



1. Country Context

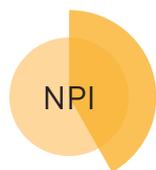
The Democratic Republic of Timor-Leste is a lower middle-income country with a population of 1.2 million (2015) and a GDP per capita of US\$1,169 (2014). Over the past years, the non-oil economy has grown steadily, achieving 7% growth in 2014 and 4.3% in 2015. Along with many social advances in health and education, according to a recent World Bank-supported poverty survey in Timor-Leste 2014, poverty declined from 50.4% in 2007 to 41.8 % in 2014. Timor-Leste ranks 133rd out of 188 countries (2015 Human Development Index). Timor-Leste is one of the youngest countries of the world: almost 60% of the population is younger than 25 years. A total of US\$283 million in official development assistance (ODA) was reported by partners to the Global Partnership in 2015, with Australia (27%) and the Asian Development Bank (20%) contributing almost half of total finance captured by this monitoring round. Agriculture, education, health and infrastructure are among the priority sectors receiving development co-operation.

Quick Facts



- Surface area**
14,870 km²
- Population**
1.2 million (2015)
- GDP Growth** 4.3% (2015)
GDP Per Capita US\$1,169 (2014)
- Income level category**
Lower middle-income country

Key Development Indices:



National Poverty Index 41.8% of pop. (2014)



Official Development Assistance/Capital Formation 50% (2013)

ODA per Capita US\$204 (2014)

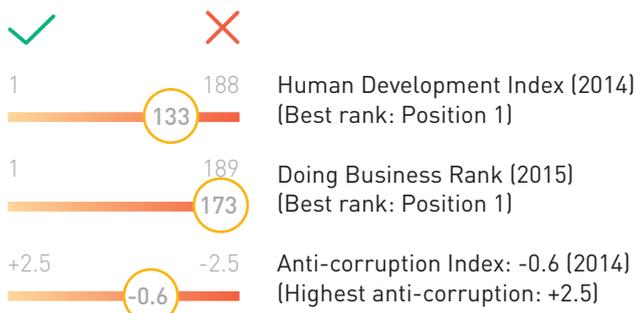
Inflows (% Gross Domestic Product)

LATEST YEAR AVAILABLE

| | |
|-------------------------------------|-------|
| Domestic Credit | -1.1% |
| Net Foreign Direct Investment | 2.4% |
| Remittances | 3.8% |
| Net Official Development Assistance | 7.6% |

Key Development Challenges

Timor-Leste is investing in expanding the non-oil economy towards agricultural innovation, industrial development and others. There are four new coordinating ministries for economic affairs, social sector, state administration and infrastructure, which are all key for implementing the Timor-Leste Strategic Development Plan (SDP 2011-2013) to harmonize development activities in the country. The creation of the SDP was informed by the MDGs and thus shares similar overarching goals with the Sustainable Development Goals (SDGs) at the country level. The main challenges for sustainable development in Timor-Leste are the management of a heavily oil-dependent economy, improvement of physical infrastructure and continued economic diversification, particularly in light of the demographic dynamics in the country.



2. Efforts to Implement the Effectiveness Principles

A. Policies and Tools for Partners' Alignment

Since 2011, all development efforts have been framed by the overarching Strategic Development Plan (SDP), which sets out strategic policies to be implemented in the short, medium and long terms in order to transform Timor-Leste into an upper middle-income country by 2030.

Its four pillars address social capital, infrastructure, economic development and the institutional framework. Key sectors such as education and health have developed sector strategies under the SDP, while all ministries use five-year plans to implement their medium-

term visions. Since 2013, the SDP has been monitored through a matrix with corresponding indicators. The government is currently monitoring and aligning the SDP indicators with the Sustainable Development Goals (SDGs).

Major Development Partners of this Round (by Reported Disbursements)



Participation in 2014 Monitoring



Existence of a National Co-operation Policy

B. Governance and Management of Development Finance and Co-operation

At this stage, development co-operation is guided by the SDP, which, in the absence of national policy on official development finance (yet to be endorsed), establishes principles and guidance for effective delivery of official development finance. One of the principle dialogue mechanisms between development partners and the government is the annual Timor-Leste and Development Partners Meeting (TLDPM), including the Quarterly Development Partners Meeting (QDPM), which reviews progress and challenges in national development and the effectiveness of delivering official development finance. Given its specific situation, Timor-Leste also hosts the International Dialogue on Peacebuilding and Statebuilding and is a champion of Monitoring Principles for Good International Engagement in Fragile

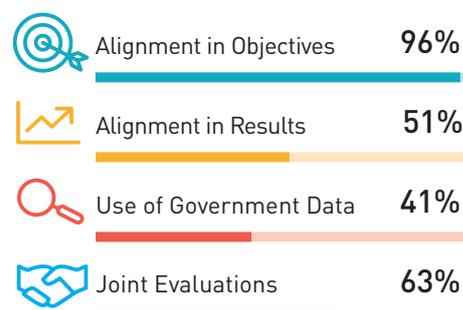
States and Situations. At the bilateral level, there are additional mechanisms with partners providing general budget support (EU and Australia). Timor-Leste has been a long-standing pioneer in implementing aid effectiveness, voicing the specific needs and opportunities of countries in fragile situations under the New Deal principles through the work of the g7+. The Development Partnership Management Unit under the Ministry of Finance is responsible for coordination and management among development partners, line ministries, CSOs and the private sector. Information on external assistance is captured through the Aid Transparency Portal (ATP) and is used to inform the budgeting process. However, as in many countries, non-ODA finance is yet to be captured in a consolidated way.

3. Country Ownership

Indicator 1. Partners' Alignment and Use of Country-Led Results Frameworks

In 2015, based on partners' responses, 96% of all development co-operation was aligned to national objectives, mostly drawing on goals outlined in the SDP. The country-led results are reflected in 51% of development assistance and national monitoring systems are used by only 41%. The government will be involved in 63% of planned evaluations,

occasionally contributing technical and financial resources, while 37% will not involve government in evaluations. With only slight discrepancies across different partners, a general rule is that multilateral organizations, especially the UN agencies, use country-led results frameworks more extensively than bilateral partners.

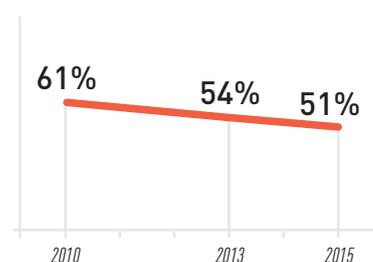


Indicator 6. Development Co-operation is on Budget (Subject to Parliamentary Scrutiny)

Despite detailed official guidance on recording development assistance in the government budget, 51% of development co-operation in 2015 was on budget, a continued downward tendency from 61% in 2010 and 54% in 2013. The actual situation is even less favourable, as 12 out of 19 partners either scheduled significant amounts that were not

recorded on budget or did not schedule the disbursements that were expected in the government budget. Partners need to make a more concerted effort to ensure that they are adhering to the procedures and requests of the government to provide this information in order to reverse this worrying trend.

Percentage on Budget



Indicators 9 and 10. Use of Country Systems

Development partners' use of country systems has improved in the past years. According to development partner responses, the use of national procedures for budget execution increased from 5% in 2013 to 26% in 2015 and the use of financial reporting increased from 2% to 25%. National auditing procedures

were used by 25% of development co-operation in 2015 (10% in 2013) and 40% relied on country procurement systems (9% in 2013). Development partners should strive to increase their use of country systems, which can only lead to improvements in the system, capacities and human resources. In light of this

fact, the Government of Timor-Leste has prioritized PFM reform to ensure that robust systems and proper procedures are in place. The relatively low use of country systems shown above undercuts the efforts made by the government thus far to create a strong PFM system.

| | Budget (ideal: 100%) | Financial Reporting (ideal: 100%) | Auditing (ideal: 100%) | Procurement (ideal: 100%) | CPIA* (maximum: 6) | Untying (ideal: 100%) |
|---------------------|-------------------------|--------------------------------------|---------------------------|------------------------------|-----------------------|--------------------------|
| INDICATOR 9B. | 26% ▲ | 25% ▲ | 25% ▲ | 40% ▲ | | |
| INDICATORS 9A & 10. | | | | | 3.0 ▶ | 78% ▼ |

* Country Policy and Institutional Assessment

4. Inclusive Partnerships for Development

Indicators 2 and 3. Fostering Inclusive Partnerships for Development

Civil society organizations (CSO), national parliament members and the private sector are active development stakeholders in Timor-Leste, participating in dialogue forums and maintaining relationships with the government and development partners. The CSOs are organized under the NGO Forum of Timor-Leste (FONGTIL), while national business is gathered in the Chamber of Commerce and Industry of Timor-Leste

(CCI-TL). In late 2015, the government launched a social audit initiative enabling civil society to monitor investments and progress in national development. In addition, a government fund is available to finance capacity development for all development stakeholders. The public-private partnership dialogue is still limited. Both sides stress the need to fully engage with one another and note the potential benefits that could come from

a strengthened partnership with Timor-Leste's emerging private sector; they also recognize that they can play a vital role not only in large-scale investments (such as infrastructure), but also in generating micro and small businesses in local areas. The government's development agenda acknowledges the importance of private sector involvement.

Indicator 8. Gender Empowerment

Currently, gender-sensitive budgets are produced through a consultative process with the Secretary of State for Women's Empowerment, who is deeply involved in

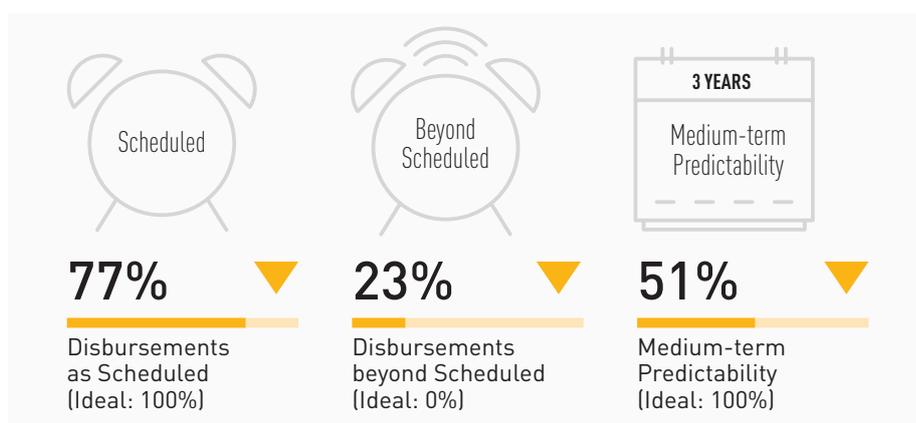
the production of yearly government-wide ministerial budgets. This is in addition to the funds that are provided directly to this government entity. In addition, a gender

marker is being produced to track funds in upcoming budget processes.

5. Transparency and Accountability

Indicator 5. Development Co-operation is More Predictable

In 2015, development co-operation was substantially less predictable than it was in previous rounds. Annual predictability dropped from 92% in 2013 to 77% in 2015 and medium-term predictability decreased from 77% to 51%. In particular, the EU institutions shared limited information on in-year scheduled amounts and the UN Agencies also need to communicate medium-term forward expenditures. The latter also applies to the Asian Development Bank, the second largest partner (20% of total finance), a fact that affected the overall result, although most other larger partners do report forward expenditures on a rolling basis. This has led to increased volatility in official development finance and has



reduced the reliability of the government's tracking systems. The Government of Timor-Leste relies on the co-operation of

partners in providing timely and predictable development funding. This is one area on which partners will need to focus their efforts in the coming years.

Indicator 7. Mutual Accountability

At the time of this monitoring round, mutual accountability is not framed by a specific national policy on official development finance, but is guided by the SDP. However, the existing dialogue mechanisms – the annual high-level Timor-Leste and Development Partners

Meeting and the more operational Quarterly Development Partners Meetings – discuss progress and challenges in ensuring the effectiveness of development co-operation. Development partners are also included in several quarterly sector meetings that address challenges and the

way forward in these specific areas (such as in health, agriculture and education). Finally, a number of bilateral mechanisms have been established to ensure mutual accountability around specific programme support or project support.

National Priorities Going Forward

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The national priorities moving forward are to establish a strong national policy on official development finance that will clearly establish roles and responsibilities for all development stakeholders. Although the SDP will remain the overarching framework for the nation, such a policy would outline how the government and partners can effectively collaborate to achieve the goals set forth in the SDP. In addition, Timor-Leste will continue to be a leader in implementing the SDGs locally.

Timor-Leste fully supports all efforts to strengthen the New Deal framework at the country level. Timor-Leste recognizes the importance and use of monitoring surveys to create a baseline and to monitor progress. However, it is important to calibrate these surveys to ensure that they can be completed successfully and are not a burden for local staff. Overly complex methodologies are an obstacle for national coordinators and limit the attention and motivation to carry out this complicated process. In addition, local management systems for official development finance (such as the Aid Transparency Portal) and PFM systems were not relied upon as a primary source. This contrasts with the spirit of the New Deal, which emphasizes country leadership and ownership.

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Elson Martinho da Costa
Ministry of Finance, Government of Timor-Leste

Footnote: Any discrepancies between information in this profile vs. information that has been reported are due to adjustments that were made after conclusion of the monitoring round.

Disclaimer This document was prepared based on data collected from voluntary reporting to the Second Monitoring Round of the Global Partnership for Effective Development Co-operation and, for the Country Context, other open source information available online. The information provided does not necessarily represent the view of UNDP.

For ease of reference, the term 'country' is used to refer to developing countries and territories that reported to the Second Monitoring Round. Participation in this process and mention of any participant in this document is without prejudice to the status or international recognition of a given country or territory.