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**EUROPEAN UNION - DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

# **NATIONAL INDICATIVE PROGRAMME**

**FOR THE PERIOD 2014-2020**

**11<sup>TH</sup> EUROPEAN DEVELOPMENT FUND (EDF)**



## GENERAL CLAUSES

The European Commission and the Government of the Democratic Republic of Timor-Leste hereby agree as follows:

- (1) The European Commission and the Government of the Democratic Republic of Timor-Leste, hereinafter referred to as the Parties, determined the general orientations for cooperation for the period 2014 to 2020.

These orientations which are included in the National Indicative Programme, concern the European Union Aid in favour of the Democratic Republic of Timor-Leste, and were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, revised and signed in Luxemburg on 25 June 2005 and revised and signed in Ouagadougou on 22 June 2010.

The National Indicative Programme is annexed hereafter.

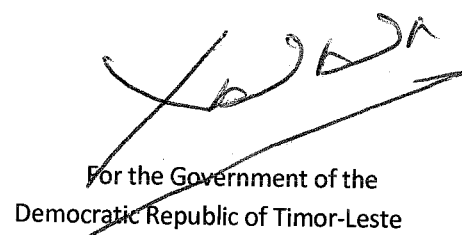
- (2) As regards the indicative programmable financial resources which the European Union envisages to make available to the Democratic Republic of Timor-Leste for the period from 2014 to 2020, an amount of EUR 95 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation). A B-allocation referred to in Article 3.2 (b) can be established to cover unforeseen needs. This allocation is at EUR 0 until a need arises. These allocations are not entitlements and may be revised by the Commission, following the mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects. The National Indicative Programme concerns the resources of the A-allocation. It also takes into consideration financing from which the Democratic Republic of Timor-Leste benefits or could benefit under other European Union resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as humanitarian, emergency and post emergency assistance, where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate exogenous shocks. The B-allocation shall be established according to specific mechanisms and procedures and does therefore not constitute a part of the programming.

- (5) Pending the entry into force of the Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting with the Council on the financing of European Union Aid under the multiannual financial framework for the period 2014 to 2020, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Democratic Republic of Timor-Leste within the limits of the A- and B-allocations referred to in this document under the condition that sufficient financial resources are available in the transitional measures ("Bridging Facility") composed of uncommitted balances from the previous EDFs and from funds de-committed from projects or programmes under those EDFs. The respective projects and programmes shall be implemented according to the rules and procedures of the 10<sup>th</sup> EDF until the entry into force of the 11<sup>th</sup> EDF implementing rules and financial regulation.
- (6) The European Investment Bank may contribute to the implementation of the present National Indicative Programme by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2c and 3 of the 11<sup>th</sup> EDF multi-annual financial framework for the period 2014-2020.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the (National Indicative Programme as well as the A-and B-allocations can be revised following the mid-term review and the end-of-term review or ad hoc reviews.

Signatures



For the European Commission



For the Government of the  
Democratic Republic of Timor-Leste

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## Principal acronyms and abbreviations

<b>ACP</b>	African, Caribbean and Pacific Countries
<b>ADB</b>	Asian Development Bank
<b>ALA</b>	Asia-Latin America budget line (of the EU)
<b>ASEAN</b>	Association of South-East Asian Nations
<b>CAC</b>	Anti-Corruption Commission
<b>CICL</b>	Camões Instituto d Cooperação e da Língua (Portuguese Cooperation & Language Institute)
<b>CSO</b>	Civil Society Organisation
<b>DP</b>	Development Partner
<b>EDF</b>	European Development Fund
<b>EU / EUD</b>	European Union / European Union Delegation
<b>FAO</b>	Food and Agriculture Organisation
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation)
<b>GGDC</b>	Good Governance and Development Contract
<b>GoTL</b>	Government of Timor-Leste
<b>HATAC</b>	Administrative Tax and Audit Court
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>INDMO</b>	National Labour Force Development Institute
<b>ISPPIA</b>	International Standards for the Professional Practice of Internal Auditing
<b>JSSP</b>	Justice Sector Strategic Plan for Timor-Leste 2011-2013
<b>KONSSANTIL</b>	National Council for Food Security, Food Sovereignty and Nutrition
<b>MAF</b>	Ministry of Agriculture and Fisheries
<b>MDG</b>	Millennium Development Goals
<b>MoF</b>	Ministry of Finances
<b>MoFAC</b>	Ministry of Foreign Affairs & Cooperation
<b>MoH</b>	Ministry of Health
<b>MoJ</b>	Ministry of Justice
<b>MoPW</b>	Ministry of Public Works
<b>MoU</b>	Memorandum of Understanding
<b>MS</b>	Member States (of the EU)
<b>NAO / DNAO</b>	National Authorising Officer / Deputy NAO
<b>NGO</b>	Non-Governmental Organisation
<b>NSA</b>	Non-State Actor
<b>PALOP</b>	Países Africanos de Língua Oficial Portuguesa (Portuguese-Speaking African Countries)
<b>PFM</b>	Public Finance Management
<b>PMU</b>	Programme Management Unit
<b>RDP</b>	Rural Development Programme
<b>SDP</b>	Strategic Development Plan 2011-2030 (of Timor-Leste)
<b>SEAPRI</b>	Secretariat of State for Support and Promotion of Private Sector
<b>SEPFOPE</b>	Secretary of State for professional training and employment policy
<b>SEOP</b>	Secretary of State for Public Works
<b>SoL</b>	Seeds of Life
<b>SRC</b>	Sector Reform Contract
<b>TA</b>	Technical Assistance
<b>TCF</b>	Technical Cooperation Facility
<b>TVET</b>	Technical & Vocational Education & Training
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Programme for Development
<b>UNICEF</b>	United Nations Children's Fund
<b>USAID</b>	United States Agency for International Development
<b>WB</b>	World Bank
<b>WFP</b>	World Food Programme

## 0. Summary

With a GDP of USD 5,643 per capita and a non-oil GDP of USD 1,175 per capita (IMF, 2012), Timor-Leste is classified as a Lower Middle Income Country. The Country has indeed made considerable socio-economic and political progress since its independence was restored in 2002.

However, as a young nation transitioning out of a fragile and conflict-prone situation, it still faces significant challenges to consolidate and build capacity of state institutions, and to foster sustainable and inclusive socio-economic development, particularly in rural areas where poverty, malnutrition and unemployment remain high.

Timor-Leste and the EU are like-minded partners and relations are excellent. Given the historical links, the EU is often described as the third neighbour, after Indonesia and Australia. Against this background, the Political Dialogue with Timor-Leste will be strengthened to discuss domestic and international issues of importance for the EU and Timor-Leste.

Following thorough consultations with the Government of Timor-Leste and all Development Partners, and subsequent agreement with the Government, the 11<sup>th</sup> EDF National Indicative Programme, in the amount of **EUR 95 million** for the period 2014-2020 will focus on the following areas, which are considered vital for the Country's continued sustainable and inclusive development:

- 1: Good Governance** – through reforms of the public finance management system, as well as check and balance institutions to ensure an effective and transparent implementation and monitoring of development policies. An amount of **EUR 30 million**, or some 32% of the total NIP, is foreseen for initiatives in this area;
- 2: Rural Development** – with specific emphasis on rural access, skill development in rural areas in productive sectors (agricultural production and processing, road construction and maintenance), and on nutrition (with the aim reducing food insecurity and malnutrition), to improve economic opportunities and the delivery of Government services. An amount of **EUR 57 million**, or 60 % of the total NIP, is foreseen for this;
- 3: Support Measures** – for which an amount of **EUR 8 million**, or some 8% of the total NIP, is earmarked. This includes activities aimed at supporting the programming, preparation, implementation, monitoring and evaluation, and visibility of EU-TL cooperation, support to the NAO to ensure effective management of the NIP, and may also cover limited support to assist the Country's accession to ASEAN and to strengthen the Government's capacity to meet its ASEAN commitments.

The NIP may be complemented by operations financed by the European Investment Bank from the Cotonou Investment Facility, Investment Facility for the Pacific and/or its Own Resources, in particular for infrastructure and sustainable energy, as well as for investments fostering the financial and private sector, in particular the development of Small and Medium Enterprises.

Timor-Leste may also benefit from the EU's Partnership Instrument, to foster joint ventures between European and Timorese companies.

## 1. Introduction

Timor-Leste has made considerable socio-economic and political progress in the decade since independence was restored in 2002. Nevertheless, as a young nation transitioning out of a fragile and conflict-prone situation it still faces significant challenges to consolidate and build capacity of state institutions and to foster socio-economic development, particularly in rural areas where poverty remains high and development is lagging behind. Previous support from the European Union (EU) in the last decade focused on rural development, good governance, health and food security. The EU takes pride in having effectively supported Government's efforts to build a democracy and improve the social and economic development in Timor-Leste from a very difficult post-conflict situation; continued external support is key to strengthen nascent institutions and to improve the life of Timorese to prevent the resurgence of potential conflict. The EU considers Timor-Leste as a like-minded partner country on the international scene as it shares similar views and values.

In the spirit of the aid effectiveness agenda, EU cooperation under the 11<sup>th</sup> European Development Fund (EDF) will concentrate on only two sectors and make use of country systems to the extent possible (while supporting progress in public finance management reforms), in line with the New Deal for Engagement in Fragile States. Following intensive consultations and agreement with the Government of Timor-Leste, the 11<sup>th</sup> EDF will focus on two sectors: i) **good governance**, through supporting reforms of the public finance management system and check and balance institutions to ensure an effective and transparent implementation and monitoring of development policies; and ii) **rural development**, with specific emphasis on rural access, skill development in rural areas in the context of productive sectors (agriculture, road construction and maintenance), and on nutrition interventions, with a view to reduce food insecurity and nutrition and to improve economic opportunities and delivery of government services in rural areas. Political dialogue with Timor-Leste will also be strengthened to discuss and agree on domestic and international issues of importance for the EU and Timor-Leste.

## 2. Overall lines for the EU response

### 2.1. Strategic objectives of the EU-Timor-Leste relationship

*Timor-Leste has made considerable socio-economic and political progress in the decade since independence was restored in 2002*, following a 24 year struggle to restore independence from Indonesia. The 13 year UN presence was concluded successfully in late 2012 following peaceful parliamentary and presidential elections. Aided by significant oil and gas revenues since 2004 and substantial donor assistance, the country has focused on consolidating security and stability, providing a foundation for nationhood through building state institutions, rebuilding/improving its infrastructure and addressing the immediate needs of its people to alleviate poverty. This continuing peace and state building process has been essential to create the basis to enable Timor-Leste to implement relevant policies to foster social and economic development<sup>1</sup>. Annual GDP growth averaged 11.3% over the period 2007-2012<sup>2</sup>, with oil GDP contributing up to 80% of total GDP. The government launched its Strategic Development Plan 2011-2030 to transform Timor-Leste into an upper-middle-income country by 2030 based on rapid, inclusive growth enabling it to improve infrastructure, worker skills, education, training and health systems, and combat poverty and malnutrition.

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<sup>1</sup> The last civil conflict dates back from 2006 when the police, army and disaffected veterans fought one another, and over 100,000 Dili residents were displaced (Estimates of the UN High Commissariat for Refugees)

<sup>2</sup> Asian Development Bank Fact Sheet

Timor-Leste is a founding member of the g7+ group of fragile and conflict-affected countries and has taken a leadership role, pioneering the *New Deal* approach for Engagement in Fragile States. There is a relatively strong governance framework that promotes accountability with an active civil society. The well-regarded Petroleum Fund (PF) managed in accordance with international transparency standards and with firm parliamentary oversight, has reached over \$14.5 billion in 2013.

**Nevertheless fragilities remain, including a lack of economic diversification, limited policy implementation capacity, high inflation, persistent high level of poverty and low social development indicators especially in rural areas.** With a population of 1.1 million (2.4% annual growth), Timor-Leste is one of the least developed economies in south-east Asia (134<sup>th</sup> out of 187 countries in the 2013 Human Development Report). It is the second-most oil dependent nation in the world but oil reserves with production agreements are expected to end in the next 6-10 years and many uncertainties persist over potential production from new fields. Non-oil activity is essentially agriculture-based. Diversification remains a crucial challenge to generate much needed employment and poverty reduction. High Government spending aimed at rebuilding basic infrastructure and diversifying the economy has faced significant capacity and absorptive constraints and has led to inefficiencies, the emergence of rent seeking behavior, and persistently high inflation that hurts the poor and undermines long-term growth<sup>3</sup>. Timor-Leste has a mixed performance on MDGs and while some progress has been made, it will not meet all targets by 2015. Despite belonging to the lower middle-income category of countries (WB, 2013), with a non-oil per capita GDP at current prices of around US\$ 1175<sup>4</sup>, Timor-Leste has a high percentage of chronically malnourished children under the age of five (45%) and high poverty rate with 49.9% of the population living below the national poverty line in 2012<sup>5</sup>. According to the IMF, key risks to the medium-term outlook include: (i) fiscal slippages risk sustainability and inflation remains high, hampering diversification and poverty reduction; (ii) no agreement on the development of a major new oil field leads to the end of oil production by 2024; and (iii) lack of inclusiveness and poverty reduction results in social discontent and pressures for expansionary policies. The development gap between fast-growing Dili and rural areas, lack of legislation on land titling, high youth unemployment, poor quality of infrastructure works and a perception of growing corruption<sup>6</sup> are also a source of concern and potential conflict.

**The main areas of cooperation between the European Union and Timor-Leste in the last decade focused on rural development, good governance, health and food security.** Timor-Leste ratified the Cotonou Partnership Agreement in December 2005 and formally joined the African, Caribbean and Pacific group of countries (ACP States). Prior to this the country received EU assistance from the Asia-Latin America budget line (ALA). The areas of concentration of the ALA National Indicative Programme (NIP - 2002-2005) were food security, rural development and health. The 9<sup>th</sup> EDF (2006-2007) covered the transition from ALA to EDF and allocated EUR 18 million for rural development and institutional capacity building. The 10<sup>th</sup> EDF, initially valued at EUR 63 million but eventually increased to EUR 91 million, retained the main focal areas of rural development and institutional capacity development, adding a third focal area of support to the Health Sector. Timor-Leste also benefits from EU financial support through its memberships of PALOP-TL (Portuguese-speaking African countries and Timor-Leste) and the Pacific Islands Forum which have established programmes in support of trade and regional integration, better management of natural resources (climate change) and improved peace and security.

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<sup>3</sup> IMF Article IV Consultation Report, 12/2013

<sup>4</sup> *ibid*

<sup>5</sup> 2013 Human Development Report, UNDP

<sup>6</sup> Timor-Leste ranked 119<sup>th</sup> out of 177 countries, with a score of 30 out of 100, in Transparency International's Corruption perception's Survey in 2013 (113 out of 176 countries with a score of 33 in 2012).



Further substantial EU funding (over EUR 32 million during 2008-2013) has been provided through various global facilities and thematic budget lines related to, amongst others, stability, food security, cooperation between non-state actors and local authorities, human rights, water, energy, climate change, and health. This support has proven essential to back Government's efforts in building and capacitating new state institutions, providing basic services to the population in rural areas as well as to improving agriculture production and productivity. EU assistance has also played a key role in strengthening local non-state actors as well as their participation in the policy-making process and in conflict prevention.

***The EU will continue to support capacity building of state institutions and civil society in relation to good governance, as well as interventions aimed at fostering socio-economic development in rural areas, in line with the Agenda for Change of EU Development policy, Timor-Leste Strategic Development Plan and the Aid effectiveness Agenda, especially the New Deal.*** The EU Agenda for Change highlights two key pillars of development cooperation: i) Human rights, democracy and other key elements of good governance, including gender equality, role of civil society and the fight against corruption; and ii) Inclusive and sustainable growth for human development, including social protection, health and education; business environment and regional integration; sustainable agriculture and clean energy. The Fifth Constitutional Government Programme derived from the SDP describes the short-term strategic development agenda in four key sectors: social capital, infrastructure, economic development & job creation, and consolidation of the institutional framework. The New Deal for Engagement in Fragile States confirms and corresponds to the strategic goals of the EU, as expressed in the Agenda for Change and the Paris Declaration on Aid Effectiveness (2005), notably by its accent on the utilisation of national systems and procedures for the implementation of development assistance. The New Deal includes five Peacebuilding and Statebuilding Goals (PSGs): fostering inclusive political settlements and conflict resolution; establishing and strengthening people's security; addressing injustices and increasing people's access to justice; generating employment and improving livelihoods; managing revenue and building capacity for accountable and fair service delivery. Under the 10<sup>th</sup> 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.

***As Timor-Leste transitions out of a fragile and conflict-prone situation, the EU seeks to modernise its partnership with Timor-Leste and to engage in genuine policy dialogue in close cooperation with its Member States.*** The objective is to increase the efficiency and maximise the impact of EU cooperation with Timor-Leste, by fully aligning EU interventions to the Government strategic framework, focusing on a fewer number of sectors, using country systems to the extent possible, implementing larger but more focused programmes, placing more emphasis on policy and strategic discussions rather than on procedural requirements, reducing transaction costs, coordinating policy and development objectives and interventions with EU Member States, and ensuring full complementarity with other development partners' programmes. Should Timor-Leste continue to meet the eligibility criteria for budget support, the EU intends to scale up its aid in this form in the identified focal sectors. 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 will enable EU-TL cooperation partnership to evolve from a project-type approach to a genuine sector policy partnership.

As the EU demonstrates its confidence in Timor-Leste's governance objectives, development strategies, macroeconomic policies and progress in PFM reforms, through the use of budget support, it expects to be more genuinely and closely involved in the planning, budgeting, implementation, monitoring and evaluation of Timor-Leste's development agenda. Important aspects to be closely followed include the increase of non-oil domestic revenues, the effective fight against corruption, Government budget allocations to priority development sectors and monitoring of the effectiveness of development policies and programmes, such as those leading to generating jobs for the youth and to improving its productivity, thereby contributing to continued peace and stability. Given the crucial importance of continuous capacity building of state institutions and civil society, a large share of EU external assistance under the 11<sup>th</sup> EDF is expected to continue to be delivered through more 'traditional' aid modalities, such as technical assistance, co-financing and delegated implementation, with specific emphasis on genuine capacity building and transfer of knowledge and skills to national staff. In addition, implementing agencies of EU-funded programmes will be expected to sign agreements or MoUs with the relevant Line Ministries or beneficiary institutions, and the NAO and the EU will be actively involved in the joint monitoring of the implementation of such agreements.

***The EU expects to strengthen its political dialogue with Timor-Leste and support to regional integration. Both parties share very similar views on international issues and fundamental values, notably due to historic and cultural ties.*** The EU considers Timor-Leste as a like-minded partner country due to its commitment to promote fundamental values domestically and internationally, as well as a similar stance to the EU on various international issues. In addition, Timor-Leste's presence and importance on the international scene is growing through its participation in several regional/international groupings, such as the African Caribbean Pacific (ACP) group, the Small islands Developing States (SIDS), the Community of Portuguese-Speaking Countries (CPLP), the Portuguese-Speaking African countries and Timor-Leste (PALOP-TL), the Pacific Island Forum (PIF) - as an observer status, the Association of South-East Asian Nations (ASEAN) - as a candidate country, the Group of Fragile States (G7+), etc. Regular political dialogue between the EU and its Member States and the Government of Timor-Leste is expected to continue over the period 2014-20. A key aspect of this dialogue will be Timor-Leste's continued adherence to fundamental values of human rights, democracy and rule of law, and continued implementation of a development agenda aimed at reducing poverty as well as peace building and stability. Dialogue is also expected to focus on important on-going or foreseen legislation related to fundamental values and Timor-Leste's socio-economic development, such as on land tenure, decentralisation, freedom of information and anti-corruption, as well as on important issues on the international/UN agenda. The EU will continue to support regional integration, including Timor-Leste's request to join the ASEAN. Timor-Leste will continue to benefit from EU funding provided to support the pacific islands as well as cooperation among PALOP-TL countries.

### 3. Choice of sectors

As outlined above, EU development cooperation with Timor-Leste over 2014-2020 under the 11<sup>th</sup> EDF is expected to focus on the following sectors:

- **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;

- **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.

Support in the above sectors will obviously cover several cross-cutting issues such as governance, democracy, human rights, gender, youth, conflict and violence, environment and decentralisation/deconcentration<sup>7</sup>. The second focal sector will also directly cover certain aspects related to education and training, health (including water, sanitation and hygiene), employment, and support to the private sector.

The choice of these sectors is based on an analysis of priorities outlined in Timor-Leste Strategic Development Plan, previous EU cooperation interventions and their evaluation, as well as consultations with a wide range of stakeholders in 2012-2013, including Government Officials and representatives of state institutions, civil society and development partners, including EU Member States. It also takes into account EU development priorities outlined in the EU Agenda for change and other strategic and policy documents, as well as the peacebuilding and statebuilding goals (PSGs) of the New Deal. Specifically, interventions in 'good governance' are expected to contribute to PSG 3 (addressing injustices and increasing people's access to justice) and PSG 5 (managing revenue and building capacity for accountable and fair service delivery), and interventions in 'rural development' will contribute to PSG4 (generating employment and improving livelihoods).

### 3.1. Good Governance

*Timor-Leste has made remarkable progress in just over a decade in establishing and consolidating the institutional framework to strengthen good governance and the rule of law, nevertheless capacity building remains a significant challenge to ensure fully functional and effective state institutions.* After many years of conflict, Timor-Leste's main goal is to be a stable and secure nation that recognises the rule of law, a culture of accountability and provides access to justice for all its citizens. Timor-Leste has an excellent record of conducting free and fair elections and has supplied expertise to other PALOP states in this regard. Checks and balances are provided for in the constitutional and legislative framework. Independent oversight of government activities and performance is vested in a number of organisations within and outside the justice system. Foremost among these are the National Parliament, the *Camara de Contas* (the Chamber of Accounts - to be integrated in the future High Administrative Tax and Audit Court - HATAC), the Anti-Corruption Commission (CAC), the Human Rights and Justice Ombudsman, civil society and the media. 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. Mindful of these considerable improvements, the shortage of qualified and skilled people, language barriers, and the absence of effective capacity building strategies, represent major challenges to ensure fully functional and effective state institutions. Key oversight institutions such as the National Parliament or the Chamber of Accounts still rely heavily on international staff to do line-function work, with limited time or effort placed on skills transfer and capacity building of the national counterparts. Further support is still needed to reinforce, regularise and fully implement check and balance mechanisms, including the superior councils of the various institutions, transparency of administrative acts and oversight mechanisms within the Government, the National Parliament and access to information to and through the media and civil society.

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<sup>7</sup> The Government has embarked in an ambitious deconcentration reform which foresees the establishment of pre-administration structures in each district in 2014 and local elections in a few pilot districts in 2016.

Timor-Leste is implementing sound public finance management reforms and is very advanced with regard to budget transparency. However the effectiveness of budget allocations and the quality of budget spending has been increasingly questioned by check and balance institutions, including the National Parliament. In addition it is crucial for Government to expand its revenue base in light of a possible decline of oil revenues in the medium-term.

***The Strategic Development Plan 2011-2030 identifies the strengthening of the institutional framework for governance as a key pillar for the social and economic development of Timor-Leste.***

The SDP outlines that achieving the goals of stability, security, enforcement of the rule of law and access to justice for all citizens, requires the development of transparent, accountable and competent institutions. It further states that good governance and a professional, capable and responsive public sector are essential for the delivery of Government services and the implementation of the SDP. Strengthening public finance management systems and check and balance institutions are key to achieve these objectives. Underpinning the SDP, one of the key principles of the Justice Sector Strategic Plan for Timor-Leste 2011-2013 (JSSP) is that justice institutions and its individual members should be responsible for their acts and for the use of State public resources, while emphasising that transparency of administrative acts and access to information are pre-requisites for the effective accountability of public powers. The Ministry of Finance (MoF) has a sound Strategic Plan for 2013-2017 which focuses largely on the continued implementation of public finance management reforms. All the strategic plans related to the institutional framework for governance (JSSP, MoF Plan, (draft) Parliament 2010-14 Plan) identify the capacity building of human resources as a key requirement.

***The EU has played a major role in supporting the building of the nation and the implementation of democratic principles and the rule of law across the country; further support is required given the very recent establishment of most state institutions related to governance.***

Under the 10<sup>th</sup> EDF, the EU is supporting capacity building programmes within the public administration (particularly in key areas such as planning and financial management in partnership with the World Bank and Australia), the justice sector, the National Parliament, media and civil society, in partnership with the Camões Institute for Cooperation and Language (CICL) and UNDP. While this contributed significantly to enhance oversight and accountability at both the institutional and individual level, further capacity building support is required given the very recent establishment of check and balance institutions. When developing interventions under the 11<sup>th</sup> EDF, the EU will place greater attention and resources to ensure that the key functions of oversight bodies are fully executed by national staff to enable an effective and sustainable functioning of transparent, accountable and competent institutions over the long term, rather than relying on international line-function assistance. In the area of public finance management, the EU will specifically support Government efforts to: i) increase non-oil domestic revenues; ii) target and improve the effectiveness of budget allocations to priority development sectors; iii) increase budget transparency; and iv) strengthen internal and external control of budget implementation (Parliament, Anti-Corruption Commission, establishment of the HATAC, civil society, media). Government transparency plays an important role in creating the enabling conditions for citizens to participate in policy deliberations, to make informed choices at the ballot box, and to hold government, parliamentary representatives and public officials accountable. Access to information plays also a major role in the drive against corruption. Overall, citizens who are better informed can contribute to the strengthening of good governance and democratic decision-making. As the increased participation of the media and civil society organisations in the country's future development is of vital importance, the EU will continue to reinforce their capacities under the 11<sup>th</sup> EDF.

### 3.2. Rural Development

***In a country where over two thirds of the population live in rural areas and over 63% of all households are engaged in crop production<sup>8</sup>, there are significant constraints to rural access and the development of the agriculture sector.*** Agriculture is a crucial sector in the socio-economic development of Timor-Leste. It is a major contributor to the non-oil GDP through the export of coffee principally and most of the Timorese living in rural areas depend on subsistence agriculture (rice, cassava, sweet potato, corn, beans). Some 80% of the poor nationwide and 90% of the poor in rural areas depend on agriculture for their livelihoods. An effective way of reducing poverty is by increasing production and productivity of staple foods but the rural economy faces a plethora of structural as well as cyclical constraints: demographic pressure and rural-urban migration; limited areas suitable for agriculture<sup>9</sup>, particularly for irrigated rice production; soil degradation and erosion; vulnerability to weather and environmental conditions; high pre- and post-harvest losses; unclear regulation of land ownership; poor infrastructure (particularly rural roads) and inadequate market access; lack of rural credit for commercially minded farmers; lack of access to productive inputs and machinery; limited organisation and training of farmers; weak development of agro-food industries; lack of preservation, conservation and processing facilities and infrastructure; limited production incentives due to conflicting Government policies and support systems which result in a lack of market/ price incentives; limited organisational and individual staff capacity of the Ministry of Agriculture and Fisheries (MAF) and other key agencies/institutions; and gender imbalance in access to the means of production. Crop yields are very low by both world and regional standards. Productivity trends of key food and industrial crops for the period 2006-2011 show stagnation or decline, while production trends over the same period reveal that, with the exception of maize and rice, overall production has also stagnated. The poor state of the rural road network is a major hindrance to Government's objectives to link people and communities, encourage agricultural and natural resources development, increase rural incomes and allow for the effective delivery of government services including health care, education and security.

***Social indicators in rural areas are not keeping pace with the fast development in the capital. Timor-Leste suffers from seasonal food insecurity and has the third highest stunting rate and the fourth highest prevalence of underweight children under the age of five globally<sup>10</sup>.*** With over 70% of families relying on some sort of farming activity for their survival, food security is a national issue. On average rural households go without enough rice or maize to eat for about 3.8 months each year while urban households experience food shortage for 2 months each year<sup>11</sup>. Households are required to purchase maize or rice or rely on foraging for wild food resources, selling animals and other assets, or on social networks. To address seasonal food insecurity, the government has focused on rice importation and the improvement of agricultural productivity within a multi-dimensional programme. Information on storage by households of the key staple, maize, indicates an improving trend in food security at the household level from 2006/2007 to 2010/2011 through a significant reduction in the percentage of 'at risk' households and there appears to be considerable scope for increasing maize and other crop yields. Nevertheless this picture remains vulnerable to weather shocks such as drought which are anticipated to increase with climate change; thus it is important to build further resilience into the agricultural systems of Timor-Leste.

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<sup>8</sup> 2010 Census. This figure may well be outdated given the important rural-urban migration in recent years.

<sup>9</sup> Arable land and permanent pasture each account for just under 10% of total land area. Permanent crops (including for export) occupy another 4%. FAO, 2011

<sup>10</sup> WHO Health Statistics, 2010. The UNICEF Global report on Improving Child Nutrition (April 2013), which considered only countries with current data on nutrition, ranks Timor-Leste as the country with highest stunting prevalence worldwide and the highest level of malnutrition among the countries in the Asia-Pacific region.

<sup>11</sup> Statistics cited in MAF Strategic Plan 2014-2020

Food insecurity is clearly reflected in the poor nutritional status of children and women, which is also linked to bad care, poor sanitation and hygiene condition, and traditional feeding practices. The Demographic Health Survey 2003 and 2009-2010 data show that child malnutrition in Timor-Leste is high and has not gone down but rather increased marginally: 58% of Timorese under-five children are stunted as a result of chronic malnutrition for over a long period of time; 45% are underweight and 19% experience wasting. As a result, Timor-Leste is unlikely to achieve the target of MDG 1 to 'halve between 1990 and 2015 the proportion of people who suffer from hunger'. Furthermore, 38% of people in Timor-Leste suffer from anaemia, a decreased number of red blood cells often caused by iron deficiency, which can have severe health consequences. Other key determinants of the low nutrition status include: poor access and difficulties to get basic health services; high risk of malaria; early stopping of breastfeeding; widespread diarrheal diseases (11% of deaths in children under five years old); very low access to safe water sources (69%) and improved sanitation (39%); with high urban-rural disparities (respectively 60% and 27% in rural areas)<sup>12</sup>. Responses to the food security/nutrition question have to date focussed mainly on aspects of availability and access to traditional food commodities as well as activities linked to diversification of the diet and support to the clinical aspects of acute malnutrition.

***Agriculture is a key development priority in the 2011-2030 Strategic Development Plan, however Government budget allocations to this sector remain limited.*** The abovementioned challenges have been identified in the SDP, the Fifth Constitutional Government Programme and the MAF Strategic Plan 2014-2020, which gives "highest priority to develop a strong and thriving/vibrant agricultural sector in order to reduce poverty, ensure food and nutrition security, and promote economic growth and employment in rural areas and across the nation." MAF has also produced Medium-Term Investment and Operational Plans (for 2014-2018) based on its strategic goals. These indicate a forecast budget deficit for the ministry of roughly US\$ 147 million for the period, excl investments in infrastructure. The strategy focuses on five objectives: i) Sustainable increase in production and productivity of selected crops, livestock species, fisheries and forestry sub-sector; ii) Enhance and improve market access and value addition; iii) Improve the enabling environment (legislation, policies, institutions, and infrastructure); iv) Ensure MAF and related agencies are strengthened and appropriately configured and equipped to deliver on its Strategic Plan and the overall SDP; v) Enhance sustainable resource conservation, management and utilisation. In spite of rural development being a strategic national priority, the national budget allocated to MAF halved from \$33 million in 2009 to \$16 million in 2012, and was only \$25 million in 2013 and 2014. Meanwhile the number of staff has more than doubled and the ministry is dependent on donors to a large extent for investment and operational costs, as well as for maintenance of facilities and equipment.

***The building and maintenance of core and productive infrastructure is also a central pillar of the Strategic Development Plan.*** The implementation of infrastructure projects will not only underpin the growth of Timor-Leste, but will also increase productivity, create jobs, particularly in rural areas, and support the development of the private sector. With two thirds of the population living in the rural areas, it is critical that the rural road network is improved to address the challenges highlighted above, especially with regard to the delivery of Government services in rural areas, agriculture production and market access. The SDP sets out an ambitious programme for rehabilitating all rural roads in Timor-Leste by locally based contractors, using labour-based methods where appropriate. The Government, through the work of the Ministry of Public Works (MoPW), the Secretariat of State for Support and Promotion of Private Sector (SEAPRI), the Secretary of State for professional training and employment policy (SEFOPE) and the National Labour Force Development Institute (INDMO), has therefore prioritised the capacity building of civil servants responsible for planning and managing rural road works and of local contractors.

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<sup>12</sup> WHO-UNICEF Joint Monitoring Programme - 2013 update



***The SDP, the Health Sector Strategic Plan 2011-2030 and the draft National Nutrition Strategy 2013-2018 all recognise the magnitude of the malnutrition problem and highlight the importance of promoting food security and nutrition.*** The draft Nutrition Strategy provides a framework for multi-sectoral action to reduce malnutrition and micronutrient deficiency among children and women by addressing the immediate, under-lying and basic causes of malnutrition, through the implementation of nutrition specific and nutrition sensitive interventions: Improve nutrients intake by mothers, children and adolescent girls; improve care for mothers and children; improve food security at household, community, and national Levels; improve hygiene practices and access to water and, sanitation; promote optimal nutrition behaviour and practices; and improve policies and capacity for multi-sectoral nutrition action. The strategy prioritises focus on pregnant women and children under the age of two in order to optimally use the window of opportunity of 1000 days from pregnancy to 24 months to reduce burden of malnutrition. Inter-ministerial coordination to improve the situation in the food security and nutrition sectors is now vested in KONSSANTIL, a MAF-chaired committee comprising 7 ministries and 4 state secretariats, which should play a major role in coordinating EU support with other Development Partners' support.

***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.*** Successive EU-funded programmes since 2003 focused on developing infrastructure and cash crops, improving agricultural extension services, value chains, community development, forestry management and rural roads. Support to food security interventions has also been supported under thematic budget lines. The fourth Rural Development Programme (RDP4, 2011-2016 – EUR 23 million) was implemented in partnership with CICL, the German international Cooperation Agency (GIZ) and the International Labour Organisation (ILO). The mid-term review of RDP4 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. Moreover it recommended to reinforce and widen the scope of the training for road contractors, introduce longer courses for road supervisors, and upgrade the road design standards to reduce maintenance costs. The NIP consultations confirmed these priorities and also raised the need to take advantage of the Government school feeding programme which creates market opportunities. Climate change and disaster risks should also be taken into account when formulating the specific support interventions.

***Support to health, including nutrition, was a focal sector under the 10<sup>th</sup> EDF and recent EU policies call for increased attention to food security and nutrition.*** The EU is supporting the strengthening of the management of the health sector through a multi-donor trust fund in partnership with the WB and Australia. A Nutrition Programme (EUR 10.7 million) will start in 2014 to help building institutional capacities and coordination, and strengthening community-based systems in support of nutrition services in partnership with UNICEF and the World Food Programme (WFP). EU support was also provided under thematic budget lines to improve water, sanitation and hygiene (WASH) condition in rural areas. The evolution of the overall EU policy framework related to food security since 2010 shows the importance attached by the EU to this issue, with Communications adopted on Food Security (An EU Policy Framework to Assist Developing Countries in Addressing Food Security Challenges, 2010), Resilience (The EU Approach to Resilience: Learning from Food Security Crises, 2012) and Nutrition (Enhancing Maternal and Child Nutrition in External Assistance: An EU Policy Framework, 2013). This policy framework will be taken into account when developing interventions under the 11<sup>th</sup> EDF supporting the implementation of Timor-Leste's food security and nutrition development agenda.



## 4. Financial overview

Sector	Indicative Allocation (EUR)	%
Sector 1 - Good Governance	30 million	32%
Sector 2 – Rural development	57 million	60%
Measures in favour of civil society	<i>Mainstreamed in the focal sectors</i>	
Support measures	8 million	8%
<b>TOTAL</b>	<b>95 million</b>	<b>100%</b>

## 5. EU support per sector

### 5.1. Good Governance

#### 5.1.1. Objectives and expected results

The **overall objective** is 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.

SPECIFIC OBJECTIVE	EXPECTED RESULTS
<b>SO1.1: To enhance the capacity of check and balance state and non-state actors (Parliament, Chamber of Accounts, Anti-Corruption Commission, Ombudsman Office, media, civil society) to play fully their role of participating in policy-making as well as providing oversight and control of, and informing citizens about the delivery of Government services.</b>	Enhanced parliamentary role in national budget processes in terms of analysis, decision, oversight and audit of execution
	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)
	Improved professional capacity of journalists to provide impartial and accurate reporting to citizens
	Increased non-state actors' and citizens' participation in the policy process and oversight of public institutions (including through the Ombudsman Office)
	Strengthened investigation and forensic capacities in terms of economic and financial crimes, corruption and money laundering
<b>SO1.2: To strengthen 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.</b>	Improved budget planning and execution
	Improved collection of custom and domestic revenues
	Strengthened internal and external audit
	Strengthened accounting, revenue reconciliation and debt management
	Implementation of fiscal decentralisation

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex.



### **5.1.2. Donor coordination and policy dialogue**

The Timor-Leste & Development Partners Meetings, the Development Policy Coordination Mechanism (DPCM), allow representatives of the Government, multilateral and bilateral institutions, partner countries, the private sector and civil society throughout Timor-Leste to reflect on the country's development challenges. This is completed by bi-annual Development Partners Meetings between Development Partners (DPs), the Ministry of Finance (MoF), and the Ministry of Foreign Affairs and Cooperation (MoFAC). However these formal gatherings only provide a limited opportunity for engaging in comprehensive discussions on progress and challenges in the governance sector. Governance and Institutional Development is one of the four Strategic Sectors of the Governance Structure of the Development Partner Coordination Mechanism established under the Office of the Prime Minister. This mechanism has only been established recently and it is hoped that it will be fully functional from 2014 under the leadership of the Prime Minister's Office and the MoF. The EU holds regular discussions with DPs involved in the governance sector, principally UNDP, Australia and Portugal, but further practical coordination seems required to ensure that the same approach is applied by all development partners and avoid duplication of efforts, including with civil society organisations. The foreseen intervention under this focal sector should take this into account during the formulation stage. Political dialogue between the EU, its Member States and the Government of Timor-Leste is expected to touch several aspects related to the governance sector. There is close coordination in the PFM sector and development partner's support is fully aligned with MoF strategic plan. One DP is invited to MoF Senior Management Committee Meetings. Australia and the EU are coordinating their budget support operations with joint reviews. The possibility to involve civil society organisations specialised in PFM issues should be assessed. In addition, further cooperation with the IMF within the framework of annual Article IV consultations is required.

### **5.1.3. The Government's financial and policy commitments**

The strengthening of the institutional framework, including governance and PFM, is one of the two support pillars of the three key areas of the Strategic development Plan. There is a clear commitment by the Government to promote fundamental values of democracy, human rights, and rule of law and to further pursue reforms to strengthen good governance. Further progress in approving/ implementing legislation related to decentralisation and deconcentration, land, anti-corruption and freedom of information is expected in 2014-2015. The Government commits to keep the EU informed about developments to ensure comprehensive discussions during policy and political dialogues.

### **5.1.4. Environmental assessment**

Not relevant

### **5.1.5. Overall risk assessment of the sector intervention**

Potential risks include i) deviation from Government commitments to promote fundamental values related to democracy, rule of law and human rights; ii) difficulties in maintaining peace and stability throughout the country, particularly due to high youth unemployment and perceived growing inequalities; ii) slippages in macroeconomic indicators and budgetary indiscipline; ii) slow pace in implementing PFM reforms, including the introduction of VAT; ii) slow pace in approving/implementing crucial legislation related to decentralisation/deconcentration, land, anti-corruption, freedom of information and establishment of HATAC. Although it would obviously be difficult to mitigate fully these risks within the sole context of the foreseen intervention under this

focal sector, one of very objectives of the intervention is precisely to limit these risks, through a reinforced political and policy dialogue between the EU (including its Member States) and the Government of Timor-Leste, and strengthening institutional capacities. Should it be confirmed, the use of budget support would form a stronger basis for this dialogue on fundamental values, as well as to encourage the Government to maintain stability-oriented macroeconomic and fiscal policies in line with recommendations agreed with the International Monetary Fund (IMF) and to actively pursue public finance management reforms.

## 5.2. Rural Development

### 5.2.1. Objectives and expected results

The **overall objective** 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.

SPECIFIC OBJECTIVE	EXPECTED RESULTS
SO 2.1: To develop a sustainable, market oriented, competitive and prosperous agricultural sector in order to increase employment and income in rural areas	Enhanced skills related to productive sectors at district level
	Sustainable increase in the production and productivity of selected crops, livestock species, fisheries and forestry sub-sector.
	Improved market (domestic and export) access and value addition
	Strengthened policy, institutional and organisational framework
	Enhanced Natural Resources Conservation Management and Utilisation
SO 2.2: 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	Enhanced capacity to implement rural road works
	Improved access
	Increased employment and skills of local population
SO 2.3: To reduce malnutrition and micronutrient deficiency among children and women	Improved nutrients intake by mothers, children and adolescent girls
	Improved care for mothers and children
	Improved food security at household, community, and national Levels
	Improved hygiene practices and access to water and, sanitation
	Improved optimal nutrition behaviour and practices
	Improved policies and capacity for multi-sectoral nutrition action

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex.

### 5.2.2. Donor coordination and policy dialogue

There is growing inter-ministerial and donor coordination in the food security sector. There are now regular meetings of the National Council for Food Security, Sovereignty and Nutrition in Timor-Leste (KONSSANTIL), to which the EU and other Development Partners are invited, as well as of the Inter-ministerial Food Security and Nutrition Task Force. There is also a coordinating group for EU-funded food security projects. Rural Development / Agriculture is a sub-sector of one of the four Strategic Sectors (Economic) of the Governance Structure of the Development Partner Coordination Mechanism established under the Office of the Prime Minister. However this mechanism is not yet fully functional.

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There is also growing coordination in the area of rural access with regular meetings of the Rural Roads Working Group, chaired by the Ministry of Public Works. As part of its policy dialogue with Government, the EU will participate more actively in the work of KONSSANTIL and the Inter-ministerial Food Security and Nutrition Task Force, and will encourage an increase and more effective allocation of Government resources to the agriculture sector and rural infrastructure. When formulating the 11<sup>th</sup> EDF programme, it will be essential to ensure full coordination with other major programme in the rural development sector, including Seeds of Life, and Roads for Development both funded by Australia.

### **5.2.3. Government's financial and policy commitments**

The Government is committed to implement the MAF Strategic Plan, the revised Nutrition Strategy, the strategic plan for technical and vocational education and training, the National Employment Strategy, the MoPW Plan for rehabilitation and maintenance of rural access roads and the district strategic plan to implement the ongoing decentralisation process. Medium-term action plans and operational & investment programmes have been prepared by and for the major ministries, illustrating the proposed application of projected budget allocations to specific activities within their strategic frameworks. The adequate allocation of Government resources towards agriculture, rural roads and nutrition interventions in line with these investment and operational programmes will be a key point of discussion between the EU and the Government, particularly in the case that a share of EU financial support to this sector is provided in the form of budget support.

### **5.2.4. Environmental assessment**

Many interventions in the field of rural development have a potentially negative impact on the environment (inputs, facilities, etc.) or can be affected by the environment (climate/weather change). Some interventions, such as soil and water conservation, and environment-friendly agriculture techniques can on the contrary help to protect the environment. EU support in this area will therefore require appropriate environmental assessments during the identification and formulation stage.

### **5.2.5. Overall risk assessment of the sector intervention**

Potential risks include i) limited Government budget allocated to agriculture, rural infrastructure and nutrition; ii) dysfunctional or inefficient coordination mechanism; iii) limited market opportunities for increased agricultural output; iv) limited credit opportunities for farming activities; v) negative impact of agriculture on the environment; and vi) impact of climate change and weather conditions on agriculture and road rehabilitation. This will be mitigated to the extent possible through policy discussions, institutional support and capacity building, relevant environment impact assessment and research, and promotion of sound environmental agricultural production techniques.

## **6. Measures in favour of civil society**

In line with the Cotonou Agreement and its Annex IV, and in recognition of the important role played by civil society in the development of Timor-Leste, an indicative amount of up to 4.6 million Euros is expected to be allocated to supporting civil society organisations in the context of the two focal sectors mentioned above. This support will be mainstreamed in the programmes approved in each focal sector to ensure full alignment and coordination with Government policies and strategies in these sectors. Support to direct service delivery by civil society should be limited; focus should rather

be placed on soft activities related to community participation and awareness, cooperation with local authorities, training, research, advocacy and oversight.

In addition to the support provided under the 11<sup>th</sup> EDF, civil society in Timor-Leste may benefit from funding opportunities under various EU thematic programmes and instruments such as global public goods and challenges (climate change and environment, sustainable energy, human development, food security, migration and asylum, etc), support to civil society organisations and local authorities, European Instrument for Democracy and Human Rights, and Instrument for Stability.

## 7. B-allocation

A B-allocation to cover unforeseen necessities is included in the national indicative programme (NIP). This allocation will be zero euro (EUR 0) until a need arises. In case of necessity, a Financing Decision to meet an unforeseen or urgent need can always be taken notwithstanding the status of the indicative B-allocation mentioned in the NIP.

## 8. Support Measures

With a view to reduce transaction costs, support previously provided under the Technical Cooperation Facility and support to the National Authorising Officer (NAO) will be combined under an EU - Timor-Leste Cooperation Support Facility. This facility will cover:

1. Activities of limited amount and duration aimed at supporting or accompanying the programming, preparation, implementation, monitoring and evaluation, and visibility of EU-TL cooperation. It cannot be used to finance small projects in addition to the two focal sectors of cooperation, nor for action related to cross-cutting issues, which should be financed within the focal sectors. Support will include financing of *inter alia* technical assistance, studies, training, workshops, evaluation and audit as well as visibility material and cultural events in cooperation with EU Member States;
2. Support to the Services of the NAO to allow him to fulfil adequately his role and ensure effective management of the funds allocated to Timor-Leste. Support will include financing of *inter alia* technical assistance, staff, office equipment, training, project monitoring missions, and missions to attend regional and international events related to EU-TL cooperation (including EDF regional programme);
3. Limited support and advisory services may also be provided to assist Timor-Leste's accession process to ASEAN, and to strengthen the Government's capacity to meet its ASEAN commitments.

## ANNEXES

1. Country at a glance
2. Donor matrix
3. Sector intervention framework and performance indicators
4. Indicative timetable for commitment of funds

## Annex 1 – Country at a Glance

### Selected Economic and Financial Indicators, 2009-2014

GDP at current prices (2012):	US\$6.3 billion					
Population (2012):	1.1 million					
GDP per capita (2012):	US\$5,643					
Non-oil GDP per capita (2012):	US\$1,175					
Quota:	SDR 8.2 million					
	2009	2010	2011	2012	2013	2014
				Est.	Proj.	
(Annual percent change)						
Real sector						
Real total GDP	-6.7	-1.4	7.3	5.7	-3.2	-6.9
Real non-oil GDP	12.8	9.5	12.0	8.3	8.1	8.0
CPI - Timor Leste (annual average)	0.1	4.5	11.7	13.1	10.6	9.5
CPI - Timor Leste (end-period)	1.1	8.0	15.4	10.8	10.4	8.5
(In percent of GDP, unless otherwise indicated)						
Central government operations						
Revenue	62.6	64.9	66.5	69.1	59.7	63.6
Domestic revenue	2.8	2.3	1.9	2.2	2.4	3.3
Petroleum revenue	51.3	55.3	59.7	62.9	53.4	56.1
Grants	8.5	7.3	4.9	4.0	3.9	4.2
Expenditure	31.3	27.0	23.8	22.1	23.5	26.5
Recurrent expenditure	12.0	12.0	8.8	10.7	10.8	11.1
Capital expenditure	10.8	7.6	10.1	7.3	8.8	11.2
Donor project	8.5	7.3	4.9	4.0	3.9	4.2
Overall balance	31.3	37.9	42.7	47.0	36.2	37.1
Non-oil overall balance (in percent of non-oil GDP)	-79.8	-78.3	-87.5	-73.7	-65.2	-56.7
(Annual percent change, unless otherwise indicated)						
Money and credit						
Deposits	38.7	9.8	8.9	26.2	21.2	21.7
Credit to the private sector	1.1	5.9	21.1	20.5	21.2	21.7
Lending interest rate (percent, end-period)	11.2	11.0	11.0	12.2	...	...
(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments						
Current account balance 1/	1,287	1,676	2,340	2,738	2,105	1,819
(In percent of GDP)	39.0	39.8	40.4	43.5	34.3	32.1
Trade balance	-320	-277	-349	-639	-731	-829
Exports 2/	15	29	25	33	37	42
Imports	335	306	374	672	769	871
Services (net)	-774	-961	-1,415	-921	-1,004	-1,118
Petroleum revenue	1,692	2,331	3,461	3,960	3,273	3,183
Overall balance	39	156	55	422	-194	122
Public foreign assets (end-period) 3/	5,627	7,303	9,765	12,652	14,419	16,748
(In months of imports)	58	65	63	91	93	96
Exchange rates						
NEER (2005=100, period average)	95.4	89.3	84.2	86.4	...	...
REER (2005=100, period average)	105.2	102.3	105.6	118.1	...	...
NEER (2005=100, end-period)	89.3	86.7	86.0	86.5	...	...
REER (2005=100, end-period)	99.1	101.7	114.8	125.8	...	...
Memorandum items:						
GDP at current prices:	3,299	4,216	5,797	6,300	6,129	5,673
Non-oil GDP	827	934	1,128	1,355	1,615	1,901
Oil GDP	2,472	3,281	4,669	4,945	4,514	3,772
Crude oil prices (U.S. dollars per barrel, WEO)	62	79	104	105	104	101
Petroleum Fund balance (in millions of U.S. dollars)	5,377	6,897	9,303	11,768	14,206	16,535
Petroleum Fund balance (in percent of non-oil GDP)	650	738	825	868	880	870
Public debt (in millions of U.S. dollars)	0	0	0	0	44	267

Sources: Timor-Leste authorities; and IMF staff estimates and projections.

1/ Excludes trade in goods and services of entities located in the Joint Petroleum Development Area which are considered non-resident entities.

2/ Excludes petroleum exports, the income of which is recorded under the income account.

3/ Includes Petroleum Fund balance and the central bank's official reserves.

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## Millennium Development Goals Progress, 1990-2012

	1990	1995	2000	2005	2009	2012
<b>Goal 1: Eradicate extreme poverty and hunger</b>						
Employment to population ratio, 15+, total (%)	67	67	65	68	68	68
Income share held by lowest 20%	...	...	7	9	9	9
Malnutrition prevalence, weight for age (% of children under 5)	...	...	41	42	...	45
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	...	...	53	37	37	37
<b>Goal 2: Achieve universal primary education</b>						
Primary completion rate, total (% of relevant age group)	...	...	...	...	68	66
Total enrollment, primary (% net)	...	...	...	67	80	86
<b>Goal 3: Promote gender equality and empower women</b>						
Proportion of seats held by women in national parliaments (%)	...	...	...	25	29	32
Ratio of female to male primary enrollment (%)	...	...	...	92	95	96
Ratio of female to male secondary enrollment (%)	...	...	...	100	...	101
Ratio of female to male tertiary enrollment (%)	...	...	127	...	71	71
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	...	...	35	...	...	...
<b>Goal 4: Reduce child mortality</b>						
Immunization, measles (% of children ages 12-23 months)	...	...	56	48	70	...
Mortality rate, infant (per 1,000 live births)	135	112	86	64	51	46
Mortality rate, under-5 (per 1,000)	180	148	109	79	61	54
<b>Goal 5: Improve maternal health</b>						
Adolescent fertility rate (births per 1,000 women ages 15-19)	...	85	78	59	54	...
Births attended by skilled health staff (% of total)	...	26	24	18	29	...
Contraceptive prevalence (% of women ages 15-49)	25	23	8	20	22	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	650	880	610	410	...	300
Pregnant women receiving prenatal care (%)	...	...	43	61	...	84
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	...	47	...	...	6
Incidence of tuberculosis (per 100,000 people)	...	...	...	733	703	643
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	...	...
Prevalence of HIV, male (% ages 15-24)	...	...	...	...	...	...
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	...	...	...
Tuberculosis case detection rate (% of all forms)	...	...	64	76	84	...
<b>Goal 7: Ensure environmental sustainability</b>						
CO2 emissions (kg per PPP \$ of GDP)	...	...	0.0	0.2	0.2	...
CO2 emissions (metric tons per capita)	...	...	0.0	0.2	0.2	...
Improved sanitation facilities (% of population with access)	...	37	39	43	46	47
Improved water source (% of population with access)	...	52	54	62	67	69
Marine protected areas (% of territorial waters)	0.0	0.0	1.0	1.0	6.7	6.7
<b>Goal 8: Develop a global partnership for development</b>						
Internet users per 100 inhabitants	...	...	...	0.1	0.2	0.9
<b>Memorandum items:</b>						
GNI per capita, Atlas method (current US\$)	...	...	320	740	2,250	3,670
GNI, Atlas method (current US\$) (billions)	...	...	0.3	0.7	2.5	4.4
Gross capital formation (% of GDP)	...	...	25.6	...	...	...
Life expectancy at birth, total (years)	45.8	51.3	56.2	59.6	61.5	62.5
Literacy rate, adult total (% of people ages 15 and above)	...	...	37.6	50.6	...	58.3
Population, total (thousands)	...	...	897	970	1,060	1,120

Source: Millennium Development Goals database, 2013; World Development Indicators database, 2013; and Timor-Leste authorities.

TM

## Annex 2 – Donor Matrix

2010-2013 Actual Disbursement by Donor and SDP Pillars/Sub-Pillars

(US \$ million)	Social Capital				Infrastructure Development				Economic Development				Institutional Framework							TOTAL				
	Education and Training	Health	Social Inclusion	Environment	Culture and Heritage	Roads and Bridges	Water and Sanitation	Electricity	Sea Ports	Airports	Telecommunications	Rural Development	Agriculture	Petroleum	Tourism	Private Sector Investment	Security	Defense	Foreign Affairs		Justice	Public Sector Management and Good Governance	AND EPJA	Uncategorized to Sub-Pillars
Agência Brasileira de Cooperação (Brazil)	2.8	0.1															0.4			0.1			0.1	3.6
Asian Development Bank		0.4				10.9	3.6																7.2	22.1
Australian Department of Immigration and Citizenship																							3.6	3.6
Camões - Instituto da Cooperação E da Língua (Portugal)	11.3	0.7										0.7						0.1	0.1	0.4	0.9		3.0	17.2
Canadian International Development Agency																					0.1			0.1
DFAT - Australian Aid Program	44.8	50.0	6.9	4.1		15.9	36.0			0.6		4.9	15.8	33.3		0.5	0.0			1.4	22.6		14.3	251.1
Department for International Development			0.6																					0.6
Embassy of Japan							0.2																0.5	0.7
Embassy of the United States of America	0.0		0.0																					0.0
European Union	11.9	7.6	4.7			8.0	3.6	2.3				14.4	15.1		0.5	2.3	2.1			1.6	5.3		5.4	84.8
Finland	1.1	0.3	0.0										0.2								0.1			1.6
Food and Agriculture Organization												0.4	0.0											0.4
France	0.0				0.0																			0.0
German Cooperation	2.3		5.3						0.6			6.8	6.4						0.4				3.3	25.1
Global Environment Facility				0.8			0.2																	1.0
Global Environment Facility Trust Fund																							0.1	0.1
Government of Australia	0.0		0.2														67.9			0.1			0.0	68.2
Government of Ireland	0.9																0.2			0.2	0.5			1.8
Government of Japan	5.9	4.1		0.4		1.1	0.6					0.6									0.5		1.2	14.4
Government of Netherlands	0.9																							0.9
Government of Spain	1.4	2.2	1.7		0.0							0.8								0.5				6.7
Government of Sweden	7.2		0.6																					7.8
International Finance Corporation																3.3								3.3
International Fund for Agricultural Development												0.9												0.9
International Organization of Migration			1.4																	0.2			0.6	2.1
Irish Aid	5.5		2.2			1.3					0.0					5.3				0.2	0.3			14.8
Italian Ministry of Foreign Affairs	0.3																							0.3
Japan International Cooperation Agency	3.7	1.1	0.4	0.5		13.7	11.0	14.8				8.5				0.8	0.0	0.6			3.8	1.0	0.0	60.1
Korean International Cooperation Agency	8.3											0.2											0.8	9.3
Monaco		0.1	0.0									0.3									0.0			0.4
National Committee for the UN Women in Australia	0.0																							0.0
New Zealand	26.0		0.0				0.9					1.3				0.4	2.2	0.3					0.5	31.7
Norway	5.8		0.5			2.3	0.6	2.7						5.3			0.4			5.3	0.1			23.0
Office of the United Nations High Commissioner for Human Rights	0.0		0.1																	0.5			0.4	1.0
Portugal	13.7	0.1		0.1														4.3		3.9	0.4		20.3	42.8
Russian Government			0.7																					0.7
Spanish Agency for International Development Cooperation		0.4	2.5									1.9								1.5			3.3	9.6
Swedish International Development Cooperation Agency	2.8																			4.1				6.9
Thailand		0.3										0.1											0.0	0.4
The Global Fund to Fight AIDS, Tuberculosis and Malaria		23.5																						23.5
The People's Republic of China	7.7	14.3	0.5									4.7					10.7	3.1	0.5		1.7		6.9	50.1
UN Human Security Trust Fund			0.8																					0.8
UN Women			0.1																					0.1
UNICEF Core Resources	4.8	4.2					1.5													0.7			0.5	11.7
United Nations	0.8																			1.0				1.8
United Nations Children's Fund	18.4	1.5					8.4													0.8			2.3	31.4
United Nations Development Programme	2.7		0.7	0.4			0.2									0.3	0.5			0.7	0.9		0.3	6.7
United Nations Development Programme BCPR			2.7																	1.6			0.4	4.7
United Nations Development Programme (JPAA)			0.8																		2.0		0.2	3.0
United Nations Educational, Scientific and Cultural Organization	0.7		0.2	0.1																				1.0
United Nations Population Fund		9.9	0.1																				1.4	11.4
United States Agency for International Development	5.9	7.8	1.0	0.3		12.2						0.3	17.7				2.0			8.8	9.5		0.7	66.2
United Nations Office for the Coordination of Humanitarian Affairs	0.8																							0.8
World Bank	13.4	1.4	2.0	0.2		5.6	0.4			0.2		0.3								0.3	2.3		0.5	26.6
World Food Program		2.4										0.2												2.6
World Health Organization		4.7																						4.7
TOTAL	211.8	137.1	36.8	6.9	0.0	58.8	79.0	5.4	15.5	0.6	0.2	27.5	74.9	38.6	0.5	13.0	86.4	7.5	1.9	33.9	51.1	1.0	78.0	966.3



## Annex 3 – Sector Intervention Framework and Performance Indicators

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programme period.

EXPECTED RESULTS		INDICATORS		BASELINE		TARGET		MEANS OF VERIFICATION	
FOCAL SECTOR 1: GOOD GOVERNANCE									
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.									
SO 1.1: To enhance the capacity of check and balance state and non-state actors (Parliament, Chamber of Accounts, Anti-Corruption Commission, Ombudsman Office, media, civil society) to play fully their role of participating in policy-making as well as providing oversight and control of, and informing citizens about the delivery of Government services.									
1.1.1.1 Enhanced parliamentary role in national budget processes in terms of analysis, decision, oversight and audit of execution		1.1.1.1a Increased capacity of the Parliament to produce meaningful budget oversight reports and proposed budget amendments		Analysis, recommendations and proposed amendments are made with substantial support from international TA		By 2020, analysis, recommendations and proposed amendments are made with no support from international TA		Reports of Parliamentary oversight committees; Recorded requests by the committees pertaining to the budget process	
1.1.1.2 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)		1.1.1.2a Number of Audit Reports and Opinion on the state of the Books and Accounts of the Nation issued by the Chamber of Accounts		None yet from the Chamber of Accounts		Reports & opinions about the General State Budget published annually		Audit Reports produced and published online Official Journal	
1.1.1.3 Improved professional capacity of journalists to provide impartial and accurate reporting to citizens		1.1.1.3a Number of journalists trained each year (with EU support) in professional and technical journalism skills (including in monitoring, analysing, and publicising government budget and corruption)		140 (40%) journalists received basic training (2013)		60 journalists receive basic and advanced training per year		News and Press Releases; Participants in training activities; Evaluations of training activities	
1.1.1.4 Increased non-state actors' and citizens' participation in the policy process and		1.1.1.4a Number of contributions made by CSOs (benefiting from EU support) on policies/laws related to good governance (budget, corruption, justice, security, etc)		Existent but not systematic and not reported		Increase over previous year		Press Conferences, Press Releases and reports from Civil Society Organizations	



EXPECTED RESULTS	INDICATORS	BASELINE	TARGET	MEANS OF VERIFICATION
oversight of public institutions		upon		
1.1.5 Strengthened investigation and forensic capacities in terms of economic and financial crimes, corruption and money laundering	1.1.5a Number of investigated and prosecuted economic and financial crime, corruption and money laundering cases per year	Not available	Increase over previous year	Annual reports from relevant institutions
SO 1.2: To strengthen the effectiveness, integrity, transparency, accountability and control of public finance management (PFM) in order to improve the implementation of fiscal and development policies				
1.2.1 Improved budget planning and execution	1.2.1a Reduced percentage of actual budget expenditures compared to allocations	76% (2013)	Get closer to +/- 5% of allocations	MoF Progress Reports on implementation of MoF Strategic Plan  Bi-annual independent assessment of progress in MoF Strategic Plan  PEFA reports
	1.2.1b Number of line Ministries fully using FMIS	Very limited use by line Ministries (2014)	Annual increase of line Ministries fully using FMIS	
	1.2.1.c Use of Programme Budgeting for line ministries' budget submissions	Not used (2014)	All line Ministries (2015)	
	1.2.2a Tax ratio (tax collection as percentage of GDP)	1.7% (2013,prelim.)	Increase over previous year	
1.2.2 Improved collection of custom and domestic revenues	1.2.2.b Reduced number of non-compliant taxpayer	N/A	Reduced by 10% every year	
1.2.3 Strengthened internal and external audit	1.2.3a Increased compliance with international standards for internal audit (ISPPA and INTOSAI)	Plan to be developed to comply with 40 ISPPA and 2 INTOSAI standards	Gradual annual progress in complying with standards according to plan	
	1.2.3.b Number of internal audit reports (with recommendation for corrective action) produced by Line Ministries each year	N/A	To be determined	
1.2.4 Strengthened accounting, revenue reconciliation and debt management	1.2.4a Quarterly production of consolidated financial statements each year	Not yet produced automatically by FMIS (2014)	Produced quarterly by FMIS from 2014	
1.2.4 Implementation of fiscal decentralisation	1.2.5a Number of district treasuries operational and using FMIS	3 district treasuries have access to FMIS	At least 8 by 2015	

## FOCAL SECTOR 2: RURAL DEVELOPMENT

### Overall objective:

To improve the socio-economic development in rural areas through improved access, the creation of economic opportunities and a durable reduction in food insecurity and malnutrition at district level.

SO 2.1: To develop a sustainable, market-oriented, competitive and prosperous agricultural sector in order to increase employment and income in rural areas

	2.1.1a Number of district officials (extension workers) participating in in at least 4 in service training modules	To be confirmed	At least 400 by 2018	
2.1.1 Sustainable increase in the production and productivity of selected crops, livestock species, fisheries and forestry sub-sector.	2.1.1b Land area used for production of selected food and horticultural crops (rice, maize, soya bean, mung bean, ground nuts, vegetables, tubers, potatoes)	2013 (ha):  Rice: 38,966  Maize: 54,539  Soy Bean: 910  Mg Bean: 1,935  Vegetables: 571  Cassava: 7,829  Swt Pot.: 3,386	2018 (ha):  Rice: 49,732  Maize: 69,607  Soy Bean: 1,161  Mg Bean: 2,469  Veg.: 4,000  Cassava: 9,992  Swt Pot.: 4,322	MAF database and statistics KONSANTIL meetings and data (including NIEWS) Implementing partners Progress Reports Rural Development coordination meeting reports Implementation of MAF Strategic Plan National Budget MCIE Environmental statistics and Strategic Plan implementation Independent assessments
	2.1.1c Average yields of selected food and horticultural crops (rice, maize, soya bean, mung bean, ground nuts, vegetables, tubers, potatoes)	2013 (Mt/ha):  Rice: 2.63  Maize: 1.6  Soya Bean: 1.22  Mg Bean: 0.93  Veg.: 7.27  Cassava: 3.92  Swt Pot.: 2.74	2018 (Mt/ha):  Rice: 3.35  Maize: 2.04  Soya Bean: 1.55  Mg Bean: 1.19  Veg.: 7.5  Cassava: 5  Swt Pot.: 3.5	

2.1.2	Improved market (domestic and export) access and value addition	2.1.2a	Number of agricultural cooperatives actively implementing input distribution and product marketing	11 cooperatives are active in agriculture and fisheries in 2014	Not yet specified	
2.1.3	Strengthened policy, institutional and organisational framework	2.1.3a	A unified centralised and reliable database is established in MAF to produced annual reports	Unreliable data in different databases and no annual report (2013)	Database established and annual reports produced by 2018	
2.1.4	Enhanced Natural Resources Conservation Management and Utilisation	2.1.4a	Number of district officials, farmers and students trained in integrated crop management, crop rotation systems & practices, organic farming, integrated agriculture/aquaculture systems and agro-forestry	Not yet specified	Not yet specified	
SO 2.2: To implement a capacity building and labour-based programme to rehabilitate and maintain rural roads in order to improve access, employment, economic opportunities and delivery of Government services for local population						
2.2.1	Enhanced capacity to implement rural road works	2.2.1a	Number of government officials, employees and employers trained in road rehabilitation and maintenance per year	100 companies, 400 staff, 20 gov. Officials (up to 2013)	60 companies, 230 staff 14 gov. Officials per year	MPW statistics Infrastructure Coordination Group meetings and data Implementing partners Progress Reports Implementation of MPW Strategic Plan Other Stakeholders reports (ADB, JICA, WB) Independent assessments
2.2.2	Improved access	2.2.2a	Number of Kms of rural roads rehabilitated/maintained	300km (2013)	1465km (2017), about 300km p.a.	
2.2.3	Increased employment and skills of local population	2.2.3a	Number of people employed under labour-based road rehabilitation and maintenance programmes per year	About 7,500 benef./yr. 450,000wd/yr. (2013)	About 7,500 benef./yr. 450,000wd/yr.	
SO 2.3: To reduce malnutrition and micronutrient deficiency among children and women						
2.3.1	Improved nutrients intake by mothers, children and adolescent girls	2.3.1a	Percentage of pregnant and lactating women received Iron and Folic Acid	67.1% (2013, TLFNS) *	80% (2017)	Demographic and Health Survey (DHS)
		2.3.1b	Percentage of children 6-23 months receiving minimum dietary diversity	27.5% (2013, TLFNS)	70% (2017)	Health Management Information System (HMIS) Food and Nutrition Survey (FNS) MoH Annual Report Sentinel Surveillance

2.3.2 Improved care for mothers and children	2.3.2a Percentage of women having ante-natal and post-natal care	2013: ANC: 87.2% (TLFNS) PNC: 47.1% (HMIS)	TBD	
	2.3.2b Percentage of children with diarrhea treated receiving zinc in conjunction with oral rehydration solution	29.9% (TLFNS)	70% (2017)	
	2.3.3a Percentage of households with access to nutritious food (Household Food Consumption Score as proxy)	61.3% (TLFNS)	TBD	
2.3.3 Improved food security at household, community, and national levels	2.3.4a Percentage of households with improved latrines	41% (DHS, 2010)	80% (2017)	
	2.3.4b Percentage of households with access to improved source of drinking water	63% (DHS, 2010)	80% (2017)	
2.3.4 Improved hygiene practices and access to water and sanitation	2.3.5a Percentage of communities having community groups promoting nutrition-related behaviour and practices	27% (2012)	90% (2017)	
2.3.5 Improved optimal nutrition behaviour and practices	2.3.6a Nutrition data is integrated in HMIS/MIS	Limited nutrition data (2014)	Improved nutrition data integrated in HMIS(2017)	
2.3.6 Improved policies and capacity for multi-sectoral nutrition action				

(\*) preliminary data from the 2013 Timor-Leste Food and Nutrition Survey (TLFNS)

#### Annex 4 – Indicative Timetable for Commitment of Funds

Sector	Indicative Allocation (million EUR)	2014	2015	2016	2017	2018	2019	2020
Sector 1 - Good Governance	30		25			5		
Sector 2 – Rural development	57		35	8		12	2	
Support measures	8	5			3			
B-allocation	0							
<b>TOTAL</b>	<b>95</b>	<b>5</b>	<b>63</b>	<b>8</b>	<b>2.5</b>	<b>14</b>	<b>2</b>	

*NB:* It is expected that funds foreseen to be committed after 2017 will be used to cover an amendment to the existing financing agreements, taking into account the findings and recommendations of mid-term reviews.