



2009 to 2014

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1 Context

This country strategy sets out how Australian official development assistance (ODA)¹ will assist the Government and people of Timor-Leste to work towards the Millennium Development Goals (MDGs).

1.1 Severe poverty and weak services

Timor-Leste is one of the poorest countries in the world, ranking 162nd out of 182 countries in the United Nations Human Development Index. Poverty has increased since 2001: around half the population now lives below the poverty line of USD 0.88 per day. The MDGs are unlikely to be met by 2015 although progress is being made in primary education and gender equality in education.

Three-quarters of those living below the poverty line reside in rural areas. Agriculture remains the most important sector for poor Timorese with 80 per cent of the poor dependent on the agricultural sector for their livelihood. But the agricultural sector is characterised by low productivity and is vulnerable to climate change. Food insecurity affects up to 80 per cent of households in some districts.

Social services are not always reaching those most in need, particularly in areas outside Dili. Access to quality health services is particularly low resulting in high maternal and neonatal death rates. Employment opportunities are scarce. With approximately 16,000 young people entering the labour market each year, the rate of youth unemployment is over 40 per cent. Less than half as many women as men participate in the paid labour force. The population is one of the fastest growing in the world. With women having an average of seven or eight children each, the population in 2015 is expected to be 36 per cent more than in 2005. This rapid growth rate is putting increased pressure on social service delivery and jobs, as well making it difficult to reduce high infant and maternal mortality.

1.2 Oil dependence

Timor-Leste is almost entirely dependent on oil and gas revenue with 90 per cent of its income coming from this sector. Far-sighted policy makers established a Petroleum Fund which has protected much of this revenue through a conservative offshore investment strategy. The global recession forced down oil prices which resulted in lower inflows into the Fund compared to the windfall in 2008, but the country retains sufficient capital to generate an income from which the Government can derive the majority of its operating resources. And a sustained recovery of commodity prices looks increasingly likely.

¹ Cooperation between Timor-Leste and Australia's Department of Defence is beyond the scope of this strategy.

The key policy challenge for the Government therefore concerns management of these oil funds and translating these resources into services for the people. A further challenge arising from the country's dependence on oil is the weakness of the non-oil private sector. Dutch-disease effects have contributed to high wages. And business is further disadvantaged by policies which have seen Timor-Leste rank 164 out of 183 countries in the latest Ease of Doing Business report.

1.3 Turning the corner

Timor-Leste is a post-conflict fragile state. It has experienced bouts of conflict or instability on average every two years since the independence vote in 1999. In that year more than two-thirds of its infrastructure was destroyed and much of its administrative capacity returned to Indonesia. Like all post-conflict fragile states, Timor-Leste has a high level of risk of returning to conflict.

Nonetheless, since the violent attacks on the President and Prime Minister in 2008, Timor-Leste has experienced a period of stability. The Government has made efforts to resolve some of the issues arising from the violent conflict which occurred in 2006. Thanks in large part to the quieting effect of cash transfers to internally displaced people and veterans and to the international security guarantee afforded by Australia, the UN and other donors, the Government has now explicitly shifted its focus from stabilisation to what it terms 'growth and development for all'.

The institutions of government are beginning to take shape. But there are major challenges presented by the process of decentralising government functions to the regions. Further efforts to strengthen parliamentary democracy and promote the Government's accountability and responsiveness are also needed. These reforms will help to create the incentives for the Government to fulfil its commitment to meet the MDGs and to deliver peace dividends to citizens.

1.4 Donor relations

Donor funding from well over 40 bilateral and multilateral agencies, not to mention hundreds of non-government organisations (NGOs), also plays a role in financing Timor-Leste's development needs—and complicating its development agenda. In a country with so many challenges and so many development partners, strong donor coordination is important. This would help to ensure real progress on national priorities and ensure that aid flows do not create unsupportable financial obligations for the Government.

2 Lessons from experience

Global experience from working with fragile states such as Timor-Leste suggests there are at least five key lessons.

- Donors need to focus on the task of building functioning relationships between the state and its citizens.
- Fragile states can only accommodate a limited number of reforms at any one time. The reform agenda therefore needs to be prioritised, incremental and realistic.
- If donors are to work effectively in Timor-Leste, they need to understand the political economy in which they work. There will always be winners and losers from change; understanding how these are likely to play out is essential. Ensuring that aid does not exacerbate tensions or undermine national capacity is critical.
- It takes time to build institutional capacity. Too often donors fall back on simplistic models of change which revolve around the use of international expertise. Capacity building is a long-term endeavour, demanding a range of approaches—few of which are purely technical.
- A final lesson is about the importance of early wins. Governments need to cement the support of their populations and to be confident that donors are worth the effort. That means donor activities need to exhibit early, clear achievements and work to improve local capacity.

The implications of this analysis for how the program will be delivered, what it will focus on and who it will work with are outlined below.

3 Program delivery

Australia and Timor-Leste's partnership will be based on mutual respect and accountability. The Government of Timor-Leste has clearly stated its development priorities and, through this strategy, Australia commits to contribute towards them.

There is a window of opportunity over the next few years, provided that stability can be sustained, for Australia's resources to help the Government to remove persistent constraints to progress. Specifically, it can help to improve health and education services by strengthening systems both in the capital and in the districts. It can help to promote employment through improving agricultural production and infrastructure. It can further improve the quality of the police. And it can build local capacity so that Timorese professionals can work on Timorese challenges.

For this to happen, the Australian program will accelerate changes already in train. Specifically, it will address:

- **Clearer priorities:** Australia and Timor-Leste will agree core joint priorities and persevere with them. This is challenging, because Australia's flexibility and responsiveness in the post-conflict phase has pulled the program in many different directions. Within these agreed priorities, Australia will play a stronger role in donor coordination, policy analysis and policy dialogue.
- **Results focus:** Australia and Timor-Leste will sharpen the focus on results, particularly outside Dili. Decentralisation will be an important factor in delivering results in the districts. In the Delivery Strategy which will supplement this strategy, Australia and Timor-Leste will agree on the outcomes anticipated from Australia's assistance and will track progress against these outcomes on an annual basis. Among other things, this will require further work on monitoring performance, including working with the Government to ensure credible performance information is generated.
- **Greater use of NGO capacity:** The international NGO community has long been active in promoting Timor-Leste's development, including working with local civil society to deliver results at the community level. In line with the Australian Government's commitment to work more through civil society, there will be greater scope for engaging international and Timorese NGOs in policy issues and program implementation. To deliver the objectives of this strategy, particular roles for NGOs are envisaged in health service delivery, in strengthening social accountability and in reducing violence against women.
- **More inclusive development:** Some of Timor-Leste's most daunting challenges are brought about by the lack of equality between men and women. Australian assistance will therefore address squarely the issue of gender equality. A Gender Action Plan which updates analysis and identifies the specific measures which the program will adopt, including addressing violence against women, will

inform the entire program. Just as women have been bypassed by many of the development gains in Timor-Leste over the past decade, so too have people with disabilities. Attention will be given to ways in which Australian assistance can facilitate their full participation in education, economic and social life. Social protection for the poor and other vulnerable groups will help to ensure that development benefits everyone.

- **Better communication:** Mutual accountability will be further enhanced by improving communication between Australian and Timorese stakeholders, committing to regular performance reviews and working with civil society to provide feedback on the quality and responsiveness of government services.

4 Program focus

In a country where the majority of the population is extremely poor, and where progress towards the MDGs is slow, donors are often tempted to work across a wide range of sectors. But in fragile, post-conflict countries it is important not to overwhelm limited capacity by embarking on too ambitious an agenda.

This means that over the life of the strategy Australia will re-focus its efforts on a smaller number of activities and results. The selection of priorities chosen for this strategy reflects judgements about where success is most likely to be achieved and consideration of where other donors are already making a significant contribution.

For the period 2009 to 2014, Australia's program to Timor-Leste will therefore be based on four of the Government of Timor-Leste's key objectives:

1. **Strengthening basic health and education service delivery**, including a special focus on maternal and child health
2. **Increasing employment by:**
 - a. increasing agricultural productivity
 - b. improving infrastructure, including through labour intensive initiatives
 - c. promoting vocational education
 - d. promoting private sector development, including through enhancing access to microfinance
3. **Improving government accountability, transparency and integrity**
4. **Building the foundations of a safer community.**

Table 1 identifies a selection of specific outcomes which the Government of Timor-Leste is aiming to achieve under each national objective and Australia's contribution. Clearly, such high-level outcomes cannot be delivered by Australia alone. It is therefore necessary to identify some specific intermediate-level outcomes for which Australia, working with Timor-Leste, will be responsible (column 2). Table 1 also lists examples of specific commitments which Australia expects to undertake during the life of the strategy (column 3). This table will be presented in full in the Delivery Strategy which supplements this strategy.

Table 1: Indicative strategy objectives and outcomes

Timor-Leste Priorities	Australian and Timor-Leste Planned Achievements	
High-level outcome	Intermediate outcome	Example commitments
National Objective 1: Progress towards MDGs through strengthened basic health service delivery		
Improve access to services in maternal and child health and reproductive and sexual health	<ul style="list-style-type: none"> • More facilities are available for maternal and child health • Improved nutrition, sanitation, hygiene and access to water 	<ul style="list-style-type: none"> • 45% of deliveries attended by skilled health personnel (from 36%) • 60% of pregnant women receive at least four antenatal visits (from 35%)
National Objective 2: Increasing employment		
Promote employment through skills development and promoting the private sector	<ul style="list-style-type: none"> • Increased basic skills through training for women and men, particularly in rural areas • Increased access to financial services 	<ul style="list-style-type: none"> • 70,000 women and men have access to employment and training opportunities • 100,000 women and men have access to microfinance
Improved rural infrastructure	<ul style="list-style-type: none"> • Improved water and sanitation supply • Better roads • Creating employment through labour-intensive public works 	<ul style="list-style-type: none"> • Over 110,000 people have access to clean water and sanitation • Maintenance of rural roads • More youth in rural areas with short-term jobs to build and maintain roads and other rural infrastructure
Improve food security by increasing agricultural productivity	<ul style="list-style-type: none"> • Increased distribution of higher yielding seeds • Improved storage of harvest • Improved livestock production 	<ul style="list-style-type: none"> • 75% of rural households use improved seed varieties of staple food crops • Most farming families use improved storage technologies
National Objective 3: Improving Government accountability, transparency and integrity		
<ul style="list-style-type: none"> • Build the capacity of civil servants and municipal authorities in public financial management and accountability • Improve transparency of government and parliamentary processes 	<ul style="list-style-type: none"> • Strengthened capacity of Ministry of Finance and selected ministries for prudent, effective and accountable financial planning and management • Strengthened regulation of civil service recruitment, pay and conditions 	<ul style="list-style-type: none"> • Improved preparation and execution of the Budget • Budget aligned with national development priorities • Effective aid coordination mechanisms • Treasury and procurement functions managed efficiently and transparently
National Objective 4: Building the foundations of a safer community		
Establish a more effective and accountable police service	Institutional values and behaviours established and governance frameworks enacted which underwrite professional policing services	<ul style="list-style-type: none"> • Increasingly transparent decision-making in line with governance frameworks • Enhanced public confidence in a professional police culture

Note: National Objectives are based on the *Timor-Leste 2009 Statement of National Priorities*

Note: A full statement of strategy objectives and outcomes will be prepared as part of the Delivery Strategy.

5 Program partners

This strategy provides a framework for all ODA supplied by the Australian Government. To deliver the agreed outcomes and implement our commitments, Australia's aid program will continue to work with a range of Australian organisations, including state and local governments, the private sector, NGOs and friendship groups.² These bodies have a long and valuable history of working in Timor-Leste contributing not only to development outcomes but to the close relationship between Australia and Timor-Leste.

Despite an enhanced, more explicit focus, the program will retain the capacity to support a limited number of initiatives that fall outside these parameters. This will allow the multiple jurisdictions and organisations within Australia with interests in Timor-Leste to compete for funding for their activities. This takes account of the strong history of engagement between Australian local and state governments, NGOs and community groups and the people of Timor-Leste. This support will be provided through two flexible, transparent and competitive grant-making programs (Box 1). Funding for these programs will be capped at no more than ten per cent of the total program.

Box 1: Flexible mechanisms

Australian state and local governments and universities which wish to partner with Timor-Leste Government agencies may apply for funding through the Public Sector Linkages Program (PSLP). PSLP will place a priority on proposals which demonstrate a commitment on behalf of the Government of Timor-Leste to invest a significant proportion of total project funds into the initiative.

Timorese organisations and Australian organisations which wish to partner with Timorese NGOs may apply for funding through the East Timor Community Assistance Scheme (ETCAS). ETCAS will enable community groups to work closely on community identified priorities.

Information on these mechanisms is available at:

<http://www.aisaid.gov.au/country/country.cfm?CountryID=911&Region=EastAsia>

Australia supports a number of international partnerships with bilateral and multilateral development agencies working in Timor-Leste. Australia directly funds the programs of some partners such as United Nations agencies, the World Bank and the Asian Development Bank. These multilateral arrangements, formal agreements with donors such as Portugal, Brazil and Germany and informal engagements with

² Australian friendship groups, consisting of over 60 local government and community organisations, have formed ties with over 40 bodies in Timor-Leste based on social, economic, cultural and educational activities.

others, combined with clearer statements of Timor-Leste priorities, provide scope for Australia to better coordinate and harmonise its aid and policy dialogue efforts.

By working with other multilateral and bilateral donors, Australia can reduce the administrative burden on the Government of Timor-Leste and tap into top quality technical expertise. Over the life of the strategy we will cultivate partnerships with the World Bank in health and public financial management, United Nations agencies in government accountability and Portugal in police capacity building.

6 Program management

During the life of this strategy we expect that development assistance, managed primarily by AusAID and the Australian Federal Police, will remain around current levels of AUD 120 million per year. Up to AUD 600 million will be allocated over the life of the strategy.

Australia and Timor-Leste are committed to transparency and mutual accountability with respect to our achievements. The quality of Australian-funded assistance will be reviewed every calendar year as part of the Annual Program Performance Review. Results will be made public. These reviews will form the basis of annual meetings between Australian and Timor-Leste to discuss joint progress made towards objectives. A joint review of the strategy will be undertaken midway through its implementation.

7 Risk management

There are three main risks that might prevent the strategy delivering its objectives.

- The first is that the country will again experience instability and conflict. International experience would suggest that this remains a high risk over the life of this strategy. There are many potential causes—lack of political consensus could stall reforms and service delivery and lead to public disaffection. Loss of funds to corruption or continued weak performance in delivering services might also trip popular dissent. Disputes between the army and the police force could occur if underlying tensions are not adequately addressed. Conflict within communities could arise from changes to local level governance structures, including through the decentralisation of government. The Australian program of assistance manages these risks by working to understand the context within which we work. This effort will include regular updates of analyses, including conflict. The program will work with the Government to deliver tangible services to citizens in the districts, strengthen the professionalism of the police and build the habit of responsive, transparent and accountable government at all levels, particularly through support of selected key institutions.
- A second risk is that the Government's revenue base is eroded or its spending decisions are unaffordable. For instance, it may regularly exceed the sustainable level of access to the Petroleum Fund so that capital reserves run down significantly. Similarly, a prolonged period of low oil prices would further reduce the resources available to the Government. The main impact here would be felt over the medium to long term. Australia's support for the Government's budget process, through assistance to the Ministry of Finance, is the main way in which the program will manage these risks.
- A final risk is that donors are unable or unwilling to align and coordinate effectively, or that the Government of Timor-Leste fails to focus on the Strategic Development Plan and National Priorities. The result of either of these risks would be to pull resources away from delivering better services. Australia will mitigate this risk by offering support to the Government's aid coordination function, playing an active role in donor coordination and harmonisation and supporting only those activities which are identified as a high priority in the Strategic Development Plan.

8 By 2014

This strategy states how Australia will assist Timor-Leste over five years. In contrast to the situation in 2009 where assistance extended to almost every sector, by 2014 Australian assistance will be tightly focussed on achieving the four agreed objectives. This focus will allow Australia to play stronger roles in donor coordination, policy analysis and dialogue and to help the Government to achieve better results.

In 2014 Timorese will be receiving better health services, with a drop in maternal mortality rates. More people will have access to water and sanitation. More youth will have jobs. And productivity in agriculture and other private enterprises will have increased. In 2014, there will be less need for expensive foreign advisers with the Government better equipped to implement its own development plans. Moreover, the means will exist to demonstrate how Australian support has contributed towards these outcomes.

9 References

Timor-Leste has been the subject of much research and analysis. Sources informing this strategy include:

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