ANNEX

of the Commission Decision on the financing of the annual action programme for 2019 in favour of Timor-Leste to be financed from the 11th European Development Fund

**Action Document for the Supporting Programme to Deconcentration and Decentralisation process in Timor-Leste (SPDD-TL)**

<table>
<thead>
<tr>
<th>1. Title/basic act/CRIS number</th>
<th>Supporting Programme to Deconcentration and Decentralisation process in Timor-Leste (SPDD-TL) CRIS number: 2019/041-577 financed under the 11th European Development Fund</th>
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<td>5. Sector of intervention/thematic area</td>
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<td>6. Amounts concerned</td>
<td>Total estimated cost: EUR 15 000 000 Total amount of EDF contribution EUR 15 000 000 of which EUR 11 250 000 for budget support EUR 3 250 000 for complementary support EUR 250 000 for communication and visibility EUR 250 000 for evaluation and audit</td>
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<td>8 a) DAC code(s)</td>
<td>Main DAC code: 150 (Government and civil society)</td>
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Sub-code 15150: Democratic participation and civil society | 5%
Sub-code 15152: Legislatures and political parties | 15%
Sub-code 43030: Urban development and management | 5%

#### b) Main Delivery Channel

- Channel 1: Recipient Government (Republic of Timor-Leste) | 12000
- Channel 4: Multilateral Organisations (UNDP) | 41114

#### 9. Markers (from CRIS DAC form)

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<th>Principal objective</th>
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<tr>
<td>Climate change adaptation</td>
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#### 10. Global Public Goods and Challenges (GPGC) thematic flagships

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### SUMMARY

The overall objective of the Programme is to contribute to Timor-Leste's sustainable development. Its specific objective is to support the deconcentration and decentralisation process¹, bringing governance, public administration and services closer to people, for both women and men, giving special attention to the needs and priorities of people living in vulnerable situations.

The intervention logic of this programme is based on four main induced outputs addressing different levels and different stakeholders (duty bearers) and beneficiaries (rights holders):

- **Induced output 1**: improved deconcentration and decentralisation policy, institutional and legal framework and inclusion of gender balance and women empowerment;
- **Induced output 2**: increased capacity of local administrations to deliver public services to the population in a sustainable way;
- **Induced output 3**: mechanisms for improving local governance (e-procurement) and public services delivery (‘loja do cidadão – Uma Sidadaun’) established;
- **Induced output 4**: improved public service delivery at the local level; women and populations living in vulnerable situations are empowered and their role is better promoted.

The project aims to achieve four direct outputs:

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¹ With regards to terminology used in the context of this programme, **deconcentration** is understood as the weakest form of decentralisation, redistributing decision making authority and financial and management responsibilities among different levels of the central government. It can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries. In the Timorese context, deconcentration is mentioned in the legal framework for public administration reforms as the first/temporary step leading towards the **territorial decentralisation** (the latter understood as a transfer of power to the locally elected governments).
DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds; DO2. Improved policy performance and assessments; DO3. Improved policy dialogue and coordination; DO4. Strengthened capacities conducive to the improvement of the deconcentration and decentralisation policy, institutional and legal framework.

The project is fully complementary and aligned with the on-going Public Finance Management and Oversight (PFMO) programme, which is already supporting the Ministry of Finance on Public Finance Management (PFM), through budget support, and the check and balance institutions with complementary support. The new initiative enlarges its approach to the decentralised level, building on lessons learnt and disseminating a practice of good governance, gender balance, and effective management in the recently created local administrations. The aim of this action is to improve public service delivery, bring institutions closer to local population, especially in remote areas and in vulnerable situations, promote active participation of both women and men and reinforce democracy.

In respect of the division of labour, as defined by the Agenda on Aid Effectiveness, induced output 2 and, partly, induced outputs 3 and 4 will be implemented through budget support, counting on the ongoing assistance by the Portuguese National Association of Municipalities and its study and training branch (FEFAL), as well as on the expertise for the one-stop-shop, based on the ‘Loja do Cidadão’ model. Induced output 1 and partially induced output 3 (on e-procurement) will be implemented by the United Nations Development Programme (UNDP), which has recognised experience in supporting decentralisation processes worldwide, including in Timor-Leste where it has provided assistance to Ministry of State Administration (MAE) and the National Parliament with its Local Governance Support Programme and the Enhancing Public Sector Accountability Project.

There will be a strong emphasis on on-the-job coaching/mentoring, training of trainers (women and men) and strengthening public training institutions (rather than technical assistance performing some functions of the institution), to ensure a gradual transfer of competences and full sustainability at the end of the programme. Gender-balanced participation in training, as well as gender sensitive planning and policy, will be promoted.

1 CONTEXT ANALYSIS

1.1 Context Description

Since gaining independence in 2002, Timor-Leste has taken strides in restoring stability and rebuilding the country. This progress is due to a conscious effort made by successive governments to ensure the provision and restoration of key public services and infrastructure. A major part of that work (which recognizes and respects traditional governance systems) was the promotion of the ‘de-concentration process’ as part of the ‘decentralisation principles’. This was also alluded to in the Constitution of the Republic and in key legal and administrative reforms such as the Legislative Harmonization and Judicial Reform, the Public Administration Reform, the Economic Reform and the Performance Management Reform as described in section 1.3.

Gender Equality is enshrined in Timor-Leste’s Constitution: all citizens are equal before the law and no one shall be discriminated on grounds of i.a. gender. It specifically predicts equality between women and men, whom ‘shall have the same rights and duties in all areas of family, political, economic, social and cultural life’. Women have played an active role in the struggle for independence, peace building, and politics, but there are persistent barriers for women to enter leadership roles as: lower education and literacy compared to men; discrimination in recruitment; negative stereotypes towards women’s participation in public life and managerial positions, etc.
Timor-Leste made significant progress to deliver basic services and enhance its public infrastructure. To continue improving access to services and economic growth across the country, particularly in remote areas, the Government will ‘bring government closer to its people’ and transform municipalities into administrative units responsible for the delivery of public services within their catchment area (while functions will remain of the central administration competence). Initially under the authority of sector ministries and national agencies, municipalities will gradually be responsible for the implementation and monitoring of sector policies at the subnational level, once the appropriate legal frameworks and capacities are in place. Over time, this will include the capacity of municipal units to define local priorities; to suggest corrective-measures; to develop regulations that respond to local contexts; decide on the utilization of public fiscal resources; and initiate partnerships with other municipalities and the private sector. Functions and resources will be transferred to the municipalities as they embark on the implementation of their first midterm (and annual) development plans. The decision to invest in the 12 municipalities as future administrative units responsible for service delivery was reinforced by a public consultation that was carried in 2013 out by the Ministry of State Administration in 12 municipalities².

1.2 Policy Framework (Global, EU)

The EU – Timor-Leste National Indicative Programme for the period 2014-2020 defined two main sectors of cooperation: 1) Good governance – throughout capacity building of state institutions and civil society to increase the effectiveness, transparency, accountability and participatory-nature of the government’s service delivery to the populations, including through strengthened public finance management; and 2) Rural development. As stated in the NIP and the conclusions of the 2016, 2018 and 2019 Political Dialogue, a crucial aspect of EU – Timor-Leste cooperation, including through policy and political dialogue, will be to strengthen the planning, budgeting, implementation, monitoring and evaluation of public service delivery.³ The NIP is in line with the EU Agenda for Change by centring its actions on the support and promotion of democracy, human rights and the rule of law, gender equality, civil society and local authorities, public-sector management, corruption, tax policy and administration. Furthermore the programme overall contributes to the Five Ps of the ‘New European Consensus on Development’ and more specifically Section 2.1 People, Human development and Dignity (Paragraph: 36; 41; 60; and 61).

SPDD-TL is aligned to objectives and selected impact indicators of the GAP II framework and the ‘Timor-Leste Gender Action Plan’ (TL-GAP) 2017-2020. It directly targets the GAP Objective 17: ‘Equal rights and ability for women to participate in policy and governance processes at all levels’ and it will be monitored through its indicator 17.3. ‘Percentage of seats held by women and minorities in national parliament and or sub-national elected office according to their respective share of the population (SDG 5.5).

The ‘Tools and Method Series No. 23, Supporting Decentralisation, local governance and local development through a territorial approach’ (December 2016), states that EU should intensify efforts to better understand the politics of the reform process, broadening country ownership and ensuring concrete development outcomes such as qualitative and sustainable services. A

² https://issuu.com/desentralizasaun/docs/relatoriu_konsulta_publiku_13_distr25
³ At the 2019 Political Dialogue, chaired by the EEAS DSG POL Jean-Christophe Belliard and the MFAC / NAO Dionísio Babo Soares, with the participation of 7 Ministers and Secretaries of State, the Timorese side underlined repeatedly the maximal priority to the Decentralisation reform and the holding of the first municipal elections in 2021. It is one of the three main priorities of the current Government / Majority.
DEVCO/TALD\(^4\) mission in Timor-Leste took place in March 2018. The TALD facility was used to frame the formulation of interventions drafted in the Mission Report. The programme is also informed by and aligned with the EU Gender Action Plan II 2016-2020 and the EU Approach to Women, Peace and Security, contributing to pivotal areas ii) Promoting the social and economic rights/empowerment of women and girls; and (iii) Strengthening girls' and women's voice and participation.

The support to decentralisation through budget support is also aligned with the 2013 Commission Communication ‘Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes’ and the methodological note ‘Providing EU budget support in decentralised contexts’.

The national programme is complemented by the Portuguese speaking African countries plus Timor-Leste (PALOP-TL) regional cooperation programme which has promoted good governance through public service modernisation, rule of law and audit.

1.3 Public Policy Analysis of the partner country/region

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

The Strategic Development Plan 2011-2030 (SDP) that identifies the strengthening of the institutional framework as a key pillar for the social and economic development of Timor-Leste. The SDP outlines that only through the development of transparent, accountable and competent institutions the country can achieve stability, security, rule of law enforcement and access to justice for all citizens. The Timor-Leste’s Roadmap for the Implementation of the 2030 Agenda and the SDGs highlights some of the reforms implemented and the importance of these ‘enablers to meet the SDGs and explain how Timor-Leste intends to use ‘Decentralisation’, in a phased approach, to localize the SDGs at municipal level. Timor-Leste is an active promoter of the 2030 Agenda and advocates for strong ‘governance goals’ (SDG 16). Since 2002, all constitutional governments have made their priority to restore peace and promote economic growth by rebuilding infrastructure and strengthening public institutions. At the global level, Timor-Leste plays a key role in sharing its experience, particularly with g7+ members (post conflict and fragile countries). Main and most recent national sector policies linked to the reforms mentioned in 1.1 include the Decree-Law 3/2016 (republished by Decree-Law 9/2018) Statute of the Municipal Administrations, Municipal Authorities and Inter-Ministerial Technical Group (IMTG) for Administrative Decentralisation. The Deconcentration and Decentralisation process broadly follows three phases: (1) Deconcentration (2016-2018, still on-going); (2) Institutional Decentralisation (2018 – 2020); and (3) Territorial Decentralisation (from 2020). Decree Law N.º 9/2016 (Law of Sucos) constitutes the framework for elections at local level\(^5\). Most recently the Ministry of State Administration elaborated an Action Plan for Administrative Modernisation and Local Power 2019-2023 which details the strategy, steps and resources needed for implementing the decentralisation process as defined in the above mentioned laws, fully aligned to the objectives and logic of intervention of this Programme.

In its programme\(^6\), the VII Constitutional Government relaunched the process to further foster governance systems by improving the efficiency of its institutions, promoting public participation

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\(^4\) Territorial Approach to Local Development

\(^5\) Elections were held in 2017 for the 445 chefes de Suco

\(^6\) On October 13\(^{th}\) 2017, the Prime Minister of VII Constitutional Government expressed his interests in the field, in a letter addressed to the EUD. ‘The development of all regions on Timor-Leste, through a phased approach, is
and enhancing accountability mechanisms and at the same time “depoliticising” the administration.

While political agendas of both main political parties slightly differ on the process, the key elements continue to be implemented under the VIII Constitutional Government. The deconcentration process has already started, currently with the application of the Free Balance software (part of the Integrated Financial Management Information System - IFMIS) at local level. Planning and procurement process have been developed at local levels (with the EU PFMO budget support targeting capacity assessment of 12 districts, as well as their training needs on PFM matters including budget process, procurement, payments, internal controls). The decentralization part of the process comes in 2 main steps: a devolved administration and a territorial decentralization that includes municipal elections. The transfer of assignments, competencies and responsibilities to municipal bodies, empowering them to ensure the delivery of quality services is one of the decentralisation processes. The revision of the public function aims at 4 main actions: i) legal framework, ii) institutional development, iii) strengthening of human resources through continued training and iv) innovation of public administration and role of control (Office of General Inspector, National Institute in charge of public administration). On 13 March 2019 the VIII Constitutional Government issued a resolution (nº 11/2019) reconfirming next steps for the decentralisation process, defining annual targets until 2022, including local elections, which have been taken into account for defining the budget support variable tranches.

The Statute of the Civil Service foresees that ‘Efforts shall be made in the public service to select and recruit qualified candidates without discrimination, and according to assessment solely based on a candidate’s skills and performance, that Civil servants shall all earn the same salary for the same work and that no civil servant shall be discriminated against in employment compensations, entitlements, benefits or privileges’.

The Timor Leste Constitution has articles dedicated to gender equality (Article 16, 17, 18 and 26) and GEWE is addressed in the Timor Leste Strategic Development Plan 2011-2030. The policy frameworks are in place: National Action Plan (NAP) GBV 2012-2014 and NAP GBV 2017-2021, NAP on Women, Peace and Security, Maubisse Declaration (overall rural women’s economic empowerment). A number of laws aim at achieving gender equity, in particular Law N.º 2/2016 which states that Political parties shall promote women’s participation especially in the party's governing bodies; Decree Law N.º 3/2016 aims at Institutionalizing Gender mainstreaming at the municipal level; Parliament Res. N.º 12/2010 calls upon all parliamentary committees to use and promote gender budgeting instruments and methods, and established a parliamentary process, assigning roles to government, nongovernment organizations, and donors to take actions and develop strategies to promote gender balance and to ensure that gender analyses and impact are thoroughly taken into consideration in all phases of the budgetary process; and Government Resolution, N.º 35/2017 on inter-sectoral cooperation and coordination mechanism to ensure gender issues are given attention in every government Ministry and agency by developing a gender strategy and incorporating gender issues in their programs, policies, laws, budgets and annual action plan.’.

at the top of the agenda of my new Government. My major concern remains on how to improve the services to the population in the regions, particular attention should be given to measures that promote access to public services in municipalities including to justice, water and sanitation, either through capacity building of human resources in public departments either by concentrating public services and enhancing their quality at local level, or through a model like the ‘Loja do Cidadão’.

Decree Law N.º 3/2016 - Statute of Municipal Administrations, Authorities and the Inter-Ministerial Technical Group for the Administrative Decentralization,
Timor-Leste gained experience in decentralisation with the creation of a Special Administrative Region (ZEESM) which is an innovative new policy instrument to enable effective governance, poverty reduction and economic and social well-being in Oé-Cusse.

Finally, Timor-Leste has ratified most important human right and development international treaties/conventions, including the international conventions on the rights of women and girls, of people living with disabilities, rights of the child, on elimination of discrimination etc.

1.4 Stakeholder analysis

The main stakeholders targeted by this programme were involved in the formulation process in order to assess their needs and to define in a participatory way the strategy to adopt.

Stakeholders – duty bearers and rights holders:
- The Ministry of Finance has a significant role in the systems for budget allocation. It manages the budget process by which Line Ministries make submissions for their annual budget. The Ministry of Finance is then responsible for disbursing funds to Line Ministries and maintains a complex process for ministries committing, spending and acquitting those funds. Through these systems, it tracks government expenditure, and its mandate is to ensure that public money is spent efficiently, effectively and for its intended purposes. There is an official policy for decentralising budget execution to Line Ministries and Municipalities. Australia and the EU (under the PFMO) are providing budget support to the Ministry of Finance (MoF) to support PFM reforms. The Ministry of Finance also established a Public Financial Management Capacity Building Centre which competency area is training civil servants in PFM core competencies. However, it is important to grow the cadre of competent and motivated professionals leading reforms and decision-making, mainly at the decentralized level.
- The Ministry of State Administration (MSA) is responsible for Municipal Administrations. It has 12 Municipal Administrations and 61 Administrative Offices (Postos Administrativos) (Law 3/2016). MAE has a role in overseeing the Integrated Municipal Planning Process. It also has the mandate to oversee the implementation of the Government’s decentralisation agenda and may have a role in managing decentralised municipalities in the future. At present, the main role of MSA is ‘to promote and conduct the process of administrative Decentralisation and installation of the organs and services of Local Government.’ (Art. 20, Decree Law 09/2018). Notwithstanding this ambitious mandate, MAE hasn't yet all the necessary conditions for the implementation of this administrative deconcentration and decentralisation public policy, lacking technical capacity and a conducive legal framework. Several Government officials from Timor-Leste travelled in January 2019 to Portugal to renew cooperation with the Portuguese Government in areas relevant for the decentralisation strategy.
- The Ministry for Legislative Reform and Parliamentary Affairs (MRLAP) is responsible for designing, implementing, coordinating and evaluating government policy regarding the development, harmonization, and consolidation of the legal framework. MRLAP has also a role in overseeing the policies of modernization and administrative innovation, in relationship with National Parliament, and the implementation of e-government initiatives.
- National Parliament (NP): According to the 10th EDF MTR of the Support to Democratic Governance, the NP has improved the way it functions as a result of mentoring and training

Gov’t Res. Nr. 35/2017 on the Inter-Ministerial Gender Working Group, national gender working groups and municipal gender working groups and their respective statute.
provided under this programme (implemented by UNDP with EDF funds). However, several weaknesses persist, namely with regards to Human Resources, IT, archiving, transcription, legal drafting and analysis, legal research data collection and analysis especially in key sectors, constitutional affairs, justice, public administration, local administration, anti-corruption and public finance.

- Regional and local authorities (Municipalities and Administrative Offices): Human resource development is an essential component for the success of decentralisation and it is a necessary part of capacity building of Municipalities. The local civil officials, both women and men, need to improve their capacity to take on, manage, and lead new activities under the proposed decentralized system, namely improving their management and administrative skills, as well as for community engagement and to promote gender balance.

- To promote gender equality and women empowerment (GEWE), a specific Secretariat at the Prime Minister Office has been established since 2002 and formalised by a Decree Law in 2008. The Secretariat now called ‘Secretary of State for Equality and Inclusion’ (SEII) has the responsibility to stimulate the formulation and implementation of gender laws and policies. SEII has Focal Points at the municipal-level and municipal-level inter-ministerial Gender Working Groups have sub-national responsibility to implement gender equality commitments. SEII has a new Strategic Plan 2018–2022, which includes support to End Violence Against Women (EVAW) commitments. Each of the 12 TL Municipalities has a Women’s Associations Challenge which includes Government and CSOs and is supported by SEII.

- Training provider: National Institute of Public Administration (INAP) has the mandate for building the capacity of public officers in the regions and municipalities. Although it could be used in the training of public officer to municipalities, its curricula still need to be further developed and specialised for local authorities - as well as its language trainings. The Government of Timor-Leste holds a protocol with the Associação Nacional de Municípios Portugueses (ANMP – National Association of the Portuguese Municipalities) for the training and capacity building of municipalities. Under this partnership, ANMP’s foundation, the Fundação para os Estudos e Formação nas Autarquias Locais (FEFAL) has recognized capacities making it a natural partner for capacity building of public officers.

- Other national & local stakeholders: Business and other economic and social partners or associations, civil society representatives including non-governmental organisations, with special focus on women groups, education institutions, think tanks, etc.

- Donors and international organisations: European Union, EU Member States (Portugal), United Nations Development Programme (UNDP). Civil society networks such as FONGTIL, TANE and REDE FETO play a role in giving feedback on the quality of Government services through social audits.

- The population of Timor-Leste, both women and men, are the rights holders with regards to improved governance and public administration, closer and better access to gender-responsive rights-based public services.

1.5 Problem analysis/priority areas for support

Decentralisation is inherently a political issue that affects the overall organisation of a State. It aims at improving efficiency, equality and social cohesion and can only be decided by a sovereign country. The steps taken and an emerging consensus of all main stakeholders on the need for decentralisation create momentum for a new quality of multilevel governance in Timor-Leste which could be both effective and close to the citizen, as well as promoting gender balance by improving delivery of public services that could particularly benefit women (e.g. health, education, access to justice). Overall there are several indications that gender inequality in Timor-
Leste is narrowing in law, education, health, employment, and political influence. Enhancing the capacity of the national women’s machinery and other government and non-governmental stakeholders (SEII, NGOs, CSOs, Parliamentarian Women, etc.) remains a priority within the decentralisation process. There is still a wide gap between approved laws/policies and their implementation at central, peripheral and community/family levels.

The language of the Timorese administrative laws is often vague and not always consistent with international practice or similar administrative traditions. In the legal framework, what is clear is the intention to decentralise the state power and build a local administration in a few steps: firstly setting up a local institutional structure, then making it increasingly autonomous from the central administration until the municipalities become fully effective, and then - as the last step - transferring the power to the elected legislative and executive organs of the municipalities. However, the practical realisation and implementation of such decentralisation process remains a major challenge. Therefore a support in building a comprehensive decentralisation plan (to help structure the above-mentioned strategy) would be instrumental to alleviate the severe capacity constraints in all level of public administration, particularly in the services of Ministry of State Administration and most essentially - in the terrain (municipalities/districts - the main targets of the programme). At the central level, the last three Governments including the current one (constituted by different parties) and the National Parliament have demonstrated political will to decentralise through the adoption of legislation reform and a progressive delegation of state services to municipalities (health, education, rural development, social services). However, given common budgetary disbursement complications due to political instability, and human capacity constraints, the Government very much relies on external support for the elaboration and implementation of its reforms. Therefore, the Government of Timor-Leste has asked the European Union to further support the implementation of development of local authorities of Timor-Leste through a phased approach, improving services delivery to the population in the regions and municipalities. By promoting institutional development beyond the capital, the programme aims to support sustainable development i.e. in all three dimensions (economic, environmental, social) in rural areas.

Main constraints have been identified with regard to legal and policy environment for decentralisation and institutional capacity. These factors are crucial in order for the municipalities to enjoy a certain degree of autonomy to fulfil functions to be assigned by future laws. In parallel, there is still a need for enhancing the capacities of central authorities for deconcentrating and decentralising public services (as well as of local political and administrative staff to receive the new tasks), together with the establishment of mechanisms for political accountability, transparency and mechanisms for monitoring municipal policies. Revising and completing the legal and regulatory framework within which municipalities are expected to operate, overcoming the weaknesses and ambiguities of the current drafts and building capacity of municipal administrations with a focus on improving local level public management are main priorities for improving the services delivery capacity at local level.

1.6 Other areas of assessment

1.6.1 Fundamental values

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

The centralised decision-making adopted by the former Prime Minister was crucial in ensuring stability. The focus is now shifting to fully capacitate the state institutions to fulfil their mandate in the framework of the separation of powers between the executive, legislative and judiciary branches. The Government has embarked in an ‘administrative pre-deconcentration’ process, which is conducive for implementing decentralisation but that progressed slowly in the past years. The current Government endorsed public administration modernisation and deconcentration as a step towards decentralisation as one if its political priorities. However, traditional authorities’ mechanisms, including traditional justice, are still used by local communities in remote areas for conflict resolution. Constraints in terms of shortages and language skills (Portuguese is the main formal language used in the Timorese legal system) of political, administrative and judicial staff are also hampering the implementation of sector reforms.

### 1.6.2 Macroeconomic policy

High revenues from off shore gas production allowed in the past very high levels of public spending combined with a large public wealth fund. The so-called Petroleum Fund (PF) has accumulated over 16 billion USD, equivalent to approximately 10 times of annual State Budget. The high level of spending allowed Timor’s non-oil economy to grow at a rate of 6-7% over the past 10 years, up to 2016. IMF estimates the growth potential of the non-oil economy in the coming years to be in the range of 5-6% p.a.

Growth slowed down in 2017 and 2018 due to a political impasse which did not allow the government to implement its policies; having the 2018 budget approved only in September 2018. Therefore, budget execution has been low in both 2017 and 2018 and the low levels of government spending growth have strongly hit the economy with growth close to zero for this 2 year period. Different observers (World Bank and IMF) provide different number for growth during 2017/2018, so no broadly agreed estimate exists (see table below). With a majority government assuming power mid-2018 and the 2018 budget approved in September 2018, the situation was expected to return to normal by late 2018. However, a new political impasse between the new Government and the President has emerged that further delayed 2019 budget approbation until February 4th 2019. Key macroeconomic data are shown in the table below.

<table>
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<tr>
<th>Indicator</th>
<th>Year n-3 2015</th>
<th>Year n-2 2016</th>
<th>Year n-1 2017</th>
<th>Year n Projection 2018</th>
<th>Year n+1 Forecast 2019</th>
<th>Year n+2 Forecast 2020</th>
<th>Year n+4 Forecast 2022</th>
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<tr>
<td>Real GDP (%change)</td>
<td>20.9*</td>
<td>-7.9*</td>
<td>+17.2**</td>
<td>-10.0**</td>
<td>-2.5**</td>
<td></td>
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<tr>
<td>Excluding oil**</td>
<td>4.0</td>
<td>5.3</td>
<td>-1.8</td>
<td>2.2</td>
<td>4.2</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Net lending/borrowing (%GDP)</td>
<td>-17.0*</td>
<td>-30.8*</td>
<td>-20.1*</td>
<td>-20.3***</td>
<td>-34.5***</td>
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<tr>
<td>Total revenue (% of non-oil GDP)**</td>
<td>80.1</td>
<td>71.4</td>
<td>140.5</td>
<td>92.1</td>
<td>81.5</td>
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<tr>
<td>Non-oil revenues**</td>
<td>10.6</td>
<td>11.8</td>
<td>10.7</td>
<td>10.3</td>
<td>10.2</td>
<td>15*</td>
<td></td>
</tr>
<tr>
<td>Public debt (% GDP)</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>7</td>
<td>12</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Inflation rate (average)**</td>
<td>0.6</td>
<td>-1.3</td>
<td>0.6</td>
<td>1.5</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Due to political impasse 2017/18 and therefore low budget execution, IMF estimates from 2017 became outdated so more recent WB data are frequently used in this table (see notes under the table).
* Government target after tax and customs reform plus VAT introduction
The high levels of government spending, often nearly equivalent to non-oil GDP, are primarily financed through high levels of ordinary and extraordinary withdrawals from the PF. Domestic revenues are growing but at a slow rate and ongoing reforms are slowly taking off. The lower budget execution in 2017 and 18 has reduced the extraordinary withdrawals from the PF as well as reduced the recurrent trade deficit to more sustainable levels.

The government has been frontloading investments in infrastructure in accordance with its long-term development strategy. IMF and main DPs have expressed concerns for the efficiency of these investments and for the possible depletion of the PF over 10-15 years, leading to the government falling over a ‘fiscal cliff’ when the fund would be depleted. IMF and DPs do not forecast the estimated potential 10-20 billion US$ in oil-revenues over a period from approx. 7 until 15 years ahead, contrary to the government’s strategists and who include these revenues in their financing policies. If the 10-20 billion US$ actually accrue to the PF and the revenues projected by The Government of Timor-Leste (GOTL) from the existing field up to 2022/23 hold, the present level of public spending would probably be sustainable for a 20-25 years period allowing the non-oil economy and domestic revenues to grow and serve as the basis for diversified economy and healthy public spending. Due to the agreement with Australia over the maritime border that was signed on 6 March 2018, the probability for the new oil field actually being exploited and for the projected revenues actually flowing to the PF seems relatively high. There is a need for DPs and the Government to continue discussing these projections and reach a consensus on basic scenario and projections.

Overall, taking into account the wealth in the PF, external debt is minimal, and the current account deficit manageable (it will turn positive when/if the new gas field starts to produce in larger volumes). Due to the use of US$ as the country’s currency, inflation is also minimal and there is no risk for currency depreciation. On the other hand, high spending on roads, airports and the prestige project Tasi Mane related to future oil ventures is squeezing out pro poor spending on rural development, health and education, and social indicators are not improving as planned and as actually possible with the oil wealth.

The real economy excluding oil has been growing at a healthy rate up to end of 2016 in spite of domestic production being very limited and exports mainly depending on coffee. Although not at risk, the financial sector is not considered dynamic, and a new government backed guarantee scheme should facilitate increased credits to the economy. Business development and non-oil economic growth, including foreign investments, are however severely hampered by poor conditions for doing business (overall ease of doing business score 2019 was at 41:60, far below regional East Asia and Pacific average of 63:41). In key areas as registering property and enforcing contracts Timor appears on the bottom or very close to the bottom in surveys of the +/-190 countries that normally are included in these surveys. There is therefore need for decisive action from government to improve conditions for doing business especially in those two areas of registering property and enforcing contracts. Over time a dynamic financial sector and growing

10 Due to the 2017&18 low budget execution and low growth, higher estimated oil incomes and more cautious fiscal policies the existing projections are not relevant. Anyway, due to the oil wealth, number will at least be over 100 month’s reserves throughout the period.

11 Excludes petroleum incomes, as these revenues are recorded under the income account.
credit levels to the economy together with foreign investments could gradually replace public spending as the main driver of non-oil growth.

The IMF in its 2019 Art IV report\textsuperscript{12} stressed that a fiscal strategy is needed to ensure long-term fiscal sustainability and safeguard the assets of the Petroleum Fund. The strategy should focus on strengthening control and efficiency of spending, mobilizing domestic revenue by increasing tax compliance and implementing a value added tax, and making effective use of concessional borrowing. Furthermore, it emphasized that … it will be crucial to improve quality and access to education and healthcare, reduce existing and emerging skill-shortages, and address gender and rural-urban inequalities.

1.6.3 Public Financial Management (PFM)

There is a strong commitment by the Government to strengthening PFM systems and improving transparency, accountability and effectiveness in the use of public funds, so that it can deliver on the economic and development goals set in the country's SDP. The Government has also recently taken steps to ensure fiscal discipline and it approved a prudent and strict policy for international loans. In this context, the Government is considering a creation of an Inter-Ministerial Council aiming at consolidating PFM reform, programme budgeting, and fiscal reform in a coherent manner.

The PFM Reform agenda pursued by the Government is considered relevant, credible, and successive PEFA assessments (2010 and 2014) as well as bi-annual independent assessments have shown good progress in implementing these reforms. The rolling out of PFM Annual Action Plans with Key Performance Indicators started in 2013 and is progressing well up to now, and there is an ongoing effort of simplification and prioritisation of KPIs within the MoF. Although the Government is committed to fiscal sustainability with the establishment of an Estimated Sustainable Income (funds which can be withdrawn from the PF without depleting it over time), it has adopted a frontloading policy approach for major capital projects with withdrawals well in excess of the ESI based on their expected economic returns. The last published IMF Article IV recommends fiscal consolidation, including reducing excess withdrawals from the PF by reducing frontloading of infrastructure investments to a more manageable level to secure long-term sustainability and avoid a fiscal cliff by exhausting the PFs resources. Based on findings in the Public Investment Management Assessment (PIMA), IMF recommends public investments to be focused on high return projects through rigorous appraisals. It is also recommended to focus on investments that promote inclusive growth. Further recommendations refer to promotion of financial inclusion at the same time as strengthening financial sector resilience. Recommendations also include strengthened efforts to diversify the economy through steady progress in ease of doing business, competitiveness and human capital development. The changes in Government in August 2017 and June 2018 caused some political uncertainty thus resulting in delays in the approval of key fiscal management and public administration reforms, including decentralisation, and PFM-related legislation notably in the areas of procurement, taxation and internal financial controls, but these reforms are now actively pursued again by the recently established VIII Government.

The existing PFM system is of relatively good standard. Progresses were identified on a more administrative level following the MoF's institutional development plan which as mentioned has seen 70% fulfilment or actions on track achieved throughout last year, also thanks to the EU budget support provided under the PFMO: i) Continued preparation of the customs and tax reforms both on the administrative and the legal side. Some administrative improvements

achieved, other improvements awaiting new legislation; ii) Introduction of program budgeting has advanced and a MTEF concept has been agreed to be introduced; iii) A number of minor improvements are taking place under treasury’s responsibility improving expenditure management gradually; iv) Internal audit continue to improve its capacity however as mentioned, the issue of mandate clarification get more urgent in order to continue this development; v) Capacity development has continued on a very positive trend in spite of limited funding due to the problems with budget approvals; vi) The fiscal de-concentration and decentralization shows demonstrable results, both for the gradual transfer of handling more PFM functions, such as payments to line ministries and agencies and for the de-concentration to local governments which has happened over the last two years.

Since the financial responsibility is a core component of decentralisation, if local governments are to carry out decentralised functions effectively, they must have an adequate level of revenues. The successful ongoing reforms of the PFM therefore have a positive implication in the deconcentration and decentralisation process. The fiscal deconcentration/decentralisation has been prepared since 2013 and a gradual transfer of handling more PFM functions to deconcentrated local governments has been taking place for over 2 years already. The fiscal decentralisation actions have already included comprehensive class room trainings programmes and on the job couching, making the decentralisation generally highly appreciated by municipal staff.

1.6.4 Transparency and oversight of the budget

In general, Timor-Leste has made solid progress in strengthening PFM and achieving budget transparency over recent years. The Open Budget Survey (OBS) for 2017 gave a score of 40 for Timor-Leste, showing gradual progress towards releasing key budget information to the public, as budget has been published in all recent years on the Government website. The PFM reform strategy is formulated so as to improve planning and budgeting and the scope and frequency of reporting which will serve to better measure performance and hold public officers accountable of institutional results. It started with MoF and is establishing a human capital management performance culture in other PFM institutions and line agencies. The Government is also committed to sustain improvements in fiscal discipline supported by clear institutional rules and accountability for performance and adopt program-oriented budget management that underpins performance and service delivery, which are conducive in a perspective of local finance as decentralisation and future budget allocation to local governance bodies.

Reforms in budget transparency and oversight of the budget have progressed satisfactorily, in light of the Government's strong commitment and good progress in gradually improving budget transparency and oversight. Budget documentation is overall very comprehensive. Capacity of the Court of Appeal’s Chamber of Accounts (CoA) has increased, notably with EU support (PFMO project, please refer to section 3.2). The CoA prepared their second audit report on the Government Annual Financial Statements (State Account). Although there are still some weaknesses in the analysis performed, a more comprehensive and insightful audit report is now being produced. The Parliamentary scrutiny of the draft Budget has improved in terms of coverage and content, notably with EU support. Social Audit mechanisms are also reassuring civil society organisations from a citizens’ perspective, with special focus on oversight of public finance expenditure in the territory. Tools are in place to ensure gender-responsive budgeting and occasionally CSOs have been called to comment on the budget process.
### 2 RISKS AND ASSUMPTIONS

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Slippages in macroeconomic and fiscal indicators</strong> and slow pace in implementing PFM reforms, especially non-oil domestic revenue mobilisation. Delays in implementing necessary fiscal adjustment in light of declining oil revenues.</td>
<td>H</td>
<td>The use of budget support will encourage the Government to maintain stability-oriented macroeconomic and fiscal policies in line with the recommendations agreed with the IMF and to actively pursue the creation of fiscal space through fiscal consolidation and public finance management reforms, eventually preparing the ground for future local finance. Budget support to PFM reforms will continue to focus on domestic revenue mobilisation, which is part of the fiscal reform that was prioritised by Government.</td>
</tr>
<tr>
<td><strong>Slow pace in approving/implementing crucial legislation</strong> related to public administration reform and modernisation, decentralisation and public procurement.</td>
<td>H</td>
<td>The programme will provide specific technical support in these areas to the National Parliament, while the public administration reform approval/implementation will be the subject of regular policy/political dialogue.</td>
</tr>
<tr>
<td><strong>Financial crises or insufficient budget allocation could hamper the effective implementation of public administration modernisation reforms</strong> and for supporting the decentralisation process</td>
<td>M</td>
<td>The programme will focus on preparatory phases which do not require large national investment, including capacity building and institutional strengthening, opening the ground for their implementation once relevant legislative measures are in place.</td>
</tr>
<tr>
<td><strong>High turnover of staff/Lack of skilled human resources:</strong> Difficulty in identifying skilled human resources capable of absorbing specialised technical training and the high staff turnover rate.</td>
<td>M</td>
<td>The programme will support public training institutions (like INAP) and the implementation of institutional systems and mechanisms to ensure institutional capacity development (not limited to individual training) to address the gaps identified by the national PFM test. At local level, the programme will also support the implementation of public administration reform, including the definition/revision of the</td>
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13 The EU Delegation has analysed the political and macroeconomic environment and has objectively assessed the level of risks based on current trends and recent policies and measures put in place in PFM and anti-corruption sectors, in relation to the provision of budget support. Despite the substantial level of inherent risks notably in the developmental and corruption/fraud areas, the Delegation is of the opinion that the overall PFM reform agenda of the country continues to be relevant, credible and fully country-led with a high degree of ownership and commitment at the highest political level. The progress in PFM reforms continues to remain satisfactory overall. Progress in PFM systems ultimately enables a better delivery of social services, which contributes to maintain stability, especially at the local level. The proposed approach of providing budget support programme together with parallel capacity development and supporting the decentralisation process and public service deliver is deemed to be the most appropriate combination of aid modalities to help Government achieve its governance and development objectives. Moreover, budget support should open the door for a more meaningful policy dialogue and encourage full ownership of the PFM reform by demonstrating the EU’s trust in the country systems in a context of fragility.
Less than optimal contribution from line ministries and beneficiary institutions, stakeholders and implementing agencies to the project management and implementation, necessary to ensure adequate integration and complementarities between the two components (budget support and complementary support).

Lessons learnt and complementarity

3.1 Lessons learnt

The search for a model of Decentralisation for Timor-Leste started with what was meant to be a technically comprehensive and politically neutral exploration of the options for a decentralized system of governance and public administration in TL: the ‘Local Government Options Study’ (LGOS) of 2003. The study is still an essential reference point for the national debate on Decentralisation. It identified six possible models for the reform. This vision and the qualitative assessment of the different options defined in the LGOS led in March 2008 to the adoption of the National Decentralisation Policy (NDP) which states that “given the present situation of low level of human resources and experience at the local level, the District option is preferred for the short and medium term”. More recently, the Law 3/2016 defines three phases of implementation for the Decentralisation process and set up two levels of administrate bodies: Municipalities and Administrative Offices. This approach will take into account lessons learnt from previous Decentralisation programmes such as the: Programa Dezenvolvimentu Lokal, the Programa Dezenvolvimentu Integradu Munisipiu, and the Programa Nasional Dezenvolvimentu Suku (PNDS). Lessons from these projects were inter alia that good relationships and trust between partners resulted in constructive dialogue which facilitated discussions taking place and decisions to be made which could be rapidly implemented. Also, a majority of respondents (to a research on PNDS) claimed that they had learned new skills through participation in PNDS activities and that these skills had assisted them in their new roles on the Suco Council, and that this experience encouraged them to stand for election. There were also some outstanding achievements in terms of gender. All women interviewed believed that their contribution gained them more respect and status in their community. Overall, findings indicate that PNDS has made a profound impact, both directly and indirectly on a number of levels in the process of delivering vital infrastructure to a local level through a community driven development approach.

The EU has supported a ‘Social Audit’ project that helped CSOs to enhance their capacities to monitor public policies in the municipalities. The social audit initiative was well appreciated at
the highest political level as a mechanism to receive feedback from citizens on services provided by the Government.

From 2011 to 2015 the EU funded a project implemented by UNDP to support the Parliament, with the following key achievements: the Human Resource Management (HRM) system of the parliament was strengthened; increased transparency and efficiency in the area of procurement through the standardization of processes (procurement procedures of the National Parliament were updated); Portuguese language competence among MPs and staff improved; the legislative capacity of the parliament was strengthened; and Socioeconomic and gender analysis was institutionalized.

The TALD facility was used to frame the formulation of interventions, and help identify the main areas of EU intervention. Technical and financial assistance should be provided to the Government (Ministry of State Administration, Ministry for Legislative Reform and Parliamentary Affairs and the Ministry of Finance) for institutional change and capacity building programs aiming at: (i) strengthening the core ‘local administrations’ currently managed by the Municipality Administrator and helping them to perform a key set of typical municipal management functions and to take autonomous initiatives to mobilize local resources and promote local economic development; (ii) identifying functions and competencies to deconcentrate from the central administration to its sub-national agents and for building the capacity of the local agents to exercise discretion and plan and to execute the deconcentrated activities. Additionally, it should establish contractual delegation arrangements between the selected agencies of the central and the local administrators’ offices and help structure, finance and implement such contracts.

3.2 Complementarity, synergy and donor coordination

The programme, both in its budget and complementary support components, is fully aligned with and builds-up from the ongoing 11th EDF Programme “Partnership to improve service delivery through strengthened Public Finance Management and Oversight (PFMO). This programme which started in 2017 for 54 months has a similar twofold structure: Component 1 with budget support (EUR 15 million, topped up with EUR 2 million specifically for the indicator on deconcentration and/or decentralisation) aims at strengthening the effectiveness, integrity, transparency, accountability, citizen-orientation and control of public finance management (PFM) in order to improve the implementation of fiscal and development policies; Component 2 (EUR 12.6 million) indirectly managed by the Instituto Camões aims at enhancing the checks and balances’ capacity of state and non-state actors (mainly the National Parliament, Office of the Inspector General, Court of Appeal's Chamber of Accounts, Anti-Corruption Commission, Scientific Police for Criminal Investigation, Media and Civil Society Organizations). While PFMO supports improvement of public finance management and oversight mainly at the central level, the present action enlarges its coverage to the local level, disseminating good practices into local administrations and improving public service delivery in the territory. This will be done in close cooperation with the 11th EDF programmes PSAF (Partnership for Sustainable Agro-Forestry) a EUR 27 million action aimed at contributing to a peaceful, inclusive and sustainable development in Timor-Leste, through improved rural access, the creation of employment, economic and domestic revenue opportunities, and a durable reduction in food insecurity and malnutrition in rural areas. Municipal offices/authorities capacity building through the decentralisation programme will therefore be directly beneficial to the PSAF. A similar complementarity is identified with the PINTL (Partnership for Improving Nutrition in Timor-Leste), a EUR 15 million action, as an important part of this programme will be delivered through a sector reform contract (budget support) to financially assist the Timor-Leste Ministry of Health (MoH) and the autonomous health agencies in their ongoing reforms of management, coordination, and service delivery for nutrition. A key aspect of the project is to promote policy
dialogue with the Government on improved public service delivery, focusing on nutrition related policy formulation and implementation. The focus of the policy dialogue will inter alia be on several elements that are relevant in the context of decentralisation, including deconcentration and decentralisation of planning and budgeting for nutrition services and rolling out of policy, legislative and regulatory frameworks to ensure a coherent and coordinated response to nutrition, reaching beyond the focus on service delivery.

The programme is complementary with the 10th EDF PALOP-TL regional a EUR 8.4 million programme of support for the consolidation of the rights based state (PACED) (implemented by Instituto Camões) aimed at consolidating rule of law by combatting corruption, money laundering and drug trafficking and that strengthens national institutions contributing to improved public finance management and oversight as well. UNDP will also start soon a programme for Governance Reform (ProGOV), a new EUR 8 million action regional initiative (PALOP-TL) funded by 11th EDF on Governance Capacity Development, supporting (1) Gender equality promotion and democratic participation in civil society; (2) Justice institutions strengthening and consolidation and protection of human rights; and (3) Consolidation of the public financial management system.

UNDP has been providing direct technical assistance to MAE and line ministries involved with the Decentralisation process through the Local Governance Support Programme for improving capacity for local service delivery by sub-national bodies and the institutional, legal, and regulatory framework in support of effective local governance. Still on-going, the Enhancing Public Sector Accountability Project mainstreams transparency and accountability at the municipal level, and supports effective service delivery and decentralized public administration.

The Australian Development assistance (DFAT) provides technical assistance since 2011 to the implementation of the National Program for Village Development (Programa Nasional Dezenvolvimentu Suku), a community driven development (CDD) managed by MAE which channels funding directly from the Government budget to all 442 sucos in Timor-Leste to empower communities to construct, rehabilitate and maintain basic tertiary infrastructure. The programme aims at funding basic village infrastructure for projects up to 50,000 USD.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

**Overall Objective:** to contribute to Timor-Leste’s sustainable development.

**Specific Objective:** to support the de-concentration and decentralisation process, bringing governance and public administration closer to people, for both women and men.

**Induced Outputs:**
IO1. Improvement of the deconcentration and decentralisation policy, institutional and legal framework and inclusion of gender balance and women empowerment.
IO2. Increasing the capacity of local administrations to deliver public services to the population in a sustainable way.
IO3. Establishment of mechanisms for improving local governance (e-procurement) and public services delivery (‘Loja do cidadão – Uma Sidadaun’).
IO4: Improved public service delivery at the local level empowering and promoting the role of women and people living in vulnerable situations.

**Direct Outputs:**
DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.
DO2. Improved policy performance and assessments.
DO3. Improved policy dialogue and coordination.
DO4. Strengthened capacities conducive to the improvement of the deconcentration and decentralisation policy, institutional and legal framework.

Main activities related to IOs

a) budget support:

1. Strengthen the gender-responsive rights based approach capacity of the Inter-Ministerial Technical Group for Administrative Decentralisation and its operational Secretariat to ensure its full operation.
2. Technical support for the updating and implementation of the reform strategy for deconcentration and decentralisation.
3. Technical support for improving and completing the legal and regulatory framework on deconcentration and decentralisation.

1.1 Needs assessment and training programme with a Training of Trainers approach ensuring a balanced distribution of responsibility between women and men.
1.2 Gender-responsive rights based approach training of civil servant at deconcentrated and decentralised level on services delivery, public expenditure management and procurement, regional and municipal administration, territorial planning, local development and participatory governance.
1.3 Institutional strengthening of INAP for improved gender-responsive rights based training delivery to civil servants and local authorities, ensuring access to women.
1.4 Support to the establishment and operation of a Technical Unit aimed at assisting local administrations in fulfilling their mandate.

2. Design and establishment of one decentralised pilot one-stop-shop for services delivery (adapting the ‘loja do cidadão’ model) equitably managed and accessible both to women and men.

3. Design and implement a common municipal management system.

b. complementary support:

1. Strengthen the capacity of the National Parliament, namely permanent Commission A (Constitutional Affairs, Justice, Public Administration, Local Power and Anti-Corruption) and Commission C (Public Finance) on deconcentration and decentralisation issues, contributing to DO 2, 3 and 4 by improving policy performance and assessments; policy dialogue and coordination among the National Parliament, the Government and other stakeholders (including civil society and development partners); as well as to improve the deconcentration and decentralisation policy, institutional and legal framework.
2. Design and operationalisation of an E-procurement platform for decentralised local administrations, contributing to DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.

4.2 Intervention Logic

The planned budget support mixes an approach based on a Sector Reform Contracts (SRCs) that will assist the government in its current effort to develop a more effective system of front-line service delivery through a mix of deconcentration (initially) and decentralization (as a final result). This programme is aimed at supporting the substantial changes in sub-national governance and public administration system linked to decentralization reforms and establishing the policy, legal and regulatory framework within which local authorities operate (including in sub-national public financial management and oversight). This would contribute to move forward from deconcentrated service delivery, to full decentralization reforms, and then towards local territorial
policies in the long-term. The financial transfers to the Government will support the efforts of the Ministry of State Administration and the National Institute for Public Administration (INAP) in capacity building at central and decentralized level, increasing the number of capable staff. Together with policy dialogue, performance assessment and capacity development these are expected to contribute effectively to improved outputs, outcomes and ultimately impact.

The programme is aimed at supporting the de-concentration and decentralisation process in Timor-Leste with the goal to improve the effectiveness, integrity, transparency, accountability and citizen-orientation of public services delivery towards contributing to national sustainable development. It has a twofold but integrated approach and two level of beneficiaries: 1) by providing technical assistance, mentoring and institutional support at the central level for improving the quality legal and institutional framework and its implementation, contributing to the achievement of IO1 by strengthening policy dialogue and performance of the central government, and 2) by strengthening the capacities of local administrations to act as local government actors (IO2), being conducive to improving deconcentrated and later decentralised public services with the support to the establishment of mechanism for improving local governance (e-procurement) and public services delivery to local population (“loja do cidadão”) (IO3). At central level, the programme will support state institutions responsible for the decentralisation process, namely MSA as main partner of the programme, by supporting its coordinating role for the implementation of the decentralisation process through ad hoc technical assistance provided by identified partners like ANMP and FEFAL. Other stakeholders like MRLPA, MoF and the National Parliament, plus related line ministries and other institutions which compose GTIM – the Grupo Técnico Inter-Ministerial that oversees the local government reform process under the MSA’s leadership - will be supported providing assistance for revising, updating and completing the sector reforms and related legal framework. At the local level, the strategy is to build the capacity of staff working in local administrations and in deconcentrated services, by (i) improving local level public expenditure management institutions (multi-year planning, capital programming and annual budgeting), (ii) structuring and operating an efficient municipal administration and (iii) promoting participatory governance and active citizenship in public service delivery oversight, supporting local authorities to become political driver of decentralisation and proactive actor of local/territorial development including in terms of job creation and linking with the private sector. This will be done through INAP, which has to be reinforced for this purpose, and adopting a Training of Trainers methodology, as well as by establishing specialised technical units supported by line ministries that will provide assistance to local administrations. All SPDD-TL components and main activities at central and peripheral levels will pay specific attention to gender equality and therefore women empowerment for their involvement and active role within the decentralization process. As a result of and complementing the above components, the Programme will support the establishment of one-stop-shop, as concrete output of the de-concentration process, and the implementation of an electronic platform for public procurement of local administrations (the latter with the technical support of UNDP which is already providing assistance in the Oe-Cusse autonomous region). Additionally, capacity support in terms of human resources and IT systems will be provided and a monitoring system will be established for reporting on and evaluating the decentralisation process.

The intervention is fully aligned and will complement all activities developed by the parallel on-going PFMO programme which is already supporting the Ministry of Finance on PFM through budget support and check and balance institutions with complementary support. While PFMO operates only at the central level, the new initiative enlarges its approach to the decentralised level, building on its lessons learnt and disseminating a practice of good governance and effective management in the recently created local administrations. This strategy improves public service delivery, brings institutions closer to local population, especially in remote areas, promotes active participation and reinforces democracy.
During the 6 month Inception Phase of the programme, a complete functional analysis of all the stakeholders will be undertaken. This analysis is aimed at specifying the current institutional and capacity gaps against the actual mandate of each stakeholder in the framework of the current legislation. During this Inception Phase, a phasing of the programme’s activities should be aligned with the priorities of the Government in order to increase ownership.

Furthermore, proper programme coordination and monitoring mechanism will be established to ensure integration and consistency among activities and components, as well as among the several actors (see details on organizational set-up in section 5.7): Government, EU, UNDP and other Development Partners active in this area, service providers like ANMP and FEFAL, and CSOs like FONGTIL and REDE FETO.

4.3 Mainstreaming

The Programme is aligned with the Timor-Leste’s Roadmap for the implementation of the 2030 Agenda and the SDGs, whose achievement and the pledge to “leave no one behind” is built on a commitment to focus on municipal rural communities, urban slums and population living in vulnerable situations, such as women, girls, youth, the disable and elderly. These imply that Government will strengthen municipal administrative units and provide them with regulation, standards operating procedures, human resources, financial allocations, and equipment.

The Programme will contribute to human rights by improving service delivery to population, especially to the ones in most vulnerable situations in rural areas, supporting citizenship and promoting participation in local governance, by facilitating access to basic needs and to justice. The one-stop-shop will be a centre for services provision, not only for delivering common deconcentrated services, but also by making available additional services like consumers' protection, public attorney representation for conflict resolution, as well as private services according to local needs and rights.

Gender will not be only mainstreamed in all activities by promoting equal opportunities and women participations throughout the intervention. Specific activities will be also carried out for gender empowerment, with specific training modules addressed at improving local administration and public finance management with gender-sensitive approaches. Furthermore, priority will be given to services that will be deconcentrated and provided in the one-stop-shop and that could benefit especially women. The SPDD-TL is aligned to objectives and selected impact indicators of the GAP II framework and the ‘Timor-Leste Gender Action Plan’ (TL-GAP) 2017-2020 as described in section 1.2.

Despite the environment not being directly addressed by the Programme, capacity building of local administrations will also pay strong attention to increasing knowledge and to establish environmentally sound mechanisms for decision-making in local governance and planning.

Complementing and aligned with PSAF, PINTL and PFMO, the programme will promote capacity building of municipal offices/authorities to ensure that inclusive and sustainable socio-economic rural development in Timor-Leste - through improved rural access, the creation of employment, economic and domestic revenue opportunities, and a durable reduction in food insecurity and malnutrition in rural areas - can be achieved as foreseen in the National Determined Contributions (NDC) and international commitments on climate change, and promoting a climate-neutral and sustainable green economy.
Through strengthening capacity for better planning and preparedness at local level, the programme will contribute to climate change mainstreaming in Timor-Leste, helping the country to reach its objectives in line with the Paris Agreement.

**4.4 Contribution to SDGs**

This intervention is relevant for the 2030 Agenda and is aligned with the Timor-Leste Strategic Development Plan 2011-2030, which also refers to decentralisation. It contributes primarily to the progressive achievement of following SDGs:

**Goal 05: Achieve gender balance and empower all women and girls.**

5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

5.5.1 Proportion of seats held by women in (a) national parliaments and (b) local governments.

5.5.2 Proportion of women in managerial positions.

**Goal 08: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**

8.3 Promote development-oriented policies that support productive activities

**Goal 10: Reduce inequality within and among countries**

10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

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

16.6: Develop effective, accountable and transparent institutions at all levels.

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

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

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

**5 IMPLEMENTATION**

**5.1 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

**5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer by amending this Decision and the relevant contracts and agreements.
5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 11.25 million, and for complementary support EUR 3.25 million. This amount is based on a rough estimate of the financial gap for the Government to cover technical assistance, supplies, maintenance and recurrent costs related to supporting the development and implementation of the decentralisation reform, public administration modernisation and services de-concentration agenda in the next 4 years.

The amount allocated to the complementary support is explained by the different typology of stakeholders and beneficiaries, which depends of different Ministries or autonomous agencies (like the National Parliament), for whom it would be very difficult or even impossible to be supported through sector budget support, as well as for activities that require specific technical knowledge and experience (like e-procurement under induced output 3).

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:
   - Satisfactory progress in the implementation of the Public Administration Reform and Decentralisation process – as per the revision of Decreto-Law 9/201814 “Statute of the Municipal Administrations, Municipal Authorities and Inter-Ministerial Technical Group (IMTG) for Administrative Decentralisation; and of the Resolution of the Government No 11/2019: Execution of the strategy for administrative decentralisation and installation of the organs representative of local power15 and Action Plan for Administrative Modernisation and Local Power 2019-2023 – and continued credibility and relevance thereof;
   - Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
   - Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
   - Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement of variable tranches are detailed in Annex 3.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the National Authorising Officer of Timor-Leste may submit a request to the Commission for the targets and indicators to be changed. Any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

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

5.3.3 Budget support details

The indicative disbursement timetable of both fixed and variable tranches is as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>2020-Q1</th>
<th>2021-Q1</th>
<th>2022-Q1</th>
<th>2023-Q1</th>
<th>2024-Q1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed tranche</td>
<td>1.25</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5.25</td>
</tr>
<tr>
<td>Variable tranche</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>1.25</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>11.25</td>
</tr>
</tbody>
</table>

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

5.4 Implementation modalities for complementary support to budget support.

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures \(^{16}\).

5.4.1 Procurement (direct management)

The procurement will have the purpose to contribute to the achievement of all activities related to induced output 1 and the activity on e-procurement related to induced output 3 in case these cannot be implemented in indirect management with an international organisation. The procurement will also cover for evaluations, audit and communication and visibility services foreseen in sections 5.9, 5.10 and 5.11.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Indicative type</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Induced output 1 and e-procurement</td>
<td>Services</td>
<td>Q1 2020</td>
</tr>
<tr>
<td>Communication and visibility</td>
<td>Services</td>
<td>Q1 2020</td>
</tr>
<tr>
<td>Mid-term Evaluation</td>
<td>Services</td>
<td>Q1 2022</td>
</tr>
<tr>
<td>Final Evaluation</td>
<td>Services</td>
<td>Q2 2024</td>
</tr>
<tr>
<td>Audit</td>
<td>Services</td>
<td>Q2 2024</td>
</tr>
</tbody>
</table>

\(^{16}\) www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.
5.4.2 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the United Nations Development Program (UNDP). This implementation entails the achievement of all activities related to induced output 1 and the activity on e-procurement related to induced output 3. The envisaged entity has been selected using the following criteria: it has a long-term recognised experience in supporting decentralisation processes worldwide, including in Timor-Leste where it has provided assistance to MSA and the National Parliament with its Local Governance Support Programme and the Enhancing Public Sector Accountability Project (see section 3.2 for details). UNDP has also successfully implemented an EU funded project for support to the Parliament from 2011-2015.

In case the envisaged entity would need to be replaced, the Commission’s services may select a replacement entity using the same criteria. If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management in accordance with the implementation modality identified in section 5.4.1.

5.4.3 Changes from indirect to direct management mode due to exceptional circumstances

Due to exceptional circumstances a change from indirect management with one or more international organisations to direct management through procurement may be allowed. If an Agreement will not be signed with the selected entity and no replacement can be found, one or more service contracts to provide technical assistance and capacity building may be contracted. This procurement will aim to the achievement of the activities related to induced output 1 and the activity on e-procurement related to induced output 3.

5.5 Scope of geographical eligibility for procurement and grants

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

The Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

<table>
<thead>
<tr>
<th></th>
<th>EU contribution (amount in EUR)</th>
<th>Indicative third party contribution, in currency identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3 Budget support</td>
<td>11,250,000</td>
<td></td>
</tr>
<tr>
<td>5.4.2 Indirect management with UNDP</td>
<td>3,250,000</td>
<td></td>
</tr>
<tr>
<td>5.11 Communication and visibility</td>
<td>250,000</td>
<td>N.A.</td>
</tr>
<tr>
<td>5.9 Evaluation &amp; 5.10 Audit</td>
<td>250,000</td>
<td>N.A.</td>
</tr>
<tr>
<td>Totals</td>
<td>15,000,000</td>
<td></td>
</tr>
</tbody>
</table>
5.7 Organisational set-up and responsibilities

A Project Steering Committee (PSC) shall be set up to oversee and validate the overall direction and policy for the implementation of the project. Building-up on the existing Inter-Ministerial Technical Group (GTIM), it will be chaired by Ministry of State Administration, as main partner of the programme, and would be made up of representatives of the beneficiary institutions/entities concerned (Ministry of Finance, Ministry of Legal Reform and Parliamentary Affairs, National Parliament, etc.) and whenever relevant by line ministries with deconcentrated services (Ministry of Agriculture and Forestry, the Ministry of Education and the Ministry of Health related to PSAF and PINTL). The PSC will be co-chaired by the National Authorising Officer (NAO) in the Ministry of Foreign Affairs and Cooperation and the EU Delegation, while UNDP and MSA will be responsible for the SC secretariat. Other participants could be also included according to specific issues to be dealt with by the Steering Committee. The latter will meet every 12 months and ad hoc as might be required. It will be responsible for reviewing progress and achievements, reports as well as considering priorities and general principles for the Programme. It will specifically advise the programme management teams on proposals for opportunistic innovations that would allow for expanded sharing of data and knowledge in support of best practices; leveraging strategic and/or financing opportunities, if any; ascertaining the results and impact of its contributions as part of the overall monitoring and reporting system.

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

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

5.8 Performance and Results monitoring and reporting

The monitoring of the performance of budget support targets will be done on a quarterly basis based on MoF Units progress reports submitted to the CCFM, and an annual independent assessment of the targets will be conducted to assess the level of achievement of the targets and the possible amount of the annual budget support variable tranche. Monitoring directly links to and complement PFMO’s Budget Support Performance Assessment Framework for Fixed and Variable Tranches, namely in relation to Program 7 on PFM Decentralization/De-concentration. Additionally, a baseline survey under the budget support component to collect reference values for indicators, especially for those with qualitative nature (perception, status of reforms, etc.), will have to be carried out at the beginning of the implementation and at its end (end-line survey).

During the first two years of the Programme, an annual external monitoring will be organised. It should be sourced under the contract for technical assistance to the NAO services, financed under 11th EDF EU – Timor-Leste Co-operation Support Facility (CSF), or from the budget for communication and visibility (5.11).

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partners’ responsibilities. To this aim, the
implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix (for project modality) or the partner’s strategy, policy or reform action plan list (for budget support).

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per Joint Programming document should be taken into account. Gender sensitive indicators will also be taken into account to inform a gender-performance component.

The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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

5.9 Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission, ensuring the team will include specific expertise on human rights and gender. The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the continued adequacy of the intervention logic with the broader PFM, deconcentration and decentralisation reforms of the country. The overall objective would be to assess overall progress and appropriateness of implementation, to reach meaningful conclusions and to recommend adaptations as necessary. During this mid-term evaluation, the indicators related to the Variable Tranche may be reviewed.

A final evaluation may be carried out for this action or its components via independent consultants contracted by the Commission if deemed necessary by the Project Steering Committee. Evaluations of this action can be performed individually or through joint strategic evaluation(s) of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

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

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

It is foreseen that evaluation services may be contracted.
5.10 **Audit**

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

5.11 **Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted.
APPENDIX – INTERVENTION LOGIC TABLE FOR BUDGET SUPPORT

- Performance indicators used within variable tranches must be flagged in bold.
- As per footnote, mark indicators aligned with the relevant programming document with '*'.

<table>
<thead>
<tr>
<th>Results chain</th>
<th>Indicators (max. 15)</th>
<th>Baselines (year)</th>
<th>Targets by the end of the budget support contract (year)</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected impact of the policy (Overall objective)</td>
<td>To improve sustainable development in Timor-Leste</td>
<td>1. Human Development Indicator (Poverty reduction); 2. Inclusive GDP growth <strong>; 3. Poverty level in rural areas (disaggregated by sex)</strong></td>
<td>1. HDI (2017) 0.625 2. Non-oil GDP growth (2017) 3% (IMF) 3. Population below the national poverty line = 49.9 per cent (disaggregated by sex tbd)</td>
<td>1. UNDP’s Human Development Report; 2. Project Survey; State Budget execution reports; 3. IRI and Asia Foundation surveys</td>
</tr>
</tbody>
</table>

1. Some targets are still to be determined at the inception phase (2023) 2. Non-oil GDP growth, 5% on annual basis 3. Population below the national poverty line = 40 per cent (tbd)
<table>
<thead>
<tr>
<th><strong>Expected outcomes of the policy (Specific objective(s))</strong></th>
<th><strong>Induced outputs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>To support the de-concentration and decentralisation process, bringing governance and public administration closer to the people, both women and men</td>
<td>IO1. The deconcentration and decentralisation policy, institutional and legal framework is improved.</td>
</tr>
<tr>
<td>1.1 Percentage of Decentralised Public Spending in Social Development (Health and Education); 1.2 Sub-national PEFA scoring**; 1.3 OBI scoring; 1.4 SDG Indicators: 16.6.1 - Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar) 16.6.2 - Proportion of the population satisfied with their last experience of (deconcentrated and decentralized) public services (disaggregated by sex) 1.5 Share in domestic revenue mobilisation as a percentage of GDP over the last five years increase in domestic revenues**</td>
<td>1.1.1 Number of law proposals on deconcentration and decentralisation drafted and approved; 1.1.2 Status of the Law proposal mainstreaming gender</td>
</tr>
<tr>
<td>1.1.1 Percentage of Decentralised Public Spending in Social Development (Health and Education); 1.2 Sub-national PEFA scoring**; 1.3 OBI scoring; 1.4 SDG Indicators: 16.6.1 - Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar) 16.6.2 - Proportion of the population satisfied with their last experience of (deconcentrated and decentralized) public services (disaggregated by sex) 1.5 Share in domestic revenue mobilisation as a percentage of GDP over the last five years increase in domestic revenues**</td>
<td>2.1.1 Number of errors in payment and procurement operations; 2.1.2 Number of budgets prepared independently by all municipalities (PFMO 7.2)</td>
</tr>
</tbody>
</table>

1.1 4.2% of Public Expenditure in Health (2016) and 8.6% of Public Expenditure in education (2016) 1.2 Score resulting from PEFA 2019 1.3 OBI public participation (2017) = 9/100 1.4 SDG Indicator baseline to be updated during the Inception phase (2019) 1.5 Domestic revenue =12% of GDP (2018) 1.6 3.6% of Public Expenditure in Health (2023) and 12% of Public Expenditure in education (2023) 1.2 Score resulting from PEFA 2023/2024 (tbd) 1.3 OBI public participation = 15/100 (2023) 1.4 Tbd in inception phase (year) 1.5 15% (Fiscal reform) 1.1 6.3% of Public Expenditure in Health (2023) and 12% of Public Expenditure in education (2023) 1.2 Score resulting from PEFA 2023/2024 (tbd) 1.3 OBI public participation = 15/100 (2023) 1.4 Tbd in inception phase (year) 1.5 15% (Fiscal reform) |

1.1 6.3% of Public Expenditure in Health (2023) and 12% of Public Expenditure in education (2023) 1.2 Score resulting from PEFA 2023/2024 (tbd) 1.3 OBI public participation = 15/100 (2023) 1.4 Tbd in inception phase (year) 1.5 15% (Fiscal reform) | 1.1 State Budget execution indicators; |

1.2 PEFA reports 1.3 OBI reports 1.6 SDG baseline and endline surveys to be conducted by under the action. |

1.5 Annex 1 of the Budget (MoF) | **IO2. The capacity of local administrations to deliver public services to the population is increased in a sustainable way** |
<p>| <strong>IO1</strong> | 1.1.1 Project reports, official gazette 1.1.2 Baseline/endline survey |
| <strong>IO2</strong> | 2.1.1 Project reports and baseline/endline survey 2.1.2 Project and state/municipal budget reports |</p>
<table>
<thead>
<tr>
<th>IO3.</th>
<th>Mechanisms for improving local governance (e-procurement) and public services delivery (“loja do cidadão”).</th>
<th>3.1.1 Number of one-stop-shop operating in one municipality; 3.1.2 % of contracts (in number and amount) awarded through the e-platform for local procurement</th>
<th>3.1.1 = 0 (2019) 3.1.2 = 0 (2019)</th>
<th>3.1.1 = 1 (2023) 3.1.2 = 90% (2023)</th>
<th>3.1.1 project and one-stop-shop reports. 3.1.2 e-platform and project reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>IO4:</td>
<td>Improved public service delivery at the local level, empowering and promoting the role of women</td>
<td>4.1.1 Number of persons (disaggregated by sex) attended at the one-stop-shop 4.1.2 Overall cost and time for obtaining an ID document (and/or other personal document, certificate, etc.) in rural areas. 4.1.3 % of population in rural areas (disaggregated by sex) with an ID document.</td>
<td>4.1.1 = 0 (2019) 4.1.2 = to be assessed at inception phase (2019) 4.1.3 = to be assessed at inception phase (2019)</td>
<td>4.1.1 = to be assessed at inception phase (2023) 4.1.2 = reduction in time and cost (and accessibility) to be assessed at inception phase (year) 4.1.3 = increasing to be assessed at inception phase (year)</td>
<td>4.1.1 Reports from the one-stop-shop 4.1.2 and 4.1.3 Official statistics from national institute and registry national directorate.</td>
</tr>
<tr>
<td>Direct outputs</td>
<td>DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.</td>
<td>1.1.1.1 Amount of EU funds delivered through Budget Support for this programme</td>
<td>1.1.1.1 € 0 (2019)</td>
<td>1.1.1.1 € 11.25 M (2023)</td>
<td>1.1.1.1 EU reports</td>
</tr>
<tr>
<td>DO2.</td>
<td>Improved policy performance and assessments.</td>
<td>2.1.1.1 Status of the Reform strategy for decentralisation and de-concentration.</td>
<td>2.1.1.1 = A detailed strategy for administrative decentralisation not approved/regulated (2019)</td>
<td>2.1.1.1 = reform strategy implemented by the year 3 of the project (2022)</td>
<td>2.1.1.1</td>
</tr>
</tbody>
</table>

[30]
<table>
<thead>
<tr>
<th>DO3. Improved policy dialogue and coordination.</th>
<th>3.1.1.1 Number of meetings of the Inter-Ministerial Technical Group for Administrative Decentralisation and its operational Secretariat.</th>
<th>3.1.1.1 = 1 per year (2019)</th>
<th>3.1.1.1 = 4 per year (2020)</th>
<th>3.1.1.1 IMTG meetings minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.1.1.2 Frequency of policy dialogue between the Government of Timor-Leste and the EU Delegation</td>
<td>3.1.1.2 = yearly meetings for general policy dialogue (2019)</td>
<td>3.1.1.2 = quarterly meetings (2020)</td>
<td>3.1.1.2 meeting minutes</td>
</tr>
<tr>
<td>DO4. Strengthened capacities conducive to the improvement of the deconcentration and decentralisation policy, institutional and legal framework.</td>
<td>4.1.1.1 Number of measures (e.g. capacity building, comparative studies, consultancy) on deconcentration and decentralisation developed for the permanent Commission A (Constitutional Affairs, Justice, Public Administration, Local Power e Anti-Corruption) and Commission C (Public Finance).</td>
<td>4.1.1.1 = 0 (2019)</td>
<td>4.1.1.1 = To be determined at the inception phase (2020)</td>
<td>4.1.1.1 National Parliament and project reports</td>
</tr>
<tr>
<td></td>
<td>4.1.1.2 Number of civil servants and local authority representatives trained by INAP (disaggregated by sex and level)</td>
<td>4.1.1.2 = 0 (2019)</td>
<td>4.1.1.2 = tbd at inception phase (2023)</td>
<td>4.1.1.2 INAP and project reports</td>
</tr>
<tr>
<td></td>
<td>4.1.1.3 Status of the Common municipal management system implemented.</td>
<td>4.1.1.3 = no municipal management system is implemented (2019)</td>
<td>4.1.1.3 all addressed municipalities implement management system (2023)</td>
<td>4.1.1.3 Project reports</td>
</tr>
</tbody>
</table>