COUNTRY PARTNERSHIP FRAMEWORK FOR THE

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

For the Period FY2020-FY2024

WORLD BANK GROUP

Indonesia and Timor-Leste Country Management Unit
International Finance Corporation
Multilateral Investment Guarantee Agency
East Asia and Pacific Region

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DEMOCRATIC REPUBLIC OF TIMOR-LESTE
COUNTRY PARTNERSHIP FRAMEWORK

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LIST OF ACRONYMS

ADB	Asian Development Bank
ASA	Advisory Services and Analytics
ASEAN	Association of Southeast Asian Nations
BCTL	Banco Central Timor-Leste (Central Bank Timor-Leste)
CEM	Country Economic Memorandum
CGAP	Country Gender Action Plan
CLR	Completion and Learning Review
CPI	Consumer Price Index
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DFAT	Department of Foreign Affairs and Trade (Australian)
DHS	Demographic and Health Survey
DPO	Development Policy Operation
DRTL	Democratic Republic of Timor-Leste
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific
EITI	Extractive Industry Transparency Initiative
ESI	Estimated Sustainable Income
EU	European Union
FAO	Food and Agriculture Organization
FM	Financial Management
FRETILIN	Revolutionary Front for Independent East Timor
GAFSP	Global Agriculture and Food Security Program
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH
GoTL	Government of Timor-Leste
HCI	Human Capital Index
HD	Human Development
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
ILO	International Labor Organization
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KOICA	Korean International Cooperation Agency
LGBTI	Lesbian, Gay, Bisexual, Transgender and Intersex
LNG	Liquified Natural Gas
MCC	Millennium Challenge Corporation
MFAT	Ministry of Foreign Affairs and Trade (New Zealand)
MIGA	Multilateral Investment Guarantee Agency

MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
NAP-GBV	National Action Plan for Gender-based Violence
NDC	Nationally Determined Contributions
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PF	Petroleum Fund
PFM	Public Financial Management
PIM	Public Investment Management
PLR	Performance and Learning Review
PPP	Public-Private Partnership
RRA	Risk and Resilience Assessment
ROC	Regional Operations Committee
SCD	Systematic Country Diagnostics
SDP	Strategic Development Plan
TA	Technical Assistance
TLSLS	Timor-Leste Survey of Living Standards
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nation International Children’s Emergency Fund
USAID	United States Agency for International Development
WBG	World Bank Group
WDR	World Development Report
WHO	World Health Organization
WTO	World Trade Organization


NIKE

I. INTRODUCTION

The Country Partnership Framework (CPF) outlines the principles underlying the World Bank Group's engagement with Timor-Leste from FY2020 to FY2024. The CPF responds to Timor-Leste's strategic directions and its timeframe coincides with the expected tenure of the current parliament and government - the VIII Constitutional Government – and its Five-Year Implementation Plan (2018-2023) that supports Timor-Leste's *Strategic Development Plan (SDP) 2011-2030*. The CPF covers three focus areas: (i) strengthen the foundation for private sector-led growth and economic stability; (ii) invest in human capital, service delivery and promote gender equity; (iii) raise productivity through investments in connective infrastructure; and a cross-cutting theme on governance, focusing on strengthening institutional and implementation capacity in government. Several diagnostic and analytic reports inform the strategic focus and key elements of the proposed program[1]. These strategic priorities are aligned with Timor-Leste's national development priorities articulated in the SDP. The CPF was developed in consultation with the government and key development partners, as well as representatives of the private sector and civil society. These consultations have shown a broad consensus behind the proposed strategy[2].

The country's development agenda is not constrained by the availability of financing in the near future. Owing to the exploitation of petroleum resources and the creation of a sovereign wealth fund, known as the "Petroleum Fund" (PF), Timor-Leste has accumulated financial assets worth about $17.5 billion[3], equivalent to over 10 times the size of non-oil GDP or nearly $13,800 per Timorese. Earnings on these financial assets and a possible capital drawdown will support the state budget over the CPF period.

However, the country's key challenge is to translate this financial wealth into sustained prosperity for its people. Turning these financial assets into sustained and broad-based increases in living standards will require investments in human capital and high-return infrastructure. This task requires a more strategic allocation of public resources and raising the quality of public investments. Public spending has not been sufficiently directed at human capital, but rather at low-return infrastructure and poorly targeted cash transfers[4], and it is on an unsustainable path. Therefore, the Bank Group program will aim to provide knowledge and policy advice to use resources in an efficient manner to build physical and human capital whilst boosting the role of the private sector in generating growth; and in building institutional and implementation capacity to assist the government improve the effectiveness of public spending. This approach informs the design of the CPF program.

The World Bank Group's institutions will work in close partnership to deliver the CPF program. The shift in the growth model towards private investments requires policy and institutional reforms and improvements in business conditions with a focus on the promising sectors of agriculture and tourism, and on effective delivery of social services through both public and private sector entities. Thus, the design of the CPF program exploits, to the extent possible, opportunities and potential synergies from close collaborations between the World Bank, IFC and MIGA.

[1] Systematic Country Diagnostic (SCD) (2017), Risk and Resilience Assessment (RRA) (2017), Country Gender Assessment (2014), Country Gender Action Plan (2018), and World Development Report (WDR) (2017).

[2] The Ministry of Finance and the following Development Partners and NGOs: UN, DFAT, EU, USAID, WHO, UNICEF, UNDP; WFP, Portugal, Asia Foundation, Oxfam, and La'o Hamutuk, provided written comments on the draft Timor-Leste CPF.

[3] Reference is made to the US dollar throughout this document.

[4] Targeting by categories of people and not targeting the poorest and most vulnerable people.

Political and policy uncertainty poses risks to the achievement of CPF objectives. The CPF proposes an ambitious program of support but political instability, the risk of policy slippages related to the volume and quality of public spending and implementation risks relating to projects make flexibility in the design of the program advisable. Accordingly, the CPF program as defined by the Bank Group's commitments in knowledge, advisory services and financing, the financing-mix and types of instruments selected will be determined by the dialogue with the government and the willingness of the government to embrace reforms in relevant sectors.

II. COUNTRY CONTEXT

A. Political Background

Timor-Leste is the newest country in Asia and the world's second youngest nation. Despite the significant progress made in key areas in the past fifteen years, Timor-Leste remains fragile as it contends with legacies of past conflict. This fragility is evidenced by weak institutional capacity and governance, poor social cohesion, lagging human capital indicators, corruption5 and inadequate infrastructure. Timor-Leste still struggles with insufficient technical and managerial capacity in the public service and the wider economy, policy ambiguity and inconsistency, weak public finance management and sectoral regulation, and lack of clear laws on the ownership and use of economic assets, such as land and financial credit. Tensions also arise from geographical imbalances and socio-economic grievances. However, significant progress has been made with regards to consolidating peace, effectively managing elections and transition of political power, strengthening of rule of law institutions, and rebuilding infrastructure and public services.

Multi-party democracy has continued to thrive. Timor-Leste operates a unitary semi-presidential system of government, with a well-functioning national parliament. The Prime Minister is the head of government, while the President is the Head of State. Timor-Leste has successfully organized four multi-party elections since independence[6], and the elections were all peaceful, free and fair, and they all led to smooth transitions in government. Although the country has eight political parties that have coalesced at various times to form governments, two major political parties are dominant.

The recent political stalemate had a strong adverse effect on the economy. The political party that won the most seats in the parliamentary elections held in July 2017 was sworn-in as a minority government[7], thus, forming the VII Constitutional Government. The then opposition-coalition controlled majority of the parliamentary seats, hence, the ruling government could not secure parliamentary approval for its proposed program. This situation resulted in a year-long political stalemate which led to the fall of the VII Constitutional Government and a call by the President for early parliamentary elections. The political stalemate, and the political fractures that underpinned it, created an atmosphere of uncertainty. These events limited government spending and contributed to two consecutive years of economic contractions in 2017 and 2018.

Following fresh elections in May 2018, three political parties formed a majority coalition government, the VIII Constitutional Government, that succeeded in the key test of obtaining parliamentary approval of the budgets for 2018 and 2019. However, key ministerial positions such as those of finance, health, strategic investments have remained vacant because the President refused to swear-in the nominees to these positions on grounds of alleged corruption and the ruling coalition has refused to offer alternate nominees. This has somewhat limited the capacity of the government to effectively implement its programs in some sectors. Nevertheless, the government is still ambitious in its goals. The country aspires to membership of the World Trade Organization (WTO) and Association of Southeast Asian Nations (ASEAN), which could open new avenues of foreign investment and knowledge

[5] Ranked 105 out of 180 countries in 2018 Transparency International (TI) Corruption Perception Index (CPI).

[6] The Timorese successfully organized parliamentary elections 2007, 2012, 2017 and 2018. The Constituent Assembly (the first Parliament) was elected in 2001 during the UNTAET administration, before the restoration of independence.

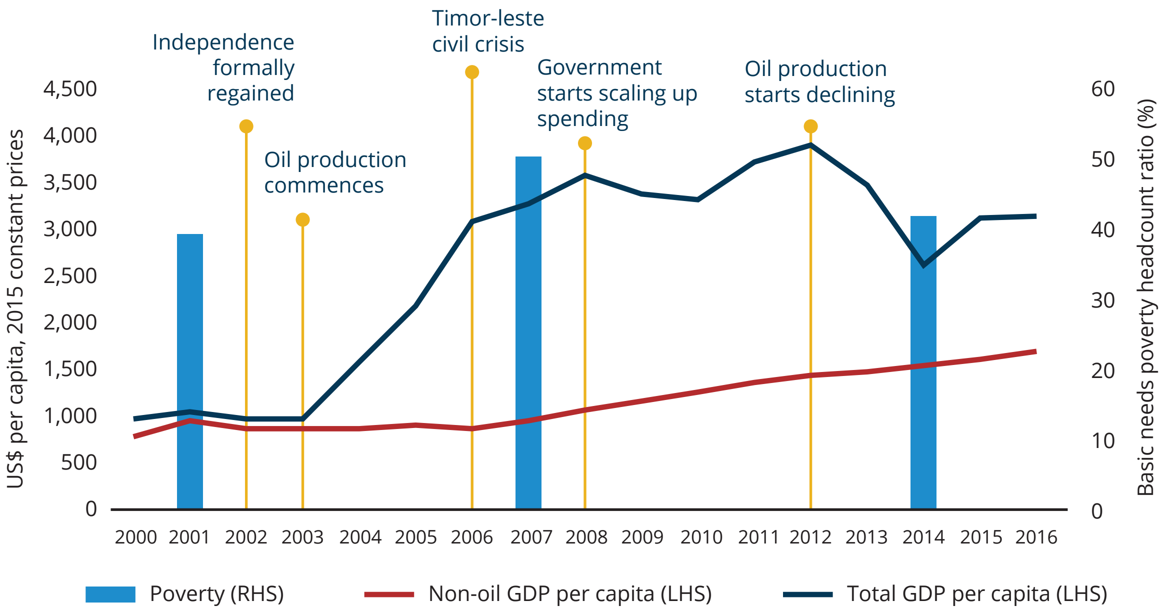
[7] The winning political party could not forge a majority coalition in Parliament.

transfer. So far, ASEAN member countries have not reached a consensus to admit Timor-Leste into its fold. Arguably, the pace of Timor-Leste's accession to ASEAN will be a key factor in the country's future development.

B. Economic Developments and Outlook

Oil and gas continue to play a dominant role in Timor-Leste's economy. Since 2004, the exploitation of off-shore oil and gas reserves has dominated overall economic activity (Figure 1)[8]. On average, petroleum revenues have accounted for about 33 percent of total GDP and financed 90 percent of the budget. The accumulated assets in the Petroleum Fund have cushioned the macroeconomic impact of volatile oil and gas prices. Oil rents have also been central to maintaining the post-independence political settlement and ensuring peace and stability. The absorption of oil rents into the economy has occurred mainly through considerable increases in public spending, particularly on infrastructure, public sector wages, cash transfers (including pensions for resistance veterans) (Figure 2)[9]. The public sector-driven expansion of output has been supported by significant growth in private consumption, fueled by wages and transfers[10]. Thus, as with natural resource-dependent economies, construction and services have driven growth at the expense of tradeable sectors.

Figure 1. **Timor-Leste: Annotated Timeline of Economic Performance[a]**



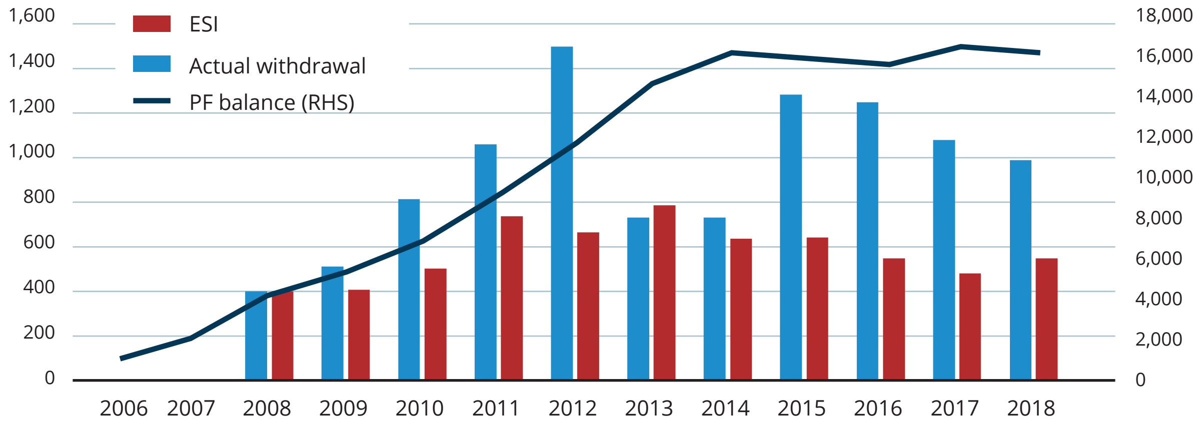
Note:
[a] SCD 2017.
RHS – Right Hand Side and LHS – Left Hand Side.

[8] Oil GDP growth in 2014 was driven by the construction of the Bayu Undan oil and gas fields infrastructure. Significant oil revenues only started to flow to Timor-Leste in 2005.

[9] From all petroleum earnings deposited in the Petroleum Fund, an estimated sustainable income, equivalent to 3 percent of the sum of the financial assets in the Fund and the net present value of future oil and gas receipts, forms the limit of budgetary use of petroleum resources. In practice, most years over the past decade has seen actual withdrawals significantly exceed the estimated sustainable income. For sustainability reasons, there is a need to restore adherence to the Fiscal Rule – this entails the enforcement of limits on key budget aggregate numbers (such as total expenditure, often to contain pressure to overspend when there is ample fiscal space. The Petroleum Fund stands at about $17.5 billion as of July 2019.

[10] Such spending has underpinned an informal revenue-sharing across elite groups and war veterans and thereby supported social peace.

Figure 2. **Timor-Leste: Petroleum Fund Trends (USD million)**

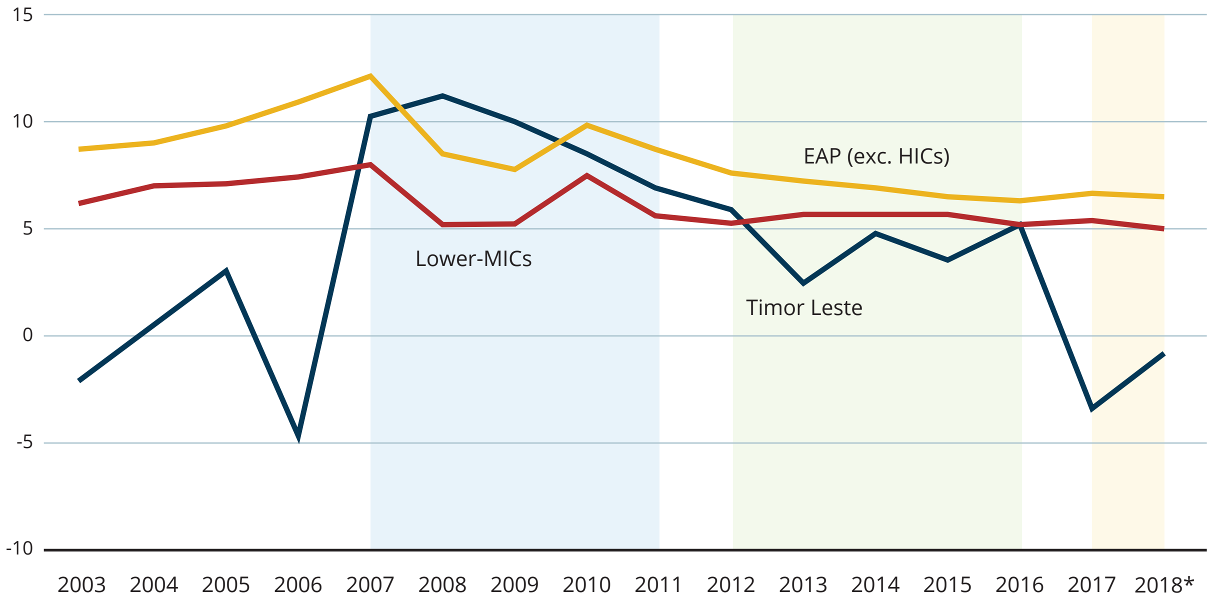


Source: Ministry of Finance and World Bank Staff Estimates
ESI – Estimated Sustainable Income
PF – Petroleum Fund

Growth of the non-oil economy increased with the commodity boom and slowed after 2011. The non-oil economy is comprised of public services, commerce, agriculture, and construction. Non-oil GDP growth was strong in 2007-2011 (averaging 9 percent annually), but has declined since: between 2012 and 2016, growth averaged 4 percent and contracted in both 2017 and 2018 (Figure 3). Construction and public services have grown in importance over the past 10 years, highlighting the country's efforts to re-build its infrastructure, strengthen public institutions, and enhance service delivery after independence. In 2017, public services, which include public administration, defense, education, health, and social work activities, accounted for 27 percent of non-oil output. Commerce, comprising wholesale and retail trade, transportation and storage, and accommodation and food services, represented 18 percent of non-oil output, followed by agriculture and construction, with 16 and 13 percent, respectively. Nonetheless, the composition of employment has changed more slowly. Most of the population continue to rely on subsistence agriculture, though the sector's share in total employment has declined from 78 percent in 2004 to 56 percent in 2015. Public services recorded the largest increase over the same period, increasing from 13 percent to 24 percent[11]. There has been a sharp increase in Timorese labor migration overseas, from 11,500 in 2010 to about 18,100 in 2015. This development has generated significant amount of remittances for households in the country, equivalent to about 2.8 percent of total GDP[12].

[11]"*Regaining Momentum*" Timor-Leste Economic Report, October 2018, World Bank Group
[12]Timor-Leste: Systematic Country Diagnostic (SCD) (2017), World Bank Group, Washington, DC.

Figure 3. **Timor-Leste: Non-Oil GDP Growth Rates**



Source: Ministry of Finance, World Development Indicators, and World Bank Staff Estimates

Timor-Leste uses the US dollar as its currency. This policy (full dollarization) has contributed to low and stable inflation and external stability, although it entails the loss of independent monetary policy. In the absence of such policy tool, external shocks ought to be addressed by fiscal policy. Consumer price inflation averaged 12 percent between 2011 and 2013, mainly due to high international food prices, but declined to an average of 0.5 percent between 2014 and 2018. However, there is evidence to suggest that the economy's productive capacity has not expanded in tandem with oil revenue spending, thus leading to an over-valuation of the real effective exchange. This weakens the external competitiveness of locally produced goods and services and limits opportunities for structural transformation. Hence, economic competitiveness needs to be enhanced through significant labor productivity and investment climate improvements.

Public spending accounts for over half of total domestic expenditure, thus, recent declines in public spending had a significant impact on economic activity. The public sector has traditionally dominated the economy, partly because the private sector is underdeveloped[13]. In 2017, there was a sharp drop in public spending when the minority government was unable to obtain approval for its economic program and capital spending plans. Public spending declined by 27 percent in 2017 and then a further 3 percent in 2018. This fall in public spending led to a contraction in non-oil GDP of 3.5 percent in 2017 and is estimated to have led to another contraction in 2018 (Table 1). Public sector wage growth and social transfer programs, both critical for sustaining household incomes, supported private consumption. Imports have declined, owing to lower demand for goods and services as a result of the slowdown in large public infrastructure projects. Consumer price inflation increased but remains low at 2.3 percent in 2018, driven largely by increases in food, tobacco, and education prices.

[13]In 2016, Timor-Leste had the fifth highest expenditure-to-GDP ratio in the world – when general government expenditure amounted to 72 percent of (total) GDP. Excluding oil, this ratio averaged over 100 percent in 2013-2016, only behind Libya, Kiribati, and Tuvalu. Expenditure includes development partner grants for international comparisons.

Table 1. **Timor-Leste: Macroeconomic Developments (Non-Oil GDP)**
(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	5.1	-3.5	-1.1	4.2	4.6	4.9
Private Consumption	7.9	0.9	-3.7	3.5	4.4	4.5
Government Consumption	-1.2	-5.8	-6.5	6.3	2.9	3
Gross Fixed Capital Investment	15.3	-16.7	11.9	7.4	8	8.4
Exports, Goods and Services	6.6	-37.7	9.3	3.7	4.4	5.1
Imports, Goods and Services	8.4	-11.6	-1.1	7.6	5.1	5.2
Real GDP growth, at constant factor prices	4.7	-3.3	-1.1	4.2	4.6	4.9
Agriculture	-1.3	-3.2	1.5	1.9	2.1	2.3
Industry	7.6	-23.4	-1.2	4.1	4.3	4.4
Services	5.5	2.5	-1.6	4.7	5.2	5.6
Inflation (Consumer Price Index)	-1.3	0.6	2.2	1.7	2.6	2.8
Fiscal balance (% of GDP)	-52.6	-32.8	-25.9	-35.8	-38.1	-40.2
Current account balance (% of GDP)	-32.3	-17.8	-11.8	-14.5	-19.2	-22.3

Source: World Bank, based on official data.

Notes: e = estimate, f = forecast.

(a) The ESI-adjusted budget balance is calculated as domestic revenue plus ESI (sustainable disbursements from the Petroleum Fund) less total expenditure.

Current transfers and public sector wages account for nearly half of total expenditure, with about 30 percent of the budget allocated to capital expenditure. In 2018, current transfers – which include both personal benefit transfers and public grants – accounted for 27 percent of total public expenditure, while goods and services as well as salary and wages amounted to 26 and 17 percent respectively. Overall, about 70 percent of total government spending was associated with recurring outlays. Capital spending essentially comprised infrastructure assets, most of which related to road construction and rehabilitation.

Domestic resource mobilization is weak, with withdrawals from the Petroleum Fund financing most of the public spending. Domestic revenues declined for a second consecutive year in 2018, only covering 15 percent of total government expenditure and representing about 11 percent of non-oil GDP. Tax revenues typically account for about 70 percent of domestic revenues, with two-thirds of collections usually coming from two types of taxes: excise and withholding corporate taxes. The Estimated Sustainable Income (ESI) financed nearly half of total spending[14]. Excess withdrawals – which are the amounts withdrawn from the Petroleum Fund above the ESI – have been regularly used to cover the budget deficit. Revenues from existing oil and gas fields are steadily declining since reserves in Bayu-Undan, the main oilfield, are nearly exhausted.

Credit to the private sector remains low. Commercial lending accounted for only 14 percent of non-oil GDP in 2018, which is very low by regional standards. Individuals accounted for 41 percent of total commercial bank credit in 2018, while construction (25 percent) and trade and finance (19 percent) were also important borrowers. Access to credit is often reported as a key constraint to businesses.

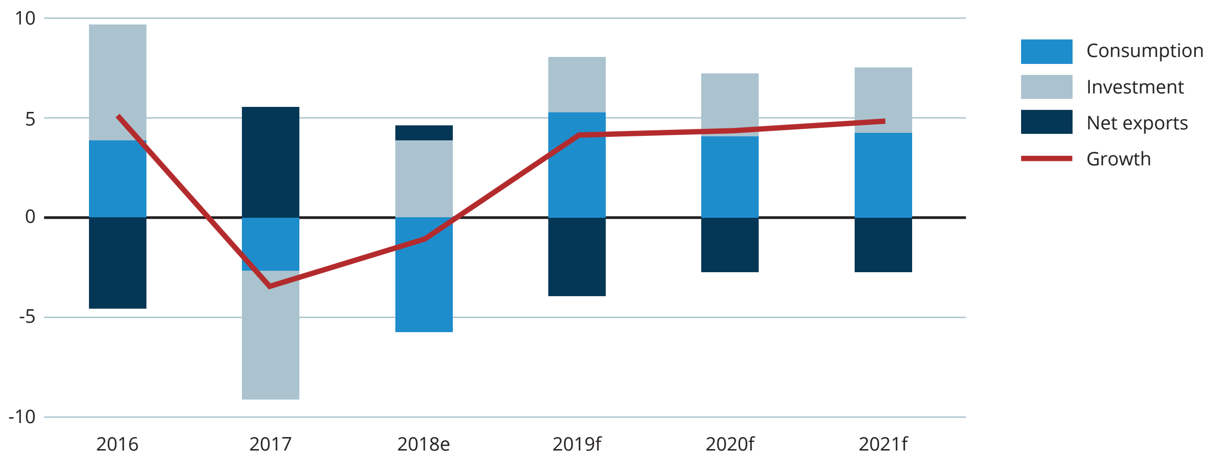
[14] The Estimated Sustainable Income (ESI) is calculated as 3 percent of the total petroleum wealth, which is the Petroleum Fund balance plus the net present value (NPV) of future Petroleum Fund revenues from fields with approved development plan (which excludes the Greater Sunrise Project).

The percentage of firms using banks to finance investments is only 12.5 percent in Timor-Leste in 2015 (compared to 23.7 percent in East Asia and Pacific and 26.0 percent worldwide)[15]. Excess liquidity in the banking sector (as evidenced by a low loan-to-deposit ratio) suggests that financial intermediation is still weak.

The current account deficit remains large despite recent improvements. The current account deficit improved in both 2017 and 2018 as income from oil and gas rose and total imports declined. Exports remain small, with coffee and travel services accounting for most export earnings[16]. Portfolio investments have dwindled over time as large outflows mainly relating to Petroleum Fund investments abroad turned into inflows (Petroleum Fund divestment), which has financed the current account deficit to a significant extent. Foreign Direct Investment (FDI) flows to Timor-Leste are small. This is largely affected by the high cost of doing business and excessive regulatory requirements, bureaucratic bottlenecks in administrative processes, such as processing work permit and workers' visa, lack of access to land and credit, and limited supply of skilled workforce.

The economic outlook for 2019 is favorable, despite the late promulgation of the state budget. Non-oil GDP is projected to grow by 3.9 percent in 2019 and 4.6 percent in 2020, assuming political and economic conditions remain stable (Figure 4). The current account deficit is projected to grow in the medium-term and it will continue to be financed by significant withdrawals from the Petroleum Fund. An expansionary fiscal stance will help steer the economy towards recovery, but it will also pose medium-term fiscal sustainability risks as it depletes the Petroleum Fund at a faster rate. In the absence of a sharp fall in the value of the US dollar, inflation is expected to remain below the official target range (4-6 percent).

Figure 4. **Timor-Leste: Real GDP Growth and Contributions to Real GDP Growth**



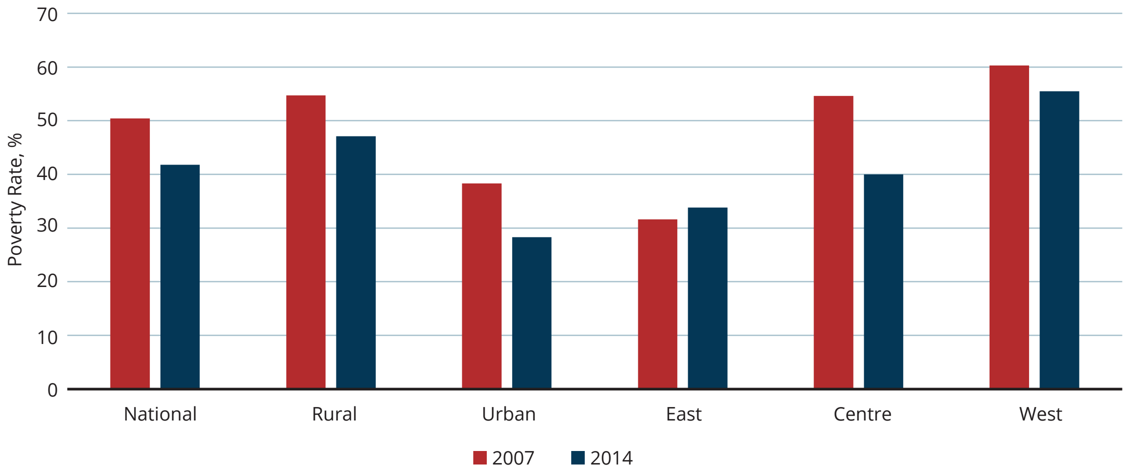
Source: Ministry of Finance/Directorate of Statistics and World Bank Staff Estimates

[15]Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

[16]Petroleum is not accounted as exports in the balance of payments, instead, taxes and royalties accrued from petroleum are reported as primary income.

C. Poverty and Gender

Figure 5. **Timor-Leste: Poverty Rate, 2007-2014**



Though income poverty in Timor-Leste has fallen substantially since 2007, the incidence of poverty remains high with a marked rural bias. The poverty headcount based on the national poverty line fell from 50.4 percent in 2007[17] to 41.8 percent nationwide in 2014 (Figure 6). Measured by the internationally comparable poverty line of US$1.90 per day, poverty declined from 47.2 percent in 2007 to 30.3 percent in 2014. However, progress in reducing poverty has been highly uneven geographically. The poverty head-count in the western part of the country is 20 percentage points higher than in the eastern part[18]. Poverty is also a highly rural phenomenon, with about eighty percent of the poor living in rural areas. The incidence of poverty in rural areas is 47 percent compared to 28 percent in cities. Poverty has been a key driver of migration to cities and overseas, especially among the youth. These regional and urban-rural disparities in living conditions act as a source of social tension.

There is strong correlation between poverty rates and access to basic services and amenities. As of 2014, about 90 percent of the population used dung, wood, or charcoal for their cooking fuels, which pose health dangers. While around 65 percent of non-poor households have access to improved sanitation facilities, nearly half of the poor have not. Similarly, even though access to electricity has doubled between 2007 and 2014, around 40 percent of poor households still live without access to electricity. Moreover, one-quarter of households still do not have access to safe drinking water. There is also significant inequality in access to education and health, and access is particularly lacking for poor households in rural areas. Households headed by those with a senior secondary level of education are considerably less likely to be poor, however more than 50 percent of household heads have no more than primary education. Development and income disparities between and within regions can worsen social risks where these overlap with uneven and poor quality of service delivery.

[17]It is important to note that this baseline may be questionable, because in 2007 Timor-Leste was still recovering from the impact of the 2006 crises, with thousands of people living in Internally Displaced People's (IDP) camps.

[18]Newly-generated poverty maps show that there is much more variation in poverty rates within municipalities than between municipalities. This suggests that the municipality-level headcount poverty rate is of limited use for understanding the incidence of poverty of *Sucos* within a particular municipality. For instance, the Dili municipality has *Suco-level* headcount poverty rates that range from 8 to 80 percent, and Manatuto from 10 to 71 percent.

Income inequality is relatively low but show a rising trend. Since 2007, income growth for the bottom 40 percent of the population has not kept pace with the rest, indicating a lack of shared prosperity. Real consumption per person has increased modestly, by 1.43 percent per year, on average since 2007, but for the bottom 40 percent the increase has been only 1.35 percent. The poorest decile grew at the lowest rate of only 1.06 percent per year in contrast to the top decile's 2.12 percent. Thus, inequality edged up, with the Gini index shifting slightly from 0.28 in 2007 to 0.29 in 2014. Nevertheless, the Gini is low by international standards.

Timor-Leste was ranked the lowest of all the countries in East Asia and Pacific Region in the 2017 Global Gender Gap Index. It was ranked 128 out of 144 countries. Despite improvements in school enrolment, relatively lower risk of poverty among female headed households in recent years[19], and high political representation of women in the national parliament, gender disparities remain a significant issue. The society is still highly patriarchal. Customary laws and local leaders privilege male property rights, inheritance practices, and succession in traditional offices and local government positions. Women earn less than men for similar work and are more likely to work as unpaid family labor or in the informal sector. Women also tend to own less land and often have more difficulty accessing legal or other government services.

These gender gaps have far reaching social and economic implications. These are evident in constraints to employment and self-employment, access to information, productive inputs and resources, and in some health outcomes such as reproductive health, maternal mortality (195 maternal deaths per 100,000 live births)[20] and nutrition. Men still outnumber women at the tertiary education level, despite the achievement of gender parity in education and the superior performance of girls up to the secondary level (Table 2). The gender-disaggregated poverty small area estimates reveal two major patterns. First, in poorer areas of Timor-Leste there is higher educationally-related female disadvantage and greater levels of abuse and domestic violence against women. Second, there is an inverse pattern between gender-related labor force gaps and poverty rates: the prevalence of a female labor force disadvantage is highest in the more economically developed areas.

Table 2. **Timor-Leste: Human Capital Index (HCI) by Gender**

Component	Boys	Girls	Overall
HCI	0.43	0.47	0.43
Survival to Age 5	0.95	0.96	0.95
Harmonized Test Scores	9.6	10.2	9.9
Learning-adjusted Years of School	366	378	371
Adult Survival Rate	5.6	6.1	5.9
Not Stunted Rate	-	-	0.5

Note:
- When shown, hyphen denotes data are unavailable
- All values are rounded
- The gender-disaggregated HCI is calculated using only adult survival rates if gender-disaggregated stunting data is not available

Source: Human Capital Index (World Bank, 2018)

[19]"A Gender-sensitive Insight of Poverty Mapping for Timor-Leste" (2019); Washington, DC. World Bank

[20]TLDHS 2016

The incidence of gender-based violence (GBV) is rising in Timor-Leste[21]. About 38 percent of ever-partnered women aged 15-49 years have been victims of either physical or sexual violence (2016 TLDHS)[22]. Domestic Violence Law has recognized domestic violence as a public crime and encouraged reporting of cases. The formal justice system is beginning to pay more attention to the increasing number of reported domestic and sexual abuse cases, reflecting greater knowledge by community leaders and police officers. However, the access of women to legal remedies in cases of abuse and gender-based violence and counselling of victims is limited. The government-led National Action Plan against Gender-based Violence (2017) identifies responsibilities within government, indicators, budgets and specific actions to be undertaken in prevention, coordination, monitoring and evaluation, and provision of services to victims.

[21]Timor-Leste: Country Gender Assessment 2014, UNWOMEN and Asian Development Bank, Dili

[22]Increased from 33 percent in 2010 (2010 TLDHS)

III. THE EMERGING DEVELOPMENT AGENDA

A. Addressing the Causes of Fragility

Timor-Leste has enjoyed a mostly peaceful post-independence period, aside from the 2006 violent political crisis partly triggered by regional resentments[23]. However, it remains a fragile country, confronted by multi-dimensional risks. Poverty and unemployment contribute to crime, forced labor, and sex trafficking. The country is highly vulnerable to economic shocks, particularly food price shocks, which exacerbate problems of malnutrition and stunting. Insufficient economic diversification leaves the economy dependent on oil and gas exports with volatile production and prices. It is also deeply exposed to climate change, which has led to hotter and drier dry seasons, droughts and floods, and hence to lower agricultural output. The potential for instability is heightened where these risks overlap and amplify each other, for example, economic shocks will worsen malnutrition and stunting, poor educational attainment and performance limits the workforce potential which inhibits the potential private sector expansion required for economic growth, while insufficient economic diversification leaves the economy dependent on oil and gas prices with limited employment opportunities.

Poor governance and corruption, weakness in the rule of law and the justice sector, and lack of clarity over land management and ownership are some of the main factors underpinning fragility. The political economy is characterized by asymmetric power relationships and unequal access to state resources. Despite government's anti-corruption efforts, corruption, nepotism and cronyism seems to be pervasive in the public sector[24]. The Parliamentary structure which makes members of parliament (MPs) accountable to their party leaders, instead of the voters, undermines constituency representation, civic participation, and opportunities for holding elected officials accountable. Many of these risks are inter-related and amplify each other.

Fortifying resilience and mitigating fragility risks and shocks are high development priorities that require actions in several areas of governance and institutional capacity building. There is a clear need to establish a rules-based culture, strong safeguards and accountability, especially through deepened Public Financial Management (PFM) reforms. Strengthening the rule of law and ensuring wider access to justice is a requirement for building state capacity. Institutional development in the justice sector and a professional police service would also help with probity in governance. Lack of clarity in land rights and absence of titles also present obstacles to the rule of law and private sector growth. Land ownership disputes and local conflicts continue to inhibit investments in the rural economy, while rural-urban migration puts additional pressure on poorly serviced peri-urban areas, contributes to competition for access to land, and to the continued presence of street gangs like the *martial art group (MAG)*[25]. For any new law clarifying rights and ownership of land to be effective, it must be supported by supplementary land codes and regulations. In addition, resettlement policies should be mindful of customary land practices, including collective and community land ownership, in order to respect human rights and minimize the risks of dispossession and potential social tensions.

[23] https://asiafoundation.org/publication/state-conflict-violence-asia/
[24] *Overview of Corruption and Anti-Corruption in Timor-Leste* (Transparency International, 2015).
[25] ibid. https://asiafoundation.org/publication/state-conflict-violence-asia/

Building institutional and implementation capacity in government is critical for enhancing the quality of service delivery and achieving better development outcomes, thus, strengthening political and social resilience. The tradition of democracy and peaceful transfer of power, tested through four post-independence elections, and the history of national resistance to foreign military occupation has contributed to political and social resilience. There is need to exploit other opportunities for reinforcing resilience. The ongoing decentralization effort by government would also be a critical factor in increasing community resilience as it moves services closer to the people and empowers local authorities to make more appropriate and timelier decisions. However, decentralization could also lead to deterioration in the quality of services if government's capacity to implement policies and programs, at both central and local levels, is not improved. Greater spending on building human capital would also help to bolster resilience by raising human potential and increasing the capacity of citizens to effectively participate in the political and economic development of the country (see paragraphs 35 and 36). The international integration of the economy, its outreach to its neighbors, and the hoped-for membership of the WTO and ASEAN will further add to economic stability.

B. Ensuring Macroeconomic Sustainability

The current fiscal stance presents serious risks to the economy. High public spending is rapidly eroding fiscal buffers. In the absence of a fiscal consolidation and improvements in the quality of spending, this will lead to a rapid reduction in the assets of the Petroleum Fund[26]. The economic returns of large-scale public infrastructure investments remain unclear, as they are not crowding-in private investments. As the rule of drawdowns from the Petroleum Fund, known as Estimated Sustainable Income (ESI), has been persistently violated, it is necessary to adopt a binding fiscal rule that leads to a sustainable level of absorption of petroleum earnings. The moderation in public spending will have to be placed principally on large-scale infrastructure[27] and poorly-targeted cash transfers, as there are strong grounds for raising spending on education and health, water and sanitation and targeted social transfers. At the same time, fiscal sustainability needs to be assisted by improved domestic revenue mobilization through revising the tax structure, broadening the tax base, improving tax compliance, and the introduction of a value-added tax. The 2019 IMF/WB Debt Sustainability Analysis (DSA) shows a low risk of debt distress, mainly due to a change in the methodology that now accounts for public assets – in the form of sovereign wealth funds. However, risks to Timor-Leste's asset position could lead to a quick deterioration of its debt profile. Public external debt in relation to total GDP is currently projected to rise from 3.1 percent in 2016 to 17.1 percent in 2024[28].

There is an urgent need to manage the gap in petroleum revenues to avoid macroeconomic volatility and ensure sustainability of public finances. Petroleum revenue inflows from the Bayu-Undan field are declining rapidly. Government may be tempted to use a significant portion of the Petroleum Fund for new investments[29]. Operations in Bayu-Undan are likely to cease in 2023 and the successor gas fields (Greater Sunrise) may take between 7-10 years to materialize. Thus, accumulations into the Petroleum Fund will rely exclusively on earnings on its financial assets, and the balances in the Fund will begin to fall rapidly (Figure 6). In order to ensure the sustainability of the Petroleum Fund under these conditions, and considering low interest rates globally, the government would need to adhere

[26]The projected drawdown from the Petroleum Fund between 2018-22 is around $9 billion as compared to an ESI of $2.9 billion.

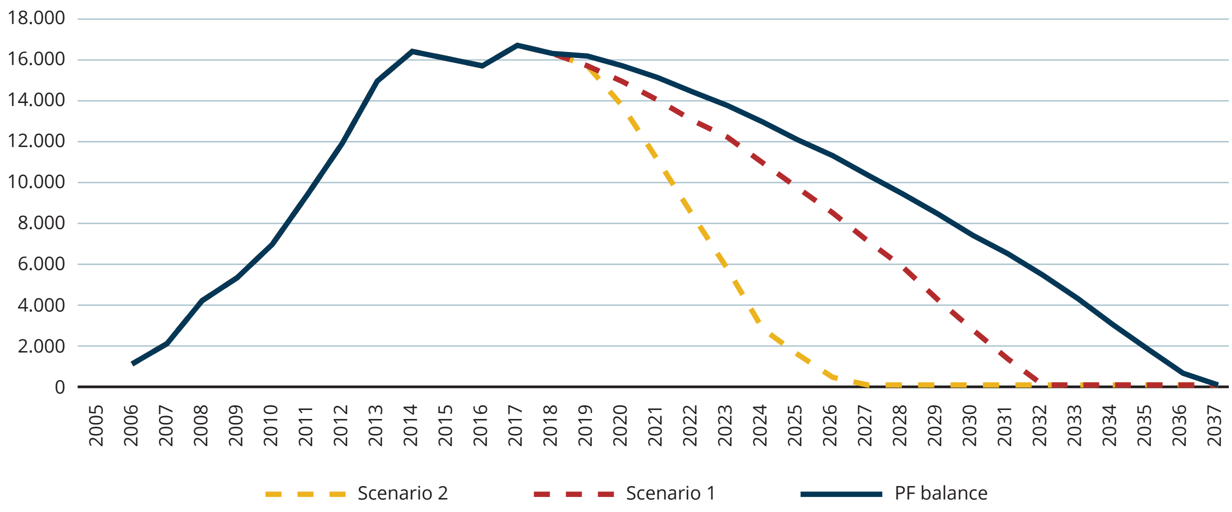
[27]There will still be recurrent costs associated with the operations and maintenance of existing infrastructure assets.

[28]IMF/WB (2019): Staff Report for the 2019 Article IV Consultation – Debt Sustainability Analysis, May 2019

[29]The "Greater Sunrise" project, a large off-shore gas resource, holds the prospect of generating future revenues – but likely not until 2026 or beyond. The government intends to build a 150-kilometre maritime gas pipeline, construct a new port, and an LNG plant to process 5 trillion cubic feet of gas. Furthermore, it plans to build a new highway running along the country's south coast, linking the LNG plant to a refinery and an airport. The government hopes that the project, costed at about $8-12 billion, would add to petroleum revenues and create jobs. However, there are significant technical and commercial risks associated with the project, particularly with the volatile nature of energy prices and demand.

to a strict drawdown rules that smooths public spending over the long-term and takes the interest of future generations into account. A smoother public spending profile will also help to minimize social risks, but there will be a need to carefully manage any social instability that may arise from reductions or distributional effects of public spending, which may result in lower transfers to vulnerable and privileged groups.

Figure 6. **Timor-Leste: Petroleum Funds Projections (US$ million)**



Baseline (PF balance): Based on current spending plans
Scenario 1: Spending is raised by 25 percent to adjust for expenditure shortfalls in 2017-18.
Scenario 2: Additional spending of $10 billion to develop new petroleum fields and LNG plant.
Source: Banco Central Timor-Leste (BCTL) – Central Bank of Timor-Leste and Ministry of Finance

C. Diversifying the Economy for Sustained Growth

The public sector driven growth model has run its course. Economic growth has relied upon a rapid expansion in public spending, particularly on infrastructure, financed by drawdowns on the Petroleum Fund, well above the fiscal rule limit (ESI). This growth model has run its course as public infrastructure spending reaches limits of efficiency and absorption, with greater need to use fiscal resources for high-quality spending and at a sustainable pace. Economic diversification in the face of large petroleum rents requires strict limits on the domestic absorption of such rents to dampen Dutch-disease effects and permit investment resources to flow into the traded goods sector.

Large and ineffective public spending has inhibited structural change towards high productivity activities. Although public spending will remain significant, there is a need to shift towards private sector-led growth. To attain the medium-term official growth target of an annual average of 7 percent, a re-invigorated and competitive private sector will need to invest, create jobs to harness the economic potential of youth and women, and promote an economic transformation towards higher productivity activities. There is a compelling case for integration into regional trade markets and obtaining access to global capital markets[30]. The private sector holds the key to this integration. This includes both domestic and foreign private investments. Therefore, a conducive climate for both domestic and foreign investments is vital – this would likely include ensuring that the country has the legal and regulatory framework

[30]Small states face serious barrier to attracting foreign investments.

conducive for enforcing property rights and contractual agreements, improved business regulations[31], and productivity-enhancing infrastructure and services, including physical infrastructure for transporting goods. Key drivers of private sector-led growth are likely to be labor-intensive manufacturing, agri-business, fisheries, and tourism. Key requirements to tap into the power of the private sector likely also include upgrading of labor skills, improved health and nutrition outcomes, improved innovation and creating new technologies, products and processes that can lead to the development of high value-added activities, and modern management practices. Recent gains in agricultural productivity are encouraging and need to be replicated in the manufacturing sector.

The medium-term needs for rebuilding connectivity continue to be a high priority, particularly, in rural areas and regions that are lagging in terms socioeconomic development. Public investments have been high and mostly directed at roads, ports and special economic zones. The ICT and transport sectors[32] need new investments consistent with a sustainable infrastructure budget over the medium-term. The selection and management of public projects and the upkeep of public assets through adequate provision for operations and maintenance costs remain important. A digital economy will help raise private sector productivity, whilst facilitating the delivery of public services and ensuring their quality and appropriate geographic targeting.

D. Building Human Capital

Timor-Leste must develop human capital in all its dimensions if it is to grow sustainably and achieve its maximum potential. Investments in human capital are directly linked to Timor-Leste's future growth, productivity and competitiveness, and a healthy and skilled workforce will be able to better meet the future labor demands across the economy and increase country and individual earnings. In 2017, the Human Capital Index (HCI)[33] for Timor-Leste stood at 0.43, as compared to a global average of 0.56. Timor-Leste's performance on the HCI is also lower than the average for its region and income group (Figure 7). This means that a worker of the next generation in Timor-Leste, will be only 43% as productive as she would be under the benchmark of complete education and full health. While Timor-Leste performed relatively better on indicators for child and adult survival rates, the education and stunting indicators are particularly low (Table 2). These indicators should be addressed urgently as a high priority if the coming generation of Timorese are to realize their full potential.

Addressing the human capital gap can create the labor force required to power economic diversification. The dependency ratio in Timor-Leste – the proportion of non-working age to working age population, is high, about 82 percent (2015 Census), but likely to fall with declining Total Fertility Rate (TFR). As at 2017, about 60 percent of the population was under 25 years old and TFR declined from 5.7 children in 2009-2010 to 4.2 children in 2016[34]. This trend creates an opportunity to reap demographic dividends from an increasing labor force. A key factor in reaping the demographic dividend is improving Timor-Leste's human capital outcomes[35] to ensure that young workers are healthy and skilled to access productive employment opportunities in an expanding jobs market based on higher private sector participation. With weak growth in employment and job opportunities, more youths – particularly those with limited education and low skills, are emigrating to the United Kingdom, Australia, Indonesia, South

[31] In the World Bank Group's Doing Business 2019 report, Timor-Leste is scoring particularly low on: resolving insolvency, registering property, enforcing contracts, and getting credit. During this CPF period, the importance of these issues for firm performance and growth will be assessed.

[32] Including aviation, whose mainly issues revolve around air service agreements, safety and security at the airports with a view to reducing the cost of air travel to Timor-Leste.

[33] The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

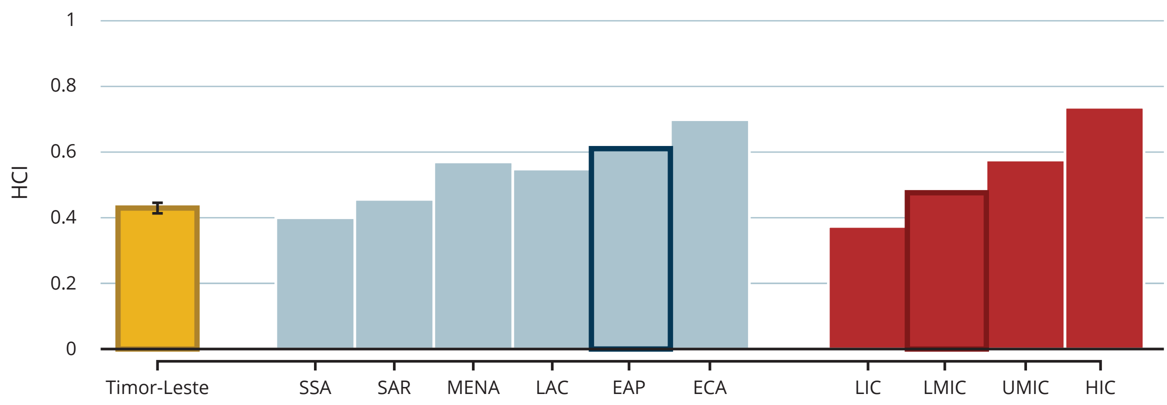
[34] Data is based on 2015 Census and 2016 Demographic and Health Survey (DHS).

[35] Discussed in the following section of this document.

Korea, Portugal, and other parts of Asia and Europe to find jobs as laborers and seasonal workers. High rates of youth (ages 15-24 years) unemployment[36], particularly in urban areas, has also contributed to the rise of street gangs and martial arts groups, as well as the rising incidence of crime, drugs, and alcohol[37].

Chronic malnutrition in Timor-Leste remains high and is amongst the most severe in the world. Malnutrition is the single greatest contributor to premature death and disability in Timor-Leste[38]. About 46 percent of all children under-five suffer from malnutrition or stunting[39], which affects their physical and cognitive development (Figure 8). Timor-Leste loses about US$41 million annually, equivalent to nearly the entire budget of the Ministry of Health[40], due to lower workforce participation resulting from malnutrition-induced health and capacity limitations. The causes of maternal and child undernutrition span multiple sectors and, thus, require multi-sectoral solutions under a strong and coordinated national management system. These include child care and feeding practices, women reproductive health, pediatric and neonatal health care, dietary diversity, water, and sanitation, and early childhood education. The key reform priorities in the effort to reduce stunting centers on the need for (i) high level leadership to establish a clear system of responsibilities and accountabilities; (ii) convergence of a package of core services at all levels of government; (iii) promoting awareness and building knowledge of malnutrition, and empowering communities to demand optimum nutrition; and (iv) scaling up the delivery of a package of evidence-based nutrition-specific and key nutrition-sensitive interventions focused on improving nutritional status in the first thousand days of life[41].

Figure 7. **Timor-Leste: Benchmarking Human Capital Index**



Notes:
- Unless specified, all data are for 2017
- The uncertainty intervals (black vertical lines) reflect uncertainty in the measurement of components of the index
Source: Human Capital Index (World Bank, 2018)

[36]Youth unemployment rate was 24.7 percent in urban areas and 8.4 percent in rural areas (2015 Census)

[37]ibid. p. 187

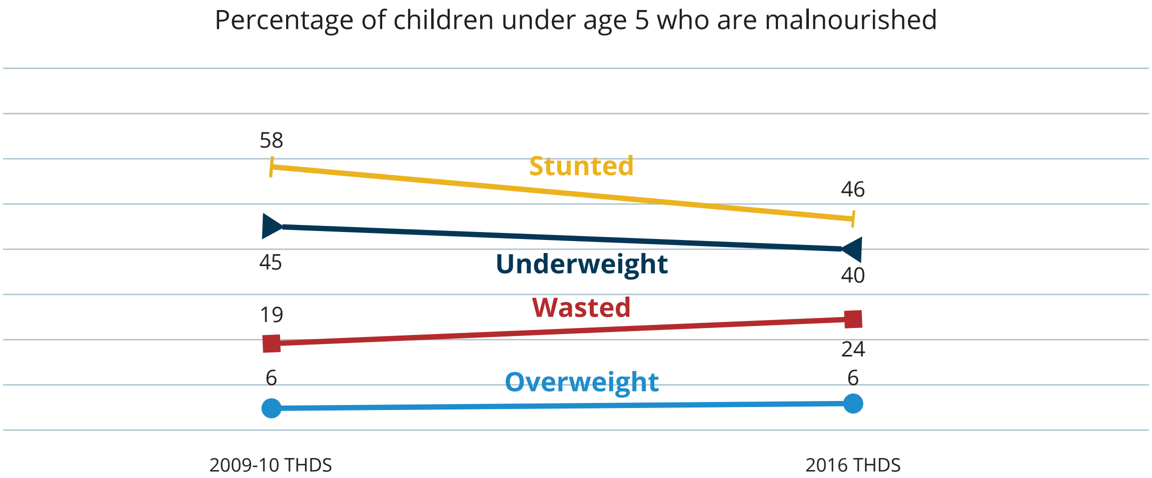
[38]Provo et al. ; 2017.

[39]Height-for-age below two standard deviations (WHO standards).

[40]Provo et al., 2017.

[41]Provo, D; Atwood, S; Sullivan E.B.; Mbuya, N (2017): Malnutrition in Timor-Leste: A review of the burden, drivers, and potential response. Australian Government DFAT, World Bank, EU.

Figure 8. **Timor-Leste: Trends in Nutritional Status of Under-5 Children, 2009-10 and 2016**



Sources: 2009-2010 and 2016 Timor-Leste Demographic and Health Surveys

Rural populations still report very low levels of access to water and basic health services. While access to basic health services has improved, the quality of services remains low - only 49 percent of the population have adequate coverage of essential health services[42]. Although mortality rates for under-5 years children dropped significantly from 64 per 1,000 live births in 2009/2010 to 41 per 1,000 live births in 2016, nearly 26 percent of these deaths are attributable to various forms of malnutrition. To strengthen the pro-poor orientation of health services the government could allocate more resources to community health centers and clinics and address the excessively urban orientation of the location of secondary care and hospitals[43].

Improving access to functional and sustainable water supply and sanitation services is critical. Waterborne diseases like diarrhea, hepatitis A, and typhoid fever remain common and widespread. The links between diarrhea and child undernutrition[44] and other enteric infections[45] are well documented. Only 34 percent of urban households had individual connections with piped water in 2015 (JMP 2015)[46], and most residents rely on public taps, tube wells or protected springs. The water supply system in Dili is performing below standard with extremely high non-revenue water (NRW) and without proper operation and maintenance planning. Lack of appropriate operation and maintenance coupled with the lack of a tariff system has led to low service quality, including intermittent disruption of supplies and low pressures, unmetered and uncontrolled connections without a stop valve installed, illegal connections, high leakages, no water quality monitoring and with limited or no water treatment. Sanitation is particularly challenging in rural areas, where 33 percent of population is still practicing open defecation (JMP 2015). Most households' facilities in urban area comprise simple pit latrines, septic tanks (generally not built up to environmental standards), or direct discharge to public surface water, contributing to major contamination of the environment and water bodies. Sanitation facilities in schools are generally poor, due to a lack of water supply, inadequate design, and poor management and maintenance.

[42]WHO 2018 – cited in "Report on the Implementation of the SDGs - Voluntary National Assessment of Timor-Leste (Unite Nations and Government of Timor-Leste) (2019).

[43]UNICEF, in partnership with WHO and the University of Sydney, is in the process of conducting a study on indirect financial barriers to access to health services (despite government's policy of "free health care")

[44]Fishman and others 2004; Prüss-Ustün and Corvalan 2006

[45]Brown, Cairncross, and Ensink 2013; Checkley and others 2008; Guerrant and others 2008; Lin and others 2013

[46]Joint Monitoring Program (JMP) Report (2015); WHO and UNICEF

Higher levels of investment in education is required to improve learning outcomes and develop new skills. World Bank estimates that if Timor-Leste were to increase students' years of learning by about one year in the next 12 years, total GDP would grow by an additional 8 percent by 2040. Educational attainment remains low, though on an upward trajectory. In 2014, only 64 percent of adults were literate, and on average the population has only 4.5 years of schooling. About 70 percent of household heads have no higher than primary education[47]. Poor learning outcomes, high repetition and drop-out rates have eroded improvements that resulted from higher enrollment rates. Low pre-school enrolment, poor school infrastructure, lack of qualified teachers, inadequate curricula in some school grades, and poor education governance partly explains the low performance of the educational system. The key reform priorities are to ensure that students enter first grade with the basic readiness to learn and that the schools and teachers are equipped and ready to support students in being successful learners. This would require an expansion of early childhood development programs, addressing infrastructure needs through a better system for construction and rehabilitation of schools, setting standards for curricula and teachers' qualifications, raising the competencies of teachers, especially for preschool and the first grades of primary education, reform curricula at pre-secondary and secondary levels, and improving the governance of the education system through better management, use of information systems and performance monitoring tools.

There is significant scope to improve the impacts of social protection programs in reducing poverty and strengthening human capital. The generous social assistance programs in operation do not directly target the most vulnerable, because about 62 percent of the social assistance budget supports pensions and transfers to veterans of the resistance. The Bolsa de Mae program – an annual transfer to poor families – does target the poor but provides only very small payments and has limited coverage. Thus, the impact on reducing poverty and vulnerability of the overall social assistance spending is muted. Improving the design of Timor-Leste's main cash transfer programs (elderly pension, disability pension and veterans' pension) and expanding targeted transfers through the Bolsa de Mae could significantly help address the needs of the poorest households.

Allocations for social spending, excluding social assistance transfers, have been far too low given the massive needs and the quality of spending has been poor. Allocations to education and health spending have been declining as a share of non-oil GDP and of state expenditure in the face of enormous human needs, and social transfers continue to be regressive[48]. For example, spending on education declined from 11.5 percent of non-oil GDP in 2014 to 7.8 percent in 2017. In health, spending dropped from 4.3% to 3.8% of non-oil GDP in the same period. A combination of these budget shortfalls and a weak system of allocating and delivering resources to local service delivery units limits the capacity of the government to bolster investments in human capital.

E. Addressing Climate Change.

The SDP (2011–2030) contains ambitious targets for achieving ecological balance and notes the importance of addressing climate change. The country is vulnerable to natural disasters (fierce winds, landslides, earthquakes, and tsunamis) and climate hazards (floods, cyclones, drought, sea-level rise, storm surge and heavy rainfall).

[47]Timor-Leste Standard of Living Survey (TLSLS) 2014

[48]Timor-Leste's public health expenditure is among the lowest in the world at about 1.5 percent of GDP.

Livelihoods are greatly dependent on natural resources and the environment, and these assets can support improved sustainable livelihoods in the future – notably higher-yield agriculture, fishery, and tourism. But in an already precarious ecological environment of a small island, poverty, conflict, and some agricultural practices have led to rapid environmental degradation. In addition, fragile ecosystems endure relatively severe weather variations. Surface water flows are highly variable from wet season peaks, which bring flash floods carrying large volumes of sediment, to low flows in the dry season. Water insecurity is a key constraint for crop production and rural populations. Water access is highly variable in rural areas particularly during the dry season.

An already fragile system is undergoing further stress, with rapid deforestation and land degradation, mangrove destruction and reef depletion. Land degradation arises from deforestation, inappropriate agricultural practices, poorly built roads, recurring wildfires, and overgrazing. On the marine side, the country lies in the region's Coral Triangle with important seascapes that can support livelihoods and marine tourism, if managed in a sustainable manner. Sedimentation, acidification, pollution and global seawater temperature rise pose risks to the commercial exploitation of these undersea fishing and tourism resources.

F. Building Capacity within the Government

The public sector lacks enough technical and managerial capacity to manage most of the complex development programs in its portfolio. The challenge of effectively managing the size, composition, and human resource mobility in and out of the public sector continues to present a major development challenge for Timor-Leste and limit the government's capacity to implement its policies and programs. This is in part a legacy of the destruction of human and physical capital during the pre-2002 period of conflict. All of these challenges are exacerbated by the inadequacies in tools such as public financial management and procurement systems, management information systems or coordination of policies and projects across the government and its agencies. These challenges undermine effective implementation of development programs and the quality of service delivery outcomes in the respective sectors.

IV. WORLD BANK GROUP PARTNERSHIP FRAMEWORK (FY2020-2024)

A. Government Program and Medium-Term Strategy

The Government's strategic priorities and medium-term strategy are articulated in its Strategic Development Plan (SDP) (2011-2030) and its Five-Year Implementation Plan (2018-2023). The SDP lays out an ambitious agenda for Timor-Leste to reach upper middle-income status, eradicate extreme poverty, and establish a diversified economy by 2030. The strategy assumes high oil prices and relies upon a heavy frontloading of public investment to encourage economic diversification. The SDP is built around the following three main pillars and a fourth cross-cutting pillar: (i) investing in human capital through improved access and quality of health, education and skills development while protecting the vulnerable; (ii) using the natural resources wealth to fund catalytic infrastructure; (iii) encouraging private sector investment, and diversifying the economy to sustain growth and employment, with petroleum wealth catalyzing the petroleum industry, tourism and agriculture; and (iv) expanding the foundation of good governance and institutional effectiveness. The goals of this medium-term strategy are aligned with the United Nation's Sustainable Development Goals (SDGs).

The SDP is supplemented by a five-year Implementation Plan, covering 2018-2023. This medium-term program outlines actionable priorities for this period among the elements of the SDP. The current program prioritized five major areas: (i) infrastructure for connectivity, including tourism, with particular attention to adequacy of operations and maintenance; (ii) human capital development, early childhood education, addressing skills gaps for employment, and the quality of health services; (iii) inclusive development focusing on youth and vulnerable groups and in promoting equity in the cash transfer program as well as in tax policy and incidence; (iv) economic diversification and job creation, especially towards agriculture, manufacturing and tourism, with the enabling conditions for private sector growth being paramount; and (v) building capacity in public service delivery and reducing regulations. All spending decisions will be made with due consideration to fiscal sustainability and absorptive capacity.

The strategic priorities of the SDP remain relevant and well-aimed at tackling the development challenges of Timor-Leste. There has been strong government leadership and ownership of the development strategy over the years - all three governments elected into office after the approval of the SDP, in 2012, 2017, and 2018, have aligned their respective 5-year programs with the SDP priorities. Although the government did not keep to its plan to review and update the SDP every five years (it was due in 2016), the government organized a high-level dialogue with Development Partners in July 2019 focused on improving alignment and harmonization of partners' programs with government's program. It also launched a new Foreign Aid Policy (2019) aimed at promoting principles of aid effectiveness and a more structured engagement with development partners. The VIII Constitutional Government re-affirmed its commitment to the SDP in its annual budget statements in 2019 and 2020.

B. Proposed World Bank Group Country Partnership Framework

B1. Lessons Learnt from Past Engagements

The proposed CPF is informed by lesson learned from the *CPS Completion and Learning Review (CLR)* (Annex 2), the *Independent Evaluation Group's (IEG) review* of the longer-term program from 2000, and from stakeholder consultations. The key lessons learned are as follows:

(i) **Selectivity:** A sharp prioritization of CPF interventions is required to maximize the impact of the proposed CPF program, considering the limited resource envelope and other development partners' interventions.

(ii) **Flexibility and Realism:** Given the challenging context, it is advisable to adopt modest and flexible designs/scope in the proposed CPF activities, with a more realistic timeframe for delivering results.

(iii) **Focus on Capacity Building:** Given capacity limitations in government, it is important to balance the need for faster implementation of program activities using external technical assistance and the need to strengthen human resource and institutional capacity in government. This approach may delay the pace of project implementation, but it is critical for long-term success.

(iv) **Sustainability**: A strong policy, legal, regulatory and institutional framework is critical for the systemic sustainability of service delivery. The experience from implementing the Second Chance Education Project (SCEP) and the technical assistance support to the Telecommunication sector demonstrated that the quality and sustainability of services could be undermined in the long-term, if the pressure and urgency to implement reforms or deliver services compels the government to bypass these prerequisites.

(v) **World Bank Group Collaboration**: Joint work between the World Bank and IFC on the Tibar Bay Port project illustrates that the engagement of a World Bank Group team on a single operation creates synergy, but also involves challenges such as the need to ensure consistent and economically-sound advice to the client.

(vi) **Partnerships**: Given the rapidly evolving context in Timor-Leste, there is need to forge stronger partnership with key development partners to enhance the Bank Group's capacity to mobilize resources to quickly respond to ad-hoc requests from government for just-in-time technical assistance and advisory services, which are critical for addressing immediate development challenges.

B2. Reflecting the Lessons in the CPF:

The following steps were taken to reflect these lessons in the proposed CPF, FY20-FY24:

(i) The CPF has been built around a small number of goals that can be realistically achieved over the CPF period, taking care to coordinate or harmonize with the plans of other development partners.

(ii) The CPF program seeks to mitigate some of the country's fragility risks by focusing on governance reforms, economic diversification, youths and gender considerations. It has also integrated geographic targeting to address regional imbalances. If unforeseen risks arise, the Bank Group will revisit the CPF program, with a view to streamlining the program retaining those interventions for which there continues to be strong government commitment to investment and sector reforms and introducing new interventions that would pass the CPF selectivity filters.

(iii) The CPF program mostly covers areas where the Bank Group has developed strong policy dialogue with the government and solid track record of engagement in the sector. Most of the proposed activities will incorporate elements of human and institutional capacity development in the design.

(iv) The CPF embodies an integrated World Bank Group response with more clarity of roles and responsibilities between the Bank, IFC and MIGA.

(v) The CPF was prepared in consultation with government, development partners and other stakeholders, and the proposed activities are well coordinated with other development partners and exploits opportunities for partnerships to support government priorities.

C. Overview of the World Bank Group Strategy

The proposed CPF aims to support the Government of Timor-Leste to achieve its objective of using its petroleum wealth to invest in human capital, catalyze private sector investment and diversify the economy to sustain growth and employment. The overarching goal of the CPF is to consolidate progress on the World Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity in Timor-Leste. The Bank Group will bring to bear its full resources to achieve these goals by supporting efforts to secure private sector-led growth and to ensure that this growth is inclusive and sustainable by strengthening human capital. The CPF program is built upon national priorities and development priorities identified in the SCD, focusing on a well-defined set of objectives, that considers the Bank Group's comparative advantage relative to other development partners.

The World Bank Group has been highly selective in designing the CPF program. The emerging development agenda (Chapter III) of Timor-Leste is wide-ranging and highly demanding and will clearly take several decades to be fulfilled. The SCD identified 12 priorities organized around three focus areas: (a) continuing to invest in human capital and improve service delivery; (b) sustained economic growth and private sector job creation; and (c) sustainable management, of both the natural environment and public finances. Three selectivity filters were applied to arrive at the CPF program. The first filter ensures strong government ownership by aligning the CPF focus areas with government's priorities in the SDP and five-year implementation plan, and areas where the government has requested Bank Group support; the second filter distills the SCD findings to select those elements of the national development strategy that are revealed to have a high development and inclusion impact. Thus, the SCD conclusions relating to the constraints to growth and inclusion, for example, the need to invest in human capital and public services, place private sector job creation at the heart of the growth model and aim for sustainability in public finances as well as in natural resource management are reflected in the CPF framework. The framework is then further refined using a third filter that is driven by two considerations: (i) the Bank Group's comparative advantage; and (ii) the need to coordinate CPF interventions with the activities of other development partners to avoid duplication of efforts (Figure 9).

Figure 9. **Timor-Leste CPF – Selectivity Filters**

Selectivity Filter 1	Selectivity Filter 2	Selectivity Filter 3
Alignment with government's SDP 2011-2030 and the government's five year implementation plan. Government prefences and requests. **Priorities** (i) encouraging private sector investment and economic diversification; (ii) expanding the foundations of good governance and institutional effectiveness; (iii) investing in human capital through improved access and quality of health, education and skills development, while protecting the vulnerable; (iv) funding catalytic infrastructure: roads, water and sanitation, airports, seaports, and telecom. **Government preference - ownership and demand.** IDA/IBRD and IFC working jointly would respond to government's requests for investments and analytical support in critical of governance, human capital, PPPs, tourism and infrastructure. **CPF consultation findings** (i) need for new growth model; and (ii) human capital should be a high priority for Bank Group support.	**Consistency with the SCD insights and priorities.** **Invest in human capital and public service delivery:** (i) raise resources for services; (ii) adopt integrated approach to addressing malnutrition, focusing on water and sanitation; (iii) scale-up targetted social assistance; (iv) end gender-based violence. **Sustain economic growth and private sector job creation.** (i) strategy for private sector growth; (ii) strengthen legal foundations for a market economy; (iii) raise productivity in agriculture, fisheries and forestry; (iv) develop climate-resilient connective infrastructure. **Sustainable management of natural resources and public finances.** (i) manage public finances to avoid a damaging fiscal cliff; (ii) manage natural resources and ecosystems to attain sustainability.	**World Bank Group comparative advantage and development partners' activities.** **Comparative advantage.** Established engagement in macroeconomic, governance, and petroleum revenue management. Strong dialogue in infrastructure. Ability to draw on regional experience to ramp-up dialogue based on the Human Capital Project, and on accelerating the transformation to a private sector economy. **Coordination and Harmonization with other Development Partners.** IDA/IBRD blend as well as IFC investments would try as much as possible to avoid duplication of other development partners' activities and also ensure strong coordination on Bank Group supported activities.

The resulting CPF framework, following the application of these selectivity filters, maintained the 3 Focus Areas (FAs) of the SCD, but consolidated the 12 SCD priorities into 5 CPF objectives (Table 3). The quality of governance and government's capacity to implement its policies and programs is critical for achieving these outcomes. Hence, the CPF mainstreams a cross-cutting theme, focusing on strengthening governance, institutional and implementation capacity at central and municipal levels of government, across the three FAs. The CPF focus areas, cross-cutting theme and objectives are broadly aligned with the SDP priorities and World Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity.

Table 3. **Timor-Leste – Mapping the CPF Objectives to SCD Priorities**

SCD Priorities (12)	CPF Focus Areas (3)	CPF Objectives (5)
• Identifying an economic strategy to sustainably increase private sector growth • Strengthening the legal foundations of a market economy • Managing public finance carefully to avoid a damaging fiscal cliff • Maintaining an appropriate macroeconomic and exchange rate framework • Increasing productivity in agriculture, fisheries and forestry • Managing natural landscapes, seascapes and ecosystems as valuable, sustainable resources • Improve national disaster risk monitoring and risk reduction capacity	Area 1: Strengthen the foundation for private sector-led growth and economic stability	• Objective 1: Strengthen the foundations of a market economy by establishing rules-based macroeconomic management and fortifying governance through reforms in public financial management. • Objective 2: Enhance conditions for private investment and promote financial inclusion • Objective 3: Promote economic diversification through agri-business and tourism development
• Better supporting frontline services with adequate, timely and appropriate resourcing • Addressing malnutrition require an integrated program, a critical component of which is addressing water and sanitation deficiencies in rural areas • Continuing to scale-up targeted social assistance programs to tackle poverty • Ending gender-based violence	Area 2: Invest in human capital and service delivery	• Objective 4: Strengthen human capital and promote gender equity
• Developing multi-purpose, appropriate and resilient connective infrastructure	Area 3: Raise productivity through investments in connective infrastructure	• Objective 5: Improve access and quality of connective infrastructure in digital and transport sectors
• Cross-cutting Theme: Strengthening governance, institutional and implementation capacity in government		

The proposed CPF framework comprises three Focus Areas (FA) plus one cross-cutting theme and five objectives. The FAs and the cross-cutting theme are interlinked and mutually reinforcing and together represent an integrated approach to tackling Timor-Leste's development challenges. FA 1 aims to promote economic diversification by tackling constraints to private sector growth, targeting agriculture and tourism, because of their potential to create jobs and contribute to poverty reduction. Within the context of tightening fiscal constraint, the CPF would seek to achieve the objectives of FA 1 by addressing macroeconomic stability, supporting disciplined approach to fiscal management, improving the efficiency, effectiveness and quality of public spending, particularly, on education, health and nutrition. FA 2 aims to improve service delivery by promoting investment in education, health, social protection, water and sanitation. The private-sector requires a skilled, healthy and productive workforce to flourish. FA 3 aims to increase productivity across the economy by improving the quality of public services through supporting digitalization, policy changes and investments in climate resilient infrastructure, thus, improving access to market for farmers and to tourism sites. The cross-cutting theme aims to strengthen governance by supporting Public Financial Management (PFM) and Public Investment Management (PIM) reforms and build government's capacity to effectively implement its policies and programs.

Clearly, the achievement of the expected outcomes of the CPF will not only depend on the proposed CPF program but will be complemented by activities supported by the government and other development partners. Some potential areas for WBG engagement, even though important, are not included in the CPF program in recognition of the government's preferences or to avoid duplication with the activities of other development partners (Annex 6). Some of the areas not being addressed in the proposed CPF are wider aspects of governance such as justice and legal sector reforms, land regime reforms and property rights, trade and energy policies, banking and capital markets, tertiary education, and technology. Development partners are engaged in some of these areas as discussed in detail in Section V (D).

The CPF program will also seek to address the underlying drivers of conflict and fragility. Throughout the proposed CPF, interventions will be conflict-sensitive and will build-in gender considerations through an awareness of the potential risks, including using tools such as robust social and political economy assessments or conflict analysis in project design. The World Bank Group will try to adopt a prevention-based approach across its various engagements in the country, and, as appropriate, focus on building institutional and implementation capacities in government, either through its regular policy dialogue with government, technical assistance (TA) or investment operations by providing strong implementation support and building capacity of staff working in the respective Project Implementation Units (PIUs). The Bank Group would also create training and employment opportunities for youths and women. Citizen engagement tools, grievance redress mechanisms, and feedback loops will be systematically used, more broadly across the portfolio, in program design and monitoring to ensure that projects are responsive to the needs of citizens. Interventions will adopt geographical targeting, where appropriate, to account for and address regional imbalances. Each intervention will look at impacts by gender and be designed to promote gender parity.

Collaboration between the World Bank, IFC and MIGA during the CPF period will be strong and, in line with the Maximizing Finance for Development (MFD) approach. The Bank Group will seek to leverage the private sector to optimize the use of scarce public resources—in a way that is fiscally, environmentally and socially sustainable. Key areas of collaboration will be focused on: (i) legal and regulatory reforms to improve the investment climate; (ii) optimizing the development of Greater Sunrise LNG and related industries onshore to ensure optimum benefits to Timorese people and returns on government and private investments; (iii) agriculture, helping to increase farmers' income by supporting activities to improve productivity and efficiency; (iv) tourism, unlocking and creating employment opportunities for women and youth, and have the sector serve as a growth engine; and (v) healthcare, helping increase efficiency in the delivery of services, such as in PPP in health diagnostics[49]. Where markets already exist, the Bank Group will aim to support the delivery of projects using cost-effective commercial finance and private sector solutions. In cases where markets are not conducive to private investment, or where there is need to strengthen the enabling environment, the Bank Group will focus on better public spending to address binding constraints and reforms that address market failures and constraints to private sector investment at the country and sector level. This will require examining economy-wide and sector-specific constraints. Where risks remain high, the priority will be to apply guarantees and risk sharing instruments to make a larger share of the investment program more attractive commercially.

[49]A list of potential private capital mobilization projects (PCM) will be developed and tracked for corporate monitoring purposes.

MIGA is actively seeking opportunities to support the CPF focus areas through its political risk insurance product. MIGA will seek to catalyze cross-border private sector investment, including with the backing, when applicable, of the MIGA's Guarantee Facility (MGF) under the IDA18 Private Sector Window (PSW).

The World Bank Group collaboration will aim to enhance the complementary roles of public and private sectors. To look for, and act upon, opportunities to create markets and maximize finance for development, analytical work under the first FA will help pinpoint where the government, the Bank Group and development partners, including private sector and civil society organizations, can work to catalyze market creation by establishing the necessary regulatory and policy frameworks, promoting private sector competition, encouraging the spread of best practices and innovative technologies, and building local capacity and skills. It will also seek to identify opportunities for employment and training, especially for youths and women. The expansion of IFC's investment program and opportunities for deploying MIGA's guarantees depends greatly on the government's dedication to the continuation of reforms, especially on improving the business environment, removing specific impediments to business, sharpening competitiveness, whilst improving governance, and bolstering institutional capacity.

D. The World Bank Group Program: Knowledge, Advisory Services and Financing Support

The CPF anticipates that Timor Leste will utilize its full allocation under IDA18 and IDA19 and possibly some IBRD financing. However, government demand will need to be confirmed during CPF implementation as in some areas analytical work that would inform World Bank lending is at an early stage. In addition, if unforeseen risks arise the CPF program will adapt as needed to support the government in an appropriate manner. Hence, flexibility is built into the program to allow for adjustments in the CPF if circumstances change during the period of implementation. The adjustments will be captured in the PLR scheduled for FY22.

Focus Area 1: Strengthen the Foundation for Private Sector-led Growth and Economic Stability[50].

Objective 1: Strengthen the foundations of a market economy by establishing rules-based macroeconomic management and fortifying governance through reforms in public financial management.

- *Key outcomes: (i) Adherence to a fiscal rule; (ii) improve the sustainability of public spending; (iii) appraisal of public investment projects adhering to good practice standards; (ii) improved execution of the budget; (iii) external audit functioning to good practice standard; and (iv) strengthen public procurement system*

Background: The frontloading of public investment and high recurrent spending has resulted in heightened macroeconomic risks and an erosion of fiscal buffers to deal with external shocks. Operationalization of a rules-based Medium-Term Fiscal Framework (MTFF) that supplements the ESI benchmark for the Petroleum Fund with the phased introduction of an annual ceiling for primary budget spending would greatly help to impart predictability and stability in fiscal policy. Greater attention to

[50]Corresponds to discussion on ensuring growth in a diversified economy and bolstering macroeconomic stability under the emerging development agenda section.

improving the efficiency of public spending would help raise the rate of growth whilst promoting fiscal sustainability and social stability. Macroeconomic management would also be strengthened by measures to raise non-oil revenues through a broadening of the tax base and improved tax administration. In the area of fiscal management, governance reforms in Public Financial Management (PFM) would strengthen the oversight framework, reduce opportunities for corruption and raise the efficiency of spending. Measures to decentralize public spending to the 13 municipalities currently under implementation would be effective only with tighter PFM systems, training and transfer of skilled administrative personnel from the center to boost capacity in municipalities.

Knowledge and Advisory Services: A Country Economic Memorandum (CEM) (FY21) will undertake a comparative assessment of economic growth/diversification strategies in resource-dependent countries and draw lessons particularly in the areas of: (i) fiscal sustainability, (ii) allocative efficiency of the budget; (iii) technical efficiency of investments; and (iv) conditions for private sector investments and private-sector led growth[51]. The Timor-Leste Economic Report (TLER) will be produced on a six-monthly basis to track recent macroeconomic developments, provide an outlook for the economy, and identify key emerging risks. The Public Investment Management (PIM) (FY21) review will provide insights that will help to improve the quality of government spending, particularly, on infrastructure.

The Bank is supporting the Ministry of Finance to conduct a Public Expenditure and Financial Accountability (PEFA) assessment, which is being finalized. Based on the assessment, the Bank is supporting the government entities to develop a shared understanding of the weaknesses in the PFM system and a prioritized PFM reform action plan[52]. Strong ownership of the action plan by government will improve the alignment between development partners' support and government priorities. The outcome of this exercise will help to determine the Bank's assistance program on PFM issues. The Bank will support the government in its effort to strengthen the public procurement system and address some of the weaknesses that could adversely affect the quality and performance of public procurement, such as the existing outdated and fragmented legal/regulatory framework, weak institutional capacity, lack of systematic monitoring of procurement performance and outcomes. The government has requested the Bank's support to assess the existing public procurement system, using the Methodology for Assessing Procurement Systems (MAPS) (FY21) approach, and to provide recommendations for enhancing the efficiency, transparency and integrity of public procurement. Strengthening PFM and procurement systems is critical for broader institutional development and a cross-cutting theme that affects development outcomes across the three FAs.

Critical weaknesses that should be addressed promptly are off-budget transfers, which are by design exempted from PFM discipline, evasion of the procurement system, especially in selected cases of large, sole-source procurement, and fragmentation and frequent re-organization of PFM institutions, which results in evading regulatory controls and oversight. Work on procurement will utilize the methodology on assessing procurement systems. The PEFA exercise and follow-up PFM reform action plan will be critical to reducing leakages in social assistance programs, especially in view of the decentralization of public expenditures to the municipal levels, and to ensure that resources reaching front-line services are maximized. This intervention will be important in improving service delivery efficiency in human development through strengthened budget systems.

In view of the weaknesses in Public Investment Management (PIM), the Bank will also provide advice on principles of PIM to help improve the efficiency of public investments, develop a framework for evaluating various spending options, as well as improve evaluation and preparation of projects, contract

[51] The latter would also benefit Objective 2.

[52] This would consider existing PFM strategy and action plans supported by other development partners.

management and implementation monitoring. The Bank will build on past public expenditure work to emphasize the importance of making financial provisions for Operations and Maintenance (O&M) costs, improving cost-recovery, and raising efficiency in investments.

Financing: An Economic Reform and Public Financial Management Reform Development Policy Operation (DPO) in FY22 will support the PFM reform agenda, with its focus on core macroeconomic reforms, especially revenue mobilization, expenditure controls and other structural reforms that would contribute to strengthening governance and the foundations of a market economy. This operation will follow two years of dialogue and technical advisory work that will help to create the basis for reforms.

Objective 2: Enhance conditions for private investment and promote financial inclusion

- *Key outcomes: (i) strengthen business and regulatory environment; (ii) increase access to financial services and finance for Micro, Small and Medium Enterprises (MSMEs); and (iii) improve economic empowerment of women.*

Background: Private sector-led and inclusive growth requires creation of a stronger enabling environment for private investment, deeper financial inclusion, increased access to finance, and stronger legal foundations of a market economy. Despite recent improvements in the ease of starting a business and trading across borders, the business environment in Timor-Leste remains very weak, as it ranks 178 out of 190 countries[53]. In order to improve the business environment and promote private sector investment, Timor-Leste need to tackle several business environment and regulatory issues, including contract enforcement, property registration, access to finance and land, resolving solvency and dealing with construction permits[54]. Today, only two in five persons have a bank account and only a quarter of women are part of the paid labor force. Reduced borrowing costs, increased access to finance, and resolving issues around land ownership and contract enforcement would be critical for MSMEs expansion, especially for the two-thirds of MSMEs that are women-owned. With a vast number of the population rural-based, increasing access to finance in the agriculture sector will also be promoted. Greater mobile phone penetration can also spur use of digital finance.

Knowledge and Advisory Services: The Country Economic Memorandum (CEM) FY21 will be the key knowledge product in developing the policy framework for private sector-led growth as it will be devoted in large part to a private sector diagnostic and to the key levers for strengthening the business and regulatory environment. The Bank Group would then further help to strengthen the legal foundations of a market economy through its advisory services. Building on its advisory engagement in microfinance institutions, IFC will also aim to accelerate business-led and inclusive growth through increased access to finance for MSMEs, especially those owned by youths or women, as well as those in agriculture sector. IFC will also promote digital financial products to reach the unbanked and the under-banked in rural areas through the Digital Finance Advisory (FY21) service. The Bank's Digital Economy/Government Assessment (FY22) will complement IFC's effort to promote digital financial service.

Financing: Building on the findings of the CEM and other knowledge and advisory engagements, the Economic Reform and Public Financial Management Reform DPO (FY22) mentioned above will also support reforms aimed at strengthening the enabling environment for private sector-led growth. IFC will also explore opportunities for investing in financial institutions, through Inclusive Finance (FY20) and Partial Credit Guarantee (FY23) projects, to increase access to financial services and support an increase in the volume of credit to private enterprises, particularly, to youths and women-owned businesses.

[53]Doing Business Report 2019

[54]Timor-Leste Country Partnership Strategy (CPS) Completion and Learning Review, World Bank Group, 2019

Objective 3: Promote economic diversification through agri-business and tourism development.

- *Key outcomes: (i) Commercialization of agriculture output; and (ii) tourism development initiated based on integrated tourism master plans.*

Background: Changing Timor-Leste's current growth model will require well targeted policies and programs to tackle constraints to private sector investment and productivity growth. Private investment will depend on addressing weaknesses identified in economy-wide and sector-specific diagnostics that will be conducted during the CPF period. Promising areas for greater private participation are agriculture and tourism. Timor-Leste is an early-stage tourism destination with opportunities for growth by tapping into powerful niche markets. If planned and managed well, tourism can generate firm growth and employment opportunities for women and youth. However, tourism growth requires strengthened intra-government and public-private coordination to: expand direct and price competitive air connectivity; improve accessibility; preserve natural and cultural assets; develop tourism services, attractions and skills; and launch destination development and marketing. There are also several simple fixes which could be done through regulation or public education, such as improving the payment systems (ATMs and credit cards) and taking actions to lower international airfares.

Similarly, modernizing agriculture has potential for boosting incomes for the poor. Modernization through application of good agriculture practices and appropriate technology for Timor-Leste's context will help increase productivity. It is crucial that any intervention in commercial agriculture helps link farmers to markets, both domestic and export. Moreover, access to land for agriculture and tourism development is complex and time consuming because of multiple land ownership regimes, fragility risks arising from land-related conflicts, onerous regulations and procedures for long-term leasing of state-owned land.

Knowledge and Advisory Services: In tourism, the Bank—in collaboration with IFC—will conduct a tourism demand assessment to prepare a forecast of the magnitude and composition of future tourism demand, and the supply-side requirements to accommodate this demand for Timor-Leste nationwide and selected destinations. In the agriculture sector, the IFC—aligned with the Bank's Sustainable Agriculture Productivity Improvement Project (SAPIP)—will help increase competitiveness in one or two value chains (e.g. coffee, cassava or vanilla) by addressing productivity and fragmented value chain problems, as well as access to finance and regulatory constraints. The IFC will carry this intervention through a lead firm approach that will work with farmer groups to adopt new agriculture practices and technologies to improve productivity, together with the adoption of food safety and traceability measures and certification, as well as working with input suppliers to ensure regular and affordable supply of necessary inputs (such as good quality seeds). The IFC, through Trade Facilitation and Food Safety Regulation (FY20) and Investment Policy and Promotion (FY22), will also support government efforts to promote commercialization of agriculture through formalizing and making more transparent procedures for long-term leasing of government-owned lands; reforming procedures for starting a business; and addressing issues related to sanitary and phytosanitary standards (SPS) in international markets, including revising quarantine regulations.

Financing: In agriculture, a Bank project in the current portfolio, based on a grant from the GAFSP, the Sustainable Agriculture Productivity Improvement Project (FY16), aims at improving farm productivity, developing and training commercial-farmer organizations, funding small scale rural investment to improve sustainable watershed development and management, and improve extension services. To help boost agricultural productivity, IFC will examine funding investments in the value chains where IFC engages in Advisory Services for exports and local markets.

The World Bank proposes, through a Tourism Development Project (FY22), to support the government's plan to implement integrated tourism master plans under the guidance of the inter-ministerial commission for tourism development. These cross-sectoral plans would require budget allocations for tourism-relevant hard and soft infrastructure. In implementing this cross-sectoral approach, the World Bank would bring together IBRD, IFC, MIGA and other development partner resources. IFC will explore funding hotel investments and introducing potential strategic partners from IFC's international network of tourism contacts.

Focus Area 2: Invest in Human Capital and Service Delivery[55].

Objective 4: Strengthen Human Capital and Promote Gender Equity.

- *Key outcomes: (i) Improvement in nutrition intake; (ii) improvement in learning outcomes; (iii) increased adequacy of social assistance; and (iv) increase access to employment for women.*

Background: Timor faces an urgent need to re-build human capital in all its dimensions if it is to grow to its maximum potential. Low learning outcomes are partly explained by low pre-school enrolment, poor school infrastructure, lack of qualified teachers, inadequate learning resources and poor education governance. Chronic malnutrition remains high and is the single greatest contributor to premature death and disability[56]. Over half of all children aged under-five are stunted, which affects their physical and cognitive development. Low attainments in water quality, sanitation and hygiene standards lead to widespread waterborne diseases and have a grave impact on overall health; moreover, they lead to poor nutrient absorption, which is a cause of stunting and wasting. Rural populations still report very low levels of access to and use of health services, which are mostly not fit for purpose and not adequately resourced. In addition, climate hazards and worsening environmental conditions adversely affect health and livelihoods. In addition, the poor and vulnerable are inadequately protected from shocks to their welfare. While a meaningful level of protection is provided to the elderly through cash transfers and some protection for those living with disabilities exists, the Bolsa Da Mae program provides very low level of protection to its beneficiaries[57].

Gender inequities and Gender-based Violence (GBV)[58] is still prevalent. Despite progress in women's political participation, access to education, and improved health outcomes and a vision for achieving gender equality, gaps remain largely owing to limited capacity and resources, failures in coordination, and unequal gender norms. A third of women have been victims of physical violence by age 15 and 40 percent of ever-married women have been victims of spousal violence. High cultural tolerance of violence is evidenced by nearly three-quarters of women and over half of men surveyed agreeing that a husband is justified in beating his wife[59]. Very few women report violent behavior, even when this results in physical injuries that must be treated in hospital. There is need to strengthen gender-responsiveness and implementation capacity of government institutions and civil society organizations; improve access

[55]Corresponds to discussion on building human capital and fortifying resilience to social risk under the emerging development agenda section.

[56]Provo et al. 2017.

[57]Old age and disability pensions are set at $30 a month; veterans' pensions at $275-575 a month. Annual spending on the Bolsa is $10 million, on veterans and disability pensions $[25] million and on veterans $100 million.

[58]The National Action Plan against Gender-based Violence (NAP-GBV) defines GBV as "violence against a woman, man or child based on her/his subordinate status in society resulting from (or caused by) his/her gender." According to the Country Gender Assessment Report (2014), these include: "acts of domestic violence; sexual abuse; dowry-related violence; rape; gender-specific traditional practices; non-spousal violence; sexual violence related to exploitation; sexual harassment and intimidation at work, school and elsewhere; trafficking and forced prostitution."

[59]ibid. page 57

to health-related information and services; increase access to employment or self-employment for women, youth, and people with disabilities; and reducing gender-based violence[60].

Knowledge and Advisory Services: The CPF program builds on previous engagements in education and nutrition, and initial complementary analysis done under the Human Capital Project. The Bank will conduct a Poverty and Welfare Monitoring (FY20 and FY21), in partnership with the Directorate of Statistics, to further disaggregate the factors underlying developments in poverty and distribution, and geographical and spatial factors to lay the foundations for ASA work on human capital (FY21). The Bank will undertake a Public Expenditure Review (PER) covering education, health and nutrition to identify financing gaps and opportunities for improving the efficiency and effectiveness of public spending in those critical aspects of human capital. A diagnostic of public financial management systems in these sectors will be included. The Bank will conduct a comprehensive Social Protection Review (FY20) of existing social protection programs with a view to determining the efficiency and poverty impact of social protection spending and provide policy options to strengthen the system and programs.

The Bank will support the Ministry of Education, Youth, and Sports (MOEYS) to improve the quality of education and deepen the knowledge of the sector. The Education Quality and Governance programmatic ASA (FY21) will support early grade reading assessments and capacity building for early childhood education. In addition, technical assistance (TA) is being provided, in coordination with UNICEF, DFAT and MFAT, to help the government develop their education sector plan. Building on a joint World Bank, DFAT and EU report on malnutrition[61], the Bank, in partnership with relevant government agencies and other development partners actively supporting the nutrition agenda, will conduct a multi-sectoral assessment on nutrition and develop a holistic strategy, with cost estimates, for addressing the nutrition needs of the population (FY20), with a focus on combatting stunting. Finally, the Bank will support the Government to operationalize the Human Capital Project through supporting the development of an overall Human Development Strategy (FY21) based on the multi-sectoral ASA on health and nutrition.

The Bank's efforts to improve human capital outcomes will be reinforced by IFC which will, through advisory services, aim to bolster public resources by attracting private investments in health using a PPP arrangement. This will expand quality health diagnostic and health care services. These investments would increase the number of patients diagnosed and/or cared for in-country, thereby, reducing the need for medical treatment overseas. The IFC will also examine the market for affordable housing and design a PPP in FY23.

Financing: A Water Supply and Sanitation Project (FY20) will help to increase access to clean water and adequate sanitation, thus, contributing to improved health and nutrition outcomes. The project would help strengthen and modernize sector institutions to improve governance and scale-up service delivery. The project will also strengthen policymaking, service provision, regulation and water resource management institutions and finance a series of priority investments screened for climate and disaster risks affecting water availability. The programmatic approach of the projects aims to finance better-targeted investments, accelerate the pace of investments, achieve sustainability and leverage resources. The project will also support the operationalization of multi-sectoral approaches to address stunting, including through a pilot component. These activities will be carried out under the leadership of the Ministry of Public Works and in close collaboration with ADB and MCC, alongside other development partners intervention in the sector.

[60]The Bank Group will continue to raise awareness of gender equity and GBV issues through its investment operations and seek grant financing from the Women Entrepreneurs Finance Initiative (We-Fi) to nurture and empower more women entrepreneurs.

[61]Provo, D; Atwood, S; Sullivan E.B.; Mbuya, N (2017): Malnutrition in Timor-Leste: A review of the burden, drivers, and potential response. Australian Government DFAT, World Bank, EU.

An Education Sector Project is proposed for FY20 that initiates key education reforms focusing on quality of teachers and strengthened education governance. This project anticipates government's adoption of a basic education reform strategy. The Global Partnership for Education will supplement the IDA operation. A follow-on operation in FY23 will seek to further strengthen education and human capital outcomes. The Education Sector Project (FY20) and the Branch Road Project (FY20) will both contribute to increasing employment opportunities for women as teachers and road maintenance workers respectively.

Focus Area 3: Raise Productivity through Investments in Connective Infrastructure[62]

Objective 5: Improve access and quality of connective infrastructure in digital and transport sectors

- *Key outcomes: (i) Improved fiber-optic connectivity across the country; and (ii) reduction in travel cost and the travel time between farms and market[63].*

Background: Digitalization is an essential pillar of private sector development and raising standards in governance, particularly, in public service delivery. It is critical to raising business productivity and creating jobs and to implementing e-governance. Improved digital connectivity, particularly faster and more reliable and affordable internet, would lower logistical costs to the benefit of a highly import-dependent economy such as that of Timor-Leste and contribute to a more favorable business environment/ investment climate overall. Despite growth and expansion of basic mobile and data services following market liberalization in 2012 and enhanced private investment, the high cost and limited availability of international internet bandwidth remains a critical gap today. This in turn is constraining the faster growth of mobile and fixed broadband access networks due to high operational costs and service quality challenges for the private sector. High quality digital connectivity is a prerequisite for the development of digital economy and digital government in which Timor-Leste is currently trailing the ASEAN region.

The Government, is looking at options and different business models for the supply and installation of an international submarine cable system, coupled with institutional and regulatory measures to address this challenge. Addressing other digital development enablers such as digital skills (including basic ICT literacy as well as more advanced technical skills), digital payments, reliable logistics networks to support e-commerce and the legal and regulatory framework for secure online transactions is also key. For example, the payments system infrastructure needs to be modernized to support e-commerce and e-finance to facilitate financial inclusion, and to encourage a shift towards electronic payments (including by government agencies), which will reduce opportunities for corruption and improve service delivery quality through public information and monitoring, feedback channels and corrective mechanisms. Enhancing public services delivery will require the development of a secure government digital platform based on whole of government standards and interoperability, and systematic streamlining and digitalization of government back office systems and business processes so that services can be delivered online. Beyond strengthening key digital infrastructure, ensuring that technology platforms are both highly user-friendly and focused on associated capacity building, including through learning by doing, will be critical.

Investments in connectivity – roads and aviation – are critical to the shift to a private sector driven growth model by lowering costs and improving access to markets, goods, and services for communities. Despite increased policy attention and investments, access to all weather roads is inadequate – only about 150 kilometers of national all-weather roads have been completed, leaving

[62]Corresponds to discussion on addressing climate change under the emerging development agenda section.

[63]It will also help to reduce travel costs and travel time between homes and schools or health facilities.

about 350km[64] of national road in poor or very poor condition. This suggest that the work to date has only just kept pace with deteriorating road condition, with little or no maintenance being carried out, nor with any consideration being given to natural hazards and climate risks (e.g. landslides, heavy rainfall, storm surges). The efficiency (including measures to lower airfares), security and safety standards compliance at the main international airport in Dili need to be improved to help markets, such as tourism, that rely on air connectivity. A clear constraint is the civil aviation regulatory framework, which inhibits the entry of air services. Moreover, the capacity and services at the airport are limited. A well-planned development could lower costs and benefit exports.

Knowledge and Advisory Services: The Bank's engagement on digital development will start with advisory services, and an initial TA on Digital Connectivity is expected to commence in FY21. This will focus on digital connectivity options, as well as regulatory and institutional issues. This will expand to a broader Digital Economy Assessment (FY21-FY22), including digital government enabling factors. Beyond strengthening key digital infrastructure, it will be important to ensure that technology platforms are user-friendly and include associated capacity building. Through this TA, the Bank will support the preparation of laws/regulations on electronic transactions, digital signature, and data protection, data privacy and other enabling measures supporting digital economy/digital government. Any engagement on digital government will be framed with careful attention to key capability, transparency, and accountability gaps in the government. The IFC will focus its advisory work on digital financial services. During the CPF period, the Bank Group will assess, through its TAs, ASAs and policy dialogue, how digital innovations could be used to improve governance, strengthen institutional capacity and support better and more accountable service delivery.

Financing: The portfolio includes a Road Climate Resilience Project (FY11) which is helping to improve access to an all-weather road along rural areas South of Dili to Ainaro. It also helps to reduce the impact of the high volume and intense rainfall on road conditions on the Dili to Ainaro corridor. The Branch Roads Project (FY20) will upgrade the Gleno-Maubisse corridor. This project will help to boost economic growth by improving access to market by reducing travel costs and the time it takes to reach markets for coffee farmers around Letefoho and improving access to tourism sites around Mount Ramelau. It will also improve climate resilience by strengthening government capacity to manage road assets and be better prepared to provide immediate and effective response to a crisis or emergency amid natural hazards and climate risks. A Second Road Project (FY22) along the following road corridors: (i) Viqueque-Uatulari-Uatucarbau-Lliomar-Lospalos; (ii) Lautem-Fuiloro-Lospalos; and (iii) Maubara-Vatobau-Sare-Cailaco is proposed. An IDA-financed Aviation Safety TA (FY21) is envisioned, to complement the proposed ADB, JICA and DFAT aviation support, to improve operational safety, security and efficiency of airports to meet the minimum safety and security standards of the International Civil Aviation Organization (ICAO). IFC is updating a 2014 study to assess various options for airport development and terminal management (including a potential of public-private partnership—PPP), which could help contribute to improved air connectivity.

World Bank policy that requires the screening of investment projects for climate and disaster risks, is particularly relevant given Timor-Leste's vulnerability to natural disasters and climate risks. All investments under the CPF program will consider resilience-building measures to ensure that efficiency and fiscal sustainability is not further jeopardized.

[64] Representing about 25 percent of the 1401 kilometers of national roads – Source: DRFBC.

V. IMPLEMENTING THE COUNTRY PARTNERSHIP FRAMEWORK

A. Financial Envelope

The country IDA allocation for Timor-Leste increased from about $25m and $36m in IDA 16 and IDA17 respectively,[65] to about $89m equivalent[66] in IDA18. Timor-Leste qualified for the softest concessional IDA lending terms under IDA18, because of its categorization as a small state[67]. At the mid-point of IDA18, additional $10 million was allocated to Timor-Leste to support the proposed water and sanitation project, bringing the total amount of IDA18 allocation to approximately $99 million equivalent. Preparations are at an advanced stage for the delivery of three projects in FY20: branch roads project ($59 million equivalent), an education project ($15 million equivalent), and a water and sanitation project ($25 million equivalent).

The CPF lending program over the years FY21-FY24 coincides with IDA 19 and first year of IDA20. For planning purposes, it is assumed that the IDA 19 allocation to Timor-Leste will remain the same as that of IDA 18 at approximately $90 million equivalent[68]. Government may opt to borrow additional $70 million from IBRD[69]. Improvements in public finance management – a major objective of the CPF program – could lead to greater allocation of IDA resources in the future.

The IFC program throughout the CPF period will leverage its investment and advisory services as well as mobilization of private finance, while bringing to bear the full weight and resources of the World Bank Group to help maximize finance for development. IFC's unique financing and advisory products will combine global expertise with local knowledge, and this will simultaneously leverage investment returns and social benefits to deliver impact through IFC's clients. To help expand private investment and create markets for high-risk projects, IFC will also aim to deploy, where feasible, the IDA 18 Private Sector Window. IFC will also aim to utilize the Creating Markets Advisory Services to support upstream work that create markets and helps develop project pipelines. MIGA will also actively explore opportunities to support private investments into the country, including through utilizing the PSW of IDA.

The Bank Group will try to raise trust fund resources from specialized global funds, such Global Financing Facility and the State and Peacebuilding Fund, and other development partners collaborating on similar issues such as human capital, economic analysis, and gender-based work, for example the Australian government and the European Union, for investments and to deliver more advisory services and analytics which have in the past been crucial to support the government to help build capacity to deliver.

[65] The lending program in the last CPS, covering IDA16 and IDA17, had a strong focus on infrastructure – roads. For more details, please see Annex 2.

[66] As for any country, IDA18 allocations for Timor-Leste are indicative.

[67] As part of the IDA18 climate-related commitments, all investments will be screened for climate change and disaster risks, consider resilience-building measures and actions consistent with Timor-Leste's NDCs.

[68] Actual performance-based allocations from IDA will be determined annually and will depend on (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, population and gross national income per head; and (iv) the performance and other allocation parameters for the other IDA borrowers.

[69] IBRD lending volumes over the CPF period will depend on country demand, overall performance, and global economic and financial conditions, which affect IBRD financial capacity and demand by other IBRD borrowers.

B. Proposed Lending and Advisory Services and Analytics Program

Tables 5 and 6 presents an indicative program of lending and analytical work that would be undertaken during the CPF period. Proposed lending includes a development policy operation and investment projects from IBRD, IDA and IFC. The analytical and advisory work program will provide the basis for policy dialogue in key areas and, together with existing knowledge products, support the design of economic reforms, transformation to private sector led growth, accumulation of human capital, and building connectivity. ASA work will inform the design of future lending operations.

The World Bank and the IFC will build on its successful and established practice of joint implementation during the implementation of this CPF. The joint team will seek to step up its collaboration across a range of knowledge activities during the CPF period, including core diagnostics such as the Country Economic Memorandum, and focused reports on business climate, digitalization, financial inclusion, agri-business, tourism and aviation.

The CPF strategy is to ensure that knowledge and advisory services complement development and investment priorities, while also ensuring greater responsiveness and timeliness by keeping knowledge products sharply focused. Knowledge activities will be driven by government's demand and will focus on identifying solutions and practical tools to improve policy and program implementation. Knowledge products will serve as the central vehicle for regular engagement with parliamentarians, CSOs, private sector, and academia on reform priorities and lending directions.

C. Financial Management and Procurement

The Bank will continue to work closely with the government to streamline financial management arrangements across the portfolio, gearing towards greater use of country systems. Thus, the Bank will assess country's fiduciary systems with a view to adopting the use of country systems over time. The Bank will provide technical assistance and capacity building to help strengthen fiduciary systems and coordinate with other donors as relevant to better align interventions. Streamlining interventions and enabling greater use of country systems will result in greater efficiency and simplicity, in an already FM resource and capacity constrained environment. The focus areas are accounting and external audit and use of centralized Integrated Financial Management Information System (IFMIS).

There is much room for improving the effectiveness of public procurement by modernizing and consolidating the regulatory framework and building implementation capacity. Procurement is plagued by an outdated and fragmented legal framework and cumbersome approval processes. Moreover, in the absence of a monitoring and evaluation system, no effective means of verifying compliance or measuring the performance and outcomes of public procurement exist. A comprehensive review of the overall public procurement system is planned under the CPF under Objective 6. This should lay the foundation for a policy reform dialogue with the government in this area.

D. Partnerships

The Bank Group will coordinate its activities with other development partners in alignment with the national strategy and in support of the SDGs. It will use its convening power to consolidate development partners' efforts around major reforms and play an active role in donor coordination. The Bank Group will closely coordinate its program with the IMF, EU, the UN, and ADB, as well as key bilateral agencies. Partnering with the private sector is also a central element of the CPF strategy. Digital investments should prioritize private sector solutions, utilizing PPPs and private investment in support of digital governance and digital finance.

Harmonized Development Partners' Response: The Bank Group designed the CPF program[70] to complement, rather than duplicate, ongoing efforts of other development partners in priority areas of the SDP. For example, the ADB and the USAID currently fund activities that support the financial sector, customs and trade facilitation. In the promotion of effective governance, DFAT, Portugal, USAID, the EU and the UNDP have wide-ranging programs covering the executive, legislative and judicial branches of government, including capacity building for Member s of Parliament, support to justice sector, electoral system and decentralization reforms. In secondary education, skills and vocational training, ADB, DFAT, MFAT, KOICA, JICA, UNICEF, Portugal[71], and GIZ are active. In health, food security, and nutrition, a wide range of partners, including DFAT, USAID, MFAT, KOICA, EU (including through budget support), WHO and other specialized agencies of the UN are supporting immunization activities, school feeding programs, rice fortification, disease control, basic health and nutrition services targeting under-5 children, pregnant and lactating women. In rural infrastructure, the International Labor Organization (ILO), with funding from the EU, and DFAT support rural roads and access to agro-forestry and community-based infrastructure development projects. In natural resource management, climate change, and building community resilience, the UNDP, DFAT, Portugal, EU, USAID, GIZ and other UN agencies are helping to strengthen community resilience to climate-induced disasters, managing agro-forestry and biodiversity, removal of plastics and other solid waste from the sea, and DFAT and Japan International Corporation Agency (JICA) support various aspects of community-based sustainable natural resource management[72] (see Annex 6).

Coordination with other Development Partners: There are several opportunities for collaboration and coordination with other development partners across the three focus areas. The Bank Group would continue to work closely with ADB, JICA and ILO to improve the national road network and to support reforms that would ensure sustainable management of road assets. The Bank Group would engage with DFAT, USAID, EU, ADB, JICA, the Chinese government and specialized UN agencies to promote economic growth and diversification through support to agriculture production, tourism, agri-business, fisheries, access to finance and market development. The Bank Group will collaborate with DFAT, USAID, JICA, ADB, and the Chinese government on infrastructure investments and advisory services relating to policy and regulatory frameworks, particularly, in aviation, internet connectivity, *Tase Mane projects,* including the *Greater Sunrise project*[73], and strengthening electricity systems. In governance, the Bank will deepen engagement with EU, DFAT, ADB, IMF, MCC and Portugal on PFM reforms to improve efficiency in the use of public resources and strengthen oversight functions in government. The Bank will coordinate closely with ADB and MCC on water and sanitation investments and related institutional reform activities. The human capital agenda would require stronger coordination amongst all development partners working in this area. Thus, the Bank Group will emphasize coordination with all relevant partners, including DFAT, MFAT and UNICEF, in its activities on nutrition, education, health and social protection. Finally, the Bank Group will coordinate its support to gender and women economic empowerment activities, including addressing issues of GBV, with UNWOMEN, USAID, DFAT and JICA.

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[70] As indicated in the discussion of selectivity filters in Section IV Part C of the CPF.

[71] Portugal is present throughout the education sector, with reference schools in all districts, covering primary and secondary education, teachers' training both at the country's only public university and continuous on the job training.

[72] The United States' Millennium Challenge Corporation (MCC) is currently working with the Government of Timor-Leste to develop a five-year compact program to support economic growth. The design of the compact program is still ongoing, and the amount of funding could be between US$200–US$300 million. The projected approval date is in fiscal year 2020 and potential areas of focus include nutrition, water and sanitation, women empowerment, improving skills of Timorese labor force, and improving the business environment (commercial dispute resolution and contract enforcement).

[73] Please see Paragraph 106 for the conditions under which the Bank Group would engage in the project.

E. Monitoring and Evaluation

The CPF will be monitored continuously, supplemented by periodic formal evaluations. The performance of the lending and ASA portfolio will be reviewed annually through a Country Portfolio Performance Review to ensure prompt and pro-active attention to solving project implementation issues and applying corrective measures when necessary. The CPF Performance and Learning Review (PLR) will be prepared in FY22 to evaluate the progress made towards achieving the CPF objectives and to reflect any midcourse corrections that may be needed.

F. Managing Risks

Table 4. **Risk Assessment**

Risk Categories	Rating
1. Political and governance	High
2. Macroeconomic	Substantial
3. Sector strategies and policies	High
4. Technical design of project or program	High
5. Institutional capacity for implementation and Sustainability	High
6. Fiduciary	High
7. Environment and social	High
8. Stakeholders	Moderate
Overall	High

The overall risk to the achievement of the CPF results is rated High (Table 4). Application of the SORT tool provides a screening mechanism as to the principal sources of risk, an essential first step towards managing risks in the CPF. Based on the assessment of risks vis-a-vis the CPF program, two clusters of risks stand out as especially high: (i) political economy risks – political and social stability, governance, and fiduciary and (ii) capacity risks -- sector strategy formulation and policy implementation, technical skills -- political and governance and institutional capacity. These risks are elaborated below. The flexibility built into the CPF program, both in terms of choice of instruments and level of support, will also ensure the ease of program adjustment should these risks materialize. The program will be adjusted during the PLR planned for 2022.

Political risks are high because of political uncertainties that followed the recent political stalemate and the incomplete formation of the VIII Constitutional Government. This left about nine ministries without Ministers and slowed down the pace of implementation of government programs in key areas. There is also the possibility of shifting political alliances in the Parliament. Governance risks are found in institutional shortcomings in the areas of budget, PFM, public investment decision-making, deficiencies in the investment environment, which is insufficiently rules-based, and a weak judiciary. These political risks are mitigated by ensuring strong alignment with the government's SDP 2011-2030 and broadening stakeholders' support for the CPF program. The governance risks are mitigated by the robust interventions included as part of the CPF program that are aimed at improving the quality of public spending through ongoing PER and PEFA assessment works, and planned TA support to design and implement a comprehensive PFM reform program.

Macroeconomic risk is substantial. This is associated with growing public expenditure levels in the face of declining receipts from oil revenues. This could lead to depletion of the Petroleum Fund in the medium term, that could be accelerated if these funds are used to invest in large infrastructure projects in an imprudent manner. In addition, the current global trade tensions, and its resultant effects on equities and financial assets prices, exposes the Petroleum Fund's investment portfolio to potential volatilities in the global market. The CPF tries to mitigate this risk through policy dialogue on macroeconomic management and its planned TA support to government to help implement the MTFF and strengthen PFM systems to ensure higher value for money. In addition, the Bank will continue to work closely with the IMF to monitor macroeconomic policies and their impacts on the program. For instance, TLER will evaluate macroeconomic risks twice a year.

The following risks: (i) sector strategies and policies, (ii) technical design of projects and programs, and (iii) institutional capacity for implementation and sustainability, reflect weak policy and project implementation management skills, inadequate coordination across organs of the government, gaps in technical skills and high staff turnover in government. These risks will be mitigated by continued technical assistance for policy formulation and implementation in key sectors. The Bank will ensure that implementing agencies for all new operations must meet agreed minimum staffing requirement in the Project Management Unit (PMU) before new projects are declared effective. In addition, the civil servants will be actively involved in the design and preparation of new operations and these will also create opportunities for training and other capacity building activities. The CPF's strong emphasis on human capital development, raising the quality and incidence of social spending, making a transformative thrust on nutrition, and upgrading of skills will improve the technical design of social sector policies and the delivery of services, thereby, reducing social risk. In the proposed CPF period, the Bank Group's dialogue and technical assistance emphasizes human and institutional capacity building and strengthening monitoring and evaluation systems to track results and mitigate potential risks.

Fiduciary risks are high in view of overall weak capacity within the government on fiduciary matters, an outdated and fragmented legal framework, and cumbersome approval process for procurement, as well as weaknesses in the internal control environment and in external audit. The CPF has a strong focus on improving the quality of public spending and will continue to support proposed PERs and PFM reform programs to enhance the financial management and procurement environment in government. The Bank will also promote, through policy dialogue, expenditure controls and transparency in the use of public funds. In addition, with the ramp up of the lending program country office will also improve its capacity to help support project implementation and build fiduciary capacity in implementation agencies.

An issue that falls at the intersection of political, governance and macroeconomic risks is the development of the "Greater Sunrise Project". The recent amendment to the Petroleum Activity Law (approved by parliament and promulgated by the President) will enable the Petroleum Fund to invest directly in Timor Gap– a state-owned enterprise that now holds the majority stake in the Greater Sunrise joint venture, without parliamentary scrutiny and it eliminates preventive oversight (pre-audit) of petroleum-related contracts by the Câmara de Contas (Court of Audit). Financing the Greater Sunrise project wholly out of the Petroleum Fund would accelerate depletion of the Fund as oil revenues decline.

The environmental risks reflect the Timor-Leste's vulnerability to climate change and natural hazards, including strong winds, landslides, earthquakes, tsunamis, and cyclones. There also climate related risks associated with floods, flash floods, drought, storm surge, heavy rainfall and sea level rise. also reflect the country's limited adaptive capacity, as Timor-Leste's population will remain highly vulnerable to climate change impacts. The effect of these risks can be very damaging and will likely divert attention from the implementation of the CPF program. The Bank will partner with other development partners, through existing operations in agriculture and infrastructure, to improve community disaster risk preparedness and build resilience against natural hazards. In addition, adequate resources would be made available to support implementation of environmental and social safeguards policies and build government capacity to better manage environmental risks.

Adjustments to the CPF: The current CPF program assumes that all the potentials risks to the CPF have been identified and mitigated. If unforeseen risks arise or mitigation measures prove ineffective, the CPF will be adjusted. The knowledge program being adapted to provide the government with the tools to confront risks and benefit from international best practice. The Economic Reform and Public Financial Management Reform DPO (FY22) may be dropped from the lending program if macroeconomic policy risks materialize or there is lack of government commitment to relevant reforms. The option of IBRD financing may be dropped from the lending program and IDA lending could be scaled back to the core set of projects on human capital, roads, and water and sanitation, but only if government's commitment to the projects remain strong and sector-specific reforms are pursued.

If World Bank Group's support for the Tase Mane project, which includes the "Greater Sunrise Project", is requested by the Government, the World Bank and IFC would work collaboratively to help the Government to optimize the benefits of the project. However, the Bank Group's possible involvement in the Greater Sunrise project will be contingent on the project having essentially a private sector nature, with minimal state involvement beyond a regulatory role, with all fiscal, technical, environmental and social risks (including contingent risks) being transparently identified and being within prudent limits, with all aspects of the project being transparent and competitive, and with environmental and social safeguard measures being fully respected. The World Bank can support the development of enabling infrastructure around the project area; design and implementation of regulatory arrangements, especially for onshore facilities and domestic use of gas, not covered by the existing upstream regulatory framework; support on taxation arrangements, especially to address valuation, transfer prices, asset depreciation and financing issues, which will flow from a variety of alternative ownership structures; help to strengthen management of environmental and social issues, especially for onshore impacts and community development, and supply chain development and local content (offshore is already reasonably defined). The IFC can facilitate this project by supporting gas and LNG development through upstream engagement to build capacity for government, the state-owned oil company, and key private sector partners. It would adopt a strategic approach focused on developing the capability and capacity of local firms and supporting the health and livelihoods of local communities, including through jobs and training from the onshore development of gas.

The PLR will provide an opportunity to discuss possible adjustments to the CPF.

Table 5. Proposed CPF Program (FY20-FY24): Lending Operations (IBRD, IDA and IFC)[a]

Focus Areas	FY20	FY21	FY22	FY23	FY24
Strengthen the Foundations for Private Sector Growth and Economic Stability		Inclusive Finance FY20(IFC)	Hotels Project FY22 (IFC) (Tentative) Tourism Development Project FY22 - $30M (IBRD) Economic Reform and Public Financial Management Reform DPO (FY22) - $30M (IDA)	IFC Partial Credit Guarantee Operation – FY 23 (Tentative)	
Invest in Human Capital and Service Delivery	Water and Sanitation FY20 - $25M (IDA) Basic Education Strengthening and Transformation Project IPF FY20 - $15M (IDA)			Education/ Human Capital Quality and Governance FY23 - $15 million (IDA)	
Raise Productivity Through Investments in Connectivity	Branch Road Project FY20 - $59M (IDA)	Aviation Safety TA FY21 - $20M (IDA)	Second Roads Project (FY22) - $66M ($26M from IDA, $40M from IBRD)		

Notes:

[a] IFC investment plans are contingent on suitable opportunities arising. The estimated duration of project implementation will be agreed with government during the preparation of the respective projects.

Table 6. **Proposed CPF Program (FY20-FY24): Advisory Services and Analytics (ASA), Trust Funds and Global Partnerships**

Focus Areas	FY20	FY21	FY22	FY23	FY24
Strengthen the Foundations for Private Sector Growth and Economic Stability	Private Sector Assessment with Special Focus on the Tourism-Sector FY20- Bank Group PEFA Assessment FY20 – IDA Trade Facilitation and Food Safety Regulations FY20 - IFC Timor-Leste Economic Report (TLER) FY20	Digital Finance Advisory FY21 - (IFC) Methodology for Assessing Procurement Systems (MAPS) FY21 – IDA Country Economic Memorandum FY21 – Bank Group Public Investment Management FY21 - IDA	Investment Policy and Promotion FY22 - IFC		Niche Value-Chain Improvement FY24 - IFC (tentative)
Invest in Human Capital, and Service Delivery	Public Expenditure Review (PER) covering Health, Education and Stunting FY20 – IDA Social Protection Review FY20 – IDA Poverty and Welfare Monitoring FY20 and FY21 – IDA Multi-sectoral ASA on Health, Nutrition and Stunting FY20 – IDA	Human Capital Development Strategy with Special Focus on Nutrition and Stunting FY21 – IDA Education Quality and Governance FY21 – IDA	PPP Advisory for Health Diagnostic Services FY22- -IFC	Affordable Housing PPP FY23 - IFC	
Raise Productivity Through Investments in Connectivity		TA on Digital Connectivity (FY21) - IDA	Digital Economy/ Government Assessment FY22-IDA		

ANNEXES

ANNEX 1: RESULTS MATRIX

Focus Area 1: Strengthen the foundation for private sector-led growth and economic stability

The Bank Group will assist the government to address macroeconomic stability through a disciplined approach to fiscal management and to propel diversification of economic activities targeting non-oil productive sectors, thus, increasing the contribution of private sector to economic growth.

CPF Objective 1: Strengthen the foundations of a market economy by establishing rules-based macroeconomic management and fortifying governance through reforms in public financial management.

Intervention Logic: Excessive public investment with the resulting drawdown on the Petroleum Fund has heightened macroeconomic risks and eroded buffers to deal with oil and food price volatility. A rules-based Medium-Term Fiscal Framework (MTFF) that supplements the estimated sustainable income rule of the Petroleum Fund with an annual ceiling for primary budget spending would greatly help to impart fiscal predictability and stability. Macroeconomic management would also be strengthened by measures to raise non-oil revenues in the economy through a broadening of the tax base and improved tax administration. Greater attention to the choice of public projects and their rate of return and improvements in the efficiency of public spending would help raise the rate of growth whilst promoting fiscal sustainability.

CPF Objective indicators	Supplementary Progress Indicators	Bank Group Program
1.1. Adherence to Fiscal rule Baseline: No rule in effect (2020) Target: Fiscal rule in operation for at least one year (2024).	**1.1.1. Fiscal rule adopted** Baseline: No (2020) Target: Fiscal rule defined and made operational (2022).	**Knowledge and Advisory Services:** - Timor-Leste Economic Report (TLER) FY19 - Public Expenditure and Financial Accountability Assessment (PEFA) FY20 - Timor-Leste Economic Report (TLER) FY20, FY21, FY22, FY23, and FY24ountry Economic Memorandum (CEM) FY21. - PEFA Assessment FY20 – IDA - Public Investment Management FY21 – IDA - Methodology for Assessing Procurement Systems (MAPS) FY21 - IDA **Financing:** - Economic Reform and Public Financial Management Reform DPO FY22
1.2. Medium Term Fiscal Framework operational Baseline: No (2020) Target: Yes (2024)	**1.2. 1. Fiscal deficit (% of non-oil GDP)** Baseline: 27 % (2018) Target: 6 % (2024)	
1.3. Appraisal of public investment projects adhering to good-practice standards. Baseline: zero (2017) Target: 60% (2024)	**1.3.1. Reduced variance (in expenditure composition outturn) by function** Baseline: 11% (2017) Target: 5% (2024)	
1.4. Improved budget execution Ratio to expenditure to budget allocation Baseline: 86% (2017) Target: 95% (2024)	**1.4.1. Reduced variance (in expenditure composition outturn) by economic type** Baseline 10% (2017) Target: 5% (2024)	
1.5. External audit functioning to good practice standards Baseline: Weak external audit functioning (2020) Target: Implementation of INTOSAI/ISSA audit standards (2024)	**1.5.1. Creation of a separate tribunal or court to handle audit matters (2021)**	
1.6. Strengthen procurement system Baseline: No systematic assessment of the public procurement framework exists (2019) Target: A good practice legal and regulatory framework governs public procurement reforms and a well-functioning M&E system is in place. (2023)	**1.6.1. Good-practice procurement law drafted (2020)** **1.6.2. Comprehensive assessment completed using MAPS-II tool. Strategic roadmap for reforms prepared. (2021)** **1.6.3. A robust procurement M&E system is implemented to capture all public procurement transactions in the country. (2022)**	

CPF Objective 2: Enhance conditions for private investment and promote financial inclusion

Intervention Logic: Private sector-led and inclusive growth requires deepening financial inclusion and strengthening the legal foundations of a market economy. Reduced borrowing costs and increased access to finance is key to MSMEs expansion, especially for the two-thirds of MSMEs that are women-owned. With a vast number of the population rural based, increasing access to finance in the agriculture sector will also be promoted. Greater mobile phone penetration can also spur use of digital finance.

CPF Objective indicators	Supplementary Progress Indicators	Bank Group Program
Increase access to Finance for MSMEs: **2.1. Number of micro loans outstanding in Financial Institutions supported by IFC** Baseline: 12,462 (2017) Target: 15,179 (by 2023) **2.2. Women borrowers in Financial Institutions supported by IFC** Baseline: 9663 (2017) Target: 13,000 (2024)	**Promote Financial Inclusion:** **2.1.1. New bank accounts opened in Financial Institutions supported by IFC** Baseline: Zero (2019) Target: 10,000 (2024)	**Knowledge and Advisory Services:** - Private Sector Assessment as a part of the CEM (FY20) - Digital Finance Advisory Services FY21 (IFC) - Digital Economy/Government Assessment FY22 (IDA) **Financing:** - Inclusive Finance FY20 (IFC) - IFC Partial Credit Guarantee Operation – FY23 (tentative)
CPF Objective 3: Promote economic diversification through agri-business and tourism development		
Intervention Logic. Changing Timor-Leste's current growth model would require well targeted policies and programs to tackle constraints to private sector investment and productivity gains. Private investment will depend on addressing weaknesses identified in economy-wide and sector-specific diagnostics that will be conducted during the CPF period. Promising areas for greater private participation are agriculture and tourism.		
3.1. Commercialization of agriculture output (% of farm-households) Baseline: 47 (2014) Target: 66 (2024)	**3.1.1. Farm productivity (dollars/ha)** Baseline: 6650 (2014) Target: 7640 (2022) **3.1.2. Gender-gap in farm productivity (% lower for women)** Baseline: 15 (2014) Target: 10 (2022)	**Knowledge and Advisory Services:** - Investment Policy and Promotion FY22 (IFC) - Trade Facilitation and Food Safety Regulations FY20 (IFC) - Tourism Sector Assessment FY20 (IDA) - Niche value chain improvement FY24 (IFC) Tentative
3.2. Tourism Master Plan under implementation Baseline: No (2019) Target: Yes (2024)	**3.2.1. Tourism Master Plan developed** Baseline: No (2019) Target: Yes (2022)	**Financing:** Ongoing: - Sustainable Agriculture Productivity Improvement Project (SAPIP)
3.3. Average number of days to comply with business regulation Baseline: 20 (2018) Targets: 15 (2024)	**3.3.1. Number of firms that benefit from reformed licensing requirements** Baseline: 0 (2018) Target: 2,000 (2024)	New: - Tourism Development Project FY22 (IBRD) - Hotels Project FY22 (IFC) Tentative
Focus Area 2: Invest in human capital and service delivery		
The Bank Group will provide knowledge services and investments to assist the Government to strengthen policies, programs and institutions for human capital, public services, and social protection.		
CPF Objective 4: Strengthen human capital and promote gender equity		

Intervention Logic: Timor faces an urgent need to bolster human capital if it is to grow at its maximum potential. Low learning outcomes are explained by low pre-school enrolment, poor school infrastructure, lack of qualified teachers, and education governance. Chronic malnutrition remains high and more than half of all children aged under-five are stunted, which affects their physical and cognitive development. Low attainments in water quality, sanitation and hygiene standards lead to widespread waterborne diseases and have a grave impact on overall health; moreover, they lead to poor nutrient absorption, which is a cause of stunting and wasting. Rural populations still report very low levels of access to and use of health services, which are of low quality and mostly not resourced adequately. Further, climate hazards affect health through spread of endemic and epidemic climate-sensitive diseases and livelihoods as floods and drought cause food insecurity and malnutrition. Social protection plays a key role in helping poor and vulnerable households to Invest in human capital. Social assistance can provide much needed welfare support through the provision of cash transfers. Increasing the adequacy of Bolsa Da Mae and improving key aspects of its delivery systems will therefore provide direct income support for the poorest in the short term while helping households invest in health and education services for longer term improved human development outcomes.

CPF Objective indicators	Supplementary Progress Indicators	Bank Group Program
Improvement in nutrition intake:		**Knowledge and Advisory Services:** - PASA Improving Quality of Education in Timor-Leste Ongoing - Public Expenditure Review (PER) covering education, health and stunting FY20 (IDA) - Multi-sectoral ASA on Health, Nutrition and Stunting FY20 - Social Protection Review FY20 - Poverty and Welfare Monitoring FY20 and FY21 (IDA) - Human Development Strategy FY21 - PPP Advisory for Health Diagnostic Services FY22 (IFC) - Affordable Housing PPP (FY23) - IFC
4.1. Coverage of micronutrient for pregnant women (Iron Folic Acid supplementation) Baseline: 85.2% (2016) (Source: TLDHS, 2016) Target: 90% (2024)	**4.1.1. Exclusive breastfeeding coverage** Baseline: 50% (2016) (Source: TLDHS, 2016) Target: 55% (2022)	
4.2 Increased number of households having access to safe drinking water Baseline: 75% (2014) Target: 98% (2024)	**4.2.1. Increased number of households having access to improved sanitation** Baseline: 57% (2014) Target: 98% (2024)	
Improvement in learning outcomes:		
4.3. Reading comprehension (share of questions answered correctly in an EGRA test for 2nd graders)[74] Baseline: 40 % (2017) Target: 50% (2024)	**4.3.1. Primary completion rate (UNESCO definition – gross intake ratio last grade of primary education)** Baseline: 80% (2016) Target: 90% (2024)	
	4.3.2. Teachers use of new curriculum in classroom Baseline: 70 % (2017) Target: 95% (2024)	**Financing:** - Water Supply and Sanitation Project FY20 (IDA) - Basic Education Strengthening and Transformation FY20 (IDA) - Education/Human Capital Quality and Governance FY23 (IDA)
Increased access to employment for women:		
4.4. Number of female teachers recruited or trained Baseline: 3,895 (2018) Target: 4,895 (2024)		
4.5. Percentage of women working on routine maintenance activities of multi-year maintenance contracts under the Branch Road Project (FY20) Baseline: 0 (2019) Target: 30 (2024)		

[74] Reading comprehension relates to the number of correct answers on the comprehension sub-domain (and not on the overall number of questions answers).

Increased adequacy of social assistance: **4.6. Benefit level of Bolsa Da Mae (as % of mean beneficiary household expenditure for beneficiaries per year).** Baseline: 4 (2014-2018) Target: 15 (2024)	**4.6.1. Registration of existing and new Bolsa Da Mae beneficiary households** Baseline: no regular registration of new and existing beneficiary households (2018) Target: Annual registration of new and existing beneficiaries (2024) **4.6.2. Payment schedule of Bolsa Da Mae** Baseline: payments are delivered once a year (2018) Target: payments are delivered at least twice a year (2024)	
Focus Area 3: Raise productivity through investments in connective infrastructure		
The Bank Group will assist the government to raise economy-wide productivity through policy reforms and investments in connective infrastructure, focusing on the digital economy and the transport sector.		
CPF Objective 5: Improve access and quality of connective infrastructure in digital and transport sectors.		
Intervention Logic. Digitalization is an essential pillar of private sector development and raised standards in governance, particularly in public service delivery. It is critical to raising business productivity and creating jobs and to implementing e-governance. Digital connectivity would lower logistical costs to the benefit of a highly import-dependent economy such as that of Timor-Leste. Today the country lacks reliable connectivity infrastructure, has low basic ICT literacy rates, and is short of digital skills. Investments in aviation and roads connectivity are critical to the shift to a private sector driven growth model by lowering costs and improving access to markets, goods, and services for communities.		
CPF Objective indicators	**Supplementary Progress Indicators**	**Bank Group Program**
5.1. Access to internet services Mobile broadband penetration: Baseline: 33% (2018) Target 70% (2024) **5.2. Fixed broadband penetration:** Baseline: 1.5% (2018) Target 20% (2024)	**5.1.1. New international optical fiber backbone communications infrastructure commissioned (2022)** **5.2.1. New entity to manage international backbone network established (2022)** **5.2.2. Regulations on open access and non-discriminatory pricing for wholesale internet bandwidth drafted (2021)**	**Knowledge and Advisory Services:** - TA on Digital Connectivity FY21 - IDA - Digital Economy/Government Assessment FY22 – IDA **Financing:** Ongoing: - Road Climate Resilience Project (RCRP) New: - Branch Road Project (FY20)[76] - $59 - IDA - Aviation Safety TA (FY21) - $20M - IDA - Second Roads Project (FY22) - $66M ($26M from IDA, $40M from IBRD)
5.3. Passenger car travel time on the Gleno –Maubisse corridor (minutes) Baseline 185 (2018) Target 110 (2024)	**5.3.1. Dili Road Loop[75] in good condition (percentage)** Baseline: 58 (2018) Target: 100 (2024)	

[75]The Dili Road Loop starts in Dili and goes South to Aituto, then turns West to Letefoho and then North to Gleno, from where it continues North to end back in Dili. Its distance is about 190 Kms.

[76]The Branch Road Project has a gender tag

ANNEX 2: LENDING OPERATIONS IDA/IBRD/TRUST FUND: PLANNED VS ACTUAL APPROVAL

Fiscal Year	CPS Planned	Amount (US$ Million)			Actual Approvals	Amount (US$ Million		
		IDA	**IBRD**	**Trust Fund**		**IDA**	**IBRD**	**Trust Fund**
FY14	Community Driven Nutrition Project			2.85	Community Driven Nutrition Project			2.85
FY14	Road Climate Resilience Project	25.0	15.0		Road Climate Resilience Project	25.0	15.0	
FY15	Building Climate/ Disaster Resilience Along Dili-Ainaro and Link Road Corridor			2.7	Building Climate/ Disaster Resilience Along Dili-Ainaro and Link Road Corridor			2.7
FY16	Tibar Bay Port Project							
FY17	Sustainable Agriculture Productivity Improvement Project (RE)			21.0	Sustainable Agriculture Productivity Improvement Project (RE)			21.0
FY17	Road Climate Resilience Project AF	36.0			Road Climate Resilience Project AF	36.0		
FY18	Branch Road Project							

ANNEX 3: ADVISORY SERVICES AND ANALYTICS

CPS Engagement Areas	CPS Planned ASA	Actual ASA
Focus Area 1: Service Delivery	- Improving the Quality of Education - Health Programmatic - Health Financing Option Paper - Human Resources in Health - Health PPP Nationwide Access to Diagnostic Service (IFC Advisory)	- Improving the Quality of Education (ongoing) - Health Financing Options Paper - Health PPP Nationwide Access to - Diagnostic Services (IFC) (ongoing)
Focus Area 2: Building Core Infrastructure	- Infrastructure Development and PPP - Telecommunication TA - Tibar Bay Port (IFC Advisory)	- Infrastructure Development and PPP (delivered) - Telecommunication (delivered) - Tibar Bay Port (IFC Advisory) - (delivered)
Focus Area 3: Economic Development	- Institutional Reform and Transformation of the MAF (RE) - Public Expenditure Review in Agriculture - Business Process Simplification (IFC) - Customs and Clearance Reform (IFC) - TRM Equity Advisory (IFC)	- Institutional Reform and Transformation of the MAF (RE) (delivered) - Public Expenditure Review in Agriculture (delivered) - Business Process Simplification (delivered) - Customs and Clearance Reform (IFC) (delivered) - TRM Equity Advisory (IFC) (delivered)
Cross-Cutting Area: Institutional Strengthening	- Economic Management and - Governance (PA) - Debt Management TA - Domestic Revenue Mobilization TA - Payment Infrastructure Establishment (IFC)	- Economic Management and Governance (delivered) - Debt Management TA (delivered) - Domestic Revenue Mobilization (cancelled) - PEFA Assessment and PFM TA

ANNEX 4: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

Indicator	FY16	FY17	FY18	FY19
Portfolio Assessment				
Number of Projects Under Implementation [a]	2	2	2	2
Average Implementation Period (years) [b]	5.3	6.1	8.1	9.8
Percent of Problem Projects by Number [a, c]	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount [a, c]	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number [a, d]	0.0	0.0	0.0	50.0
Percent of Projects at Risk by Amount [a, d]	0.0	0.0	0.0	50.0
Disbursement Ratio (%) [a]	23.6	45.1	15.9	17.7
Project Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

		As of Date 06/30/2019
Memorandum Item	**Since FY80**	**Last Five FYs**
Project Evaluation by IEG by Number	27	2
Project Evaluation by IEG by Amt (US$ millions)	38.0	5.5
% of IEG Projects Rated U or HU by Number	63.0	100.0
% of IEG Projects Rated U or HU by Amt	80.4	100.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 5: TIMOR-LESTE OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS)

Active Project

		Last PSR Supervision Rating			Original Amount in US$ Millions						Difference between Expected and Actual Disbursements
Project ID	**Project Name**	**Development Objective**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**Grants**	**Cancel**	**Undisb**	**Orig**	**Frm. Rev'd**
P125032	Timor Leste Road Climate Resilience Project	MS	S	2011	15.00	60.56	20.00	0	34.56	-34.9	8.8
P155541	Sustainable Agriculture Productivity Improvement Project	MU	MU	2017			21.00	0	17.29	-10.0	
Overall Result					15.00	60.56	41.00		51.85		

Closed Project	28
IBRD/IDA	
Total Disbursed (Active)	59.26
Of which has been repaid	0.41
Total Disbursed (Closed)	0
Of which has been repaid	0
Total Disbursed (Active + Closed)	59.26
Of which has been repaid	0.41
Total undisbursed (Active)	34.56
Total Undisbursed (Closed)	0
Total Undisbursed (Active + Closed)	34.56

* Disbursement data is updated at the end of the first week of the month.
a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

ANNEX 6: TIMOR-LESTE: STATEMENT OF IFC HELD AND DISBURSED PORTFOLIO

As of 07/31/2019 (In USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY13	TRM	0.5			0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY16	KIF	1.00	0.25	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.00
Total Portfolio:		**1.50**	**0.25**	**0.00**	**0.00**	**0.00**	**0.00**	**0.25**	**0.00**	**0.00**	**0.00**

ANNEX 7: DEVELOPMENT PARTNERS IN TIMOR LESTE: AREAS OF FOCUS

Development Partners	Economic Growth and Private Sector	Human Capital and Service Delivery	Infrastructure and Connectivity
JICA	• Increasing Farmers Households' Income through Strengthening Domestic Rice Production project • Promoting Agribusiness by Rural Women project	• Construction of New Buildings for the Faculty of Engineering, Science and Technology of the National University of Timor-Leste	• The National Road No.1 Upgrading Project • Construction of Upriver Comoro Bridge project • Urgent relocation of Ferry Terminal in Dili Port project
ADB	• Policy and Planning for Public Investments • Fiscal Policy for Improved Service Delivery • Capacity for Regional Economic Integration	• Policy and Planning for Skills Development in Secondary Education • Timor-Leste: Mid-Level Skills Training Project	• Preliminary Assessment for Dili Airport Runway Upgrading Project • Baucau to Viqueque Highway Project • Dili to Baucau Highway Project • Electricity System Strengthening and Sustainability Program • Road Network Upgrading Sector Project
USAID	• Avansa Agrikultura Project • Increasing Community Resilience in Oe-Cusse • Tourism for All	• The Consortium for Elections and Political Process Strengthening Project • Customs reform project • Reinforce Basic Health Services	
DFAT	• TOMAK (To'os ba Moris Diak) – Farming for Prosperity • Market Development Facility	• Workforce Development Program • Partnership for Human Development • Basic Education • Health Program • Water and sanitation • Hamutuk – Nutrition Collective Impact Pilot • Ending Violence Against Women in Timor-Leste • National Village Development Program (PNDS) and PNDS Support Program • Governance for Development	Roads for Development Program

Development Partners	Economic Growth and Private Sector	Human Capital and Service Delivery	Infrastructure and Connectivity
EU	• Global Climate Change Alliance support program to Timor Leste (closed) • Partnership for Sustainable Agroforestry (PSAF) • Conservation Agriculture • Support to Circular Economy • EIB Support to Micro-finance in TL	• Partnership for Improving Nutrition in TL - EU and UNICEF help mothers to tackle malnutrition through support of the Ministry of Health to deliver services • Spotlight Initiative – A joint EU-UN Global Initiative to Eliminate VAWG • Support for De-concentration and Decentralization (to start at the end of 2019)	
KOICA		• Integrated neglected tropical disease control and elimination program • Establishment National institute of Fisheries and Aquaculture project • Safe Pregnancy and Birth program • Youth Learning Center • Integrate Water development Project	
NZAID	• Increase economic and food security benefits from agriculture • Increase economic and food security benefits from sustainable fisheries and aquaculture	• Improve knowledge, skills and basic education	
GIZ	• Promoting employment opportunities for disadvantaged groups in the agroforestry sector • Improved Employability and Income-Generating Opportunities for Marginalized Groups in Timor-Leste • Support to Peaceful Development through Innovative Employment Promotion • Supporting the maritime sector of Timor-Leste	• Rural Development Program (RDP) – financed by EU (ended in 2015) • Managing Agro-Biodiversity for Sustainable Livelihoods • Global Climate Change Alliance Program Timor-Leste (GCCA-TL) – financed by EU (ended in 2018) • AND PEACE • Peace development, youth promotion and fight against corruption	

Development Partners	Economic Growth and Private Sector	Human Capital and Service Delivery	Infrastructure and Connectivity
UNDP	• Mobilize Social Business to Accelerate Achievement of Timor-Leste	• Building shoreline resilience of Timor-Leste to protect local communities and their livelihoods • Strengthening Community Resilience to Climate-induced disasters • Institutional Development Support • Justice System Program • Capacity Building Support to Policia National. • Consolidating the Democratic Rule of Law and Peace through a strong Justice System	
UNICEF		• Child Survival and Child Development • Quality Education • Child Protection and Child Participation • Social Inclusion	
UN WOMEN		• Gender-Responsive Planning and Budgeting • Women in Politics • Women, Peace and Security	
ILO		• ERA Agro-Forestry Project • Livelihoods enhanced through labor-based road project • Training and Employment Support Program	• Rural Road for Development (R4D) – Phase II
FAO	• Support to renewal, realignment and development of Timor-Leste's cash crop economy, particularly the coconut industry and the coffee industry	• Support to improvement of institutions and coordination mechanisms for policies, laws and regulations and programs and plans to ensure 100% equitable year-round access to adequate, nutritious and affordable food for all • Support to first Timor-Leste agriculture census and enhanced capacity for statistics, information and knowledge management systems for agriculture sector and food and nutrition security • Support to smallholder fishing and aquaculture households to become more resilient in the face of climate change and to sustainably improve their livelihoods and free themselves from hunger and malnutrition	

Development Partners	Economic Growth and Private Sector	Human Capital and Service Delivery	Infrastructure and Connectivity
WHO		• Timor-Leste Eliminates Leprosy as a Public Health Problem • Prevention of Dengue during the Rainy Season • WHO Goodwill Ambassador for the Human Rights of People Affected by Leprosy visits Timor-Leste • H1N1 • Communicable Diseases – National TB Control Program in Timor-Leste • Malaria control Program • External Review of the National Malaria Control Program in TLS • National Malaria Control Program	
Portugal (Camoes, I.P)	• Cooperation in the water and sanitation sector • Industrial Property Cooperation Project • Rural Extension Program • Rural Development Program	• Provide teachers training (basic education) • Continuous teacher training • Scholarships (in Portugal and Timor-Leste higher education) • Cooperation with the National University of Timor –Leste (Portuguese Language Center) • Media training and capacitation • Collaboration in the areas of medical emergency • Improve eye care in Timor-Leste • Provide support in key areas for good governance, such as justice and public finances • Development and strengthening of the Legal System • Management and Qualification of Human Resources • Support for the services of the Ministry of Social Solidarity (social protection and inclusion) • Support for the reinforcement and management of security systems • Police Technical Cooperation Program • Military Technical Cooperation Program	• Cooperation of the National Civil Engineering Laboratory with Timor-Leste

Development Partners	Economic Growth and Private Sector	Human Capital and Service Delivery	Infrastructure and Connectivity
WFP	• Technical Assistance for Local Production of Fortified Blended Foods by Private Sector	• Provide Nutritious Food and Raise Awareness Through Social and Behavior Change Communication, with a strong focus on under-5 years children, pregnant and lactating women, adolescent girls and boys. • Provide technical assistance for the implementation of food fortification strategies with focus on rice fortification. • Provide Technical Assistance to Strengthen the Performance of Food-based Safety Net Programs – targeting supplementary feeding program, school feeding, social assistance, emergency preparedness and supply chain management.	

ANNEX 8: TIMOR-LESTE COUNTRY PARTNERSHIP STRATEGY FOR FY 2013-2018 COMPLETION AND LEARNING REVIEW

I. Introduction[77]

A. Purpose

The aim of this CLR is to draw lessons that would be useful in the formulation and implementation of the future World Bank Group (WBG) Country Partnership Framework (CPF) for Timor-Leste. This objective will be pursued through WBG's self-evaluation of the design, implementation, and effectiveness of the current Country Partnership Strategy CPS (FY13-FY18) in meeting its stated development objectives. The CPS objectives and program were updated in the Performance and Learning Review (PLR, June 2016).[78]Furthermore, the assessment includes analysis of WBG performance and implementation during FY19 as the new Country Partnership Framework will only be approved and be valid from FY20. Due to country circumstances, no new operations were approved in FY19. The self-evaluation also assesses the extent to which the WBG exploited the potential synergies between the World Bank (WB) and the International Finance Corporation (IFC) and leveraged its financial resources, advisory services and analytics as well as convening services to maximize the achievement of development outcomes envisioned under the CPS.

B. Timing of the CPS

The CPS was formulated at a time of relative political stability, high government revenues (mostly from oil and gas) and rapid expansion in the state budget, thus, putting immense pressure on the weak Public Financial Management (PFM) system. The shift from the Interim Strategy Note (ISN) (2010-2011) to a full CPS in 2013 was timely, as it coincided with Timor-Leste's successful transition to a new democratic government and approval of the 2011-2030 Strategic Development Plan (SDP). Timor-Leste achieved lower middle-income status in 2006 and hit the highest GNI per capita level (US$3,630) it ever attained in 2013[79]. At this point, it graduated from being an IDA grant eligible country to a blend country with access to IDA credits (no grants) and IBRD loans. The CPS faced a challenging implementation context, as economic performance and revenue levels started to decline after 2013. Political conditions remained stable for most of the CPS period until the July 2017 elections. The election was peaceful and well-organized, but the absence of a clear winner created a prolonged political stalemate. The political stalemate was resolved by the President's decision to dissolve the Parliament and call for early elections in May 2018, which resulted in the formation of the VIII Constitutional Government in June 2018. The political uncertainty that followed the 2017 elections resulted in sharp decline in public spending and contraction of the economy during FY18.

C. Findings of Self-Evaluation and Ratings

The overall achievement of CPS outcome is rated Moderately Satisfactory (MS). Out of the seven CPS outcomes, three were Achieved (A), two were Mostly Achieved (MA) and the remaining two were

[77]This Completion and Learning Review (CLR) was prepared by Macmillan Anyanwu, under the guidance of Rodrigo Chaves, with contribution from members of the Timor-Leste Country Team.

[78]The CPS was approved in February 2013. The PLR was completed in June 2016 and it extended the CPS period by one year (FY13-FY18) to align with the government's political and development programming cycle.

[79]https://data.worldbank.org/country/timor-leste. Retrieved on July 1, 2019.

Partially Achieved (PA). Focus Area 1: Improving the Management and Delivery of Basic Services (Service Delivery) was rated MS. The Second Chance Education Project (SCEP) achieved all the targets set for improved quality of the Equivalency Program (EP); however, the sustainability of the EP remained a concern, as government's investment in the EP continued to decline. The results for the nutrition intervention were rated PA. Focus Area 2: Building Core Infrastructure was rated Satisfactory (S). WB and IFC efforts resulted in increased private sector investment in seaport infrastructure and a better policy and regulatory environment for telecommunication and ICT. The CPS's outcome indicator targets for improving road conditions and sustainability of road investments was rated MA. This performance was adversely affected by delayed implementation of the Road Climate Resilience Project (RCRP). Focus Area 3: Supporting Economic Development for a Non-Oil Economy (Economic Development) was rated MU despite substantial improvements in the ease of doing business (the target was not met) and trading across borders. The delayed implementation of the Sustainable Agriculture Productivity Improvement Project (SAPIP) and the poor performance recorded in the effort to improve access to finance adversely affected the rating.

The WBG performance was rated Good on the design and relevance of the CPS, and the implementation of the CPS program was rated Good. The CPS focus areas were well aligned with government's strategic priorities; however, program was ambitious, and the results framework had shortcomings. There was good collaboration within the WBG, and with other development partners. The knowledge program was focused mainly in areas where the Bank has comparative advantage, and in some cases, it helped inform lending operations. The quality of the portfolio was satisfactory, and risks were adequately mitigated. At the PLR stage, the proposed investment program was streamlined, and the results framework was strengthened. However, in a couple of instances, it was difficult to attribute the achievement of some indicators to WBG efforts because of the modest scope of interventions in the CPS.

II. Progress Toward CPS Development Outcomes

Table A. **Summary of Timor-Leste CPS (FY13-FY18) Results Matrix Evaluation**

CPS Outcomes	Overall Outcome Rating	Outcome Indicator Ratings				Total # of Indicators
		Achieved	Mostly Achieved	Partially Achieved	Not Achieved	
Focus Area 1: Service Delivery - Moderately Satisfactory (MS)						
1. Improved quality of equivalency program	**Achieved**	3				3
2. Improved infant and maternal nutrition practices in the poorest communities	**Partially Achieved**	1			1	2
Focus Area 2: Building Core Infrastructure - Satisfactory (S)						
3. Improved road conditions and sustainability of road investment	**Mostly Achieved**		2			2
4. Increased private sector investment in seaport infrastructure	**Achieved**	1				1
5. Improved regulatory framework and increased access to ICT	**Achieved**	2				2
Focus Area 3: Economic Development - Moderately Unsatisfactory (MU)						

CPS Outcomes	Overall Outcome Rating	Outcome Indicator Ratings				Total # of Indicators
		Achieved	Mostly Achieved	Partially Achieved	Not Achieved	
6. Improved sustainable agriculture productivity	**Partially Achieved**		1		1	2
7. Improved business environment	**Mostly Achieved**	1	1		1	3
Overall Outcome Rating		***8***	***4***	***0***	***3***	***15***
Percentage of each rating level		***53%***	***27%***	***0%***	***20%***	***100%***

Focus Area 1: Service Delivery

Rating: Moderately Satisfactory (MS)

The achievement of objectives of Focus Area 1: Service Delivery is rated MS, with 4 out of 5 performance indicator targets met. The WBG contributed to government's effort to improve the quality of human capital in two key areas: (i) improving the quality of the Equivalency Program (EP) for out-of-school youths and young adults; and (ii) tackling the problem of malnutrition by improving infant and maternal nutrition practices in the poorest communities.

Outcome 1: Improved Quality of Equivalency Program

Improvements in the quality of the Equivalency Program (EP) has been achieved, with all three performance indicator targets met. The WB[80] supported the Ministry of Education, Youth and Sports (MOEYS) to develop the policy and legal framework for establishing the EP. There were no teachers, no pedagogic staff, and no Community Learning Centers (CLCs) when the EP was established. It met its target to establish and equip 9 CLC, developed curriculum and learning materials. It also met its to recruit and train 139 teachers and 20 pedagogic staff[81]. A total of 1,670 students benefited from the EP, comprising 1,328 and 342 Level I and II students respectively – about 55 percent of Level I and 70 percent of Level II students were females[82]. The WB's intervention laid a solid foundation for the sustainability of the EP by helping to put in place the necessary legal and regulatory frameworks, certification and accreditation processes, EP curriculum and CLC manuals, and increased capacity of the National Directorate for Recurrent Education (NDRE). MOEYS allocates about US$11,000 in its budget annually to each of the 9 CLCs[83]. The initial plan by government to establish an additional 10 CLCs in 2017 and 2018 did not materialize because of the change in government and the political stalemate that delayed the passage of the budget. The WB, through the IDA grant-funded Education Management Strengthening project, helped to improve transparency and efficiency in financial, procurement and human resources management in the MOEYS[84]. The WB also helped to strengthen policy formulation and analytical capacity in the MOEYS through TA and ASA support for the delivery of the Early Grade Reading Assessment (EGRA) report, completion of the Education Sector Analysis (ESA), and subsequent development of the education sector plan.

[80]Through the IDA grant-funded Second Chance Education Project (SCEP).

[81]The Equivalency Program (EP) Decree Law (*Decreto-Lei No. 30/2016*) was approved by the Council of Ministers (COM) in April 2016 and promulgated into law by the President in July 2016. The law gave the National Directorate for Recurrent Education (NDRE) (formerly Directorate for Adult Education and Non-formal Education – DNEAENF) the mandate to manage and regulate the EP.

[82]Implementation Completion and Results (ICR) Report for Timor-Leste: Second Chance Education Project (IDA-H6330); The World Bank, June 2017.

[83]Education Sector Analysis (ESA) in Timor-Leste (2018) - GPE-funded report, Ministry of Education/World Bank

[84]Performance and Learning Review (PLR) of Timor-Leste Country Partnership Strategy (CPS) (FY2013-FY2017; The World Bank, March 2016.

Outcome 2: Improved Infant and Maternal Nutrition Practices in the Poorest Communities

Improvements in infant and maternal nutrition practices in the poorest communities has been partially achieved. The national level of malnutrition and stunting remains very high, despite substantive progress made in improving infant and maternal nutrition practices in targeted rural communities across 49 sucos in Baucau and Viqueque municipalities[85]. Although CDNIP did not achieve its target of 75 percent (it achieved only 70 percent)[86] for the proportion of children between 0-6 months of age who are exclusively breastfed, the project recorded a significant increase in exclusive breastfeeding of children 4-5 months from 42% to 76%. In addition, the proportion of children fed with breast milk within the first hour of birth improved from a baseline of 65% to 77% at the end of the project. The project helped to increase awareness of issues of malnutrition at the community level, encouraged change of dietary practices in households, and empowered women (mothers) to make better decisions about breastfeeding, infant nutrition practices and managing their children's illness (e.g. diarrhea)[87].

More time and effort are required to change old family beliefs and behaviors relating to the management of child illnesses e.g. diarrhea. CDNIP activities contributed to an increase in the proportion of children between the ages of 6-24 months receiving all 3 minimum infant and young child feeding practices (breastfeeding, dietary diversity and meal frequency) from 3.10 percent to 18 percent (exceeded the target of 3.25 percent). It also contributed to an increase in the proportion of mothers of children under two years of age who consumed iron-rich foods from 15.4 percent to 37 percent (above the target of 20 percent). Many families still believe that giving their children more food when they have diarrhea will worsen the sickness. They give their children only fluid or Oral Rehydration Salt (ORS) whenever they have diarrhea. Thus, the project did not achieve its target of having at least 59 percent of children between 0-24 months, who were fed (in addition to ORS), when they suffered from diarrhea. The WB's support for the nutrition/stunting agenda has continued and the policy dialogue has been raised to a higher level.

Focus Area 2: Building Core Infrastructure

Rating: Satisfactory (S)

The achievement of objectives of Focus Area 2: Building Core Infrastructure is rated S. The WBG contributed to government's effort to lay the foundation for economic growth and diversification, reduce the cost of movement of people and goods, and improve access to services and markets by building connective infrastructure.

Outcome 3: Improved Road Conditions and Sustainability of Road Investment

The targets set for the 2 indicators of improvements in road conditions and sustainability of road investments have been mostly achieved. There has been significant improvement in the road conditions, with about 78.51km out of the 110km Dili-Ainaro rehabilitate[88]. Project implementation was delayed because of changes in the scope of the project, longer than normal rainy season, and slow

[85]Through the US$2.85 million Community-Driven Nutrition Improvement Project (CDNIP); a Bank-Executed Trust Fund from the Japanese Social Development Fund (JSDF). A 4-year project implemented by Catholic Relief Services

[86]The baseline and target were revised in 2016 from a baseline of 52% to 71.3% and target of 60% to 75%.

[87]Implementation Completion and Results (ICR) Report for Community Driven Nutrition Improvement Project (P145491); The World Bank, March 2019.

[88]Through the US$96 million IDA/IBRD funded Road Climate Resilience Project (RCRP). The roads corridor was divided into five Lots: Lot 1 (10 km); Lot 2 (22.62 km); Lot 3 (29.47 km); Lot 4 (24.75 km); and Lot 22.65 km). Civil works on Lots 1 and 3 are 100 percent completed, while Lots 4 and 5 have reached 92.94 and 70.87 percent completion levels respectively. Work will start on Lot 2 in June 2019.

implementation of the resettlement plan. Thus, only 66 percent (below the target of 90 percent) of the roads are in good condition and only about 69 percent (below the target of 90 percent) of drainage on the road corridor are in good condition. Meanwhile, the project introduced good measures to enhance road safety e.g. installation of rumble strips and road safety signages near schools, villages and housing clusters. It helped to build government's capacity to implement resettlement action plans and standardized compensation payment procedure. It also piloted the use of a two-year Performance Based Management (PBM) contract in Lot 1 to ensure sustainability of road investments through regular maintenance; however, heavy rains, landslides and earth movements have caused severe damages and deep depressions in some parts of Lots 1 and 3[89].

Communities contributed significantly to efforts to ensure sustainability of road investments and building resilience to climate and disaster risks. The effort of RCRP was complemented by the activities of a Disaster Risk Management (DRM) project in communities along the Dili-Ainaro roads corridor[90]. The project facilitated the training of about 780 officials and community members from 26 sucos to strengthen their capacity to develop and implement community-based disaster risk management and adaptation plans. It also identified and supported about 90 small scale investments (exceeding target of 30 subproject) to address DRM risks in 27 sucos across four municipalities. These investments include: installation of gabions to prevent landslides, culverts and drainage to prevent erosion and flooding, construction of evacuation roads and rehabilitation of wind damaged schools, as well as installation of emergency water supply systems around evacuation centers. More than 59,000 people benefited from these projects and more than 45 percent (exceeding target of 25 percent) of them were women. The community-driven approach used to implement these investment projects helped to develop local skills in disaster resilience, small-scale construction and maintenance that may be useful in supporting future road maintenance and emergency repairs.

Outcome 4: Increased Private Sector Investment in Seaport Infrastructure

The target for private sector investment in seaport infrastructure has been achieved, reached $148 million, surpassing the set target of $100 million. The Tibar Bay Port Public-Private Partnership (PPP) project was successfully bid out to a private operator in November 2015 and reached financial closure in August 2018 and construction of the port has since started. The successful implementation of the project will make it the largest private investment in the country outside the oil and gas sector.

The synergy between the WB and IFC was fully exploited in the preparation of the Tibar Bay Port PPP project. As the transaction advisor, IFC helped build capacity in key institutions and created awareness and understanding of the project by engaging with local communities, civil society, and the Parliament. IFC also delivered intensive environmental and social scoping to ensure project implementation will be in-line with IFC performance standards. IFC also supported the government to create the necessary legal framework for project. Regimes around exclusivity, termination, handover and other issues were crafted to balance the interests of the Government and the market[91]. The WB provided technical assistance to government and built its capacity to design and implement PPPs in the infrastructure sector. Some of the key achievements include: (i) building overall capacity in the PPP unit at the MOF; (ii) developing eligibility criteria to screen pipeline infrastructure projects in construction, health, water, electricity and education sectors; (iii) identifying the need to support the government in managing the impact of the transfer of cargo and container operations to Tibar Bay Port from the Dili Port; (iv) developing the

[89]Interim Implementation Status and Results (ISR) Report for Timor-Leste Road Climate Resilience Project (P125032), Sequence 17 submitted on May 9, 2019.

[90]Building Climate/Disaster Resilience Along the Dili-Ainaro and Linked Road Corridors funded by US$2.7 million from PHRD grant.

[91]Tibar Bay Port PPP project won the IJGLobal Asia Pacific PPP Deal of the Year Award for in March 2019. IJGLobal is a Project Finance and Infrastructure Journal.

standard operating procedures in PPP contracts based on the example of the Tibar Bay Port PPP; and (v) developing a process to access the cost of using proceeds of the Petroleum Fund to finance public components of PPPs and leverage such funds to obtain the most competitive funding package.

Outcome 5: Improved Regulatory Framework and Increased Access to ICT

Improved regulatory framework has been achieved. The WB supported the Ministry of Transport and Communication (MTC) to prepare a draft Information and Communication Technology (ICT) policy, following consultations with relevant government agencies, CSOs and the private sector. The policy addressed issues around digital literacy, connectivity, digital economy and e-government. In addition, the Bank supported the MTC to prepare an issues/policy paper advocating for the establishment of a national agency that would be responsible for coordinating the development of ICT across government. The Council of Ministers adopted the paper in 2017 as the national ICT policy and established Tecnologia da Informacao e Comunicacao (TIC) (https://ict.gpm.gov.tl/) under the Prime Minister's office; as the coordinating agency for ICT. This was a significant step towards adopting a "whole of government" approach to digital development. TIC has requested further assistance from the WB to formulate a Decree Law on ICT enabled development, to finalize key legislation on electronic transactions, data protection and cybersecurity, and to implement its medium-term strategy for digital development.

Increased access to ICT has also been achieved. More people in Timor-Leste now have access to mobile networks, basic mobile telephony and data services. Mobile penetration rate rose to about 98 percent during the CPS period, surpassing CPS target of 80 percent. Investments in mobile broadband are increasing, resulting to improved internet access for government, households and businesses. Affordability of basic telecommunication services also improved because of competition resulting from improved regulatory environment for investments in telecommunications infrastructure and widespread access to telecoms and internet services. The WB's advisory services contributed to the achievement of these results by facilitating market liberalization of the telecommunication sector, which was completed at the beginning of the CPS period[92]. The WB also supported the government to enact a new decree law, established an independent regulator[93] and issued telecommunication licenses to two new entrants in 2012. The key market players[94] have invested substantially in new infrastructure resulting in dramatic improvements in access to basic telecommunication mobile services; however, there is still a need to accelerate the availability of affordable and reliable high-speed internet connectivity by installing new optical fiber backbone cable(s) infrastructure.

Focus Area 3: Economic Development

Ratings: Moderately Unsatisfactory (MU)

The achievement of the development outcome of Focus Area 3: Economic Development is rated MU. The CPS supports government's effort to boost sustainable agriculture production, particularly in rural areas, and promote private sector development by supporting reforms to improve the business and investment environment. The two outcomes under this focus area were both Partially Achieved (PA). Only 1 out of 5 performance indicator targets was achieved, 2 targets were partially achieved and the remaining 2 were not achieved.

[92]After a 10-year period of monopoly service provision.

[93]Autoridade Nacional de Comunicacoes

[94]Timor Telecom, Telemor, and Telkomcel

Outcome 6: Improved Sustainable Agriculture Productivity

Improved sustainable agriculture productivity has been partially achieved. The WB relied greatly on the Sustainable Agriculture Productivity Improvement Project (SAPIP) in its strategy for improving sustainable agriculture productivity[95]. The delayed implementation of SAPIP undermined the achievement of this outcome. SAPIP is supporting the Ministry of Agriculture and Fisheries (MAF) in four geographical areas, focusing on watershed management planning, agricultural development planning, support for small farmers to increase production and productivity, and support for small-scale processing and marketing. About 16,500 households will benefit directly from this initiative, which will also provide training for nutrition, processing, and small-scale enterprise development. The project also supports MAF in developing institutional capacity for sector planning and monitoring. In two of the four project areas, watershed management plans have been prepared by local communities, facilitated by service providers hired by the project. In each of the sucos within the two watersheds, agriculture development plans have been prepared, identifying activities related to protection/restoration measures, agriculture production and income generation. Farmer groups have been formed in many of the sucos within the initial two watersheds, and proposals for technical support are being prepared and this will trigger the next stage of support.

Outcome 7: Improved Business Environment

The targets for improving business environment has been mostly achieved[96]. The WBG supported government's effort with interventions aimed at streamlining business registration and licensing processes, improving access to finance and facilitating cross-border trade. Timor-Leste now ranks 68 out of 190 on the ease of starting a business (up from 154 in 2014, when WBG initiated business registration project)[97], following the creation of the Servico de Registo e Verificacao Empresarial (SERVE), a one-stop-shop for new business registration. The introduction of SERVE streamlined start-up processes, with tax registration, licensing and business registration following a unified single process in a single office. This reduced the time it takes to register a business in Timor-Leste from 103 days in 2013 to about 13 days, slightly above the CPS target of 5 days. It also introduced free of charge new business registration, eliminated the requirement to hold a business license for about half of all businesses and introduced a simple regime for sole traders to register a business. SERVE extended its services to 44,497 clients, out of which 33 percent were female entrepreneurs. IFC is continuing to provide capacity building to SERVE to ensure sustainability of reforms. Building on the business registration reform, IFC is supporting the Ministry of Legal Reforms and Parliamentary Affairs (MLAP), SERVE and other relevant institutions to review and streamline the processes for issuing sectoral licenses. Despite these successes, overall, the business environment remains very weak, ranking 178 out of 190 countries (DB 2019) and performing below the regional average on contract enforcement, property registration, access to finance, resolving insolvency and dealing with construction permits.

The targeted increase in access to finance has not been achieved – only 6 percent of the population own a loan account. Seventy percent of the population lives in rural areas relying on subsistence agriculture as the main source of their livelihood. IFC's investment and advisory services focused on supporting this significant portion of the population through its partnership with two Micro-Finance Institutions (MFIs) to increase access to financial services in rural areas. The MFIs' operations and internal systems were upgraded to comply with new supervisory requirements issued by the Central Bank.

[95]SAPIP is a US$21 million investment operation funded by grant from the Global Agriculture and Food Security Program (GAFSP). It is a six-year project, currently in its third year of implementation. The project's M&E system is currently being operationalized and results reporting will commence after the system is fully functional.

[96]Out of 3 performance indicator targets, 1 was achieved, 1 was mostly achieved, and 1 was not achieved.

[97]Doing Business 2019 Report; World Bank Group, 16th Edition.

Both embarked upon transformation programs, upgrading policies, systems and operational capacity and have improved governance, risk management and performance to become eligible as a regulated financial institution. One of the MFIs, Tuba Rai Metin (TRM), now Kaebauk Investimentu no Financas (KIF), met all the requirements and was licensed as an "Other-Deposit-Taking Institution—ODTI" in 2015. With support from IFC, KIF has experienced significant growth, from a portfolio of $2.34 million, serving 7,211 customers in 2013 to a portfolio of US$16.14 million, serving 13,610 clients - 83% of whom are in rural areas and 72% are women—in 2018. The transformation process of Moris Rasik, the second MFI, has been slower, and they were licensed as ODTI by the Central Bank only in May 2018. An agriculture product has been piloted in each MFI, but it requires stronger links to agriculture producers and careful product development to scale up. Nevertheless, with support from IFC, KIF has been increasing its lending to agriculture sector to over $1.6 million serving 2,564 customers by 2018[98].

The targeted reduction in the time it takes to trade across borders has been achieved. Significant progress has been made in areas of trade facilitation and investment policy. For the former, IFC supported the MOF and the MAF to improve customs clearance procedures and quarantine services respectively. Since 2013, IFC has supported efforts to streamline customs clearance at the Dili Port, introducing a risks-based customs clearance and automation system. Results of these efforts have been impressive. In 2013, it took 15 days to clear customs, while in 2018 it took only 6 days[99]. Support to the MAF to improve quarantine services—which focuses on sanitary and phytosanitary laws and regulations (animal and plant health)—is on-going and will be completed by the end of 2019. On investment policy, IFC supported the office of the Coordinating Minister for Economic Affairs to develop a new private investment law to help attract more investments. The law was approved by the Parliament in 2017, reflecting IFC's recommendations which are aligned with the Association of Southeast Asian Nations' (ASEAN's) comprehensive investment agreement. IFC is currently supporting Timor-Leste's investment promotion agency, TradeInvest, to implement this law. IFC has helped to develop an Investment Reform Map (IRM) that helps to identify priorities for reforms, and barriers and opportunities for investment. The project will be completed by December 2019.

Cross-Cutting Area: Strengthening Institutions

There is significant scope for improvements in the quality of public spending. The Timor-Leste Systematic Country Diagnostic (SCD) highlighted the risk that institutional development may be stalled by entrenched interests[100]. Nevertheless, the WB built on initial successes achieved in improving PFM systems and human resources capacity in the MOF (e.g. introduction of Medium-term fiscal forecasts and establishment of the Human Capital Fund)[101], to make further contributions towards strengthening public institutions and planning functions. The WB supported two Public Expenditure Reviews (PERs) to help identify weaknesses in the quality of public spending in agriculture and infrastructure respectively, and it is currently supporting additional PERs in the education and health sectors to help draw more attention to service delivery issues. It also supported 2018 PEFA assessment and PFM trainings with a view to facilitating the development of a comprehensive PFM reform program. Recent engagements with government highlight the need for fiscal consolidation, strengthening the links between policy and budgets, between capital spending and operating costs.

The focus on equity, inclusion, and citizen participation increased. The WB produced and

[98] IFC is also supporting KIF to introduce a new agri-financing product that will leverage more solid linkages to agriculture producers, input suppliers and buyers.

[99] ibid.

[100] Timor-Leste Systematic Country Diagnostic (SCD): Pathways for a New Economy and Sustainable Livelihoods (2018); World Bank Group, Washington D.C.

[101] Through Bank-supported Planning and Financial Management Capacity Building Program (PFMCBP) BETF

disseminated several just-in-time TAs and analytical reports that helped to highlight issues of poverty and inequality in the country, these include periodic poverty and economic monitoring reports, bi-annual economic updates, and cost of living analysis for the MOF. The WB provided TA support for the conduct of the 2014 TL-SLS, development of Country Gender Action Plan (CGAP) and the gender-disaggregated poverty map for Timor-Leste. It also supported the completion of a baseline survey for the Programa Nasional Dezenvolvimentu Suku (PNDS) – a national Community-Driven Development (CDD) program[102]. All projects in the WBG portfolio supported interventions that specifically targeted women either through direct project benefits, employment or protection from Gender-Based Violence (GBV) e.g. IFC's financing to KIF targeted women in rural areas and the RCRP conducted training on GBV for women working on the project along the Dili-Ainaro road corridor. Citizen participation was enhanced through consultations with various stakeholders, use of CDD approaches in project implementation (e.g. in the DRM project, CDNIP and SAPIP), and use of well-functioning Grievance Redress Mechanisms (GRM).

There is significant scope for improving the efficiency of social programs. Between FY13 and FY14, the WB's Social Protection and Labor team provided TA to assist the Ministry of Social Solidarity (MSS) in better implementing their core cash transfer programs. The TA focused on supporting the establishment and design of a standardized Management Information System (MIS), identifying implementation gaps and to propose solutions as well as ensuring data quality of cash transfer program beneficiary databases and the implementation of better monitoring and evaluation practices. The TA was accompanied by the development and delivery of several policy notes focusing on the design and implementation of social assistance, particularly, on Timor-Leste's flagship cash transfer program, Bolsa Da Mae.

III. World Bank Group Performance

D. Design and Relevance

Rating: Good

The three CPS focus areas are fully aligned with the three priorities of the country-led development vision articulated in the SDP, which are (i) social capital; (ii) infrastructure development; and (iii) economic development. The PLR validated the relevance of the CPS. The CPS objectives of strengthening institutions, building public sector capacity and helping to improve the quality of public spending remained relevant throughout the CPS period, particularly, as the public sector continued to play a dominant role in the economy and in the delivery of social services attributable to rising public sector spending.

The scope of the original CPS program was broad and ambitious, perhaps, a deliberate attempt to accommodate the rapidly evolving context in the country. However, even though the CPS program was streamlined at the PLR stage, of the three planned WB lending operations, the Tibar Bay Port Project did not materialize, and the Branch Roads Project was delayed, mainly due to the uncertain political climate which hampered preparation. The CPS considered lessons learnt from previous CAS/ISN engagements, the growing fiscal influence of government and the post-conflict and dynamic context of Timor-Leste. Hence, at the PLR stage the program was re-focused to sustain WBG's engagement in critical policy areas and provide discrete and well targeted (on demand) advisory services and analytics (ASA) to help fill knowledge gaps, build public sector capacity and support operations that provided demonstration effects with the potential for replication by the government.

An important design feature of the CPS which augured well for the IFC and WB collaboration that only strengthened over the CPS period was the fact that it provided for complementary/

[102] English Translation – National Program for Village Development.

symbiotic interventions. For example, the PLR provided for WB financing for Tibar Bay Port coupled with IFC Advisory services, for Wb ASA on telecommunications followed by and IFC telecoms investment. There continue to be good examples of strong collaboration throughout the CPF period resulting in investments.

The CPS program was supported by a complementary mix of instruments across the three focus areas. These include financing and ASA from the WB and IFC. Although the CPS provided for the use of the full range of WB instruments, country conditions and the nature of the operations determined that the five lending operations delivered during the CPS period were all Investment Project Financing (IPF) operations. The macroeconomic framework and pace of policy dialogue around key reforms were not conducive for Development Policy Operations and the government's institutional and human resource capacity constraints limited opportunities to deploy Program-for-Results (P4R) operations.[103] The WBG efficiently and effectively leveraged resources from other development partners to deliver impactful ASA, particularly supporting cross-cutting areas such as institutional strengthening.

The results framework at the PLR stage reflected a more streamlined program and accordingly a more focused results framework, built around ongoing activities in the WBG portfolio or activities that were about to commence implementation. The revised results framework had 7 outcomes reduced from 14 and 15 outcome indicators reduced from 26. Despite these improvements, some indicators had unrealistic targets (e.g. Indicator 7.3), incorrect baseline data and the timeframes for achieving some outcomes were overly ambitious. Further, it was difficult to attribute some results to the rather modest WBG interventions during the CPS period (e.g. Indicator 7.2). The omission of indicators and targets for measuring progress in cross-cutting areas is a shortcoming of the PLR results framework.

The overall risk for CPS implementation remained Substantial (S) throughout the CPS period. The CPS correctly identified and assessed country level risks and programmatic and institutional risks. These risks were reviewed in the PLR using the Systematic Operations Risk Rating Tool (SORT). The main risks that affected the implementation of the CPS were (i) political and governance; (ii) macroeconomic; and (iii) institutional capacity for implementation and sustainability. Timor-Leste went through four political transitions and three parliamentary elections during the period of the CPS. These regular changes in government slowed down the pace of implementation of the CPS program and made policy dialogue more challenging, particularly, during the year-long political stalemate that followed the July 2017 elections. This difficult transition delayed the passage of key pieces of legislation, government programs and budgets, thus, causing sharp decline in public expenditure levels. The drop in public spending posed serious macroeconomic risks as the economy contracted by almost 4 percent in 2017. Fiscal sustainability remains an issue due to declining oil revenues and excessive withdrawals from the PF. The Bank worked closely with the IMF to monitor the macroeconomic risks.

E. Program Implementation

Rating: Good

The knowledge program underpins WBG's partnership with Timor-Leste, helping to fill knowledge gaps and strengthen analytical, policy formulation and program implementation capacity in government. The WBG has been a very important contributor of high-quality knowledge products through its ASA and TA activities, delivering 13 out of the 17 products planned in the CPS. The CPS knowledge

[103] The government's initial reluctance to borrow from IDA/IBRD or use Trust Fund resources for non-infrastructure related operations may have influenced the composition of the financing package.

program mostly targeted activities in priority areas backed by strong demand from government and where the WBG has comparative advantage with high potential for translating to key policy reforms or/ and generating new WBG operations[104]. The knowledge program facilitated the formulation and adoption of ICT and e-governance policy, new regulatory framework that helped to liberalize the market in the telecommunication sector and implementation of MIS for social protection programs in the Ministry of Social Solidarity. The recommendations of the water sector assessment and roadmap report resulted in a US$15 million water and sanitation lending operation, currently under preparation. Other important TA/ASA products include the PERs in infrastructure and agriculture and the PEFA assessment. The PERs generated demand for two new PERs in education and health. The capacity built in the PPP unit in the MOF facilitated Tibar Bay Port PPP transaction.[105] IFC provided TA/ASA on investment climate, investment promotion, trade facilitation and reform of trade logistic procedures. The WBG created platforms for policy dialogue between government and other stakeholders through periodic delivery and wide dissemination of macroeconomic reports and other sector analytical products.

The WB lending program is still evolving, with modest IDA/IBRD lending envelopes:[106] The CPS period covered three IDA replenishment cycles: IDA16 (FY12-FY14); IDA17 (FY15-FY17); and IDA18 (FY18-FY20) - all with modest IDA lending envelopes – see Table 2 below. The Bank's lending program has a strong focus on infrastructure. The total country allocations under IDA16 and IDA17 amounting to US$61 million were committed as Additional Financing (AF) to the RCRP, alongside US$15 million AF from IBRD. IBRD/IDA could not deliver planned investments in Branch Roads Project (BRP) and Tibar Bay Port Project (TBPP) during the CPS period. The preparation of BRP was delayed by the last political stalemate in the country.[107] The government decided to use its own resources to finance the TBPP because it considered the IBRD/IDA loan/credit preparation and approval process too slow and complicated. IFC made two investments totaling US$1.5 million and took an equity position of US$300,000 in Tuba Rai Metin, a local MFI. However, two other investments (in a local Telecom company and Heineken) envisaged by IFC in the CPS did not materialize, because of unresolved regulatory issues and unending process of divestment in the targeted Telecom company. Heineken had no need for IFC financing and decided not to undertake the planned MIGA guarantee because of pricing issues.

Table B. **Summary of Actual CPS Lending Program (FY13-FY18)**

FY	IDA (US$ m)	IBRD (US$ m)	Trust Fund (US$)	Total (US$ m)
FY13	0.00	0.00	0.00	0.00
FY14	25.00	15.00	2.85	42.85
FY15	0.00	0.00	2.70	2.70
FY16	0.00	0.00	0.00	0.00
FY17	36.00	0.00	21.00	57.00
FY18	0.00	0.00	0.00	0.00
Total	**61.00**	**15.00**	**26.55**	**102.55**

The partnership and coordination between the WBG and other Development Partners (DPs) in

[104] Provided Technical Assistance to the General Directorate of Statistics on the 2014 Timor-Leste Survey of Living Standards (TLSLS); and on the production of "A Gender-Sensitive Insight of Poverty Mapping for Timor-Leste", March 2019

[105] PERs for the Health and Education sectors are currently ongoing

[106] The active lending portfolio of the WB has a total commitment of US$117 million, comprising two operations: US$96 million IDA/ IBRD credit/loan investment in RCRP and US$21 million grant in SAPIP. As at March 2019, about 50 percent of the commitment has been disbursed. The WB currently has three operations worth US$89 million under preparation, under IDA18.

[107] The BRP is currently under preparation and due for delivery in September 2019.

Timor-Leste have been strong and beneficial to the government. The WB convened and chaired the development partners' coordination meeting for most of the CPS period. The WBG leveraged[108] resources from DPs and global partnership programs to support the government across the CPS focus areas. Timor-Leste Strategic Partnership Trust Fund (TL-SPTF), a Multi-donors Trust Fund, has been the main vehicle for funding WBG's TAs and ASAs across the CPS focus areas.[109] The TL-SPTF helped to sustain WB's engagement in the education sector, supporting dialogue and delivery of the education sector analysis and plan, and the EGRA report. This engagement resulted in a US$15 million lending operation currently under preparation. It helped to strengthen government's statistical and policy formulation capacity by supporting, through WB's TA, implementation of the 2014 Timor-Leste Living Standards Measurement Survey (TL-LSMS), production of the new ICT and e-governance policy, and Bank's delivery of PER reports on agriculture and infrastructure. The WB, the European Union (EU) and the US government's Millennium Challenge Corporation (MCC) jointly supported the MOF to conduct the 2018 Public Expenditure and Financial Accountability (PEFA) assessment and currently supporting the process of developing a comprehensive PFM reform program.

The partnership with other DPs was extended beyond TA and ASA activities. The WB shared a common implementation unit with the Asian Development Bank (ADB) and the Japanese International Cooperation Agency (JICA) in the roads sector, which helped to lower the transaction cost for government. The Food and Agriculture Organization (FAO) was contracted to manage the Monitoring & Evaluation (M&E) component of SAPIP, while the CRS and PLAN International were contracted to implement the CDNIP and the DRM projects respectively. Given the constrained IBRD/IDA financing envelop and WBG's operational budget, it would have been almost impossible for the WBG to support most of these activities without these partnerships.

The performance of the portfolio in term of achieving development outcomes has been mixed. The Independent Evaluation Group's (IEG's) reviews of the ICR reports of 3 out of 5 projects that exited the portfolio during the CPS period rated development outcomes of two of the projects as MU, while the outcome of the remaining project was rated MS[110]. The quality of implementation support varied much more widely with Satisfactory (S), MS and MU ratings respectively. The location of most of the Task Team Leaders (TTLs) within the region, enabled more frequent implementation support missions, particularly with the July 2017 reassignment of Timor-Leste to the Indonesian Country Management Unit (CMU). This contributed significantly to the mitigation of implementation capacity constraints in Timor-Leste. Currently, there are only two active projects in the portfolio; RCRP - IDA credit (US$96 million) and SAPIP - RETF grant (US$21 million). Both projects suffered serious delays in implementation, mostly caused by factors ranging from complex project designs, delayed project effectiveness, implementation of the Resettlement Action Plan (RAP) and payment of compensations, to lack of implementation capacity (mostly in procurement). This situation is further complicated by high staff turnover and frequent changes in the political leadership of relevant implementing agencies. Throughout the CPS period, there was full compliance with all applicable environmental or social safeguards policies and there was no Inspection Panel case. However, there were complaints about lack of personal protective equipment, safety hazards and absence of road safety signs around project construction sites. There is the need to closely monitor safeguard instruments during project supervisions. The Grievance Redress Mechanism (GRM) in all the projects in the portfolio were fully functional. There are persistent delays in documenting expenses and signing contracts. There were two complaints to INT and both cases were investigated and substantiated, and the appropriate sanctions were applied.

[108] Most of IFC's technical assistance and advisory service works were funded through Trust Funds.

[109] TL-SPTF is a Multi-donor Trust Fund supported by Australia's DFAT and New Zealand's MFAT with contributions of US$1.7 million and US$4.8 million respectively.

[110] The development outcomes of the remining two projects, CDNIP and DRM, were rated MS and S in their respective ICRs, which are yet to be reviewed by IEG.

Collaboration between the WB and IFC was very strong and effectively exploited the strength of the WBG to deliver CPS outcomes. IFC supported activities across the three focus areas of the CPS and has continued to collaborate with the WB to manage its dialogues with the government. While the WB focused on education, nutrition and health systems strengthening, IFC is leading the charge to improve service delivery by attracting private sector investments in the provision of health diagnostic services in Timor-Leste. In building core infrastructure, IFC took the lead in the Tibar Bay Port project, acting as transaction advisor, while the WB helped to create the policy, legal and regulatory framework and built PPP capacity in the MOF. IFC is also making significant contribution to the economic development agenda by helping to increase access to finance and improve the overall business environment of Timor-Leste, through its financial support to two MFIs and technical assistance to improve business licensing and registration processes, and facilitation of cross-border trades.

IV. Alignment with Corporate Goals

F. Evolution of Poverty Reduction and Shared Prosperity

Translating Timor-Leste's wealth to shared prosperity remains a challenge as inequality worsen (from 0.28 in 2017 to 0.29 in 2014). Timor-Leste made significant progress in sustaining peace, rapidly growing its national income and reducing poverty after the violent political crisis in 2006. It became a lower middle-income country in 2006 with a Gross National Income (GNI) per capita level of US$3,190. GNI per capita averaged US$2,614 between 2007 and 2018 and fluctuated between US$3,540 in 2013 and US$1,790 in 2017. Consequently, the national poverty level dropped from 50.4 percent in 2007 to 41.8 percent in 2014. The result is more remarkable when measured using the international poverty line of US$1.9 (in 2011 Purchasing Power Parity (PPP) term) – poverty fell from 47.2 percent in 2007 to 30.2 percent in 2014[111]. However, this progress in poverty reduction has been unevenly distributed with wide disparities in poverty levels between rural and urban dwellers, across geographic areas and by gender. The average growth in income and real consumption for the bottom 40 percent continues to fall behind the rest[112].

G. Evolution in Key Macroeconomic Developments

The economy remains highly dependent on petroleum revenues, with about 80 percent of the state budget financed through the Petroleum Fund (PF). Non-oil GDP growth averaged 4.3 percent between 2012 and 2016. However, non-oil GDP declined by about 5 percent in 2017. Early estimates for 2018 suggest that economic growth stagnated, at best. Domestic revenue levels remain relatively low (less than 12 percent of non-oil GDP). The issue of fiscal sustainability continues to be a major concern for the country as the current flow of petroleum revenue is projected to cease in 2023, while the government's expansionary fiscal policy stance continues to erode the PF balance[113]. Annual state budgets stayed significantly higher (on the average, above US$1 billion annually since 2011) than the average Estimated Sustainable Income (ESI) generated by the PF. Capital spending is typically very volatile, having ranged from 16 to 35 percent of non-oil GDP during the 2013-2017 period. This trend was largely driven by the government's economic growth strategy, which is anchored on an ambitious public investment program and decision to frontload public spending on large infrastructure projects. There is considerable scope for improving the quality of these expenditures and achieving a much more balanced budget allocation to reflect sectoral priorities in agriculture, health, education, nutrition, water and sanitation.

[111] Timor-Leste Survey of Living Standards (TLSLS) 2014.

[112] World Bank Group (2015) Timor-Leste Systematic Country Diagnostics (SCD): *Pathways for a New Economy and Sustainable Livelihoods*

[113] The Petroleum Fund balance is currently at about US$16.5 billion. More than US$10 billion has been withdrawn from the PF since its creation in 2005.

V. Lessons Learned

The program and results matrix proposed in the original CPS was too ambitious and complex. A modest and more realistic CPS program scope that can produce quick and demonstrable results would have been more appropriate for the rapidly evolving and capacity constrained context of Timor-Leste. The program was streamlined in the PLR.

The rate of absorption of skills and capacity building inputs among local and permanent employees of key government agencies is relatively slow. It is important to balance the need for faster implementation of program activities using external technical assistance and the need to strengthen human resource and institutional capacity in government. This approach may delay the pace of project implementation, but it is critical for long-term success. The WBG should make adequate provision to sustain policy dialogue and encourage project teams working on new operations, particularly in new sectors, to plan project preparations activities well in advance and try to accommodate government's political/budget cycles[114]. Project teams should also consider using Project Preparation Facilities (PPF) and taking advantage of some of the provisions made for FCV countries in WB's operational policies and processes e.g. processing operations under OP10.00.

There are always trade-offs between depth and breadth of development objectives of project support. The experience from implementing the US$38 million Health Sector Strategic Plan Support project (HSSPS) (using Sector-wide approach) in Timor-Leste showed that sometimes the focus on sector-wide reforms and systemic issues could overshadow the need for clarity on the specific outcomes supported by the project. This shortcoming resulted in the Moderately Unsatisfactory (MU) rating of outcomes of the HSSPS project by IEG.

A strong policy, legal, regulatory and institutional framework is critical for the systemic sustainability of service delivery. The experience from implementing the SCEP demonstrated that the quality and sustainability of services could be undermined in the long-term, if the pressure and urgency to deliver services compels the government to bypass these prerequisites.

Clarifying the objectives, establishing clear protocols and escalation mechanisms upfront helps to minimize the challenges of working together as a WBG team on a single project. Experience from WB and IFC teams' work on the Tibar Bay Port project illustrates that the engagement of a WBG team on a single operation creates considerable opportunities for synergy, but it also comes with some challenges e.g. giving conflicting advice to the client.

Donor coordination and partnerships are critical for WBG's work in Timor-Leste. It helps WBG to avoid duplication of efforts and to leverage other development partners' resources, with greater flexibility, to provide just-in-time TAs and advisory services.

[114] Project teams should ensure that the planned lending operation should be captured in the government's annual budget for the year of project delivery.

CLR Annex 1: Timor-Leste CPS (FY2013-FY2018) Results Matrix Evaluation

Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
Focus Area 1: Service Delivery					
Access to a quality education enables people to participate in the economic, social and political development of the nation (SDP, pg. 14).	Insufficient capacity of the Ministry of Education for effective policy development and resource management to ensure high quality education.	**Outcome 1: Improved quality of equivalency program** **1.1 Ministry is staffed with number of qualified and trained teachers and pedagogic team** Baseline (2015): Teachers – None Pedagogic staff – None Target 2018: Teachers – 139 Pedagogic staff – 20 **1.2 Number of Community Learning Centers (CLCs) established, equipped and functioning to implement an education equivalency program in line with the new regulatory framework** Baseline (2015): 0 Target (2018): 9 **1.3 Number of learners of the equivalency program** Baseline (2014): 729 Target (2017): 1,381 o/w Female – 55 percent	Achieved: A total of 20 pedagogic and 139 teachers were recruited and trained. They are all on the payroll of NDRE. Achieved: The SCEP helped to establish and equip 9 CLCs in selected districts. All CLCs are currently functioning. The Ministry education has been allocating about $11,000 from its budget annually to each CLC. 1.3 Achieved: A total of 1,670 students benefited from the equivalency Program. o/w Female – 62.5 percent	It is important to conduct a proper needs/demand assessment before designing projects, particularly for rural communities. This lesson influenced the change in the mode of delivery of the EP from face-to-face to a combination of face-to face and self-learning. Strong legal and Regulatory framework, and government ownership was critical for the sustainability of the EP.	Lending: Second Chance Education Project (SCEP) (closed) Education Management Strengthening Project (closed) Planning and Financial Management Capacity Building Program (P092484) US$31.75 (closed) ASA/TA: Education Sector Dialogue (closed) Improving the Quality of Education (ongoing)

Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
		Outcome 2: Improved infant and maternal nutrition practices in the poorest communities		Improving access to ante-natal care and providing high quality nutrition advice at these sessions provided additional avenues to introduce and reinforce nutrition messages to pregnant and lactating women and their spouses.	Lending: Community Driven Nutrition Improvement Project (CDNIP) (closed) Health Sector Strategic Plan Support (P104794) – (closed) US$38 million Planning and Financial Management Capacity Building Program (P092484) US$31.75 (closed) ASA Health Programmatic (closed) Health Financing Option Paper (closed) Human Resources in Health (closed)
		2.1 Proportion of children 0-6 months of age who are exclusively breastfed from Baseline (2015): 71.3% Target (2017): 75%	2.1 Not Achieved. The baseline and the target was revised in 2016 from 52% and 60% respectively. The project only achieved 70%.		
		2.2 Proportion of mothers of children under 2 years of age who consumed iron-rich foods Baseline (2015): 15.4% Target (2017): 20%	2.2 Achieved: The baseline and the target was revised in 2016 from 53% and 58% respectively. The project achieved 37%.	A prolonged engagement should be considered when designing projects aimed at changing behavior and practices in households.	

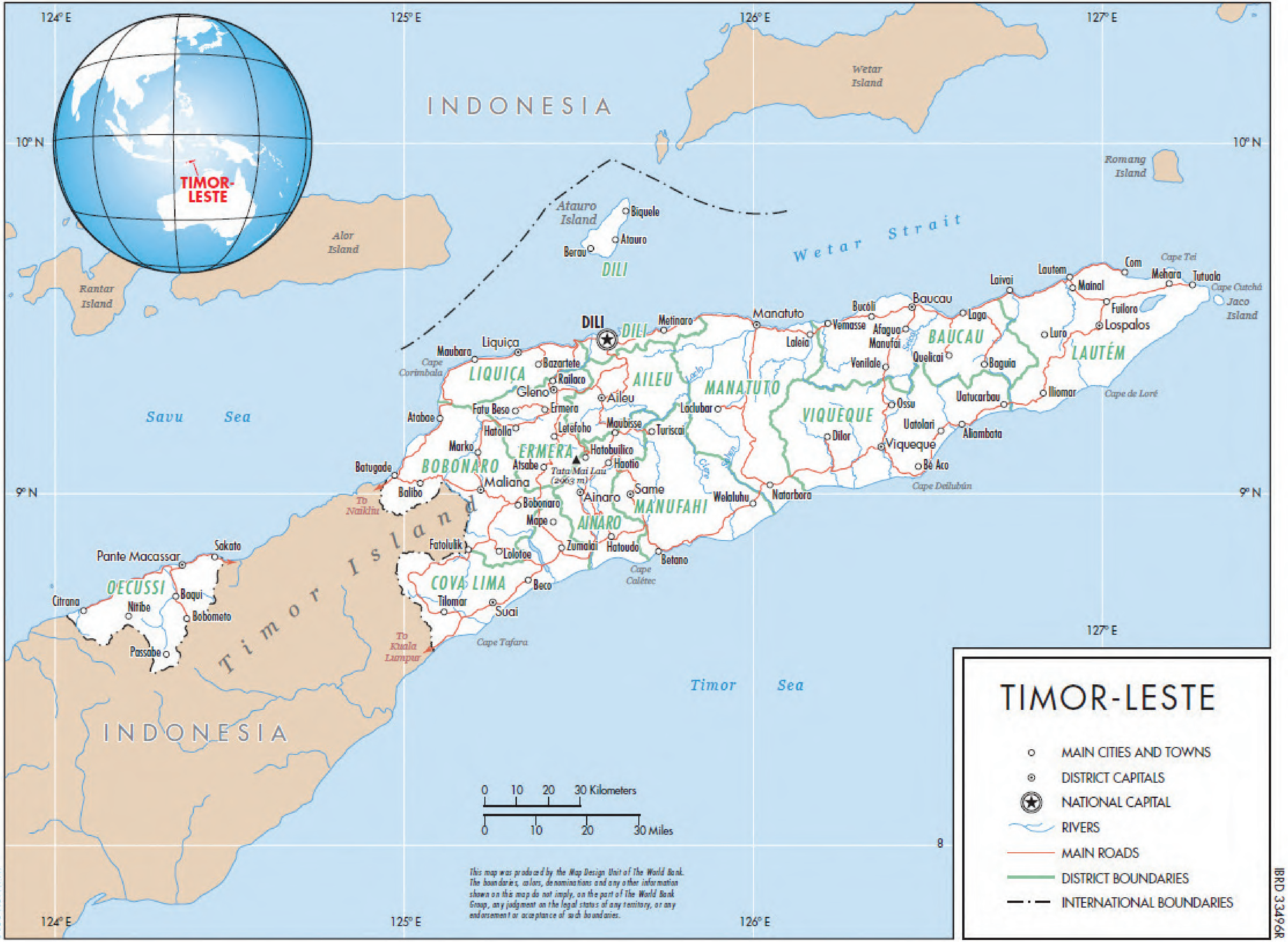
Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
Focus Area 2: Building Core Infrastructure					
Extensive network of quality well-maintained roads will connect communities, promote rural development, industry and tourism, and provide access to markets (SDP, pg. 70)	Insufficient road network increases cost and time for travel Low investment in operations and maintenance (O&M) Poor condition of roads in key agricultural areas Little attention to climate change impact on road networks	**Outcome 3: Improved road conditions and sustainability of road investments** **3.1 % of the Dili-Ainaro Road Corridor that is in good or fair condition** Baseline (2012): 10% Target (2017): 75% **3.2 Climate resilience of the Dili-Ainaro road corridor, as measured by % of drainage on the road corridor in good** **3.2 Climate resilience of the Dili-Ainaro road corridor, as measured by % of drainage on the road** Corridor in good condition Baseline (2012): 20% Target (2017): 75%	3.1 Mostly Achieved: The target was changed from 90% to 75% and the timeline changed from 2016 to 2017 at PLR. The project only Achieved 66%, due to delays in project implementation. However, the RCRP is on track to achieving this target after the CPS period. 3.2 Mostly Achieved: The target was changed from 90% to 75% and the timeline changed to from 2016 to 2017 at PLR. Only about 69% of the drainage was assessed to be in good condition. However, this target is likely to be achieve after the CPS period.	The process for implementing Resettlement Action Plans (RAP) and payment of compensation should start before project implementation. Contractors did not fully comply with agreed Environmental Safeguards Implementation Plan (ESIP). Close attention should be paid to this during project supervision. Adequate plan should be made to supplement weak implementation capacity and address issues of high staff turnover in the implementing agency.	Lending: Timor-Leste Road Climate Resilience Project (RCRP) (US$20 million) with Additional Financing (AF) I (US$40 million) and AF II (US$36 million) (ongoing) Building Climate/Disaster Resilience Along the Dili-Ainaro and Linked Road Corridors (PHRD Grant) (US$2.7 million) (closed) Planning and Financial Management Capacity Building Program (P092484) US$31.75 (closed)

Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
New seaports support growing economy and meet future industry and freight demands (SDP, pg. 222)	Limited private sector investment Lack of sufficient freight facilities	**Outcome 4: Increased private sector investment in seaport infrastructure** **4.1 US$100 million in new private investment for the Tibar Bay Port facilitated**	4.1 Achieved: IFC, in collaboration with the WB, successfully completed the Tibar Bay Port PPP transaction. It attracted about US$148 million private investment.	The collaboration between IFC and the WB created both opportunities for synergy and challenges. The challenges could have been minimized by establishing upfront clear objectives and protocols for resolving conflicting positions	ASA: Tibar Bay Port (IFC) (closed) Infrastructure Development and PPP (WB) (closed)
Modern telecommunication network established (SDP, pg. 100)	Legal and regulatory frameworks incomplete Limited telecommunication infrastructure, particularly in rural areas, leading to low access and high costs	**Outcome 5: Improved Regulatory Framework and increased access to ICT;** as measured by: **5.1 Number of beneficiaries with increase mobile penetration from:** Baseline (2012): 50% Target (2017): 80% **5.2 Draft legal and regulatory framework for online transactions prepared**	5.1 Achieved: About 98% of the population have access to mobile networks, basic mobile telephony, and data services. The Bank supported the government to improve competition and the regulatory environment for investments. 5.2 Achieved. ICT policy drafted and approved by the Council of Ministers.	The WBG need to make provision for sustained engagement through TAs and policy dialogue for results to materialize in critical sectors.	ASA: Telecommunication TA (closed) ICT Policy Dialogue TA (ongoing)

Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
Focus Area 3: Economic Development					
Thriving agricultural reduces poverty, provides food security, and promotes growth in rural areas and the entire nation (SDP, pg. 118) Timor-Leste will have at least four niche cash crop products that can be consistently exported (SDP, pg. 223)	Weak policy formulation and implementation capacity of the MAF Limited use of commercial inputs and improved technologies by farmers Under-developed market linkages due to poor road and marketing infrastructure Limited rainfall and poor soil conditions Soil degradation	**Outcome 6: Improved sustainable agriculture productivity:** **6.1 % of selected communities with sustainable agricultural development plans prepared** Baseline (2015): 0% Target (2018): 50% **6.2 Number of farmers adopted improved agricultural technology** Baseline (2015): 0 Target (2018): 1200	6.1 Mostly Achieved: Watershed management plans and agriculture development plans have been prepared by most sucos (local communities) in two, out of four, participating watershed areas. 6.2 Not Achieved: The implementation of SAPIP was delayed.		Lending: Sustainable Agriculture Productivity Improvement Project (SAPIP) (US$21 million) TF (ongoing) Planning and Financial Management Capacity Building Program (P092484) US$31.75 (closed) ASA: Institutional Reform and Transformation of the Ministry of Agriculture and Fisheries (TF) (closed) Agriculture Public Expenditure Review (PER) (closed)

Country Development Goals	Constraints	CPS Outcomes and Indicators	Evaluation Status and Summary	Lessons Learned	WBG Instruments/ Program
Reforms to improve the business and investment environment in Timor-Leste, provide better access to microfinance, create a National Development Plan (SDP, pg. 151)	Weak legal and regulatory protection (including on land ownership and use), complex and costly regulations, limited access to finance, skills mismatch.	**Outcome 7: Improved business environment** **7.1 Business registration and licensing process streamlined, and time reduced** Baseline (2012): 103 days Target 2016: 5 days	7.1 Mostly Achieved: It currently takes 13 days to register a business However, the SERVE (one-stop-shop) made significant contribution to this progress recorded.	The indicator and target for improving access to finance is too ambitious.	ASA: Business Process Simplification (closed) Customs and Clearance Reform (closed) Payment Infrastructure Partnership with 2-3 Financial Institutions (cancelled)
Businesses need credit to invest, expand, purchase goods and equipment, and upgrade facilities (SDP, pg. 152)	High cost of business start-up Limited or no access to credit and long-term finance at affordable rates	**7.2 Access to finance is doubled** Baseline (2012): 13% of population Target (2017): 26% of population	7.2 Not Achieved: As at 2016, only 6% of the population owned a loan account (Source: Banco de Timor-Leste Financial Inclusion Report 2016[115]) However, there was significant increase in the lending capacity of the two MFIs supported by IFC, but the scope of IFC's intervention was too limited to make an impact on the overall population.		
		7.3 Reduce time to trade by 15% Baseline (2012): 16 days Target (2018): 13 days	7.3 Achieved: The automation and streamlined processes for customs clearance reduced the number of days to 6 days.		

[115] Gastao de Sousa (2016): Encouraging Financial Inclusion in a New Nation: The Experience of Central Bank of Timor-Leste https://www.bis.org/ifc/events/ifc_isi_2017/06_desousa_paper.pdf. Retrieved on July 4, 2019


TIMOR-LESTE
MAIN CITIES AND TOWNS
DISTRICT CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
DISTRICT BOUNDARIES
INTERNATIONAL BOUNDARIES
INDONESIA
Savu Sea
Timor Sea
Wetar Strait
Wetar Island
Alor Island
Rantar Island
Romang Island
Atauro Island
Jaco Island
Timor Island
DILI
LIQUIÇA
AILEU
MANATUTO
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LAUTÉM
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ERMERA
BOBONARO
MANUFAHI
AINARO
COVA LIMA
OECUSSI
Dili
Baucau
Manatuto
Lospalos
Viqueque
Suai
Maliana
Same
Ainaro
Aileu
Liquiça
Pante Macassar
Tata Mai Lau (2963 m)
0 10 20 30 Kilometers
0 10 20 30 Miles
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