



Australian Government

Department of Foreign Affairs and Trade

# Aid Investment Plan

Timor-Leste

2015/16 to 2018/19

# Strategic priorities and rationale

## Rationale and overview

Australia and Timor-Leste are close neighbours, with a shared history and strong people-to-people links. **Australia has an enduring interest in a stable, peaceful and prosperous Timor-Leste.** We remain Timor-Leste's largest partner in aid and security. Many Australians are actively engaged with Timor-Leste through Australian state, territory and local governments, non-government organisations, the private sector, learning institutions and friendship groups.

Timor-Leste has made **substantial progress** in the twelve years since independence. Elections have been peaceful and transparent and the country is experiencing its longest ever period of stability. This is remarkable, given the World Bank estimates it takes an average of forty years for post-conflict states to consolidate stability. As government institutions mature, Timor-Leste continues **to take ownership of its development agenda.** The Government is implementing its own 20-year *Strategic Development Plan 2011-2030* (SDP), which outlines its vision for using its petroleum revenues to develop the economy and alleviate poverty. Significant Government spending on the public service and major infrastructure has driven rapid economic growth. The Government's renewed focus on service delivery and governance will help achieve long-term development.

Yet Timor-Leste faces complex development challenges. So far, the **benefits of economic growth have been spread unevenly** and poverty remains widespread. Most people live in rural areas and are engaged in subsistence farming, with very limited job prospects and without viable incomes. The economy is heavily dependent on government spending, with little private sector growth outside construction. The **weak private sector creates few jobs**, and is constrained by poor infrastructure, relatively high costs of doing business, difficulties in securing bank loans and skills shortages. Most young people are neither in employment nor gaining the education and skills needed to take up the few available jobs. Fast urbanisation rates can exacerbate social strains.

Quality of life for most Timorese is improving, though from a low base. Limited access to basic services and resulting **poor human development outcomes** limit people's productivity and well-being. Around two thirds of Timorese live on less than US\$2 per day. Child mortality has improved, but many children still die from preventable and treatable diseases. Malnutrition is widespread and contributes to high maternal mortality. Primary school enrolment is high, but children's learning outcomes are poor. Women and people with disabilities are particularly disadvantaged.

Timor-Leste's **government and law and order institutions** are still developing, as are its **financial management** and public administration systems. This limits the government's capacity to deploy its resources to build a diversified economy, provide services for its people and respond effectively if social strains lead to instability. Timor-Leste has an active civil society with citizens engaging in its development processes at a range of levels, but it also faces capacity constraints and could play a greater role in supporting effective governance.

In the face of these connected challenges, Australia is committed to being an effective, responsive and long-term partner in Timor-Leste's development. Australia aims to support sustainable economic growth and reduce poverty by focussing on key constraints where Australia **can add value** and has a good track record or can identify new opportunities for success. And we aim to **build on Timor-Leste's own priorities**, working in close partnership with the Government of Timor-Leste (GoTL) and adopting a mutual focus on results - we know our aid will be most effective where there is joint commitment.

Based on these considerations, Australia's aid program in Timor-Leste has the three strategic objectives: 1. **improving livelihoods**; 2. enhancing **human development**; and 3. strengthening **governance and institutions**. Across all programs, we will devote attention to improving nutrition, empowering women and girls, and supporting disability-inclusive development.

## Objective 1: Improving livelihoods

A lack of income-generating skills and opportunities and a weak environment for private sector development are major constraints to sustainable growth. Australia seeks to help diversify Timor-Leste's economy by increasing agricultural productivity and marketability, and paving the way to employment opportunities outside agriculture. We will help lift productivity by encouraging innovation and diversification in farming. We will improve access to domestic markets, including through supporting the reach and quality of rural roads, to enable households to earn income by selling excess produce. Helping women to gain skills and earn an income will be essential to maximise growth. We will help men and women - particularly youth - attain vocational skills and tertiary qualifications that are in demand and generate income.

Australia will also seek to maximise opportunities for trade and job creation by supporting emerging sectors such as agribusiness and tourism. We will do this by providing business advisory support to local enterprises to address key constraints to their own growth as well as the growth of the sector.

## Objective 2: Enhancing human development

Timor-Leste's low base of human development, including high rates of stunting, maternal mortality, illiteracy and violence against women, is a key constraint to progress. Australia will seek to build a healthier, more productive workforce by helping the government provide services to meet people's basic health, educational and personal safety needs. Australian support will focus on (i) access to clean water and improved sanitation and hygiene; (ii) quality basic education; (iii) maternal, neonatal, and child health services; and (iv) protection from violence for women and children. We will aim to ensure these services meet good-practice standards, engage communities, empower women and are accessible, including to people with disability.

Australia will continue support for Timor-Leste's National Program for Village Development, which empowers communities to develop small-scale infrastructure to meet their needs. This program enhances human development by strengthening links to services and improving access to clean water. It also supports the other objectives by stimulating local economic activity and strengthening local governance.

## Objective 3: Strengthening governance and institutions

Effective governance within relevant Government of Timor-Leste institutions will be key to the success of the preceding two objectives. Strong institutions are needed to support a more diverse and inclusive economy, enhance human development and maintain social stability. Australia's governance support will be directed towards effective functioning of institutions in order to promote sustainable economic development and better delivery of services to communities. We will assist Government of Timor-Leste agencies to make informed economic decisions to promote fiscal sustainability and policy coherence. More consultative, effective governance can unblock constraints to better services in communities. We will ensure attention to the entire service-delivery chain, from staffing and procurement to the planning, coordination, budgeting and tracking of services. Further, we will help the government reduce the costs of doing business through supporting reforms to the policy and regulatory environment.

Civil society in Timor-Leste plays an important role in improving the responsiveness and accountability of government institutions. Australia will encourage constructive participation from civil society and the private sector in developing national policies and monitoring their effectiveness. This will include measures to inject public voice into policy debates, such as public perception surveys, and the development of Timor-Leste-led forums for policy discussion. In particular, we will support women's groups and disabled people's organisations to advocate for inclusive policies and practices.

The Australian Federal Police (AFP) will continue to assist Timor-Leste to build a legitimate, effective and accountable police service. While Timor-Leste is now relatively stable, the Timor-Leste National Police (PNTL) needs continued support to reduce the risks of future conflict, given ongoing poverty, unemployment and post-conflict fragility. The AFP will work with PNTL to increase community access to formal justice systems, particularly in cases of violence against women. Training will be provided to ensure a visible police presence in the community through mobile patrolling; better operational systems and performance monitoring; improved crime targeting and response; and stronger governance and core police skills.

## Multi-sectoral issues

**Improving nutrition:** Timor-Leste's alarming rates of malnutrition are a serious impediment to human development and economic growth. Australia will ensure that our programs in health, agriculture, market development, and water and sanitation have a specific focus on women and children's nutrition. Australia will also support the GoTL to promote the benefits of good nutrition, including dietary diversity, and adopt coherent and integrated approaches to improve nutrition.

**Empowering women and girls:** The hardships facing Timorese women are a gender equality issue as well as an economic constraint for Timor-Leste. Australia will actively seek to redress barriers to women and girls participating in the economy and driving growth. We will focus on better outcomes for women and girls in all sector programs, including through a gender action plan with concrete targets for sector programs.

**Supporting disability-inclusive development:** People with disabilities are especially disadvantaged in Timor-Leste. Australia's support will help them to overcome barriers to accessing services and will enable disabled people's organisations to participate in policy decisions.

# Implementation approaches

## Technically sound and politically feasible approaches

The success of Australia's aid program in Timor-Leste will depend on improvements in the quality of the Government of Timor-Leste's own spending and supporting policies. Timor-Leste played a key role in developing the *New Deal for Engagement in Fragile and Conflict-affected States* ('New Deal'), an approach based on mutual accountability which calls on donors to align behind local priorities. In line with the New Deal, we will align our aid program with Timor-Leste's own development priorities and work in economic partnership with Timor-Leste's leaders to implement workable solutions to constraints to sustainable, inclusive growth and poverty reduction. We will build on existing systems, and monitor the broader political and institutional environment to determine what is possible. Supporting country-led reform initiatives will require strong relationships, people with the right skills, high quality analysis, and the flexibility to support technically sound and politically feasible opportunities.

## An integrated approach

Success in improving livelihoods, enhancing human development and strengthening governance will require Australia to coordinate our support to a range of stakeholders. We will ensure that Australian-funded sectoral programs work in a cohesive, coordinated and mutually-supportive way. We will help central agencies develop regulations that support inclusive growth, and then assist the private sector to take advantage of resulting opportunities. We will support central and line agencies to address financial and administrative constraints to service delivery, and assist those at the local level use these systems to improve services. We will assist the Government to draw from the experiences of communities, the private sector, and service delivery staff as they design new policies and processes. Across all these fronts, Australia's support will line up behind targeted program-wide priorities, such as improved infrastructure maintenance.

## Active oversight of a mix of implementing agencies and partners

Australia will take a 'hands-on' approach in priority sectors by maintaining knowledge of the local context and taking decisions jointly with the Government of Timor-Leste. We will select the most effective implementing agencies, rigorously oversee the effectiveness and efficiency of progress and make hard decisions to deal with underperformance. We will continue our trend towards fewer, larger and long-term investments.

## Sustainable support to the private sector and civil society

Australia will support the growth of Timor-Leste's private sector based on rigorous analysis. We will form partnerships to support businesses that have the greatest linkages to our development goals and offer the greatest opportunities, particularly through employment, to alleviate poverty. We will leverage expertise on market development to support innovative thinking about private sector engagement across the whole program.

An informed and engaged civil society enables Timorese citizens to participate in their own development. Australia will engage with civil society organisations based on their mandate and track record and invest in their capacity, not just project delivery. Australia will prioritise longer-term agreements with predictable funding and a focus on outcomes.



## Purposeful use of advisers

Technical assistance is important in a fragile state, but Australia will not automatically default to the use of advisers. Where Australia does engage advisers, they will be accountable to both governments and they will be clear on the parameters of their role – whether they are being asked to get a job done, to provide expert advice, or to facilitate local actors to find solutions themselves. Australia will engage our partners in adviser recruitment and performance review processes, and put a premium on language skills. All adviser positions will continue to be jointly agreed with the Government of Timor-Leste.

## Progressively working through government systems

Working through national systems is critical to ensuring the effectiveness and sustainability of our development assistance, and is a key part of the New Deal. Australia currently invests directly in the Government of Timor-Leste's systems through a budget support program and a capacity-building program with the Ministry of Finance. A recent Assessment of National Systems Report on Timor-Leste found that the overall quality of the country's public financial management systems has improved significantly since independence in 2002, reducing inherent fiduciary, development and reputational risks. However, the report also found that systems remain weak in some high risk areas, including the payroll system, the anti-corruption system, and the procurement and accountability framework. There is strong political and bureaucratic commitment to public financial management reform and institutional capacity building in Timor-Leste. Over time, Australia will look to increase its investment in government systems, seeking opportunities to use and strengthen Timor-Leste's public financial management systems with appropriate risk mitigation measures.

# Performance management

## Performance benchmarks

### Performance benchmarks 2015-16 to 2018-19

Target	2015-16	2016-17	2017-18	2018-19
<b>Objective 1 Performance benchmarks: Improving livelihoods</b>				
1.1 300km of additional rural roads are rehabilitated	25km	75km	100km	100km
1.2 40% of farming households in the targeted area will experience a significant increase in income	10% of households	20% of households	30% of households	40% of households
<b>Objective 2 Performance benchmarks: Enhancing human development</b>				
2.1 6500 additional women and girls affected by violence are accessing legal, medical and social support services	1200	1500	1800	2000
2.2 80% of village infrastructure built by the National Program for Village Development is rated 'good' against technical standards and assessments	70% (309 villages)	75% (332 villages)	80% (354 villages)	80% (354 villages)
2.3 157,000 additional men and women with improved access to clean water or exposure to sanitation and hygiene behavioural change programs which Australia has funded or co-funded	23,000	30,000	43,000	61,000
<b>Objective 3 Performance benchmarks: Strengthening governance and institutions</b>				
3.1 80 per cent of the work units of the MoF are rated as a 'B' or higher <sup>1</sup>	65%	70%	75%	80%
3.2 Improvements in the rating of police in a small set (4) of specific questions in a yearly national Community Perceptions Survey	improvement on 1 or more measure	improvement on 2 or more measures	improvement on 2 or more measures	improvement on all 4 measures

<sup>1</sup> This is above average performance using the international Public Expenditure and Financial Accountability (PEFA) public financial management performance diagnostic.

### Multi-sector performance benchmark

By 2018-19, the prevalence of stunting among children 0-23 months in target sites reduces by 10% of 2015-16 prevalence.	n/a	n/a	n/a	10% reduction from baseline (2015-16)
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## Mutual obligations

In line with the New Deal principles, Australia and Timor-Leste have acknowledged their shared accountability for achieving development outcomes in the *Strategic Planning Agreement for Development*, which commits both countries to work in partnership towards achieving agreed development priorities taken from Timor-Leste's *Strategic Development Plan 2011-30*. The agreement commits Australia to delivering a program of high quality financial, technical and policy support, with an emphasis on transparency, effective use of resources, and increasing use of national systems over time. The agreement reinforces Timor-Leste's commitment to pursue sustainable and broad-based economic growth strategies and improve civil and economic governance, especially stronger public financial management targeted at improving the delivery of basic services. Australia and Timor-Leste will continue to hold regular, high-level partnership dialogue to ensure joint, evidence-based review of results and to agree on shared outcomes for the future.

Australia's aid program is designed to factor in the changing political and economic context in Timor-Leste and to respond flexibly to Timor-Leste's priorities as it takes increasing ownership of its development agenda. Australia will evaluate and consider discontinuing programs that do not have high levels of Timor-Leste ownership or where poor performance presents a significant barrier to progress.

## Monitoring, review and evaluation

Across all investments, we will continue to take responsibility for **generating credible information, and using it for accountability and good program management**. Staff will actively monitor programs, communicate robust performance management standards to contractors and partners, and ensure their products - including designs, evaluations, and progress reports - meet these standards. Managers will take responsibility for synthesis and use of credible information in decision making – such as through purposeful scoping of evaluation terms of reference, and proactive management responses to their recommendations.

For the Country Program, we will use a Performance Assessment Framework (PAF) and strategic evaluations to test whether:

- **We are making adequate progress and having desired impacts:** the PAF will track the adequacy of our progress against AIP objectives. It will also monitor the ultimate benefits at the household-level that we expect to contribute to: income and consumption, nutrition, hygiene and sanitation, maternal and child health, learning, and personal safety for women and children. To complement this, rigorous impact assessment will assess our collective household impact in targeted sub-districts where our separate investments overlap/intersect.
- **We are adopting sound implementation approaches:** we will monitor and evaluate our implementation approaches to explore and test the way we deliver aid in Timor-Leste, particularly how we engage with the Government of Timor-Leste.
- **We are adapting to changes in context:** we will undertake annual snapshots to track development changes in the country, looking beyond the changes Australia is supporting. In addition, periodic reviews will inquire into emerging risks and opportunities, such as urban migration, or decentralisation, that have implications for the aid program.

The annual Aid Program Performance Report process will synthesise this information and inform future programming decisions.



# Program management

## Governance and resource management

Australia aid to Timor-Leste will be managed by the Department of Foreign Affairs and Trade (DFAT) in Canberra and Dili. Overall responsibility for aid policy, program outcomes and the divisional aid budget will lie with DFAT's First Assistant Secretary (Southeast Asia Maritime Division), while Head of Mission (Dili) will have responsibility for the strategic leadership of the development relationship and for the delivery of the aid program in Timor-Leste.

Developing, implementing and evaluating aid investments requires highly skilled staff. We will maximise our capability through innovative and flexible use of resources and by investing in staff training and development.

Other Australian Government partners, such as the Australian Federal Police and the Australian Council for International Agricultural Research (ACIAR), will continue to add value through specialised expertise and relationships.

## Risk management

Aid to Timor-Leste will continue to be exposed to a range of political, fiduciary and performance-related risks.

We will regularly assess, monitor and manage these risks in accordance with the table below.

## Risk monitoring and communication

Process	Frequency
Update of program-level risk register	Quarterly
Update of sector-level risk registers	Quarterly
Senior management team discussion on progress of risk treatments, escalation of sector risks and any new risks	Monthly