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Association HAK	-	The Association for Law, Basic Rights and Justice
AusAID	-	Australia Development Aid
CAVR	-	Commission for Reception, Truth and Reconciliation
CoC	-	Council of Coordination
ConSP	-	Consolidation Support Programme
CSP	-	Country Strategy Paper
FRETILIN	-	Frente Revolucionaria de Independente
GDP	-	Gross Domestic Product
GoTL	-	Government of Timor-Leste
ITWG	-	Inter-ministerial Technical Working Group
JMC	-	Joint Ministerial Commission
LDF	-	Local Development Fund
MDG	-	Millennium Development Goals
NDP	-	National Development Plan
NGO	-	Non-Government Organisation
OPE	-	Office for Promotion of Equality
PFMCBP	-	Planning and Financial Management Capacity Building Programme
PMIS	-	Personnel Management Information System
PSD SIP	-	Private Sector Development Sector Investment Programme
PSM SIP	-	Public Sector Management Sector Investment Programme
SIPs	-	Sector Investment Programmes
SWGs	-	Sector Working Groups
TASI	-	Temporary Advisory Services Initiative Fund
TSP	-	Transition Support Programme
UN	-	United Nations
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Programme
UNMISSET	-	United Nations Mission to East Timor

EXECUTIVE SUMMARY

This Country Strategy Paper (CSP) sets out the strategy for Ireland's development assistance to Timor-Leste for the period 2006 to 2008. It builds on the experience gained during the implementation of the previous CSP (2003-2005) and responds to the current state of development in Timor-Leste. The period of this CSP is in line with the Timor-Leste National Development Plan, which expires in 2007.

Timor-Leste is the world's youngest nation, having attained formal independence in May 2002 following 24 years of Indonesian occupation and two years of UN administration. It emerged from Indonesian rule in 1999 with its infrastructure in ruins. It was devoid of government institutions or the human resources to run them and was left with a vestigial economy based largely on subsistence agriculture. Its people were traumatised by the experience of repressive rule and the violence surrounding Indonesian withdrawal.

With the support of the international community, considerable progress has been made since 1999 in establishing security and stability and building the political and administrative framework of the new nation. Key government institutions are in place. A National Development Plan has been drawn up following from a broad consultative process. Progress has been made in restoring public services. Prudent structures have been put in place for the management of oil and gas revenues. Relations with Indonesia are in a positive phase. Agreement on the land border is almost complete and negotiations on the maritime boundary will follow. Timor-Leste and Australia have agreed on joint exploitation arrangements for the petroleum resources of the Timor Sea.

However, much remains to be done. Timor-Leste is still faced with considerable development challenges including weak public sector capacity, high unemployment, a weak justice sector, and continuing gender imbalances. It continues to need our support and that of the international community if it is to consolidate and build on the progress made so far; to meet the expectations of its people; and to address the poverty which continues to affect the people of Timor-Leste. The report of the UN Secretary-General to the Security Council in January 2006 noted that despite the remarkable achievements made since 1999, the country remains fragile. The report added that crucial State institutions, particularly the justice sector, remain weak and time is needed for democratic governance and human rights to take root.

The overall thrust of the draft CSP for 2006 to 2008 is towards consolidation of the existing programme, building on the progress achieved to date and coordinating closely with the government and other donors in tackling the existing development challenges. The Timor-Leste National Development Plan will remain the main vehicle for Irish Aid's support, thus ensuring that assistance is aligned with the policies and priorities of Timor-Leste, coordinated with other donor partners, and that the people of Timor-Leste are in the "driving seat" of their own development. The programme will retain its focus on strategic sectors, with a particular emphasis on areas of comparative advantage.

The goal of the new CSP is to support the Government and people of Timor-Leste to achieve the objectives of the National Development Plan and Millennium Development Goals.

The CSP will be built around four areas which are key to the overall development of Timor-Leste:

- (i) macroeconomic support**
- (ii) public sector capacity development**
- (iii) local government**
- (iv) rights, equality and justice**

The document sets out the political, social and economic context for continued Irish Aid support for Timor-Leste. It describes the development framework for donor interventions and looks at the programme to date and lessons learned. Finally, it sets out the overall direction and specific elements for Irish Aid's programme in the period 2006 to 2008. The Paper identifies an overarching goal, specific objectives and strategies to meet those objectives. It sets out the specific areas on which Irish Aid will focus its intervention in the coming years and concludes with a description of how the programme will be managed, monitored and resourced.

1. Introduction

The Democratic Republic of Timor-Leste is situated in South East Asia, northwest of Australia at the eastern end of the Indonesian archipelago.

Timor-Leste achieved formal independence on 20 May 2002 after 24 years of Indonesian occupation and two years of UN administration. At Indonesian withdrawal in 1999, the country's infrastructure was left in ruins and the public administration hugely depleted. With international assistance, significant achievements have been made in creating the institutions of government, establishing security and macro-economic stability, and restoring public services.

However, immense challenges remain. Timor-Leste is still among the world's poorest countries. The economy remains fragile and physical infrastructure is weak. Skills and education levels are low and unemployment is very high. Institutional capacity remains weak and budget execution is poor, resulting in low levels of service delivery in critical sectors. The report of the UN Secretary-General, considered by the Security Council on 23 January 2006, noted that despite the remarkable achievements made since 1999, the country remains fragile. According to the report crucial State institutions, particularly the justice sector, remain weak, in large part owing to a lack of qualified human resources. It adds that according to some assessments it may take several years for Parliament to be able to function without international support and time will also be required for democratic governance and human rights to take root. The Secretary-General expressed the view that the international community should remain engaged in the country.

Timor-Leste has made solid progress in nation building and its long-term prospects are good. The Government has shown strong leadership based on prudent macro-economic management and a commitment to promoting sustainable growth and reducing poverty, with a budgetary focus on basic economic and social services. Notwithstanding the potential for economic growth arising from increasing revenues from petroleum production in the Timor Sea, Timor-Leste will continue to be dependent on donors in the medium term to address the budget deficit and to deliver the major investments needed to achieve the Millennium Development Goals.

Irish Aid's involvement in Timor-Leste commenced in November 2000, with the establishment of a humanitarian and reconstruction assistance programme. A Representative Office was established in Dili in November 2002 and Timor-Leste became a programme country in March 2003 with a long-term development strategy set out in the Timor-Leste Country Strategy Paper (2003-2005). Ireland is a medium size donor in the Timor-Leste context, where the larger donors (US, Australia, Portugal, Japan) have programmes in the US\$25-35 million per annum range.

2. Map of Democratic Republic of Timor-Leste



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3. Context

3.1 Political

- FRETILIN, the party of resistance against Indonesian rule, controls government and parliament.
- The opposition is fragmented and uncoordinated.
- President Gusmão provides a strong check and balance due to his popularity and stature.
- The Courts are weak, with a poor legal framework and dependent on international experts.
- Civil society and the media can potentially play a significant role.
- The security situation has stabilised. The UN peacekeeping mission (UNMISET) ended in May 2005.
- Bilateral relations with Indonesia are good and the border demarcation process is well advanced.
- Timor-Leste and Australia have signed an agreement on the sharing of petroleum resources.

The Constitution provides for a parliamentary system of government based on the rule of law and separation of powers. There has been significant progress in creating the architecture of governance and the associated legal and institutional frameworks. Capacity is slowly being built in the public administration.

Parliament is dominated by FRETILIN under the control of Prime Minister, Dr. Mari Alkatiri. The opposition is fragmented and lacks broad public recognition or support. The office of President is largely symbolic but President Gusmão exerts considerable moral authority. Parliamentary and presidential elections are due in 2007. FRETILIN is expected to retain its majority in the next parliament.

Despite the commitment to establishing a proper functioning judicial system, access to justice remains difficult mainly due to the limited number of courts in operation and other resource constraints. The judiciary is not in a position to fulfil effectively its role as a check on the executive branch.

The media and civil society organisations are generally well established in Timor-Leste. NGOs are involved in monitoring, advocacy, education, and human rights work. However, the relationship between government and civil society has been strained at times. The media has grown significantly since independence, albeit with capacity limitations in the area of investigative journalism. Press freedom is largely respected though there are concerns about the Government's intention to re-criminalise defamation. A public service act and code of ethics have been promulgated. The Government operates a transparent budgeting and accounting process.

Corruption is perceived as a growing problem although many observers believe the fear and perception are overstated. The *Office of the Inspector General* has investigated a series of cases, though none have yet been brought to court. A *Provedor for Human Rights and Justice* has been appointed and the office, which will combine the functions of a human rights commission, ombudsman and anti-corruption agency, should be operational by early 2006.

Portuguese and Tetum are the two national languages. Tetum is widely used and understood but is not well developed as a written language. Portuguese has been introduced in the Courts and as a language of instruction in primary schools. However, beyond senior government circles and the older educated population, it is not well understood. The transition to Portuguese presents huge challenges and will

require major expenditure on language training, interpretation and translation to ensure that the population is not excluded from the development process. Care will be needed to ensure that language issues do not become a divisive element in society.

Timor-Leste has enjoyed security and political stability since independence. There has been no serious civil unrest since 2002. However, this stability is fragile. Growing poverty and unemployment could lead to civil unrest, particularly in the period leading to elections in 2007. While there have been some cross-border incursions involving ex-militias and some incidents involving elements of the Indonesian army, both Governments have been cooperating to address these issues. Tensions between the police and army that emerged in 2004 appear to have abated.

Since independence, Timor-Leste has worked to build good relations with Indonesia. In 2002, a Joint Ministerial Commission (JMC) was established to deal with residual bilateral issues, followed in March 2005 by a joint Commission on Truth and Friendship to deal with human rights abuses in 1999. President Yudhiyono of Indonesia visited Timor-Leste in April 2005. Agreement on the land border is almost complete and negotiations on the maritime boundary will follow. Timor-Leste and Australia have agreed a joint exploitation of the petroleum resources of the Timor Sea, with a 50 year moratorium on maritime boundaries.

3.2 Economy

- The economy has recovered slowly, initially fuelled by international assistance and more recently by petroleum revenues.
- Petroleum GDP growth will be much higher than non-petroleum growth but will not have a significant impact on unemployment or household incomes, nor hence on poverty.
- Government aims to increase growth initially by increased spending on capital developments and in the medium term through creating an enabling environment for private sector growth.
- The Government's petroleum savings policy aims to maintain a sustainable level of spending.
- Timor-Leste's combined sources budget has a financing gap of almost US\$550 million over the next five years.

Following a boom in 2000-2001, fuelled by high aid levels and the large UN peacekeeping presence, growth has stagnated at about 2% since 2002. With population growth exceeding 3% per capita, GDP is declining and poverty is increasing. Aid levels have declined from a peak of US\$300 per capita in 2002 to US\$175 in 2004 and are expected to remain below previous levels.

Petroleum production and revenues increased significantly in 2004. It is expected to be the most substantial source of growth in future years and petroleum GDP is expected to grow to about twice non-petroleum GDP. Sound management of petroleum revenues will be crucial for Timor-Leste's socio-economic development. It has adopted a savings policy that limits annual spending to the estimated sustainable income from petroleum revenues. The policy reflects international best practice and incorporates additional provisions to ensure transparency and accountability in the management and use of revenues. The petroleum industry has very little interaction with mainland economic activities. Coffee is the only other major export, accounting for about 80% of non-oil exports. Productivity in rural areas is very low. Agriculture, livestock, fisheries and forestry make up 80% of all self-employment. However, it is

mostly at a subsistence level and is concentrated on basic foodstuffs with little internal or external trade.

In the first three years of independence donors, including Ireland, contributed approximately €24.8 million per year (approximately 40% of the central Government budget) through the Transition Support Programme (TSP) to address the fiscal deficit. With petroleum revenues increasing, the budget can grow gradually to the estimated sustainable income level of €200 million per annum. However, this will be insufficient to implement the National Development Plan and to achieve the Millennium Development Goals. Continued international assistance is needed to meet this financing gap.

Budget allocations are in line with growth and poverty-reduction objectives and focus on improving service delivery in rural areas. Recurrent expenditure allocations on education and health continue to meet pro-poor targets. Expenditure management systems compare favourably with other low-income countries and Timor-Leste performs well on fiduciary accountability benchmarks. Planning and budgetary skills are improving. However, the overall capacity for public financial management remains weak, resulting in weak budget execution, impacting negatively on service delivery and job creation.

The economy needs labour-intensive industries to address the problems of unemployment and low rural productivity. The petroleum industry is technology intensive and is not expected to generate significant employment. There is potential for growth in agribusiness and tourism. The Government has identified private sector development as the main engine for sustainable job creation. However, an incomplete regulatory framework, cumbersome procedures, high costs and poorly developed infrastructure discourage private sector activity and foreign direct investment. Increased public-financed capital investment projects will provide much needed infrastructure as well as generating an estimated additional 3,000 jobs in the construction sector.

3.3 Social Development

- 40% of people live below the national poverty line and 85% depend on subsistence agriculture.
- Life expectancy is less than 56 years.
- Population growth and fertility rate among the highest in the world.
- Maternal mortality is 660 per 100,000 live births
- Infant mortality is 87 per 1,000 live births
- 56% of one-year-olds fully immunized
- 52% of people have access to improved water sources and 33% to improved sanitation.
- Adult illiteracy is 46% for rural men and 56% for rural women.

Timor-Leste is among the poorest countries in the world, ranked 140th out of 177 countries on the UN Development Programme's 2005 Human Development Index. Over 40% of the population of 924,000 live below the national poverty line and half are under the age of 15. The fertility rate is among the world's highest, resulting in a high demand on social services, particularly health and education, and increasing poverty.

Timor-Leste's health indicators (in box above) are among the weakest in Asia. Fewer than 10% of people seek healthcare when ill. Community health centres, the main providers of health care in rural areas, are accessible to only half the population. Rates of HIV infection are low but so is awareness of the disease, its causes and its dangers.

During Indonesian withdrawal in 1999, the education infrastructure was destroyed and most specialised teachers and school administrators fled the country. The school system has been rebuilt since independence. Enrolment rates have increased but are still low and dropout rates are high. A quarter of 6 to 18 year olds have never attended school. Of those over 30, 70% have never attended school, resulting in high illiteracy rates among adults and low skills levels. Unemployment is high, especially in urban areas and among the youth.

Food insecurity is endemic in rural areas, where 86% of the poor live, and many rural households go short of food during the lean months of November to January. Food insecurity is partly the result of low levels of food production – a consequence of poor land and the generally low levels of technology, combined with high crop losses, both pre-harvest and post-harvest. Another problem is distribution: many farmers lack storage capacity and find it difficult to get their produce to market.

The combination of sluggish growth and a rapidly expanding population could lead to an increase in the number of those living in poverty by 2007. The Government's strategy is to invest in human capital and to create jobs. Significant investment will be made in education and health services over the coming years.

4. National Development Framework

The National Development Plan, Timor-Leste's poverty reduction strategy, sets out a five-year (2002-2007) programme with two main objectives:

- To reduce poverty in all sectors and regions of the nation
- To promote economic growth that is equitable and sustainable, improving the health, education and wellbeing of all.

The poverty reduction strategy is based on four elements: creating an enabling environment for economic activities; providing basic social services; providing security of person and property and protection from shocks and disasters; empowering the poor through popular participation.

The Government finalised a series of Sector Investment Programmes (SIPS) setting out medium-term frameworks along with a menu of priority development projects for each sector. The objectives of the SIPS include achieving better coordination between and with development partners through sector working groups (SWGs). To date SWGs for health, agriculture and infrastructure have been launched.

Implementation of the SIPS requires donor funding of €455 million above existing commitments over 5 years. While this is lower than the annual average donor assistance over the past five years it does reflect the expectation of continuing high

levels of development assistance¹. The SIP process has allowed the Government to strengthen its ownership of strategies and priorities. However, the packaging of the sector plans into projects and the large financing gap means that the selection, design and implementation will still largely be dependent on donors. There is a need for prioritisation to ensure that they are not overly ambitious. However, the SIPs are put forward by the Government of Timor-Leste and provide a good framework of the development priorities. If further developed with due consideration to capacity constraints and with clear monitoring systems, the SIPs can direct both government and donor funding to achieving NDP and MDG targets.

Box 2: Sector Investment Programs	
A. <u>Basic Service Sectors</u>	
•	Education and Training
•	Health Care
•	Housing and Other Services
•	Social Protection, Humanitarian and Emergency Assistance
B. <u>Production-related Sectors</u>	
•	Agriculture, Forestry and Fisheries
•	Natural Resources and Environment
•	Private Sector Development
C. <u>Basic Infrastructure Sectors</u>	
•	Communications
•	Power
•	Transportation
•	Water Supply and Sanitation
D. <u>Governance-related Sectors</u>	
•	Public Sector Management
•	Local Government and Civil Society
•	Rights, Equality and Justice
•	Security, Peace building and Reconciliation
•	External Relations
•	Other Pillars of Government

5. **Key Development Challenges**

Timor-Leste's development assistance context presents distinct challenges including low capacity in public administration, unemployment and gender inequality.

Public Sector Capacity

Despite considerable progress in the past five years, public administration remains weak and the capacity gap represents a serious challenge, particularly in light of public expectations for improvement of services post independence. In addition, the UN administration of Timor-Leste and the significant donor presence have militated against national ownership of the management of the country. International staff and consultants carry out much strategic work, at the same time trying to build local capacity. In some sectors (e.g. health) there are bilateral arrangements to provide staff while nationals are being trained overseas. The capacity gap in public services is a significant constraint on other development objectives. In particular, the capacity for public financial management remains weak, resulting in weak budget execution and negative impact on service delivery and job creation. The capacity constraint also gives rise to fiduciary risk regarding channelling funds through the government system.

¹ The Overview of Sector Investment Programs – Volume 1 indicates that Government is factoring an assumption of ODA of US\$80 per capita over the longer term.

A related concern is the relative inexperience of the Government and the public administration in dealing with donors, as well as the number of donors and range of aid modalities which creates its own challenges. Timor-Leste has 46 development partners² and, like Ireland, many channel their assistance through multi-donor programmes or through UN agencies, though the larger bilateral donors³ tend to implement projects directly or through contractors.

Unemployment

Urban unemployment is high, reaching 20% in the urban areas of Dili and Baucau. Urban youth employment is higher and is probably increasing, with over 10,000 young people joining the labour market annually and increasing migration from rural areas, where most employment is in subsistence agriculture. Low skills levels, poor infrastructure and an incomplete regulatory framework limit opportunities for job creation and discourage private sector activity. Rapid population growth, which exceeds 3% per annum and is amongst the world's highest, is also contributing to high unemployment.

Gender Inequality

Significant gains have been made in promoting gender equality and in strengthening the role of women in public life in Timor-Leste. But much remains to be done to address continuing gender imbalances and the lower status of women. Maternal mortality is the highest in the region, reflecting a lack of awareness of reproductive rights and access to family planning, pre-natal and post-natal services. Gender based violence, particularly domestic violence, is a significant problem. Weaknesses in the justice system have resulted in a large backlog of cases of gender based violence and there is a tendency to refer such cases for mediation rather than prosecution.

6. Irish Aid's Programme 2003 to 2005

Irish Aids's involvement in Timor-Leste began in the period leading to independence. Humanitarian and reconstruction assistance was provided in response to the emergency that erupted after the 1999 UN referendum. In March 2003, Timor-Leste was designated as Ireland's first Programme Country in Asia. Irish Aid formulated a long-term development strategy, the Timor-Leste Country Strategy Paper (2003-2005), with a budget of €11.1m. The focus of the Strategy was to assist Timor-Leste to implement the National Development Plan and reduce poverty through the delivery of essential services, institutional capacity building and the strengthening of governance. The key programme components were the Transition Support Programme, institutional capacity building, local development, gender equality, and human rights.

The *Transition Support Programme* (TSP) was a medium-term measure addressing the budget deficit in the first years of independence. It allowed donor funds to be channelled through a World Bank trust fund into the Timor-Leste national budget to support the implementation of the National Development Plan. Financing was agreed on the basis on annual programmes and an action matrix used for monitoring the implementation.

² 27 Bilateral Development Partners, 8 Multilateral Agencies and 11 UN Agencies

³ Portugal, Australia, Japan, and USA

The TSP initially focused on the creation of government institutions, establishment of the legislative and regulatory framework and strengthening of management systems for core government functions, and later on three thematic areas: good governance, service delivery and job creation. It has been the focus of dialogue on the policies and programmes of Government and a means of supporting the implementation of Government's annual action plans. It provided a forum where policy issues were discussed and results monitored jointly by Government and donors. Over the TSP period (2003-2005), the Government has made substantial progress in the implementation of the National Development Plan and in the achievement of TSP goals. Performance has been strong in the health sector. In the agriculture, education, justice and public finance management sectors, progress was good but with some areas of concern. A recent review⁴ of the TSP found that donors were satisfied that good progress has been achieved in a number of areas of implementation and that this has provided a reliable basis for continued budget support.

Institutional Capacity Building has been a main plank of Ireland's programme to date. Building an efficient and effective public service remains a key challenge for the Government. Most capacity building initiatives focussed on placing technical advisers in ministries to deliver services and to provide training. The UNDP Development Posts project was the main mechanism for Irish Aid's support in this area. A recent evaluation identified the need for a long term approach and national ownership, and warned of the risk of widening the capacity divide by the introduction of sophisticated management systems.⁵

Local Development has also been an important component of the programme and has included support for a policy on decentralisation, Suco (village) elections and a small grants facility for local development projects. The small grants facility assists community groups, NGOs and government agencies to carry out community-based development projects, mainly involving health, education and sanitation facilities. This provides a link to communities and civil society and allows Irish Aid to assess the impact of government programmes at community level.

Ireland has played a lead role in promoting ***gender equality*** in Timor-Leste. Specific gender related activities and indicators have been incorporated into the TSP and its successor, the Consolidation Support Programme. Irish Aid has funded technical and financial assistance to the Office for the Promotion of Equality (OPE) and the National Directorate of Planning to help the mainstreaming of gender in government programmes, the training of focal persons for ministries and districts, the production of materials promoting gender equality and the empowerment of women. Support has been provided to Civil Society Organisations to promote gender equality through education and training; to promote economic empowerment of women through access to microfinance; and to promote political empowerment through participation in the Suco elections.

⁴ Review of Transition Support Programme (TSP) and Appraisal of Consolidation Support Programme (CSP) to Timor-Leste. Arve Ofstad and Rasmus Bakke. Norwegian Agency for International Cooperation - Key findings set out in Annex A

⁵ "Assessment of Capacity Development Efforts and outline of a Framework for Future UNDP support to Public Sector Capacity Building". Browne, Keuleers and Banerjee, 2005

In *Human Rights and Democratisation* Ireland has supported a number of activities including the Commission for Reception, Truth and Reconciliation (CAVR) that reported to Parliament on human rights violations committed between 1974 and 1999. The President of Timor-Leste presented this report to the Secretary General of the UN in January 2006. A number of Timorese human rights NGOs have also been supported. Ireland assisted a UNDP-led project to facilitate a coordinated approach to support for the justice sector.

6.1 Outcomes

An internal assessment in May 2005 concluded that the areas supported by the programme were closely aligned to Timor-Leste's needs, and the modalities appropriate to the situation in the early years of independence. It recommended that the current activities be continued. It also noted Ireland's advocacy of the harmonisation / alignment agenda and recommended that this should remain an important role for Ireland.

Irish Aid has engaged with government on the key issues, particularly on strategies for poverty reduction and good governance. During the Country Strategy Paper period, significant progress was made in building capacity to administer public institutions; in improved delivery of health and education services; in the adoption of key legislation; in the national reconciliation process; in the improved observance of human rights and in the successful holding of Suco elections. Ireland has developed a comparative advantage in gender and local government and has been able to generate synergies through diverse and high level engagement in these areas.

Many of the achievements in promoting gender equality, particularly in relation to mainstreaming in government, have resulted from Irish Aid's support for the work of the Office for the Promotion of Equality and from building gender awareness and mainstreaming in government programmes. Other elements in this include support for civil society in promoting gender equality through education and training, promoting the economic empowerment of women through access to microfinance and promoting political empowerment of women through the Suco elections, in which women were elected to the traditionally male roles of village chiefs and elders. It will be important to continue to build on this core competency in the future programme.

Ireland, working in partnership with UNDP and UNCDF, has also taken a lead role in supporting the development of a policy on decentralisation and local government. By maintaining a focus on participatory democracy and improved service delivery, it has contributed to greater national ownership of the process. Through participation on the Small Grants Donor Network, Ireland has built an awareness of the progress on decentralisation outside the core technical working group.

7. Goal and Objectives for the Country Strategy Paper - 2006 to 2008

The overall goal for the development cooperation between Ireland and Timor-Leste in the period 2006 – 2008 is:

To support the Government and people of Timor-Leste to achieve the objectives of the National Development Plan and Millennium Development Goals.

Objectives

To achieve this goal, Irish Aid will pursue the following objectives:

- Improve Government basic service delivery, job creation and good governance.
- Build the capacity of the public service, including in public financial management.
- Build capacity of local Government to reduce poverty and provide basic services.
- Promote Irish Aid's key cross-cutting priorities of gender equality and good governance.
- Strengthen and support civil society to play its part in poverty reduction and good governance

Strategies and Key Actions:

The new Strategy Paper will continue the approach adopted for the first Country Strategy Paper with changes to reflect the experience of the past three years and to ensure effective targeting of resources. Irish Aid will adopt the following strategies:

- Work to improve aid effectiveness by promoting coordination, harmonisation and alignment of donor programmes with Government policies using the Consolidation Support Programme as the forum to make linkages, build on experience and promote agreement on monitoring roles amongst donors.
- Create linkages between the governance and capacity building programmes that it supports, for example, by monitoring the design of planning and financial management capacity building programme for coherence with the decentralisation policy.
- Promote the incorporation of principles of community participation and gender equality in Government's decentralisation policy.
- Focus on the promotion of gender mainstreaming in key Government programmes, such as the Consolidation Support Programme and support Government and civil society in gender-related activities.
- Support civil society to play its role in the process of nation-building through participation in Government planning processes and to assist them to monitor the effectiveness of Government performances in terms of service delivery and good governance.

The mission business plan will set out realistic strategic actions and key deliverables. This will be reviewed and revised annually.

8. Approach and Sectoral Engagement

During the period 2006 to 2008, the theme of Irish Aid's approach to Timor-Leste will be one of consolidation. It is proposed that a modest increase in financial support will be channelled to key areas such as Decentralisation/ Local Government and Public Financial Management capacity building. In line with the focus on specialisation and harmonisation, a deepening engagement is foreseen in areas of comparative advantage, namely gender mainstreaming and local government. In general, the levels of engagement must take account of capacity limitations within the mission in Dili and a targeted approach will be adopted. The programme will be built around support in the following key components:

- (i) macroeconomic support**
- (ii) public sector capacity development**
- (iii) local government**
- (iv) rights, equality and justice**

Irish Aid will use a mix of modalities including joint government-donor programmes, multilateral projects/programmes, direct disbursement to Government, and projects with civil society. With a view to concentrating resources in areas of comparative advantage, it will provide support in some areas through silent partnerships. It will align its support with government systems.

8.1 Macroeconomic Support

The Government of Timor-Leste has now formulated a three year Consolidation Support Programme. This maintains the focus of its predecessor, the TSP, on the three thematic pillars of service delivery, governance and job creation. The goal of the Consolidation Support Programme is to promote poverty reduction and sound governance by supporting the implementation and monitoring of strategic planning instruments - the National Development Plan, the Stability Programme, sector policies and Sector Investment Programs. It will be implemented by Government agencies under the overall guidance of the Ministry of Planning and Finance.

The Government of Timor-Leste has requested between €8.2 million to €12.4 million per annum in core financial support over the next three years. The Consolidation Support Programme will be co-financed by nine Donors⁶. Ireland will provide €2 million per annum through a World Bank joint donor trust fund.

Ireland will ensure that the Consolidation Support Programme targets on gender mainstreaming and local government are adequately supported and monitored. Linkages will also be made between the Consolidation Support Programme and Public Financial Management and Decentralisation, for example advocating for dialogue on progress with the Local Government Policy at Government / Donor high level fora. Irish Aid will participate in technical missions to appraise progress and

⁶ Australia, Finland, Ireland, New Zealand, Norway, Portugal, UK, USA, World Bank

will input on these issues at the bi-annual meetings between government and donors and will commission follow up work as required.

8.2 Public Sector Management

Timor-Leste's recently established public institutions suffer from weak capacity. The Public Sector Management Sector Investment Programme (PSM/SIP) highlights the main problems: skill and knowledge gaps; lack of understanding of core functions and performance indicators; weak management; unclear systems and processes; as well as the urgent need to reform pay and develop a performance evaluation system in line with best practice. Timor-Leste's public sector needs support to develop its human resources and reduce its dependence on foreign technical experts. The Government's goal is to develop a professional civil service, capable of guiding the long term development of the country, of delivering the full range of services expected in a democratic country and of ensuring good governance. This will enable Timor-Leste to exert full ownership over its development process and will also ensure that the macroeconomic support provided by Ireland and other donors is used effectively, efficiently and in the best interests of the Timorese people.

Irish Aid will support the development of the public sector through two multi-donor mechanisms:

- i) the "Planning and Financial Management Capacity Building Programme" through a World Bank Trust Fund
- ii) the UNDP programme "Developing National Capacity for Public Service Management"

While Ireland's support for capacity building in the public sector will be in the form of grant funding, consideration, within the guidelines of the untied nature of the donor basket fund, will be given to how Irish skills and technical expertise might be provided.

(i) The *Planning and Financial Management Capacity Building Programme* is a new initiative which entails co-ordinated and targeted capacity building in public expenditure planning, financial management and procurement for the Ministry of Planning and Finance and staff in line ministries and districts. The 5-year rolling programme integrates the development of professional skills and knowledge, systems and processes, and attitudes and behaviours to strengthen all aspects of public finance management. The emphasis is on sustainability, improved service culture and transparency.

The programme will be managed by the Ministry of Planning and Finance. A high level supervisory committee of Government and participating donors will operate through the PSM SIP sector working group.

Ireland will participate in the joint Government / donor biannual monitoring missions and relevant sector working groups. It will focus specifically on gender budget

analysis and on capacity for financial management at sub-national levels. This will be the main focus of Ireland's support in the area of public sector management.

The total cost of the 5 year programme is estimated at €30 million. A multi-donor trust fund arrangement with the World Bank is being established which will deliver funds directly into the Government system. Nine other donors⁷ are expected to contribute either through earmarked support or co-financing through a World Bank trust fund. Ireland will contribute €5.5 million over 3 years.

(ii) Building on its previous support for public sector capacity building, which Irish Aid co-funded, UNDP has developed a new umbrella programme *Developing National Capacity for Public Sector Management* to provide a framework for a multi-donor initiative to implement components of the PSM SIP. The 5 year programme aims to support the development of institutional, organisational and human capacities needed to execute core public management functions required to sustain the building of a public service within an environment of open, structured, reliable and accountable government.

The programme focuses on strengthening the key government agencies responsible for capacity building in the public sector – National Directorate for Planning and External Assistance Coordination, the Capacity Development and Coordination Unit, National Directorate for Public Service and National Institute for Public Administration; facilitating capacity needs analysis and the development of Ministerial Capacity Development Action Plans; further developing and implementing the regulatory framework for public sector management; and provision of international technical assistance through a Temporary Advisory Services Initiative (TASI) fund.

A team made up of the directors of the relevant Government agencies, UNDP and AusAID will manage the programme. Common management arrangements will be set out in a Memorandum of Understanding between UNDP, AusAID and the agencies involved.

The estimated cost is €2.1 million per year, not including the TASI or Overseas Training Fund. Nine other donors have indicated interest in co-funding the programme⁸. Irish Aid will contribute €2.05 million over three years. This will be channelled through UNDP.

With a view to ensuring effective targeting of Irish's support, and taking account of capacity constraints, this modality for support to the public service will be kept under review.

8.3 Decentralisation and Local Government

The National Development Plan identifies decentralisation as an important tool for reducing poverty and promoting equitable and sustainable economic growth. It seeks

⁷ Australia, JICA, IMF, New Zealand, Norway, Portugal, Sweden, UK, World Bank

⁸ Australia, Denmark, EC, Finland, New Zealand, Portugal, Norway, Sweden and UNDP

to ensure that people have a “voice” in decisions that affect them on economic, social, cultural and political matters.

Irish Aid will continue to support the four components of the Government's Local Government sector investment programme. Component One will deliver a policy paper including a revised administrative map defining two sub-national levels of administration; definitions of the administration organisational structures and staff roles and responsibilities; composition, roles and responsibilities of representative bodies; a costed implementation plan; and draft legislation. Ireland will support the implementation of the policy once approved.

Component Two will support the capacity building of the National Directorate for Territorial Administration (including district and sub-district level staff). This will include funding technical support in the areas of financial management and specific training activities such as management, fiscal decentralisation and exchange visits between districts.

Component Three will support capacity building of the Suco (village) Councils, in outlining their roles, functions and training in basic management systems. Ireland will work towards ensuring a coordinated and coherent approach to support the Suco Councils through the Small Grant Donors Network and NGO Forum. It will seek also to ensure support for women to enable them to participate fully in the Councils.

Component Four entails piloting fiscal decentralisation through a Local Development Fund (LDF) project which allocates block grants to district and sub-districts. The representative councils at each level are responsible for the management of these grants. Sustainable service provision and accountable local public administration systems are the main outcomes. Capacity building will be provided to assist these processes. The pilot LDF will be extended to a further two districts over 2006 and 2007.

Ireland will support the Government to identify interventions that can be planned, managed and funded at district / sub-district levels. These, will assist the National Institute for Public Administration (DNAT), to develop capacity building modules in order that the representative councils and communities can carry out these functions. Irish Aid will continue to support local development through its small grants facility as an interim measure.

The total estimated cost over three years for the Decentralisation and Local Government Project, the Local Development Fund Project and capacity building for Suco Councils and DNAT is €9.5 million of which Ireland will provide €1.45 million. In addition, €0.5 million will be provided for community projects through the Mission's small grants facility.

8.4 Rights, Equality and Justice

The Rights, Equality and Justice Sector Investment Programme captures the commitments made in the Timor-Leste Constitution to promoting the rights of all citizens and to ensuring that the state is based on “the rule of law”. These

commitments are reinforced in the National Development Plan. The Government's goal is to create an effective, accessible and impartial system of justice; to enhance the participation of citizens in public and national affairs; a culture of respect for human rights; popular participation; a responsible and responsive Government; professional, accountable, non-political defence and police forces; transparent and accountable civil society organisations; and an independent media.

Ireland will focus on four areas: i) human rights monitoring and education; ii) promoting gender equality, iii) strengthening the justice sector and iv) election support.

(i) Human Rights Monitoring and Education

The Rights, Equality and Justice Sector Investment Programme identifies building and maintaining effective and independent human rights oversight systems and strengthening the capacity of civil society as major priorities. Irish Aid proposes to continue to support the monitoring and promotion of human rights through direct support to two national human rights NGOs - Association HAK (the Association for Law, Basic Rights and Justice) and Forum Tau Matan (The Watch Forum).

Association HAK will monitor the human rights situation and investigate and document human rights violations, contribute a human rights perspective to policy discussions, provide public information and education on human rights issues, and provide specific human rights training for the national police force.

Forum Tau Matan will carry out education programmes on human rights for communities, focussing on the rights enshrined in the Constitution and the UN Conventions which Timor-Leste has ratified.

Irish Aid will allocate €0.26 million over 3 years.

(ii) Promotion of Gender Equality

Ireland will continue to play a lead role in this area through support for the Office for the Promotion of Equality (OPE), to which it is the main contributor, and through its work with other Ministries. OPE will focus on mainstreaming gender in Government programmes; provision of financial support for training activities; and promotion of a culture of gender equality. Irish Aid will fund OPE to provide technical assistance in the education, health, justice and agriculture sectors; for the drafting of legislation; for training public servants; and for the collection, management and use of statistics.

Ireland will continue to support media programmes and public information campaigns on gender equality promoting a more diverse image of women and challenging some of the major cultural obstacles for the promotion of equality. These will be implemented by national and community media organisations under the aegis of OPE. The programme will also continue to partner REDE Feto, the network of women's organisations, and other NGOs in promoting a culture of equality, and in particular in promoting the participation of women in elections, as well as continue to facilitate the economic empowerment of women through access to micro-credit.

€1.3 million will be allocated to the promotion of gender equality.

(iii) Strengthening the Justice Sector

The revised UNDP programme on strengthening the Justice Sector⁹ builds on the Rights, Equality and Justice SIP and the recently completed National Justice Policy which prioritises four strategic areas: the development of the legal framework; strengthening systems for day-to-day services; human resources capacity building; promoting legal awareness amongst the population

The main programme activities consist of international advisory services, formal training, infrastructure and equipment and will concentrate on the key institutions of the justice system including the Ministry of Justice, the Judiciary, the Court of Appeal and the District Courts and the Office of the Prosecutor.

The programme will be implemented by UNDP under the direction of the Council of Coordination (CoC), comprising the Minister of Justice, the President of the Superior Council of the Judiciary and the Prosecutor-General who will approve work plans, budgets and progress reports.

The total cost of the 4 year programme is approximately €8.3 million and is supported by seven donors.¹⁰ Ireland will allocate €1.2 million over three years. This will be channelled through UNDP. This modality will be kept under review with respect to specialisation and the value-added factor of Ireland's engagement with this sector.

In addition, €50,000 will be allocated annually for activities designed to develop levels of expertise and interest in Ireland regarding the Justice system in Timor-Leste and to facilitate further downstream initiatives.

(iv) Support for Elections

The Presidential and Parliamentary elections which are due to be held in 2007 will be a major test for Timor-Leste's young democracy. The preparation and conduct of the elections will be crucial in ensuring their success. A UN electoral needs assessment noted a number of issues to be addressed including: the need for wide policy discussion before the drafting of electoral laws, the need for on-going and coherent legal advice, voter registration, electoral administration, the need for strengthening political parties and creating a level playing field, and the need for planning and allocation of more resources. These requirements should be met through international assistance. Close coordination amongst all stakeholders and timely donor support will be crucial. It is likely that the UN/UNDP will take a lead role in coordinating support for the elections.

Ireland will provide financial support to the elections and their oversight through a coordinated mechanism. It will encourage broad consultation on the drafting of electoral law. It will promote participation by women in the elections and will support

⁹ "Enhancing the Justice System to Guarantee the Democratic Rule of Law – Strengthening the Justice System in Timor-Leste" UND September 2005

¹⁰ Australia, Belgium, Brazil, Denmark, Ireland, Norway and Portugal

monitoring of registration and election campaigning. It will participate in monitoring of elections.

Irish Aid will allocate €0.5 million for the 2007 elections

8.5. Strengthening Civil Society

Working with and strengthening civil society will continue to be an important element of the Ireland's programme in Timor-Leste. Support to this sector will be kept under review and adapted as necessary to reflect the elaboration of policy in this area, in particular through the formulation of a policy framework for support to civil society. Civil Society in Timor-Leste faces significant challenges of capacity constraints and coordination if it is to fulfil its function as a means through which the non-governmental sector can participate in national planning and can monitor governance and service delivery.

Support to NGOs in the areas of gender equality and human rights has been described above. In addition, support will also be channelled to the NGO Forum, the umbrella organisation for NGOs in Timor-Leste. The Forum has three main functions – (i) empowering member organisations through capacity building initiatives; (ii) advocacy on issues of national interest and (iii) support and training for district based organisations through district liaison officers. The NGO Forum has the potential to play a significant role in strengthening civil society and in representing it in national fora. While the Forum has had support from UNDP and international NGOs it has been constrained by a lack of sustained core funding. Irish Aid will develop a detailed strategy to support civil society over the programming period. The NGO Forum will strengthen the capacity of its member NGOs through training in management, Information Technology, languages and advocacy. It will coordinate and strengthen civil society in analysing policy, building public awareness and monitoring Government and Parliament, in particular in ensuring transparency and accountability in the development of petroleum resources and in the use of income generated from petroleum resources.

Irish Aid will support the Forum through core and project funding with an emphasis on strengthening civil society's role in monitoring Government service delivery commitments and accountability to its citizens. It will allocate €0.47 million.

9. Management, Monitoring and Risk Analysis

9.1 Programme Monitoring

Ireland will use both Government and joint Donor / Government mechanisms to monitor the national developments. The monitoring framework (Annex E) identifies specific indicators for tracking by Irish Aid. These are drawn from Government's national development frameworks and relate to outcomes where Ireland provides direct support. The Consolidation Support Programme monitoring missions, consultative fora with Government as well as the SIP Sector Working Groups, will continue to serve as the main sources of information and verification.

Each of the programme components includes monitoring and reporting arrangements. Irish Aid will conduct an internal annual review which will inform the annual report and document overall progress. Irish Aid will revise and re-align its Country Strategy Paper in line with national developments through the annual business planning process.

Irish Aid will commission and participate in major reviews particularly in the areas of comparative advantage - Gender mainstreaming and Local Government.

A country programme evaluation will be carried out in 2008.

9.2 Programme Management

Irish Aid has a small management team in Timor-Leste, made up of a Development Specialist/Head of Mission, an Administrative Attaché and a National Projects Officer, with a range of responsibilities including policy dialogue, political analysis and general reporting, programme and financial management and monitoring, NGO liaison and general donor coordination.

Irish Aid has been able to compensate for its capacity limitations by, inter alia, developing partnerships with multilateral agencies, notably the World Bank and UNDP, as well as with Government, other bilateral donors and Civil Society. Silent Partnerships are foreseen in this current Country Strategy Paper to help achieve this balance. In addition, possibilities for delegated cooperation with like-minded donors will be explored.

It is necessary to ensure over the period of the new Country Strategy Paper that resources are deployed to best advantage. The question of reinforcing personnel resources will be reviewed to ensure that management capacity is adequate to the demands of the programme. Consideration will be given to the appointment of a governance advisor. Arrangements for ensuring systematic, technical back up from Dublin will be put in place. This will apply in particular to Ireland's two areas of comparative advantage, local government and gender mainstreaming. While technical support will be delivered from Dublin it will also be necessary to complement this from outside sources through new and innovative arrangements. Assistance may be outsourced as and when required with consideration to be given to a draw down consultancy arrangement and to the scope for securing technical support within the region, such as from a consultancy group. Furthermore, in order to build on the experience of the current team and meet the requirements of this Strategy Paper additional staff development needs have been identified and will be incorporated into officers' role profiles:

- Training in mainstreaming, monitoring and business/work planning
- Training in accounting systems and financial management
- Sector specific training (e.g. decentralisation and local government; gender mainstreaming)

- Language training
- Exchanges with other Embassies and aid offices to share experience and good practice

9.3 Risk Analysis

Partnership always involves an element of risk. Risks can be considered as both internal and external. Internal risks relate to areas which are monitored by the Irish Aid office in Dili. External risks involve the environment where the programme operates. It is important that risks are anticipated and safeguard mechanisms are put in place to mitigate risks. There are considerable risks in the current political and economic environment in Timor-Leste, in particular the possibility of instability surrounding parliamentary and presidential elections in 2007. The partnership arrangements, the inbuilt monitoring and review mechanisms and the management arrangements are all intended to contribute to dealing with risk in a proactive manner. This will involve the compilation of a risk register which will be updated and reviewed on a regular basis.

10. Budgetary Allocations

10.1 Proposed budget for CSP 2006-2008 in Euro (millions)

	Proposed Budget (million Euro)		
	2006	2007	2008
1. Macroeconomic Support			
1.1 Consolidation Support Programme	2.00	2.00	2.00
Sub-total	2.00	2.00	2.00
2. Public Sector Management			
<i>2.1 Planning and Financial Management Capacity Building Programme</i>	1.00	2.00	2.50
<i>2.2 Developing National Capacity for Public Sector Management</i>	0.40	0.65	1.00
Sub-total	1.40	2.65	3.50
3. Local Government			
<i>3.1 Local Government Sector Investment Programme</i>	0.30	0.45	0.70
<i>3.2 Small Grants Facility</i>	0.15	0.15	0.20
Sub-total	0.45	0.60	0.90
4. Human Rights, Justice and Equality			
<i>4.1 Support for Justice Sector</i>	0.45	0.45	0.45
<i>4.2 Human Rights Monitoring and Education</i>	0.08	0.08	0.10
<i>4.3 Support for Elections</i>		0.50	
<i>4.4 Promoting Gender Equality</i>	0.40	0.40	0.50
Sub-total	0.88	1.43	1.05
5. Civil Society			
<i>5.1 Strengthening Civil Society</i>	0.07	0.15	0.25
Sub-total	0.07	0.15	0.25
Total	4.85	6.83	7.70

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