by Camões I.P. and will be detailed in the delegation agreement. Lastly, Camões I.P. is expected to make better use of non-Portuguese experts as to ensure timely delivery and implementation.

The entrusted entity would carry out the following budget-implementation tasks: carrying out procurement and grant award procedures; awarding, signing and executing the resulting procurement contracts and grant contracts, notably accepting deliverables, carrying out payments and recovering the funds unduly paid.

5.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6. Indicative budget

The table below summarises the indicative budget of this programme.

Programme Components	EU contribution (in EUR million)	Indicative Camões I.P. contribution (in EUR million)
Budget support (Sector Reform Contract)	15	
Complementary support (Indirect management with Camões I.P.)	12	0.6
Evaluation and audit (direct management)	0.3	
Contingencies	2.7	
Total	30	0.6

5.7. Organisational set-up and responsibilities

A Project Steering Committee (PSC) shall be set up to oversee and validate the overall direction and policy for the implementation of the project. It would be made up of representatives of the beneficiary institutions/entities concerned (MoF, MoJ, NP, SECOMS, Media, Social Audit Unit, FONGTIL, etc.). The PSC will be co-chaired by the National Authorising Officer (NAO) in the Ministry of Foreign Affairs and Cooperation and the EU Delegation, while Camões I.P. and the MoF will be responsible for the SC secretariat. Other participants could be also included according to specific issues to be dealt with by the Steering Committee. The latter will meet every 12 months and ad hoc as might be required. It will be responsible for reviewing progress and achievements, reports as well as considering priorities and general principles for the Programme. It will specifically advise the programme management teams on proposals for opportunistic innovations that would allow for expanded sharing of data and knowledge in support of best practices; leveraging strategic and/or financing opportunities, if any; ascertaining the results and impact of its contributions as part of the overall monitoring and reporting system. It is hoped that during the course of the programme the Government/Ministry of Finance will establish a PFM Working Group gathering all the PFM-related institutions, which could then serve as a platform to briefly report on and discuss the project progress as well as major policy issues.

With regard to the capacity building component, Project Review Meetings (at technical level) will be organised by Camões I.P. at least quarterly with each beneficiary institution to quickly address possible bottlenecks and ensure a smooth implementation of the support. Each beneficiary institution will nominate a focal point to attend those meetings, where the NAO and the EUD will attend as observers.

With regard to the budget support component, the MoF, EU, NAO, Australia, the World Bank and other relevant Development Partners will meet on a quarterly basis to follow/discuss progress in the priority PFM reforms, including those in the EU programme. These meetings will be chaired by MoF Office of Planning, Budgeting and Performance Evaluation. An annual independent assessment will take place in the first quarter of each year to assess the level of achievement of the annual targets of the MoF Annual Action Plan (which includes PFM reforms). The EU will continue to attend the monthly MoF senior management (Coordinating Council for Financial Management – CCMF) meetings as observer.

5.8. Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the indicative logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The baseline of some indicators of the logframe will have to be updated during the Inception Phase.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

The monitoring of the performance of budget support targets will be done on a quarterly basis based on MoF Units progress reports submitted to the CCFM, and an annual independent assessment of the targets will be conducted to assess the level of achievement of the targets and the possible amount of the annual budget support variable tranche.

During the first two years of the Programme, an annual external monitoring will be organised. It should be sourced under the contract for technical assistance to the NAO services, financed under 11th EDF EU – Timor-Leste Co-operation Support Facility (CSF).

5.9. Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the. A final evaluation might be carried out for this action or its components via independent consultants contracted by the Commission if deemed necessary by the Project Steering Committee.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the continued adequacy of the intervention logic with the broader PFM reforms of the country. The overall objective would be to assess overall progress and appropriateness of implementation, to reach meaningful conclusions and to recommend adaptations as necessary. During this mid-term evaluation, the indicators related to the Variable Tranche will be reviewed.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in the last quarter of the indicative implementation period.

5.10. Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, two contracts for audit services shall be concluded under a framework contract in the third quarter of 2021 and the last quarter of the indicative implementation period.

5.11. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above (under the contract with Camões I.P.). Strong emphasis on communication, under the responsibility of highly skilled permanent specialists, has to be ensured by the management unit in coordination with the EUD, the NAO and Camões I.P. as the project addresses political and social sensitive issues. The visibility of the action will also be ensured through the visibility service contract concluded under the EDF11 Cooperation Support Facility, which aims at implementing a coherent and coordinated visibility strategy for the overall EU – Timor-Leste cooperation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX 1 - Indicative list of result indicators

The final document will be finalised during the inception phase in the first quarter of 2017. The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Results Chain	Indicators	Baselines (2015/2016)	Targets (2020)	Sources and means of verification	Assumptions
Overall objective: Impact	To improve sustainable development in Timor-Leste through an enhanced effectiveness, integrity, transparency, accountability and citizen-orientation of public service delivery in Timor-Leste, in line with the national Strategic Development Plan 2011-2030 (SDP).	<ul style="list-style-type: none"> Human Development Indicator (Poverty reduction) ; Inclusive GDP growth **; SDG Indicator 94. Perception of public sector corruption SDG Indicator 95. Domestic revenues allocated to sustainable development as percent of GNI, by sector % of Public Spending in Social Development (Health and Education); Satisfaction on Government Action. Poverty level in rural areas ** Unemployment level 	<p>HDI (2013) 0.62 Non-oil GDP growth (2015) 4.3 5% of Public Expenditure in Health (2014) 11% of Public Expenditure in education (2014)</p> <p>11.2% of the working-age Population is formally employed.</p> <p>Population below the national poverty line = 49.9 per cent</p>	<p>Non-oil GDP growth , 5% on annual basis Increase of 10% per year of Expenditures in Social Sectors</p>	<p>International indicators and national statistics;</p> <p>Project Survey; State Budget execution indicators;</p> <p>IRI and Asia Foundation surveys</p>	The Government maintains its commitment to promote fundamental values on democracy, rule of law and human rights.
Specific objective: Outcome(s)	To strengthen the planning, management, auditing, monitoring, accountability and oversight of the use of public finances for a better delivery of public services.	<ul style="list-style-type: none"> Improved PEFA scoring**; Improved OBI scoring; Improved Transparency International Index; Improved Worldwide Governance Index;** Continued positive assessment during external annual PFM reviews. SDG Indicators: 90. Proportion of legal persons and arrangements for which beneficial ownership information is publicly available 91. Revenues, expenditures, and financing of all central government entities are presented on a gross basis in public budget documentation and authorized by the 	<p>PEFA 2013 OBI public participation (2015) = 10/100 TI corruption perception (2015) 28/100 WGI (2014) government effectiveness -1.16; control of corruption -0.65; voice & accountability 0.11</p> <p>SDG Indicator baseline to be updated during the Inception phase</p>	<p>OBI public participation = 30/100</p> <p>TI =40</p>	<p>PEFA OBI TI (Corruption Perception Index) WGI/World Bank PFM reviews reports IMF Reports SDG assessment</p>	The Government maintains its commitment in deepening PFM Reform. It means more and better trained staff.

		legislature • Share in domestic revenue mobilisation as a percentage of GDP over the last five years increase in domestic revenues**	Domestic revenue =12% of GDP	15% (Fiscal reform)	Annex 1 of the Budget (MoF)	Fiscal Reform in implemented
	Component 1: Strengthened public finance management systems and processes					
Outputs	1.1 Improved budget planning and execution throughout Government; 1.2 Improved taxpayer and customs clearance services resulting in improved collection of custom and domestic revenues; 1.3 Strengthened internal and external audit; 1.4 Strengthened accounting, revenue reconciliation and debt management; 1.5 Implementation of fiscal decentralisation supported; 1.6 Improved budget transparency 1.7 Improved Budget Gender sensitivity	<ul style="list-style-type: none"> 1.1: PI-13, Revenue Budgeting Number of LMs fully using FMIS* Use of Programme Budgeting for LMs* 1.2: PEFA-13 (2011), Effectiveness of taxpayer obligations and liabilities * Reduced percentage of actual budget expenditures compared to allocations* 1.3 PI-21, Internal Audit, PI-26, External Audit* 1.4: PI-15, Accounting for Revenues 1.5: PI-8, Transparency and risks in inter-governmental fiscal relations Number of district treasuries operational and using FMIS* 1.6: PI-6, Comprehensiveness of information included in budget documentation 1.7: Results of Public Expenditure Review on Gender Equality 	1.1 :C 1.2: C 1.3: C (PI-21) and C+ (PI-26) 1.4: B+ 1.5: N/A 1.6: A 1.7: N/A	1.1: B 1.2: B 1.3: B and B+ 1.4 : A 1.5 : C 1.6: A 1.7: C	PEFA Assessment PFM review Reports Website of MoF Public Expenditure review MTEF UN Women Reports	The Government maintains its commitment in deepening PFM Reform. .
	Component 2: Enhanced capacity of state and non-state actors performing checks and balances to participate fully in the decision-making and oversight of the use of public finances for a better delivery of public services					
	2.1 Enhanced parliamentary role in national budget processes in terms of analysis, decision, oversight and audit of execution	<ul style="list-style-type: none"> improved OBI on legislative budget oversight.* increased n.º of hearings on use of public funds requested by Commissions A and C SDG Indicator 43. Percentage of seats held by women and minorities in national parliament and/or sub-national elected office according to their respective share of the population ** Increase capacity of the Parliament to 	OBI = 45 SDG Indicator baseline to be updated during the Inception phase	OBI=70	Open Budget Initiative; Commissions' activities reports SDG assessment	The Parliament maintains its commitment in deepening PFM Reform with more and better trained staff.

		produce meaningful budget oversight reports and proposed budget amendments *				
	2.2 Strengthened institutional capacity of the Chamber of Accounts at the Court of Appeal in view of its development into the full High Administrative Tax and Audit Court (HATAC)	<ul style="list-style-type: none"> • organic law and implementation plan for HATAC drafted (<i>created and operational</i>); • % of reports produced by CoA without the support of international advisories • Number of Audit Reports and Opinion on the state of the Books and Accounts of the Nation issued by the CoA* 	<p>No</p> <p>To be assessed during the IP, based on 2016 figure.</p>	Yes	CoA information and reports	The Chamber of Accounts has a sufficient budget to perform its duties.
	2.3 Strengthened prevention, investigation and forensic capacities in terms of economic and financial crimes, corruption and money laundering (CAC, PCIC, OIG)	<ul style="list-style-type: none"> • reduced number of pending processes (CAC/PCIC); • increased number of certified auditors of OIG 	N.º = 8	Increased number of auditors by 30%	<p>Activities reports from CAC and PCIC</p> <p>OIG reports</p>	CAC and PCIC have enough dedicated staff.
	2.4 Enabled and strengthened institutional capacity of the Public Prosecutor's Office for the technical analysis and follow up of the financial responsibilities appointed at the reports of the Chamber of Accounts and of the criminal investigation reports	<ul style="list-style-type: none"> • increased % of follow-ups of CoA's findings regarding financial responsibilities, namely in its audit reports; • increased % of analysed reports received from CAC, PCIC and OIG; • increased % of prosecutions leading to charges.* 	To be updated during the Inception Phase	To be defined during the Inception Phase	- PPO activities reports	The General Prosecutor Office has enough dedicated staff.
	2.5 Increased capacity of non-state actors' and citizens' in the policy process and oversight of public institutions and public service delivery (through the implementation of the Social Audit initiative)	<ul style="list-style-type: none"> • increased number of budget oversight reports; • increased public awareness on policy process and budget oversight • Policy Actions taken following SAU reports findings; • increased awareness and joint activities with CSO on Social Audit • Number of contributions made by CSOs (benefiting from EU support) on policies/laws related to good governance* 	No	To be defined during the Inception Phase	<p>NGO's reports</p> <p>Survey and international indexes (OBI/WGI)</p> <p>SAU reports on activities</p> <p>Survey focusing CSO</p>	The Government maintains its commitment to promote fundamental values on democracy, rule of law and human rights. There is no negative change in the legislative framework towards the Civil Society.
	2.6 Improved regulatory framework and professional capacity of journalists to provide impartial and accurate reporting to citizens	<ul style="list-style-type: none"> • press council created and operational; • regulatory framework for the media sector submitted; • at least 30% of the journalists have increased knowledge on public finance and capacity to produce economic news.* 	No No	Yes Yes	<p>SECOMS reports;</p> <p>baseline and end line survey</p>	There is no negative change in the legislative framework towards the Media.

Indicators aligned with the NIP are marked with '*' and indicators aligned with the EU Results Framework are marked ''**

N.B. A PEFA assessment is planned in 1st Quarter of 2017. PEFA indicators are only indicative indicators.

APPENDIX 2 - Indicative list of activities and preliminary budget for the complementary component

Lead stakeholder responsible	Activity	Y1				Y2				Y3				Y4				Y5				Budget	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
National Parliament (special focus on Commissions A and C)	Thematic workshops and field visits for budget oversight for MP																					0,30	
	MP capacity enhancement on: fiscalisation and anti-corruption, procurement, budget oversight, PFM and oil revenues, tax law, SAI reports analysis)																					0,40	
	Technical staff on-the-job training (audit, procurement, budget oversight, PPP, accounting, statistics and data analysis, legal drafting, Portuguese and English language, ...)																					0,60	
	Seminars on ethics and deontology, protocol and gender-sensitive budget for MP and for technical staff																					0,20	
	Support to the creation of a Budget Support Technical Unit (UTAO)																					0,35	
	Technical assistance on budget, finance and legal issues, coaching and mentoring																					0,65	2,50
Office of the Inspector-General (OIG)	Certification of 10 inspectors as Internal Auditors by IIA (Institute of Internal Auditors), through Indonesian Delegation																					0,20	
	Specific training and strengthening capacities of the OIG and line ministries in terms of internal auditing																					0,30	
	Specific technical training on administrative and financial control in the framework of the decentralization process																					0,60	1,10
Civil Society (Social Audit Initiative)	Workshops, trainings and public events for the civil society, media and public institutions to strengthen the Social Audit mechanism																					0,40	
	Strengthen Social Audit Unit capacity																					0,50	
	ToT for CSO and media on special audit, data collection, analysis and reporting; lobby and advocacy; public awareness on good economic and gender-sensitive governance issues																					0,30	
	Grants for trained CSO for actions on good economic governance aimed at strengthening SAI and mainstreaming gender equality (to be funded under the NSA budget line)																						
	Tutoring, mentoring, monitoring, coordinating and reporting on grants activities																					0,25	
	Legal drafting and analysis, budget oversight, studies, data collection and compilation, reporting and publication to feed SAI																					0,45	1,90
Media	Support/train SECOMS' legal department in drafting legal codes for improved regulatory framework																					0,30	
	Support SECOS for the establishment of "Conselho de Imprensa de Timor-Leste"																					0,20	
	Support the establishment of a Journalists' Training Centre, provide training focused on good economic governance and Portuguese skills																					0,80	
	Support journalists' associations in drafting and publishing a handbook on standards for professional journalism with a focus on investigative journalism (Tetum and Portuguese)																					0,05	
	Support UNTL to include and deliver an investigative journalism module focusing on good economic governance issues																					0,10	1,45
Chamber of Accounts	Technical assistance to the creation of the High Administrative, Tax and Audit Court ensured by an international expert (preferably a magistrate) of a counterpart Court																					0,35	
	Specific technical training to consolidate the capacitation of 30 auditors																					0,40	
	Mentoring/ technical monitoring of the 30 auditors ensured by international experts with proven experience in external financial																					0,60	
	Thematic seminars / workshops to share knowledge / experience with other Supreme Audit Institutions																					0,15	
	Mentoring / technical monitoring of 3 judges in matters concerning the competences of HATAC, comprising study visits and short internships																					0,30	
	Capacitation, through 2 separate courses of ToT, of 2 judges and 5 auditors as specialized trainers																					0,05	1,85
PCIC / CAC	Joint training (PCIC/CAC/CoA) on economic/financial/informatic crime and related evidence collection/protection, reporting																					0,30	
	Capacity building/Certification of 3 anti-corruption specialists at the International Anti-Corruption Academy (IACA)																					0,30	
	Strengthen PCIC/CAC capacity to investigate economic/financial/informatic crime (TA, workshops, legal framework,																					0,80	
	Support coordination with international law enforcement, crime and security issues organisations (ASEAN, CPLP, INTERPOL, ...)																					0,30	
	Strengthen cooperation and coordination between PCIC/CAC and National Financial Information Unit, Judicial Authorities and PNTL																					0,10	1,80
PGR	Strengthen capacity to prosecute economic/financial/informatic crimes and related evidence collection/protection and reporting in cooperation with similar institutions (namely through technical assistance, specific training courses, workshops)																					0,80	
	Study visits / short internships for 4 Prosecutors in cooperation with another PGR regarding Supreme Audit Institution's competences of external financial control																					0,30	1,10
All direct beneficiaries	Improvement of portuguese language skills																					0,60	
	Translation of reports and other documents in the two official languages of Timor-Leste (Portuguese/Tetum)																					0,40	1,00

N.B: Following the approval of the MoU between the MoF and Camoes I.P., the support to MoF Fiscal reform will be defined during the Inception Phase.