



# COUNTRY DEVELOPMENT COOPERATION STRATEGY (CDCS)

DECEMBER 2020 - DECEMBER 2025

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## ACRONYMS

A&A	Acquisition & Assistance
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CDCS	Country Development Cooperation Strategy
CEFM	Child, Early, and Forced Marriage
CSO	Civil Society Organization
DFAT	Department of Foreign Affairs and Trade (Australia)
DO	Development Objective
DRM	Domestic Resources Mobilization
EPPR	Effective Partnering and Procurement Reform
EU	European Union
FSR	Financing Self-Reliance
GBV	Gender Based Violence
GDP	Gross Domestic Product
GOTL	Government of Timor-Leste
ICT	Information Communications Technology
IMF	International Monetary Fund
IR	Intermediate Result
J2SR	Journey to Self-Reliance
KOICA	Korean International Cooperation Agency
MFAT	Ministry of Foreign Affairs and Trade (New Zealand)
MNCH	Maternal, Neonatal, and Child Health
MSME	Micro, Small, and Medium Enterprises
NGO	Non-Governmental Organization
NPI	New Partner Initiative
NUP	New and Underutilized Partners
PMP	Performance Management Plan
PSE	Private Sector Engagement
RDMA	USAID Regional Development Mission to Asia
RDR	Redefining the Development Relationship
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nation Children’s Fund
WB	World Bank
WHO	World Health Organization

## EXECUTIVE SUMMARY

Timor-Leste is at a crossroads. Buoyed by oil and gas wealth, Timor-Leste has the resources to lay the foundations for a democratic and prosperous future for all of its citizens, equipping them with the tools to climb out of poverty and stay there. The country also has the potential to fall victim to the pitfalls of over-reliance on oil-extraction, witnessed most recently by the collapse of global oil prices and supply chains during the COVID-19 pandemic. Timor-Leste has an opportunity to strategically invest its oil and gas wealth in human capacity development and build a robust and diversified economic future that provides for all generations to come. It is through this lens that USAID/Timor-Leste will pursue “**An inclusive, prosperous, and healthy Timor-Leste that is more self-reliant**” as its goal statement for the 2020-2025 CDCS.

Encompassing three ambitious themes - inclusiveness, prosperity, and health - this CDCS addresses areas that are essential to furthering self-reliance, from workforce development to business-enabling environment and greater government accountability. If adequate steps are taken to prepare the large, excluded population to participate in formal, public life, Timor-Leste will take advantage of a unique opportunity for growth, actively contributing to stability, and reinforcing its hard-earned peace. In line with the priorities for the Indo-Pacific region, this CDCS promotes prosperity and sovereignty rooted in broad-based economic growth that reaches all citizens. This CDCS invests heavily in building country capacity across the entire portfolio, with a particular focus on building citizen or human capacity. Inadequate health and education, and chronic poverty, are major roadblocks to building self-reliance. This CDCS recognizes this human capacity gap and will build skills throughout the portfolio so that all Timorese can live up to their potential. Through health systems strengthening and health governance, vocational education, skills training, and job placement, this strategy emphasizes a practical approach to human capacity building that will strengthen both the supply and demand for skilled labor, immediately generating impact among its beneficiaries.

Under this CDCS, USAID/Timor-Leste has strategically prioritized certain sub-dimensions and metrics from the Journey to Self-Reliance (J2SR) Country Roadmap (Economic Policy, Capacity of the Economy, Inclusive Development, Government Capacity, Citizen Capacity, Civil Society Capacity) for investment.<sup>1</sup> The selection of these sub-dimensions and metrics reflect a mix of strengths and weaknesses from the Country Roadmap that together define the strategic areas which USAID/Timor-Leste believes are most important for building capacity and commitment to further Timor-Leste’s J2SR. Taken together, these metrics and sub-dimensions indicate that to further Timor-Leste self-reliance transition, USAID/Timor-Leste should strategically invest in programs that: 1) reform economic policy and build economic capacity for all people (especially women) so that all Timorese benefit from opportunities and build greater shared wealth and prosperity; and 2) improve government effectiveness, particularly as it relates to key public services, institutions, accountability, and transparency, including through CSO engagement.

Several new trends and factors have guided USAID/Timor-Leste as it configures this new CDCS, making it vastly different from its prior strategy. First, the context has significantly changed. COVID-19 has badly affected the global economy, and national economies have deeply suffered from the collapse of supply chains, a lull in tourism, and an associated decrease in oil prices, upon which Timor-Leste depends for national revenue. This CDCS has fully taken into account the effects of COVID-19 on the Timorese economy and will leverage the newfound interest in economic diversification from the Government of Timor-Leste (GOTL) to make significant transformational changes in the business and policy environment. USAID/Timor-Leste will also capitalize on the

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<sup>1</sup> See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap).

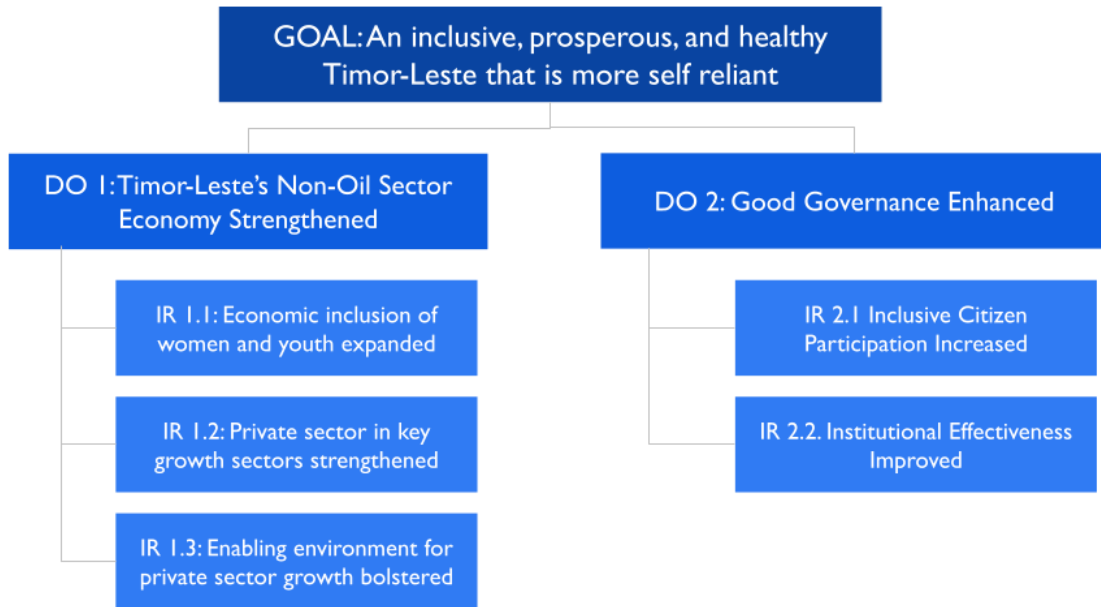
GOTL's awareness of COVID-19 to reinforce the resiliency of the health system so that it delivers for all in Timor-Leste.

Second, U.S. foreign policy objectives have shifted, including the priorities for the Indo-Pacific region and International Religious Freedom. In particular, the CDCS will invest in key Indo-Pacific priorities including advancing good governance, transparency, private sector growth, and natural resource management. Timor-Leste ranks low in religious tension and there are minimal risks or threats to religious freedom and ethnic minorities in Timor-Leste. Nevertheless, USAID/Timor-Leste will amplify existing efforts to advance religious freedom by helping ensure that religious minority groups can be preserved as distinct communities, and protecting and preserving the cultural heritages of religious communities.

Lastly, new USAID tools and policies, such as the Journey to Self-Reliance, have shaped CDCS analysis and decision-making. USAID's Journey to Self-Reliance policy and its associated Country Roadmaps have reframed the way in which USAID/Timor-Leste analyzes country progress and makes investment decisions.

With relatively modest investments, USAID will lay the foundations to ensure that all Timorese, particularly the most vulnerable, are able to reap the benefits of a nascent private sector and better governed Timor-Leste. If improvements to governance and the private sector are to remain sustainable and profit all segments of the populations, greater investments must be made to provide basic social services (including health) and improve overall government accountability and effectiveness, especially in terms of domestic resource mobilization. By the end of the CDCS period, USAID/Timor-Leste will have piloted the investments needed for a new, accountable, and transparent Timorese society that applies human capital and its comparative advantages to build a diverse and inclusive economy, rather than one that relies primarily on the oil and gas sector. Through this CDCS, USAID will lay the foundations for tomorrow's self-reliant Timor-Leste.

**USAID/TIMOR-LESTE CDCS 2020-2025  
RESULTS FRAMEWORK**





## COUNTRY CONTEXT

Decimated by almost 25 years of violent occupation and historical underdevelopment, Timor-Leste regained independence in 2002. Since then, Timor-Leste has made tremendous progress, including rebuilding and expanding critical infrastructure, improving educational attainment, nearly eradicating malaria, maintaining a sovereign wealth fund valued at \$15.8 billion,<sup>2</sup> and conducting several free and fair elections leading to peaceful transitions of power. Despite these achievements, Timor-Leste still struggles with extreme rates of malnutrition and poor health outcomes, high rates of poverty, a stagnant economy highly dependent on oil, persistent political instability, inefficient government spending, and weak institutional checks on power.

One of Timor-Leste's most persistent challenges is consistently having some of the poorest health indicators in the world, including one of the highest levels of maternal mortality (195 deaths per 100,000) in South East Asia, and among the highest levels worldwide of stunting in children under five years old (46 percent) and wasting (24 percent).<sup>3</sup> Timor-Leste ranks close to the bottom in terms of hunger in the world (106 among 107 countries), which is categorized as "alarming."<sup>4</sup>

Despite progress, low official unemployment, and a relatively high GDP per capita, Timor-Leste remains one of the poorest countries in Asia<sup>5</sup> with over 40 percent of the population living in poverty.<sup>6</sup> Employment is dominated by subsistence agriculture, the source of livelihood for over 70 percent of the population outside of Dili; however, 80 percent of Timorese are not formally employed and only 43 percent are actively looking for work.<sup>7</sup> In addition, changes in temperature and precipitation patterns further threaten the limited agriculture sector. Overlaying these economic challenges are the demands from a growing, unemployed and politically disenfranchised youth population. Seventy percent of the population is under age 30, making it the youngest and fastest growing population in Asia, and 15th youngest in the world.<sup>8</sup>

Timor-Leste is considered to be among the most oil-dependent countries in the world,<sup>9</sup> with petroleum accounting for more

*"Despite progress, low official unemployment, and a relatively high GDP per capita, Timor-Leste remains one of the poorest countries in Asia with over 40 percent of the population living in poverty."*

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<sup>2</sup> This estimate is according to the [Sovereign Wealth Fund Institute](#) as of November 4, 2020. Due to current global markets, estimates have fluctuated widely and may continue to fluctuate for some time.

<sup>3</sup> Timor-Leste Demographic and Health Survey (2016).

<sup>4</sup> [Global Hunger Index](#) (2020).

<sup>5</sup> [Index of Economic Freedom: Timor-Leste](#) (2020). Heritage Foundation.

<sup>6</sup> [Timor-Leste Overview](#) (2020). World Bank.

<sup>7</sup> [National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>8</sup> [National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>9</sup> IMF Country Report No. 19/124.

*“One of the most serious problems affecting women in Timor-Leste is the pervasiveness of domestic violence... and as equally concerning, is the perpetual lack of opportunities many women face to increase their economic independence and become more empowered to defend their rights.”*

than 95 percent of total exports, 75 percent of total revenues,<sup>10</sup> and about 40 percent of GDP.<sup>11</sup> Excluding petroleum, government spending on civil servants and capital investments constitutes the largest driver of non-oil GDP, while the GDP share of productive sectors such as agriculture declined from 28 percent in 2000 to 17 percent in 2018.<sup>12</sup> The oil-based economy generates few, technology-dependent jobs, making it unable to meet the demand for employment for the high proportion of relatively unskilled youth. Economic opportunities are further constrained by the global COVID-19 pandemic. The State of Emergency (SOE) that protected the country from the virus has inflicted considerable hardship on the fragile private sector. Timor-Leste’s GDP is forecasted to contract by about 11 percent for 2020<sup>13</sup> due to the lack of a state budget, political uncertainty, and COVID-19. Between 49 and 64 percent of households said the economic shock due to COVID was “strong” or “the worst that had ever happened.”<sup>14</sup>

While considered stable on the whole, especially for elections and transitions of power, Timor-Leste experiences regular political turnover accompanied by blocked legislation, the appointment of ministers, and yearly budgets. While healthy for a democracy to have competitive political processes, this political instability has led to ineffective governance that contributes to an erosion of public faith in government and optimism for the future.<sup>15</sup> Ineffective governance can most acutely be observed in the poor delivery of services, which impede growth and undermine institutional stability. This is particularly true for public financial management. Timor-Leste ranks 93 out of 180 countries in terms of corruption, with a score of 38 points out of 100.<sup>16</sup>

As a result of the political structures described above, Timorese youth and women have been largely excluded and marginalized from political and economic life in the country. Most youth are unemployed, have limited access to higher educational opportunities, and face limited opportunities to fill leadership positions in political life.<sup>17</sup> Despite major advances in women’s political representation and participation in civil society, most women continue to be disempowered in Timor-Leste’s highly patriarchal culture. There are still important gender gaps in terms of access to education, employment, and power inside

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<sup>10</sup> [Country Risk of East-Timor](#) (2020). Société Générale.

<sup>11</sup> [Extractive Industries Transparency Initiative: Timor-Leste](#) (2020). EITI.

<sup>12</sup> World Bank national accounts data, and OECD National Accounts data files.

<sup>13</sup> Stephen Howes and Sherman Surandiran (2020). [COVID-19: economic damage and Pacific strengths](#). DevPolicy Blog.

<sup>14</sup> USAID Rapid Food Security Assessment (2020).

<sup>15</sup> 2018 public surveys demonstrate that about 45% of the population are pessimistic that the country is going in the right direction.

<sup>16</sup> [Corruption Perceptions Index](#) (2019). Transparency International.

<sup>17</sup> Dalberg Global Consulting (2020). Timor-Leste – Youth employment strategy.



and outside the home. One of the most serious problems affecting women in Timor-Leste is the pervasiveness of domestic violence. A 2016 study found 59 percent of women surveyed had experienced physical or sexual violence from an intimate partner; and 72 percent of women and 77 percent of men surveyed experienced physical or sexual violence as a child.<sup>18</sup> Child, early, and forced marriage (CEFM), remains pervasive in Timor-Leste, with 19 percent of girls marrying before the age of 18 in 2018.<sup>19</sup> Coupled with the prevalence of domestic violence, and as equally concerning, is the perpetual lack of opportunities many women face to increase their economic independence and become more empowered to defend their rights.

Timor-Leste also faces a myriad of environmental challenges that cut across, compound, or are a result of the economic, political, and social challenges mentioned above. Population pressures, poverty, lack of arable land, and deforestation have come at costs to human development.<sup>20</sup> According to GOTL strategies,<sup>21</sup> colonialism and occupation changed the nature of Timor-Leste's relationship with the environment from one of sustainable use for food, clothing, building materials and medicine, to that of over-logging and burning forests for cooking, export, and agriculture. This natural resource degradation leads to landslides, chronic erosion, threats to wildlife, and decreases in food sources, ultimately limiting economic opportunities in many areas, and creating localized threats to Timor-Leste's air, coasts, and remaining biodiversity.

Timor-Leste is making significant efforts to eliminate human trafficking,<sup>22</sup> including re-establishing funding to NGOs for victim services and integrating an anti-trafficking curriculum for some training for officials. However, the GOTL was not able to undertake reforms in victim protection services or finalize government-wide procedures for victim identification. Due to these gaps, Timor-Leste was downgraded to the U.S. Government Tier 2 Watchlist for trafficking in persons.

With respect to COVID-19, Timor-Leste has been successful in avoiding high infection rates and related deaths, implementing several public health containment measures during the initial months of the pandemic such as closing schools, restricting public gatherings and transportation, enforcing mandatory quarantine for those entering the country, and strictly reducing access to businesses. This has resulted in a total of 30 reported cases and no deaths as of October 31, 2020. However, crowded and poorly ventilated housing, lack of handwashing and sanitation, poor testing infrastructure outside of Dili, generally weak health systems, and a high prevalence of underlying conditions increase Timor-Leste's vulnerability to high transmission rates. Timor-Leste is one of the least prepared countries in the world to prevent and mitigate epidemics and pandemics (ranked 166 out of 195 countries<sup>23</sup>) and is considered at high risk (ranked 42 out of 191 countries<sup>24</sup>) from the health and humanitarian impacts of COVID-19 that could overwhelm current national response capacity, and therefore lead to a need for additional international assistance.

Although some restrictions have been lifted, the COVID-19 pandemic has inflicted considerable secondary and tertiary hardship on whole sectors of the economy, especially on the fragile private sector (including the nascent tourism industry). Pre-COVID GDP projections estimated that economic growth would reach approximately 7 percent in 2020, however post-COVID, those

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<sup>18</sup> The Asia Foundation (2016). Understanding Violence against Women and Children in Timor-Leste: Findings from the Nabilan Baseline Study – Main Report. The Asia Foundation: Dili.

<sup>19</sup> UNICEF global databases (2018). based on Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICS) and other nationally representative surveys.

<sup>20</sup> USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).

<sup>21</sup> USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).

<sup>22</sup> U.S. Department of State Trafficking in Persons Report (2020).

<sup>23</sup> [Global Health Security Index](#) (2019).

<sup>24</sup> [COVID Risk Index](#) (2020). INFORM.

projections have fallen 11 points, to roughly -4 percent. Meanwhile, the SOE and containment measures initiated by the GOTL have forced many businesses to close or cut back due to lack of income, and unemployment rates are rising.<sup>25</sup> Women are most likely to suffer from the socio-economic consequences of the pandemic. Women in Timor-Leste are more likely than men to be in insecure, informal employment, lacking income security and social protection, exacerbating their vulnerabilities to COVID-related economic downturn. Additionally, women, who are healthcare workers, unpaid-caregivers, and the majority of workers in industries most disrupted by the virus such as hospitality, tourism, and textile/garment work, are more likely to lose their livelihoods and be responsible for caring for the ill. Timor-Leste must implement additional measures to strengthen the capacity of the health system, protect vulnerable households, support affected businesses, and ensure the continuity of public services, or it may jeopardize its hard-earned peace and stability.

## ALIGNMENT WITH THE GOVERNMENT OF TIMOR-LESTE

The Timor-Leste Strategic Development Plan 2011-2030<sup>26</sup> reflects the Government’s aspirations to create a prosperous and strong nation, by transitioning Timor-Leste from a low-income to upper middle-income country, with a healthy, well-educated and safe population by 2030.

The Plan covers three key areas: social capital, infrastructure development, and economic development. Within social capital, the Plan targets education, health, social inclusion, environment, and culture, uniting them as necessary for a strong society with the appropriate foundations for economic development, closely aligning with the CDCS. Education is not limited to formal basic, secondary or tertiary education, but also lifelong learning, vocational education and training. All interventions are geared towards preparing learners to enter the workforce with the skills and knowledge needed to advance economic development. Under health, the Plan attempts to make good on Timor-Leste’s constitutional promise of medical care as a fundamental right for all citizens. Recognizing health challenges such as nutrition and family planning, the Plan identifies health services delivery, human resources for health, and health infrastructure as the three



*Timor-Leste Strategic Development Plan 2011-2030*

components necessary to create an accessible high quality health care system that will improve health outcomes, reduce poverty, raise income levels and improve national productivity.

In the infrastructure area, water and sanitation and telecommunications are the most relevant Government of Timor-Leste (GOTL) interventions that align with this CDCS. Under water and sanitation, the Plan will improve access to clean water and sanitation across Timor-Leste, including building a major sewage collection system in Dili, providing a safe, piped, 24-hour water supply to households in 12 district centers and installing water systems and community latrines in rural areas. Under telecommunications, the Plan calls for reliable, affordable and high-speed internet access available for all, connectivity for schools, health posts and health clinics, and a competitive telecommunications market, resulting in greater access and use for

<sup>25</sup> Pauline Tweedie and Carmen Soares (2020). [And Now a Bright Spot: Timor-Leste Weathers a Pandemic](#). The Asia Foundation.

<sup>26</sup> [Timor-Leste Strategic Plan](#) (2011). Government of Timor-Leste.

all Timorese. In the economic development area, rural development, agriculture, and private sector investment most closely align with this CDCS. Under rural development, the Plan will create local jobs and promote the growth of the private sector in rural areas, including small and micro businesses, to improve the lives and livelihoods of people living in rural areas. Under agriculture, the Plan will expand food security by improving farming practices and production of specific value chains. Under private sector investment, the Plan will improve the business and investment environment and provide better access to microfinance, setting in place the foundations for Timor-Leste’s future growth and development.

These three key areas are built upon two cross-cutting components: institutional framework and macroeconomic foundation. Under institutional framework, the Plan identifies good governance and public administration reform as essential for the effective delivery of quality government services and the foundation for a modern and prosperous nation. Under macroeconomic foundation, the Plan recognizes that to provide jobs and ensure that all benefit from Timor-Leste’s progress, the GOTL must develop a flourishing, diverse market economy with a strong private sector, a modern agriculture sector, a thriving tourism sector, and growth of small and micro businesses.

## UNPACKING THE JOURNEY TO SELF RELIANCE

Under this CDCS, USAID/Timor-Leste strategically prioritizes certain sub-dimensions and metrics below from the J2SR Country Roadmap for investment.<sup>27</sup> The selection of these sub-dimensions and metrics reflects a mix of strengths and weaknesses from the Country Roadmap that together define the strategic areas which USAID/Timor-Leste believes are most important for building capacity and commitment to further Timor-Leste’s J2SR.

**Economic Policy:** While generally, the Economic Policy sub-dimension looks to be average compared to other low- or middle-income countries, one crucial metric is missing - Business Environment. To better understand this metric, the Mission considered a proxy indicator - the World Bank Doing Business ranking - which showed that Timor-Leste is 181 out of 190 countries, putting it in the bottom 10 worst countries in which to do business.<sup>28</sup> To triangulate this proxy, the Mission also considered another index - the Heritage Foundation’s Index of Economic Freedom - which ranked Timor-Leste as 171 out of 180 countries in terms of economic freedom, again placing Timor-Leste among the worst performers and categorizing the economy as “repressed.”<sup>29</sup> Given these two proxies, the Mission sees the Business Environment as a key area to address to improve economic self-reliance.



*Timor-Leste’s Journey to Self-Reliance Country Roadmap Commitment Sub-Dimensions and Metrics*

<sup>27</sup> See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap.

<sup>28</sup> [Doing Business](#) (2020). World Bank.

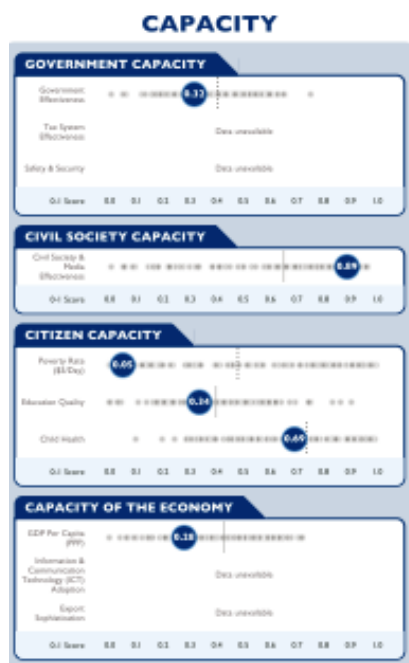
<sup>29</sup> [Index of Economic Freedom](#) (2020). Heritage Foundation.

**Inclusive Development:** While on the whole, the Inclusive Development sub-dimension appears to be average, the Economic Gender Gap metric ranking places Timor-Leste as one of the lowest among all countries measured and the bottom spot in the East Asia and the Pacific region. Given this poor performance, the Mission sees this area as crucial for investment; gender equality is cited by many studies<sup>30</sup> as a driver of economic growth.

**Capacity of the Economy:** Although the GDP per capita metric within the Capacity of the Economy sub-dimension looks above average according to the Roadmap, this rating is very much based on the oil economy, and does not translate into the shared wealth and prosperity of the Timorese people as is evident from the Poverty Rate metric, which is among the lowest in countries rated. While the Information and Communications Technology (ICT) Adoption and Export Sophistication metrics are missing, proxy metrics<sup>31</sup> and reports<sup>32</sup> confirm the idea of wealth not translating into prosperity. While ICT services exist, they are unaffordable and therefore remain unused by a large majority of the population. Likewise, exports exist, but are almost uniquely related to oil which directly benefits a small number of individuals.

**Government Capacity:** The Government Effectiveness metric within the Government Capacity sub-dimension is rated below average. This is particularly true for public financial management. While Timor-Leste ranks 93 out of 180 countries in terms of corruption, with a score of 38 points out of 100,<sup>33</sup> budget planning and execution systems are weak, and public expenditures sometimes at odds with policy aims. Given political support for anti-corruption and transparency efforts, there are definite opportunities for USAID to strengthen institutions in various sectors of importance, for example, health, customs/trade, and parliamentary systems.

**Citizen Capacity:** This sub-dimension is below average, and in the case of the Child Health metric does not adequately convey the poor state of health, particularly child health, in Timor-Leste. Timor-Leste has one of the worst wasting and stunting rates among children under five in the world (24 percent and 46 percent, respectively)<sup>34</sup> and ranks 106 out of 107 in global hunger.<sup>35</sup> Poor health outcomes in Timor-Leste are a function of poor government effectiveness. The lack of budget planning and execution, poor human resources for health, insufficient oversight and internal controls, medicine spoilage, and non-transparent procurement practices create a health system that is unable to deliver health services to its population.



*Timor-Leste's Journey to Self-Reliance Country Roadmap  
Capacity Sub-Dimensions and Metrics*

<sup>30</sup> See [The Win-Win Case for Women's Economic Empowerment and Growth: Review of the Literature, The Case for Gender Equality, Family-friendly policies a key driver of economic growth, How advancing women's equality can add \\$12 trillion to global growth.](#)

<sup>31</sup> [Global ICT Development Index](#) (2017). ITU.

<sup>32</sup> See [Regulatory Policy and ICT Trends. Insights from Timor-Leste](#) (2019). UNESCAP.

<sup>33</sup> [Corruption Perceptions Index](#) (2019). Transparency International.

<sup>34</sup> Timor-Leste Demographic and Health Survey (2016).

<sup>35</sup> [Global Hunger Index](#) (2020).

As a result, the ineffective public health system exacerbates poor child health, creating permanent and life-lasting effects on depressed educational outcomes and future economic/productivity potential, which could stifle the benefits of a demographic dividend. The World Bank estimates that undernutrition costs the Timorese economy \$41 million annually.<sup>36</sup> Recent analyses synthesized by the World Bank found that addressing stunting in a population increases school completion by an average of one year; raises adult wages by 5-50 percent; reduces poverty in 33 percent of children when they reach adulthood; and, increases GDP by 4-11percent.<sup>37</sup> Similarly, poor education outcomes - nearly 37 percent of rural youth (15-24) are illiterate, 70 percent of grade one students do not meet basic learning outcomes<sup>38</sup> - can also be framed as a governance issue. Investment in the education sector has declined from 9.15 percent of total government expenditure in 2010 to 7.29 percent in 2018.

**Civil Society Capacity:** As reflected in the sub-dimension's high ranking, Timor-Leste has welcomed and supported the engagement of civil society since independence, which led to the creation and registration of a large number of local civil society organizations (CSOs), primarily intended to provide project implementation support in rural areas. Unfortunately, this sub-dimension does not capture that most CSOs in Timor-Leste are strictly donor dependent, as international non-governmental organization subcontractors, and many cease to exist after project funding ends. As a result, CSOs suffer from high turn-over, low technical capacity, and weak administration. There is an opportunity to strengthen civil society and build its capacity to act as an advocate of citizens and as a public watchdog, ensuring accountability and transparency. USAID can leverage the large number of CSOs to influence GOTL policy decisions, with a particular focus on identifying and building upon the capabilities of the large youth contingent within civil society.

Taken together, these metrics and sub-dimensions indicate that to further Timor-Leste's self-reliance transition, USAID/Timor-Leste should strategically invest in programs that: 1) reform economic policy and build economic capacity for all people (especially women) so that all Timorese can benefit from existing potential and build greater shared wealth and prosperity; and 2) improve government effectiveness, particularly as it relates to key public services, institutions, accountability, and transparency, including through public financial management and through CSO engagement. By the end of the CDCS period, USAID/Timor-Leste will have piloted the investments needed for a new accountable and transparent Timorese society that harnesses human capital and its comparative advantages to build a diverse and inclusive economy. The Strategic Approach below discusses how USAID/Timor-Leste will operationalize this transition towards self-reliance and lay the foundations for tomorrow's self-reliant Timor-Leste.

## STRATEGIC APPROACH

USAID/Timor-Leste's strategic approach reflects the country context illustrated above, which describes a small, young, democratic country with aspirations, resources, and commitment, that needs to prioritize implementation. To assist Timor-Leste in realizing its vision, USAID/Timor-Leste is using a three-pronged strategic approach to ensure that programmatic inputs remain focused on achieving development objectives and address the CDCS goal: 1) addressing and leveraging self-reliance gaps and strengths; 2) inclusiveness as a result, an objective, and a means; and, 3) flexible and adaptive program management. Together, these three themes appear throughout the CDCS and represent the aspirational, operational, and managerial approaches to implementing this strategy.

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<sup>36</sup> Provo, Anne; Atwood, Steve; Sullivan, Eileen Brainne; Mbuya, Nkosinathi. 2017. Malnutrition in Timor-Leste: A Review of the Burden, Drivers, and Potential Response. World Bank, Washington, DC. World Bank.

<sup>37</sup> Idem.

<sup>38</sup> [National Human Development Report: Timor-Leste](#) (2018). UNDP.



## ADDRESSING AND LEVERAGING SELF-RELIANCE GAPS AND STRENGTHS

One of the greatest shifts and newest approaches within this CDCS is the inclusion of the J2SR Country Roadmap and its associated J2SR Components that clearly provide a snapshot of where Timor-Leste is in relation to its peers and neighbors. Using the Country Roadmap as a guide, USAID/Timor-Leste will invest heavily in building country capacity across its entire portfolio. Poor health and education, and chronic poverty, are major roadblocks to building self-reliance. The CDCS recognizes this human capacity gap and will build skills throughout the portfolio so that all Timorese can live up to their potential. To do this most effectively, USAID/Timor-Leste envisions pivoting away from a traditional health program to one focused on health systems strengthening and health governance. In concert with this, USAID/Timor-Leste will seek to deliver improved education through vocational education, skills training, and job placement rather than via traditional basic education programming. This practical approach to human capacity building will immediately generate impact among its beneficiaries and allow for USAID to leverage synergies from other economic growth programs that seek to build small and medium enterprises. In other words, this strategy envisions building the supply and demand for skilled labor. USAID/Timor-Leste will also integrate human capacity building into its other programs, especially in CSO development and institutional effectiveness, by building the capacity of health workers, public officials, and civil servants to perform better and be more responsive to citizens.

*“USAID will empower GOTL champions to better advocate for resources and use them effectively, support the nascent private sector to grow, diversify sources of potential growth for the Timorese economy, and build the capacity of all Timorese, especially marginalized populations, to contribute to the economic growth that over time will eventually power the Timorese economy.”*

Another J2SR-related emphasis in this strategy will be redefining the development relationship (RDR) between USAID and the GOTL so that policy, resources, and priorities can align to generate greater commitment and capacity on the journey to self-reliance. Since Timor-Leste’s independence in

2002, the United States and Timor-Leste have enjoyed excellent bilateral relations based on shared interests and values. In 2019, the GOTL issued a new Foreign Assistance Policy requesting direct budget support and use of host country government systems. Consequently, the Mission is considering direct engagement with the GOTL, subject to all required analyses and assessments, and further discussions to determine where those opportunities will be met with domestic resource mobilization.

In addition to RDR, this CDCS also recognizes that the current global context has had a profound effect on Timor-Leste’s development priorities. Both the recent drop in oil prices and the collapse of global supply chains have affected Timor-Leste economically in ways that were previously unimagined and which directly threaten the ability of Timor-Leste to continue its previous economic development policies which centered around oil and gas extraction. Understanding this, the GOTL has reordered its economic development priorities, deemphasizing public sector oil extraction and reemphasizing economic diversification and private sector growth. This window of opportunity will allow the Mission to address two financing self-reliance (FSR) gaps - that of advocating how best to direct resources from the Sovereign Wealth Fund to build self-reliance, and that of how to build a “post-oil” economy. To address these gaps, USAID will empower GOTL



champions to better advocate for resources and use them effectively, support the nascent private sector to grow, diversify sources of potential growth for the Timorese economy, and build the capacity of all Timorese, especially marginalized populations, to contribute to the economic growth that over time will eventually power the Timorese economy. While still nascent, this CDCS will lay the building blocks for a future Timor-Leste that draws upon its natural and human resources to build a sustainable and dynamic economy.

### **INCLUSIVENESS AS AN OBJECTIVE, A RESULT, AND A MEANS**

Given the state of marginalization in Timor-Leste, this CDCS will emphasize inclusiveness as an overarching objective within its goal statement, a specific result in its intermediate results, and as a means to achieve the strategy in engaging excluded youth, women, civil society, and the private sector. As discussed below, the CDCS's goal statement specifically mentions inclusiveness as a guiding theme that runs throughout the strategy. This elevation of inclusiveness speaks both to the country context and to the affirmations that the only sustainable way to development is inclusive development. Furthermore, inclusiveness is also present within specific intermediate and sub-intermediate results of the CDCS results framework. In order to ensure accountability between the Mission, its implementing and development partners, and the GOTL, USAID/Timor-Leste is committed to inclusive development as a specific result with all of its accompanying responsibilities and requirements. Civil society has an important role to play in building a strong and prosperous democracy. USAID/Timor-Leste will actively pursue partnerships with local civil society and private sector partners to contribute to the innovation and sustainability of USAID's investments, whether it be holding the government accountable or diversifying the economy. While specific intermediate results address civil society and private sector engagement (PSE), USAID/Timor-Leste will integrate CSO engagement and PSE throughout the portfolio. USAID/Timor-Leste will continue its PSE approach, which strengthens local system actors to improve enterprise development, through entrepreneurship skills building, business incubation, business support platforms, and access to finance. Lastly, this strategic approach also considers inclusiveness to extend to collaboration with international development partners and the U.S. interagency to reduce overlap, improve complementarity, and, to the greatest extent possible, capitalize on opportunities to leverage resources and expertise to further the CDCS.

### **FLEXIBLE AND ADAPTIVE PROGRAM MANAGEMENT**

The strategic choices made within this CDCS reflect the intersection of available financial and human resources with USAID/Timor-Leste's comparative advantage, experience, and adaptability to make informed, data-driven decisions. These strategic choices are grounded in certain political and economic assumptions and parameters that may potentially change during the CDCS period. By actively pursuing rigorous monitoring and evaluation (discussed below), institutionalizing Mission processes for change and adaptation, and periodically "course correcting" to capitalize on opportunities for reform, this CDCS is prepared to assess the shifting context and offer the Mission's Management strategic alternatives. Also, by expanding economic diversification and private sector engagement beyond that of agriculture, this CDCS is looking to future opportunities within the industries and value chains that have the potential to drive Timor-Leste's economic future. Lastly, this CDCS takes a systems approach to many of its sectors (economic development, health, customs, political processes), instead of focusing primarily on service delivery (like health services or elections) so that solutions to gaps and needs are sustainable, rather than just opportunistic. USAID/Timor-Leste believes that this approach will ensure that the Mission continues to make strategic choices throughout the life of the CDCS, rigorously monitoring and evaluating its programs to validate or adapt its theory of change thereby furthering Timor-Leste's self-reliance.

## RESULTS FRAMEWORK

### GOAL STATEMENT AND NARRATIVE

As highlighted in the country context, the Timorese economy is acutely dependent on the extraction of oil and gas to fuel government expenditures. A large portion of that revenue is used to further that extraction. By creating an economic system that is focused on fossil fuels as the driver of growth, and in which only a fraction of the workforce participates in or benefits, the GOTL has limited its ability to create economic opportunities for its population. This economic system, combined with the relatively recent establishment of Timor-Leste as a country, also has consequences on governance. While Timor-Leste has done remarkably well to promote democratic ideals (such as voting), the implementation of those ideals is lacking.<sup>39</sup> Insufficient funding for social programs, ineffective services and inadequate oversight have left many Timorese dissatisfied. The country has experienced political instability, regular government turn-over, and poor health and nutrition outcomes. Moreover, large portions of the population (particularly youth and women) are excluded from the workforce, employed in the informal sector, or unemployed. Timor-Leste faces increased pressures from the collapse of oil prices and the COVID-19 pandemic on its citizens due to its oil and gas dependency and youth bulge; together, these challenges have exacerbated food security, compounded unemployment, and weakened the overall economy. In short, while endowed with tremendous natural resources, this has not translated into widespread prosperity for its citizens.

To address these issues, USAID/Timor-Leste will pursue **“An inclusive, prosperous, and healthy Timor-Leste that is more self-reliant”** as its goal statement for the CDCS. “Inclusive, prosperous, and healthy” were specifically chosen by USAID/Timor-Leste as the three key themes to further self-reliance and that intersect with all interventions within the CDCS, from workforce development to business-enabling environment and government accountability. Inclusion is critical given that Timorese youth and women have been largely excluded from political and economic life - only 25 percent of the female workforce is employed and about 70 percent of the population is under 30 years old. By taking adequate steps to prepare and include these populations in public life, Timor-Leste will seize upon an opportunity for growth and actively contribute to stability, reinforcing its hard-earned peace. Prosperity refers both to the need for broad-based economic growth in Timor-Leste that reaches all citizens and to improved economic sovereignty, in line with the priorities for Indo-Pacific region. Health is related to both economic growth (increased availability and consumption of nutritious food, enabling private health services and ensuring that healthy Timorese can actively contribute to economic growth) and good governance (improving the quality of and access to public health service delivery).

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<sup>39</sup> See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap.

*“USAID will lay the foundations to ensure that all Timorese, particularly the most vulnerable, are able to reap the benefits of a nascent private sector and better governed Timor-Leste.”*

With relatively modest investments, USAID will lay the foundations to ensure that all Timorese, particularly the most vulnerable, are able to reap the benefits of a nascent private sector and better governed Timor-Leste. Moreover, in support of the priorities for the Indo-Pacific region, USAID will continue to partner with many donors through regular consultation, donor coordination groups, and political engagement, strengthening Timor-Leste’s economic diversification and democratic processes as part of Timor-Leste’s journey to self-reliance. If improvements to governance and the private sector are to remain sustainable and profit all segments of the population, greater investments must be made to provide basic social services (including health) and to adhere to the social compact, ultimately by improving overall government accountability and effectiveness, especially in terms of domestic resource mobilization.

#### **DO 1: TIMOR-LESTE’S NON-OIL SECTOR ECONOMY STRENGTHENED**

*Development Hypothesis Statement:* IF underemployed and underutilized populations (particularly women and youth) are better prepared to contribute to the nascent formal private sector AND key sectors for private sector growth are expanded creating opportunities for employment and income generation AND the enabling environment for private sector is improved to spur private sector growth and investment THEN the foundations for economic diversification away from the oil economy will be put into place ULTIMATELY leading to a more prosperous and inclusive Timor-Leste that is on the path to self-reliance.

*Development Hypothesis Narrative:* Since its establishment in 2002, Timor-Leste’s economy has been dependent on oil extraction to fuel GDP and government spending. Oil accounts for 95 percent of total exports, 75 percent of total revenues,<sup>40</sup>

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<sup>40</sup> [Country Risk of East-Timor](#) (2020). Société Générale.

and about 40 percent of GDP<sup>41</sup> making it one of the most oil-dependent countries in the world. Government spending on civil servants and capital investments constitutes the largest driver of non-oil GDP, while the GDP share of productive sectors (such as agriculture) declined from 24 percent in 2000 to 9.2 percent in 2016. A substantial body of literature has demonstrated that economic diversification is a driver of sustainable growth at the early stages of development, conversely associating the lack of diversification with both lower economic growth and higher volatility.<sup>42</sup> Moreover, additional analysis<sup>43</sup> suggests that concentrated export sectors that dominate domestic economies (such as oil and gas in Timor-Leste's case) expose that economy to international price shocks; this is particularly true given oil's extreme price variability as demonstrated by the sudden 20 percent drop in oil prices in March 2020. Studies have also shown that oil-based reliance and volatility may actually deter investment and economic growth, in a phenomenon known as "Dutch Disease."<sup>44</sup>

The GOTL has historically used a large part of its oil revenues to fund investments to further oil extraction, pensions and welfare programs, and large non-oil infrastructure projects. By comparison, very little of the oil revenues goes to building human capital, providing adequate public services, or improving private investment or growth (beyond basic infrastructure work). Women and youth are largely outside of the workforce or relegated to the informal sector due to limited work exposure, lack of entrepreneurial acumen, low employability skills, and limited financial integration or literacy.<sup>45</sup> Multiple studies demonstrate that when youth have difficulty finding decent work at their entry into the labor market, they will likely face poor labor market outcomes over longer periods,<sup>46</sup> including lower earnings, higher probability of unemployment, and lower health and job satisfaction in adulthood.<sup>47</sup> Moreover, effects from changes in climate affect women and youth more strongly in the market and in their participation in the workforce and markets. Similarly, greater

*"Multiple studies demonstrate that when youth have difficulty finding decent work at their entry into the labor market, they will likely face poor labor market outcomes over longer periods, including lower earnings, higher probability of unemployment, and lower health and job satisfaction in adulthood. Similarly, greater gender inequality lowers economic growth and leads to mediocre development outcomes, increasing income inequality, reducing economic diversification, and stifling economic resilience."*

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<sup>41</sup> [Extractive Industries Transparency Initiative: Timor-Leste](#) (2020). EITI.

<sup>42</sup> Romina Kazandjian et al. (2014). [Gender Equality and Economic Diversification](#). Working Paper 16/140. IMF.; and, Papageorgiou, Chris & Spatafora, Nikola. (2012). Economic Diversification in LICs: Stylized Facts and Macroeconomic Implications. Staff Discussion Notes. 12. 1. 10.5089/9781475532180.006.

<sup>43</sup> Michael L. Ross (2017). [What Do We Know About Economic Diversification in Oil-Producing Countries?](#). UCLA

<sup>44</sup> Ebrahim-Zadeh, Christine (March 2003). "Back to Basics – Dutch Disease: Too much wealth managed unwisely". *Finance and Development, A quarterly magazine of the IMF*. IMF.

<sup>45</sup> Dalberg Global Consulting (2020). Timor-Leste – Youth employment strategy.

<sup>46</sup> ILO (2012). *Global Employment Trends for Youth*, Geneva: International Labour Organization

<sup>47</sup> see Kletzer, L.G. and Fairlie, R.W. (2003) 'The Long-Term Costs of Job Displacement for Young Adult Workers', *Industrial and Labour Relations Review* 56.4: 682–98; Burgess, S.; Propper, C.; Rees, H. and Shearer, A. (2003) 'The Class of 1981: The Effects of Early Career Unemployment on Subsequent Unemployment Experiences', *Labour Economics* 10.3: 291–309; Bell, D.N.F. and Blanchflower, D.G. (2011) 'Young People and the Great Recession', *Oxford Review of Economic Policy* 27.2: 241–67.

gender inequality lowers economic growth and leads to mediocre development outcomes, increasing income inequality, reducing economic diversification, and stifling economic resilience.<sup>48</sup>

The GOTL has demonstrated its commitment to private sector growth, setting ambitious targets in the *Program for the Eighth Constitutional Government of Timor-Leste*,<sup>49</sup> which include an average economic growth rate above seven percent, an increase in private investment by at least 10 percent per annum, and the creation of at least 60,000 new jobs per year. These targets are in line with recommendations from the World Bank<sup>50</sup> and IMF<sup>51</sup> that cite the need to enhance the competitiveness and performance of private firms to accelerate growth and sustainably raise living standards as the most important priority for Timor-Leste in both the short and medium term. The ability for oil and gas to drive long-term economic growth in Timor-Leste is limited. Timor-Leste needs support in order to shift towards a more private sector-driven growth model not solely dependent on government tenders and to meet the demands of its growing, unemployed, and politically disenfranchised youth population. If Timor-Leste fails to diversify the economy and remains dependent solely on fossil fuel revenues, the country will miss key opportunities to leverage the transformative potential of the demographic dividend<sup>52</sup> for the economy.

To support Timor-Leste's commitment to private sector growth, **Development Objective 1: Timor-Leste's Non-Oil Sector Economy Strengthened** will lay the foundations for non-oil growth by uniting three components - human resources, production knowledge, and institutional framework - necessary to build private sector capacity.<sup>53</sup> DO 1 embodies these three components in its intermediate results (IR) discussed below. By preparing women and youth to formally contribute to the economy, strengthening key sectors where opportunities for growth are most likely, and creating an environment ripe for economic investment and growth, this DO will lay the foundations for diversifying the economy away from oil.

This DO capitalizes on commitments from the GOTL to pursue economic diversification and implements the foundations for that transformation to occur. The *Program for the Eighth Constitutional Government of Timor-Leste* is aligned with USAID's principles of self-reliance in its emphasis on increasing transparency in procurement, and increasing the capacity to finance self-reliance by implementing cost-benefit and return on investment analyses within the decision-making processes. The GOTL views infrastructure development as a crucial driver for economic and social development, and it is financing key capital investment upgrades, particularly transportation facilities which are key for expanding trade opportunities, and creating jobs and economic opportunities for Timorese enterprises. To further this commitment under DO 1, USAID proposes to assist the GOTL by supporting transparent third-party review of infrastructure options. This would assure the GOTL and the public that projects are not awarded to companies that do not have the capabilities or experience to adequately perform, making good on Timor-Leste's goals of reducing corruption and sustainable infrastructure. In the productive sectors, the government's

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<sup>48</sup> [Pursuing Women's Economic Empowerment](#) (2017). Meeting of G7 Ministers and Central Bank Governors, June 1-2, 2018

Whistler, Canada: IMF.

<sup>49</sup> [Program for the Eighth Constitutional Government](#) (2020). Government of Timor-Leste.

<sup>50</sup> [Timor-Leste Economic Report: Unleashing the Private Sector](#) (2019). World Bank Group.

<sup>51</sup> [IMF Country Report No. 19/124](#)

<sup>52</sup> The demographic dividend is the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). It is a boost in economic productivity that occurs when there are growing numbers of people in the workforce relative to the number of dependents. See [UNFPA](#) for more information.

<sup>53</sup> [Timor-Leste Economic Report: Unleashing the Private Sector](#) (2019). World Bank Group.



economic development program is pursuing economic diversification by allocating more resources for developing what it sees as the “essential industries” of agriculture, tourism and oil.

This DO contributes to the CDCS goal by directly addressing the foundations for long-term prosperity and inclusiveness in Timor-Leste’s economy, attempting to improve the worst-performing metric in the J2SR Country Roadmap - Poverty Rate. Throughout this DO, USAID will also strengthen J2SR Components - PSE and FSR - to foster sustainability. To strengthen PSE, USAID will build the capacity of the nascent private sector to respond to market needs, foster a culture of entrepreneurship, and create the enabling environment necessary for greater private sector growth and investment, ultimately improving sustainability and creating opportunities for market-based solutions to development problems to take root in Timor-Leste. Similarly, USAID will address FSR issues through this DO, particularly domestic revenue mobilization (DRM). According to the USAID FSR roadmap, two of the major DRM components that are problematic in Timor-Leste are tax revenue and the enabling environment for private sector investment. By diversifying Timor-Leste’s economy through DO 1, USAID will broaden the tax base by having the formal private sector pay taxes or other revenues to the government, increasing the GOTL’s revenue streams for reinvestment into Timor-Leste’s development. In order to reach this point, USAID will support the establishment and growth of formal enterprises and also incentivize informal enterprises to move into the formal sector through an improved business enabling environment. While Timor-Leste is only at the beginning of this generational transformation for PSE and FSR (DRM), the youth bulge and current oil reserves provide a window of opportunity to address these issues.

While the greatest concern for Timor-Leste during the COVID-19 pandemic is protecting its citizens and increasing its preparedness to deal with health threats, the economic impacts of COVID-19 may be equally devastating, and require swift and bold action to shore up an already fragile economy as described above. COVID’s economic impacts due to disrupted supply chains and infrastructure from events like floods, international demand shocks, and reduced domestic consumption will result in job losses, bankrupted businesses, and reduced production/trade (including in agriculture due to reduced availability of inputs). These impacts will create additional pressure on already vulnerable populations, especially women and households wavering on or near the poverty line. The need for a decisive and swift response to COVID-19 will further expose the weak capacity of Timorese institutions and highlight the need for improved economic policies.<sup>54</sup> In response to these unprecedented needs, this DO will reach out to those that are increasingly economically vulnerable, providing them skills and opportunities to compete in the labor market. USAID will provide firm-level support to micro, small and medium enterprises (MSMEs) in sectors that show promise for growth, ensuring that these MSMEs can weather the COVID-19 storm and serve as engines of growth and employment for their communities. COVID-19 is also an opportunity for further engagement with the GOTL, which understands the need to make policy shifts and diversify the economy. USAID will leverage this opening to improve the policies and procedures that currently hinder investment and exports, all the while strengthening firms that may be competitive for export once supply chains and international trade become reestablished at a later date.

This DO reinforces the key priorities for the Indo-Pacific region through foundational economic governance and private sector programs that will foster Timor-Leste’s economic independence and ability to participate in the regional economy as an equal. Throughout implementation of this DO, USAID will remain engaged with like-minded donors to promote economic diversification and transformation as the most sustainable way to shore up economic sovereignty and reduce vulnerability to oil price shocks. Bilateral and multilateral donors will be key partners in pressing for economic reform. This DO will also help foster Timorese engagement with regional economic and cooperation bodies. USAID will continue closely aligning efforts with, but not limited to, the

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<sup>54</sup> [Timor-Leste Economic Report: A Nation Under Pressure](#) (2020). World Bank.



government of Australia in improving the ICT sector, the ADB to modernize the energy sector and its regulatory framework, and New Zealand in aquaculture development and advancing the tourism sector. USAID will implement complementary activities in these areas, allowing both to scale outcomes and results faster and farther.

## **DO1: INTERMEDIATE RESULTS (IR) STATEMENTS AND NARRATIVES**

### **IR 1.1 ECONOMIC INCLUSION OF WOMEN AND YOUTH EXPANDED**

*“If labor productivity growth and job opportunities for youth can reach average levels of middle-income countries by 2030, non-oil GDP growth could be raised by over 2.5 percentage points per year. Moreover, given the youth bulge, Timor-Leste has a limited 30-40 year window to invest in youth skills and employment so that it can reap the economic benefits of a growing and productive workforce.”*

As stated above, one of the greatest challenges to creating a more diversified economy in Timor-Leste is that the workforce is unable or ill-equipped to respond to labor market demands or create those opportunities for themselves (entrepreneurs). Currently, only 26 percent of women have employment contracts compared with 74 percent for men in Timor-Leste.<sup>55</sup> While regionally there has always been an economic gender gap, Timor-Leste is among the poorest performing countries in Southeast Asia on women’s employment. Moreover, 70 percent of the population is under 30 years old. Unemployment for youth under 30 years old and who are not in school or training is double that of the general population, 22 percent and 11 percent respectively, and above the global average of 14 percent for middle-income countries.<sup>56</sup> The J2SR Country Roadmap confirms this Economic Gender Gap as one of the lowest for all low- and middle-income countries. Generally, entrepreneurs are the driving force of any economy; the lack of entrepreneurial skills in Timor-Leste has further contributed to economic instability and poverty. Moreover, Timor-Leste imports foreigners for mid-level managerial positions that could be filled by Timorese, but the Timorese workforce’s business skill set needs to be improved in order to be competitive for these positions.

This significant waste of potential Timorese human resources to fill market needs translates to GDP losses in Timor-Leste. If labor productivity growth and job opportunities for youth can reach average levels of middle-income countries by 2030, non-oil GDP growth could be raised by over 2.5 percentage points per year.<sup>57</sup> Moreover, given the youth bulge, Timor-Leste has a limited 30-40 year window to invest in youth skills and employment so that it can reap the economic benefits of a growing and productive workforce.<sup>58</sup> Recent analyses<sup>59</sup> recommend that in order to increase the economic

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<sup>55</sup> [IMF Country Report No. 19/124](#)

<sup>56</sup> [IMF Country Report No. 19/124](#)

<sup>57</sup> [IMF Country Report No. 19/124](#)

<sup>58</sup> [National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>59</sup> [IMF Country Report No. 19/124](#)

contributions of women and youth, investments must improve basic education outcomes, increase female labor force participation and job opportunities, address skilled labor shortages, and strengthen implementation of labor regulations. To demonstrate its commitment to human capacity, the GOTL created a multi-year Human Capital Development Fund to ensure the financing of public investment in training and human resource development; provide a whole of government and coordinated approach; provide certainty in the negotiation and execution of agreements, programs and projects that extend beyond one year; and promote transparency and accountability through improved systems of reporting for the implementation programs and training projects. The current government has also placed youth job creation and employment, and expansion of access to finance for women through business loans as top policy priorities. Building off these commitments, under IR 1.1, USAID will focus its investments on female and youth labor force participation, job opportunities, and skilled labor shortages. USAID anticipates aligning the scope of this IR with the youth and women's employment targets set in the GOTL's National Employment Strategy 2017-2030 that called for the creation of: 1) more and better employment opportunities for the existing labor force; 2) new employment for young people entering the labor force; and 3) employment opportunities for women, whose productive capacity is underutilized. USAID expects that by improving outcomes in these three areas, IR 1.1 will not only improve the skills of women and youth, but also place them into new or better jobs that improve their livelihoods and increase their earnings. This IR has a direct linkage to IR 1.2 and IR 1.3, which will create opportunities in the private sector to absorb this workforce and improve the business enabling environment that will improve employment policy. USAID will also engage larger businesses to establish "internship" programs for junior and mid-level managers, and faith-based organizations for talent development. While men will not be excluded from participating in activities under this IR, men outside the youth demographic already dominate the formal economy, occupying approximately two-thirds of formal employment. Women and youth are largely outside of the workforce or relegated to the informal sector, making them by far the target group for intervention. Unfortunately, gender-based violence (GBV), early marriage, early pregnancy, and low educational attainment are all significant barriers to women and youth participation in the labor force; rates of violence are 10 percent higher among women who earn an income (a total 65 percent of all women earning an income) whether in the formal or informal sector as opposed to GBV against women who do not earn an income (a total of 55 percent).<sup>60</sup> To mitigate these higher rates of violence against women, youth and other minorities (including but not limited to LGBTI, and gender and sexual minorities) which may act as a barrier to employment, this IR will work in conjunction with other IRs across the CDCS to: utilize a "Do No Harm" approach in economic empowerment programming to minimize risks of GBV; take into account the reality of women's significant domestic burdens; promote entry into non-traditional, higher-earning occupations through training and vocational education opportunities; create more accessible finance for women; and advance the ability of women to start and grow businesses.<sup>61</sup>

### **IR 1.2: PRIVATE SECTOR IN KEY GROWTH SECTORS STRENGTHENED**

A diversified economy also requires that there be something to diversify towards, meaning other economic sectors that have a high potential for growth. In this case, high growth potential is defined as sectors that demonstrate commercial viability, offer the best private sector outlook, contribute to broad based economic growth, offer positive social impact potential, and align with GOTL interests and policy champions.<sup>62</sup> By strengthening agricultural and non-agricultural high growth potential value chains and sectors, this IR will create opportunities for employment, reduce poverty, demonstrate the economic viability of further investment into the non-oil economy, and

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<sup>60</sup> The Asia Foundation. 2016. Understanding Violence against Women and Children in Timor-Leste: Findings from the Nabilan Baseline Study – Main Report. The Asia Foundation: Dili.

<sup>61</sup> USAID/Timor-Leste 2020. CDCS Gender Analysis. USAID: Dili.

<sup>62</sup> Dalberg Global Consulting (2020). Timor-Leste – Youth employment strategy.

ultimately offer sustainable solutions to local development problems through PSE. In particular, investments under this IR will work with nascent private sector actors to build their capacity and enable them to become enterprises that fuel growth within their communities and ultimately reduce poverty for their employees and clients. Sectors that currently exhibit high growth potential include horticulture, ICT, tourism, aquaculture, and cash crops; however, given COVID-19-related changes to supply chains and international movements, additional analyses may be needed to identify sound investments in the short term (such as domestic tourism rather than international tourism). Under the previous CDCS, the Mission achieved considerable success in increasing agricultural production and marketing, transforming subsistence farmers into profitable micro and small businesses. A logical next step is to support processing and preservation of primary products to compete with imports, creating greater income and employment. As stated above, by growing and establishing viable formal enterprises, efforts under this IR will broaden the tax base in Timor-Leste and create additional revenue for the GOTL to reinvest into its policy priorities.

### **IR 1.3: ENABLING ENVIRONMENT FOR PRIVATE SECTOR GROWTH BOLSTERED**

Lastly, a diversified economy requires that the right policy structures be put into place that incentivize private sector growth and investment. Unfortunately, private enterprises face immense challenges in Timor-Leste. Businesses in Timor-Leste are younger, smaller, less capital intensive, and have lower labor productivity compared with regional neighbors. Their performance is weakened by cumbersome import and business regulations, unreliable electricity and water services, inadequate workforce skills and education, and limited access to finance. Support for small and growing businesses is not available from business associations and foundations, government institutions or private business development service providers. These enabling environment challenges prevent the private sector from investing in Timor-Leste as evidenced by Timor-Leste's ranking of 181 out of 190 economies in the World Bank Doing Business report. To address these challenges, IR 1.3 will work with both government and private sector actors to strengthen trade and investment opportunities, increase ICT usage, and streamline the laws, regulations, and policies that hinder competition.

To address trade-related constraints to private sector growth, this IR will work with customs brokers, traders, and international trade associations to promote international trade. While IR 2.2 will work on the governance, institutional weaknesses and regulations concerning customs and trade, this IR will work with the private sector to both improve their advocacy to the GOTL on how to improve trade and exports, as well as increase the ability and orientation of private sector actors towards potential trade partners through investment and trade facilitation.

Timor-Leste's significant natural resources and strategic location in the Indo-Pacific region, combined with an unregulated ICT sector, increases potential for exploitation and cyber-attacks. The underdeveloped ICT sector also represents a key binding constraint on economic growth opportunities and future investments. This IR will seek to improve ICT use and infrastructure by convening sector stakeholders to inform national policies and regulations for the ICT sector, transferring skills and knowledge to the GOTL to adopt and implement critical policies and regulations, and engaging the private sector to catalyze private sector investment to improve essential infrastructure, products, and services.

This IR will also convene, network, and act as a secretariat to facilitate reforms that are needed to improve regulatory stability and transparency, access to finance, contract transparency and enforcement of law, land tenure security, trade competitiveness, and reduce corruption. In collaboration with the private sector outside the fossil fuel and construction sectors, USAID/Timor-Leste will help stakeholders prioritize enabling environment obstacles that prevent Timor-Leste's private sector from growth and then invest in those reforms that demonstrate high levels of commitment with promising reform champions from public and private sector leaders.

By investing in these areas, this IR will contribute to key objectives in the U.S. Indo-Pacific region in Timor-Leste and foster private sector engagement. In addition, this IR will actively seek out partnerships within the government, private sector, and other development partners to share the financial burdens for technical assistance and policy work.

As a small island nation with limited natural resources, protecting the environment is crucial to maintain biodiversity (terrestrial and marine), protect viable economic sectors (watershed management in agriculture, renewable energy, sustainable land use), and preserve tourism. In addition, the environment and plastics represent two emerging opportunities outside of agriculture where USAID can partner with the private sector and leverage their resources to achieve mutually aligned goals. For example, through the Plastics Upcycling Alliance, this IR will promote public-private partnerships for private sector management of infrastructure or services currently provided by the GOTL, such as trash collection or management of sites with high tourism potential.

## **DO 2: GOOD GOVERNANCE ENHANCED**

*Development Hypothesis Statement:* IF Timor-Leste increases citizen demand for good governance through greater inclusion and public oversight AND improves the responsiveness of effective governance institutions to citizens, THEN it will build the foundations for good governance, ULTIMATELY leading to a more prosperous and inclusive Timor-Leste that is on the path to greater self-reliance.

*Development Hypothesis Narrative:* Timor-Leste has made great progress to establish governance institutions, expand public services, and build human capital since independence; however, the country still struggles to institutionalize the core values of democracy, potentially threatening the long-term growth and stability of the country. Indeed, Timor-Leste has demonstrated its commitment to democracy through free and fair elections that have been lauded by the international community. Timorese generally support the infrastructure of democracy; however, the implementation and norms of democracy have not yet been well-entrenched leaving many young and excluded Timorese eager to see material benefits from democracy, such as government institutions inclusively representing citizens' aspirations, demonstration of government responsiveness and accountability, and the effective delivery of basic services. Defined as the processes and institutions that produce results to meet the needs of society while making the best use of resources at their disposal, "good governance" is critical to the establishment and peaceful continuance of democratic governments, especially in newly established, post-conflict states such as Timor-Leste. By definition, good governance covers a range of democratic qualities: participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and in accordance with the rule of law.<sup>63</sup>

By some measures, Timor-Leste lags behind its peers in good governance.<sup>64</sup> Timor-Leste ranks below the regional average and lower middle-income countries in Government Effectiveness, Regulatory Quality, and Rule of Law. This capacity gap is apparent in the responsiveness of government institutions to the needs of citizens through the provision of basic services and in the lack of oversight and participation that citizens have over government institutions to make them accountable, resulting in poor public health services and health outcomes, inadequate economic policies, and government instability. Effects from sea level rise and flooding exacerbate the loss of service delivery and further weaken government legitimacy. The missing relationship between government responsiveness via effective institutions and citizen oversight via CSO advocacy and increased inclusion creates a lack of transparency that diminishes public accountability, facilitates

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<sup>63</sup> [What is Good Governance?](#). United Nations Economic and Social Commission for Asia and the Pacific.

<sup>64</sup> Worldwide Governance Indicators Project (2020). The World Bank, Washington DC, USA.

corruption, and affects the overall quality of governance.<sup>65</sup>

To provide the right mix of effective institutions, policies, systems, laws, and enforcement essential to create the enabling environment for inclusive, responsive, and participatory democracy, **Development Objective 2: Good Governance Enhanced** will make significant contributions to the consolidation of democracy in Timor-Leste via two intermediate results (IRs) - 2.1 Inclusive Citizen Participation Increased, and 2.2 Institutional Effectiveness Improved. By increasing citizen participation in governance - through the mobilization of the country's largest and most vulnerable social groups, women and youth, and improving civil society oversight for good governance - and strengthening institutional effectiveness through more responsive public institutions, DO 2 will demonstrate the benefits of good governance, creating the conditions to further Timor-Leste's self-reliance.

To implement this DO, USAID will capitalize on existing government commitment as evidenced in national development plans to improve capacity gaps and strengthen ownership and sustainability by working with stakeholders and beneficiaries at various institutional levels and within the public, private, and social sectors. The GOTL recognizes the importance of good governance to the overall success of its Strategic Development Plan, placing it as a cross-cutting issue above all other sector-based initiatives. USAID/Timor-Leste will capitalize on this broad commitment to build greater GOTL commitment for governance reforms as well as build the capacity of government and citizens to engage in good governance, whether it be public financial management, CSO oversight, or service delivery. Specifically, this DO will take a "good governance" approach and select various sectors and initiatives for investment by strengthening social demand for accountability and improving the technical and managerial capacities of key government institutions. The selection of these institutions for investment reflects the areas where USAID has a recognized strategic advantage based on its long history of engagement and recognized expertise and leadership. By focusing on these specific institutions - health, customs, and political processes - USAID will be able to manageably demonstrate the benefits of good governance, build on the successes of former and current programs to promote synergies and sustainability of achievements, and reinforce the underlying conditions for more transformative good governance writ large.

Also, while COVID has been devastating both economically and socially, it has demonstrated that the GOTL cannot uniquely rely on oil revenues to fuel growth, ultimately incentivizing the GOTL to push for greater reforms and better implementation,

*"By increasing citizen participation in governance and strengthening institutional effectiveness through more responsive public institutions, DO 2 will demonstrate the benefits of good governance, creating the conditions to further Timor-Leste's self-reliance."*

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<sup>65</sup> The Asia Foundation (2015). Democracy, Representation, and Accountability in Timor-Leste. The Asia Foundation: Dili.



including in governance and anti-corruption efforts. USAID/Timor-Leste will work on the demand side of rule of law through this DO by pursuing accountability, transparency, and anti-corruption as it relates to citizen oversight and effective institutions. USAID will also advance good governance reforms across an array of sectors discussed below, increasing the likelihood for future intervention in other sectors not currently possible. USAID will work with government and civil society to foster transparency in public financial management. Running across these efforts, USAID will expand partnerships to include Locally Established Partners, and possibly Timorese and U.S. private sector so that efforts are sustainable, localized, and innovative.

While COVID-19 may have lasting effects on the economy, there are also immediate and complicating factors that aggravate current weaknesses in governance and effective institutions, including public health. In preventing new COVID cases from entering the country, the GOTL has received criticism over its procurement processes, such as sole-sourcing work to quarantine hotels, catering services, and vehicle rental firms without transparency. Although not a new phenomenon, these practices have been a source of concern for corruption.<sup>66,67</sup> Equally concerning is potential decline in public service delivery. The World Bank has stated that “institutional capacities remain weak” in Timor-Leste and that “education and health outcomes are low – especially when compared to regional peers...These existing constraints are compounded by new challenges that are a direct consequence of the current health emergency.”<sup>68</sup> To strengthen Timor-Leste’s COVID response, this CDCS will therefore reinforce the ability and capacity of the public sector in Timor-Leste to effectively implement policy interventions – both directly and indirectly related to COVID - and remain accountable to citizens for resources. Assistance under this CDCS will include: strengthening independent, co-equal branches of government; promoting open, inclusive, and accountable government; strengthening the oversight role of civil society and independent media; building on successful community-level experiences; strengthening national and community-level public health and related public information systems; supporting conflict prevention and peacebuilding; supporting national and international efforts to protect the human rights of disadvantaged populations; and promoting public integrity and a culture of lawfulness and transparency.

USAID regularly engages with several development partners and the GOTL on governance issues to differing degrees, most importantly KOICA, MFAT, DFAT, EU, ADB, and the United Nations agencies. Australia and the EU remain the largest donors operating in the democracy and governance sphere, focusing on a number of policy development and reform areas to support the GOTL to manage its resources and implement its Strategic Development Plan, including budgetary governance reforms, economic governance reforms, public administration reforms, decentralization, public financial management, reducing gender-based violence (GBV), civil society, and rule of law. While these partners address some of the underlying democracy gaps and weaknesses in Timor-Leste, there remains significant room and opportunities for USAID to implement future programming in line with this CDCS.

## **DO2: INTERMEDIATE RESULTS (IR) STATEMENTS AND NARRATIVES**

### **IR 2.1 INCLUSIVE CITIZEN PARTICIPATION INCREASED**

Despite Timor-Leste’s high ranking on the J2SR sub-dimensions Open and Accountable Governance, Inclusive Development and Civil Society Capacity, there is little actual linkage between lawmakers and constituents; policy priorities are more reflective of personal/political priorities than true citizen priorities, further disenfranchising the Timorese and preventing citizen oversight of

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<sup>66</sup> Jonas Guterres (2018). [Timor-Leste’s Corruption Challenge](#). The Diplomat.

<sup>67</sup> Bardia Rahmani (2019). [The Looting of Timor-Leste’s Oil Wealth](#). The Diplomat.

<sup>68</sup> [Timor-Leste Economic Report: A Nation Under Pressure](#) (2020). World Bank.



implementation of laws and policies, indicating a breakdown between the high commitment for democracy and low capacity to provide accountable and responsive governance. Furthermore, the lack of decentralization disempowers subnational leaders to set relevant priorities and be accountable for improved outcomes, and concentrates power centrally. As a result, there is inconsistent application of rule of law, civil society remains disempowered, and there are few opportunities for the next generation to engage in political leadership. In addition, one of the most serious problems affecting women in Timor-Leste is the pervasiveness of domestic violence and the lack of opportunities many women face to increase their economic independence and become more empowered to defend their rights. Although some progress has been made in criminalizing domestic violence, women continue to be disempowered to face abusive husbands.

To reinforce J2SR Civil Society Capacity and Inclusive Development as a tool for greater government oversight and good governance, IR 2.1 will work with civil society to address gaps in government transparency (including the processes for information sharing to the public), while at the same time increasing and leveraging civil society engagement in advocacy and oversight in order to foster a culture of accountability. This IR will also strengthen awareness among women and youth groups about their rights, improve their capacity to advocate for their rights, and mobilize larger groups of citizens to demand greater political and economic inclusion. It will also build male and female champions for gender equality and social inclusion issues, addressing the significant gender and social inclusion gaps in Timor-Leste including GBV, economic disparities, violence against LGBTI populations, and trafficking in persons. USAID/Timor-Leste will take a cross-cutting approach to counter-trafficking programming that integrates awareness and prevention interventions across existing activities, tapping into expansive institutional, civil society, and private sector networks.

Although civil society organizations are relatively active in Timor-Leste and are free to organize and express their voices,<sup>69</sup> they are still too weak to demand greater accountability and improved service delivery. Also, many civil society organizations continue to be donor dependent or rely on government sources of funding, a situation that curbs their independence and ability to criticize the government's decisions and actions. As such, civil society does not regularly advocate for local constituents, nor does it have the capacity to engage in government oversight. Civil society organizations, despite their organizational and financial weaknesses, can be substantially strengthened and empowered to advocate democratic reforms, demand improved service delivery, enhance civic participation, and promote greater government accountability. Additionally, with support from USAID, civil society can provide oversight on environmental issues, mobilize the public to support environmental concerns, and support environmental actions of the GOTL, donors or others, where appropriate.<sup>70</sup> This IR will improve the capacity of civil society to fulfill its "watchdog" function and incentivize greater transparency, increasing advocacy, local constituent outreach, and civic participation.

Improved inclusive citizen participation is crucial to ensure government accountability and transparency, ultimately leading to political stability, and reduced corruption that spur investment and entrepreneurship, and increased commitment towards self-reliance.<sup>71</sup> While IR 2.1 is distinct from IR 2.2, there are direct linkages between the two; civil society will also engage in advocacy and accountability within the institutions described below to improve government effectiveness. Accomplishment of both IRs is essential to ensure responsive and inclusive governance and achieve the DO.

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<sup>69</sup> J2SR Country Roadmap

<sup>70</sup> USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).

<sup>71</sup> Vinay Bhargava (2015). Engaging Citizens and Civil Society to Promote Good Governance and Development Effectiveness. *The Governance Brief*: Issue 23. Asian Development Bank.

## IR 2.2 INSTITUTIONAL EFFECTIVENESS IMPROVED

*“Civil society organizations, despite their organizational and financial weaknesses, can be substantially strengthened and empowered to advocate democratic reforms, demand improved service delivery, enhance civic participation, and promote greater government accountability.”*

In order for the government to support effective public institutions to respond to the needs and demands of citizens, and improve Timorese livelihoods, it must increase government officials’ technical capacities to perform their jobs. The public sector is also characterized by overlapping offices with similar or contradictory mandates, little accountability and insufficient (or totally absent) institutional incentives to improve performance, a generally demotivated and/or demoralized public service, and a high level of waste and misuse of public resources. These capacity gaps and systemic challenges have resulted in under-investment in human capital, poor public service delivery, a population increasingly dependent on social welfare payments, low skilled jobs that are unable to lift workers out of persistent poverty, and growing unrest among the burgeoning youth population.

While Timor-Leste faces challenges of governance in all elements of democracy, without addressing the problem of government effectiveness and responsiveness, Timorese citizens may lose hope and support for democracy. If appropriately addressed, however, the GOTL could significantly improve people’s livelihoods by improving the technical capacity of government officials to perform their jobs, strengthening institutions to increase accountability of public officials, defining roles and responsibilities clearly, instilling an improved work ethic, curbing corruption, and reducing waste. Overall, IR 2.2 will build government effectiveness by taking a governance approach in sectors where USAID has a comparative programming and technical advantage, where there is a clear need for action, and where the GOTL has demonstrated commitment for reform. These sectors, which also have a profound impact on Timorese life, include: health, customs, and political processes. To improve institutional effectiveness across all of these sectors, USAID will support government officials both at the subnational and national level to assess service provision gaps and identify specific and actionable plans to improve service provision; USAID will also collaborate with other donors in these areas to ensure coordinated messaging to the GOTL and complementary donor programming. By illustrating the benefits of effective governance in these sectors, USAID/Timor-Leste believes that it will create a “demonstration effect” that will encourage the GOTL to pursue institutional effectiveness reforms in other sectors and, potentially, open up support in sectors.

While fundamentally a health system is responsible for improving health outcomes, it is equally responsible for governance outcomes that protect democratic principles and rights, build citizen trust, and ultimately help the GOTL build a more effective and accountable health system. While progress has been made since independence on some key health issues

(leprosy, malaria, and controlled rubella), overall, Timor-Leste still must confront important challenges in the health sector that stem from a problem of effective governance, including insufficient technical capacity of health administrators and medical personnel, access to water in many clinics, lack of medical equipment, cumbersome bureaucratic procedures, and high rates of maternal mortality rate and malnutrition. To improve institutional effectiveness in the health sector, USAID will assist the GOTL at the national and subnational levels to effectively, transparently, and sustainably finance and deliver quality, affordable, and essential services by building a more resilient and self-reliant health system that is well-governed, operating accountably, efficiently, and effectively, and is responsive to public needs that can adapt when necessary (be it due to a pandemic, natural disaster, or other crisis) without risking interruption of essential health services and avoiding backsliding of fragile gains. Improved governance in health will result in a well-trained and effectively deployed health workforce, fostering improved nutrition, maternal, newborn, and child health (MNCH), and family planning utilization.

As a critical public service, customs border management agencies and associated stakeholders play an essential role in today's fast-moving and dynamic international trading system. Since independence, the GOTL identified customs as a priority sector due to the significant role of international trade on Timor-Leste's livelihoods, engaging with several donors for support. While significant progress has been made,<sup>72,73</sup> gaps remain to reach international best practices and standards in customs, including the simplification and harmonization of customs procedures, human resources issues and training, conflicting legislation, and service delivery standards. Although often perceived as a subset of economic growth or trade programs, USAID/Timor-Leste has intentionally viewed the customs sector as a governance issue. In Timor-Leste, customs sector issues are closely aligned GOTL institutional effectiveness and the administrative requirements to process to trade; nevertheless, there are close linkages to private sector engagement or export promotion. To strengthen institutional effectiveness in customs, this IR will address the legal, regulatory, and institutional environment, optimize customs operations to meet international standards, and increase human and institutional capacity. Moreover, by strengthening the capacity of customs agencies in Timor-Leste, this IR will significantly reduce opportunities for corruption and improve the ability for stakeholders to collect duties and taxes effectively and efficiently, putting more domestic resources back into Timor-Leste's budget system.

Almost 20 years after the handover of power from the UN Transitional Administration to the Timorese, there is still a lack of consensus on how the democratic rules of the game are played. One of Timor-Leste's greatest achievements is the maintenance of a competitive and credible electoral system, however, the competition between the two main political parties is a "winner take all" game. Poor accountability mechanisms prevent central and subnational governments and different branches of government to check and balance the power of the others. To address these gaps, this IR will support greater political accountability and promote policies and procedures meant to create political stability. In addition, USAID/Timor-Leste will strengthen the capacity of Parliament and the Executive branch to mainstream gender and increase women's representation in the public sector so that women are meaningfully integrated in decision-making processes.

## **MONITORING, EVALUATION, AND LEARNING (MEL)**

USAID/Timor-Leste fully supports the use of a rigorous, adaptive, and flexible MEL approach in line with Timor-Leste's relative size, USAID's budget, and available human resources, to ensure that progress is monitored, impacts are documented, and decisions are driven by data. Human capacity in terms of monitoring and evaluation (M&E) rigor is weak in Timor-Leste and specific efforts will

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<sup>72</sup> World Bank Assessment Mission 2012.

<sup>73</sup> USAID (2020). [Timor-Leste Customs Sector Assessment](#).

be made to build monitoring and evaluation capacity among local stakeholders - such as CSOs, individuals, private firms, education institutions, think tanks, or others - as much as possible throughout the lifetime of the CDCS.

To ensure that progress is monitored, USAID/Timor-Leste will work directly with its implementing partners to ensure that activity level monitoring and evaluation plans are in place, reflect industry standards, and engage communities and beneficiaries to the greatest extent possible, ensuring buy-in and mutual accountability for results. Activity-level monitoring and evaluation plans will culminate into a CDCS Performance Management Plan (PMP) that documents the highest-level indicators and targets over the lifetime of the CDCS. When possible, partners will use data generated from government monitoring systems, furthering local systems and GOTL ownership. This may include data from the GOTL's Planning, Monitoring and Evaluation Unit, which seeks to incorporate UN SDG indicators, and the Ministry of Finance - General Directorate of Statistics. In the health sector, MNCH data from the Health Management Information System under the Ministry of Health will be used to the extent possible. The GOTL is also expanding its collection of Geographic Information System (GIS) data and so the Mission will explore the use of this data if and when available. This outlined, hands-on approach will contribute to the human capacity building themes expressed earlier to the CDCS.

This CDCS lays out an ambitious development hypothesis that seeks to ultimately transform Timorese society - economically, politically, and socially. To ensure that decisions are driven by data, USAID/Timor-Leste will organize various learning events and harness data into and decision-making processes so that senior management is able to evaluate the changing context, weigh the impact of USAID investments, and consider alternative courses of action. The table below illustrates potential learning questions over the life of the CDCS.

#### DO 1 NOTIONAL LEARNING QUESTIONS

1. Are economic opportunities, business enabling environment, and firm level value chain support sufficient and necessary prerequisites for economic diversification in Timor-Leste? Are there other necessary prerequisites?
2. How does closing the gender economic gap and increasing youth employment opportunities strengthen economic diversification in Timor-Leste?
3. What strategies are effective at ensuring that the benefits from increased market linkages are inclusive of local and rural economies as well as vulnerable groups?
4. What strategies are effective for integrating nutrition interventions into economic growth programming and does an increase in household income lead to improved nutritional outcomes?

#### DO 2 NOTIONAL LEARNING QUESTIONS

1. What strategies are most effective to build the capacity of civil society to influence the government regarding policy, laws, services?
2. Is increased information sharing resulting in greater government accountability (or more effective use of resources and/or broader reach of quality services)?
3. Does increased youth engagement lead to increased civic influence in government decision making?

## ANNEXES

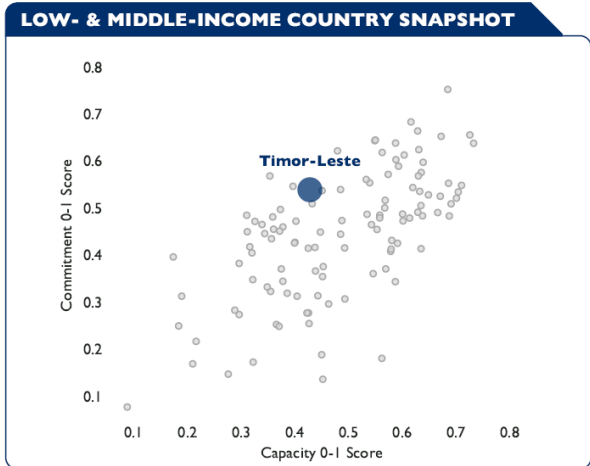
- A. Journey to Self-Reliance Country Roadmap
- B. Endnotes

# A. JOURNEY TO SELF-RELIANCE COUNTRY ROADMAP

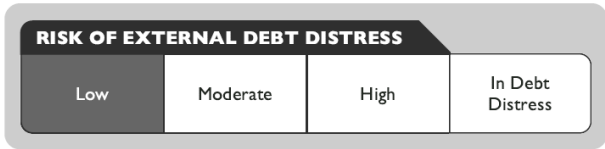
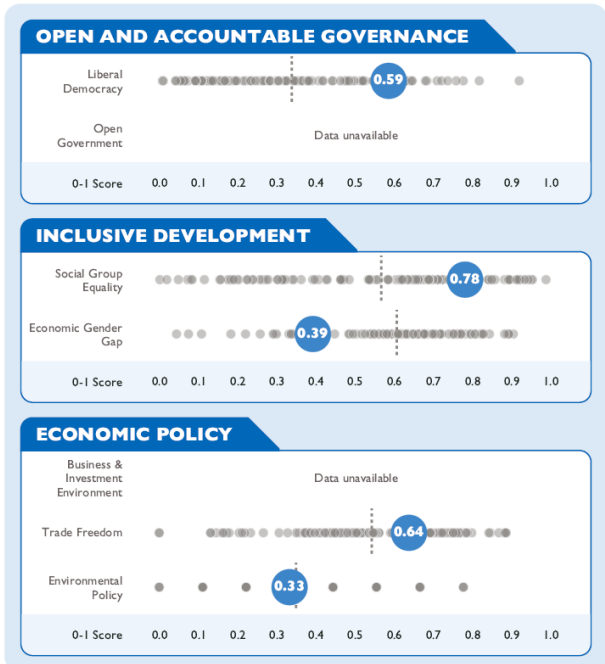


## TIMOR-LESTE

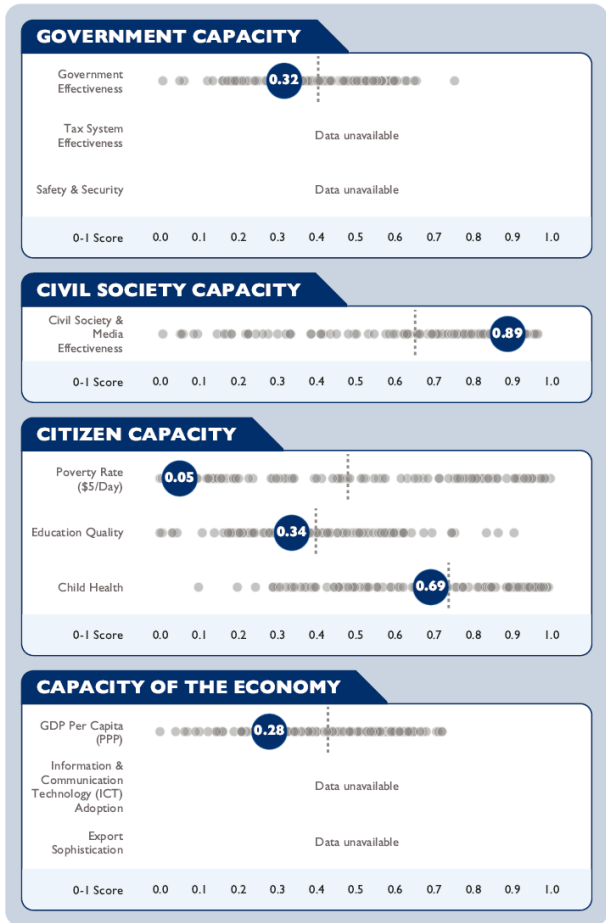
### JOURNEY TO SELF-RELIANCE: FY 2021 COUNTRY ROADMAP



### COMMITMENT



### CAPACITY





# TIMOR-LESTE

JOURNEY TO SELF-RELIANCE:  
FY 2021 COUNTRY TRENDS

## LEGEND



Timor-Leste's  
Most Recent Score  
0-1, least to most  
advanced globally



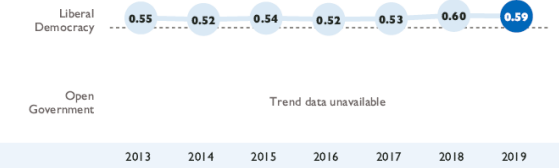
Timor-Leste's  
Prior Year Scores  
0-1, least to most  
advanced globally



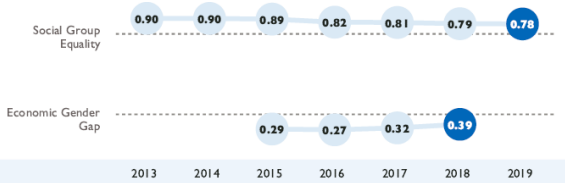
Average Score for Low-  
and Middle-Income  
Countries

## COMMITMENT

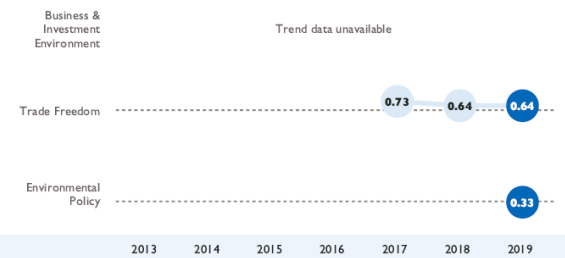
### OPEN AND ACCOUNTABLE GOVERNANCE



### INCLUSIVE DEVELOPMENT



### ECONOMIC POLICY

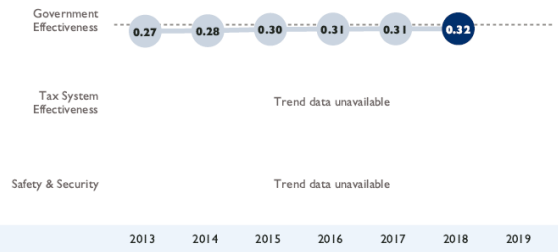


### METHODOLOGICAL NOTES

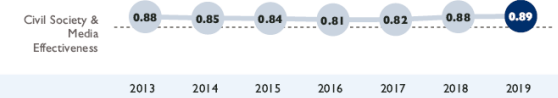
FY 2021 Country Roadmap results (darker shaded points) and prior year results (lighter shaded points) are normalized in the same manner to ensure comparability. In some instances, USAID has taken several additional measures to maximize comparability of results across time, including adjusting source reporting year to actual year of measurement and removing historical data that are no longer comparable due to methodological revisions. For more detail, please see the [USAID J2SR Country Roadmap Methodology Guide](#).

## CAPACITY

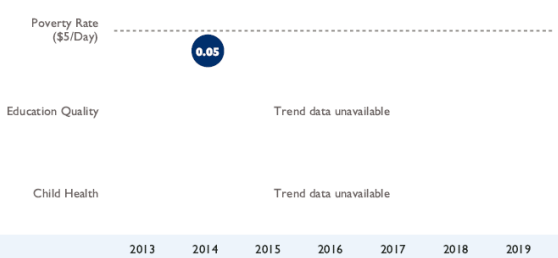
### GOVERNMENT CAPACITY



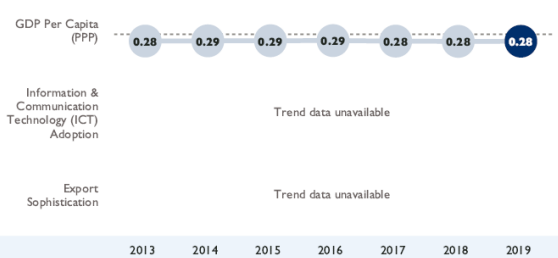
### CIVIL SOCIETY CAPACITY



### CITIZEN CAPACITY



### CAPACITY OF THE ECONOMY



## B. ENDNOTES

See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap).

<sup>2</sup>This estimate is according to the [Sovereign Wealth Fund Institute](#) as of November 4, 2020. Due to current global markets, estimates have fluctuated widely and may continue to fluctuate for some time.

<sup>3</sup>Timor-Leste Demographic and Health Survey (2016).

<sup>4</sup>[Global Hunger Index](#) (2020).

<sup>5</sup>[Index of Economic Freedom: Timor-Leste](#) (2020). Heritage Foundation.

<sup>6</sup>[Timor-Leste Overview](#) (2020). World Bank.

<sup>7</sup>[National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>8</sup>[National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>9</sup>IMF Country Report No. 19/124.

<sup>10</sup>[Country Risk of East-Timor](#) (2020). Société Générale.

<sup>11</sup>[Extractive Industries Transparency Initiative: Timor-Leste](#) (2020). EITI.

<sup>12</sup>World Bank national accounts data, and OECD National Accounts data files.

<sup>13</sup>Stephen Howes and Sherman Surandiran (2020). [COVID-19: economic damage and Pacific strengths](#). DevPolicy Blog. <sup>14</sup>USAID Rapid Food Security Assessment (2020).

<sup>15</sup>2018 public surveys demonstrate that about 45% of the population are pessimistic that the country is going in the right direction.

<sup>16</sup>[Corruption Perceptions Index](#) (2019). Transparency International.

<sup>17</sup>Dalberg Global Consulting (2020). Timor-Leste – Youth employment strategy.

<sup>18</sup>The Asia Foundation (2016). Understanding Violence against Women and Children in Timor-Leste: Findings from the Nabilan Baseline Study – Main Report. The Asia Foundation: Dili.

<sup>19</sup>UNICEF global databases (2018), based on Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICS) and other nationally representative surveys.

<sup>20</sup>USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).

<sup>21</sup>USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).

<sup>22</sup>U.S. Department of State Trafficking in Persons Report (2020).

<sup>23</sup>[Global Health Security Index](#) (2019).

<sup>24</sup>[COVID Risk Index](#) (2020). INFORM.

<sup>25</sup>Pauline Tweedie and Carmen Soares (2020). [And Now a Bright Spot: Timor-Leste Weathers a Pandemic](#). The Asia Foundation.

<sup>26</sup>[Timor-Leste Strategic Plan](#) (2011). Government of Timor-Leste.

<sup>27</sup>See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap.

<sup>28</sup>[Doing Business](#) (2020). World Bank.

<sup>29</sup>[Index of Economic Freedom](#) (2020). Heritage Foundation.

<sup>30</sup>See [The Win-Win Case for Women's Economic Empowerment and Growth: Review of the Literature, The Case for Gender Equality, Family-friendly policies a key driver of economic growth, How advancing women's equality can add \\$12 trillion to global growth](#).

<sup>31</sup>[Global ICT Development Index](#) (2017). ITU.

<sup>32</sup>See [Regulatory Policy and ICT Trends. Insights from Timor-Leste](#) (2019). UNESCAP.

<sup>33</sup>[Corruption Perceptions Index](#) (2019). Transparency International.

<sup>34</sup>Timor-Leste Demographic and Health Survey (2016).

<sup>35</sup>[Global Hunger Index](#) (2020).

<sup>36</sup>Provo, Anne; Atwood, Steve; Sullivan, Eileen Brainne; Mbuya, Nkosinathi. 2017. Malnutrition in Timor-Leste: A Review of the Burden, Drivers, and Potential Response. World Bank, Washington, DC. World Bank.

<sup>37</sup>Idem.

<sup>38</sup>[National Human Development Report: Timor-Leste](#) (2018). UNDP.

<sup>39</sup>See <https://selfreliance.usaid.gov/country/timor-leste> for the latest Country Roadmap.

<sup>40</sup>[Country Risk of East-Timor](#) (2020). Société Générale.

- <sup>41</sup> [Extractive Industries Transparency Initiative: Timor-Leste](#) (2020). EITI.
- <sup>42</sup> Romina Kazandjian et al. (2014). [Gender Equality and Economic Diversification](#). Working Paper 16/140. IMF.; and, Papageorgiou, Chris & Spatafora, Nikola. (2012). Economic Diversification in LICs: Stylized Facts and Macroeconomic Implications. Staff Discussion Notes. 12. 1. 10.5089/9781475532180.006.
- <sup>43</sup> Michael L. Ross (2017). [What Do We Know About Economic Diversification in Oil-Producing Countries?](#). UCLA <sup>44</sup>Ebrahim-Zadeh, Christine (March 2003). "Back to Basics – Dutch Disease: Too much wealth managed unwisely". *Finance and Development, A quarterly magazine of the IMF*. IMF.
- <sup>45</sup> Dalberg Global Consulting (2020). Timor-Leste – Youth employment strategy.
- <sup>46</sup> ILO (2012). Global Employment Trends for Youth, Geneva: International Labour Organization <sup>47</sup> see Kletzer, L.G. and Fairlie, R.W. (2003) 'The Long-Term Costs of Job Displacement for Young Adult Workers', *Industrial and Labour Relations Review* 56.4: 682–98; Burgess, S.; Propper, C.; Rees, H. and Shearer, A. (2003) 'The Class of 1981: The Effects of Early Career Unemployment on Subsequent Unemployment Experiences', *Labour Economics* 10.3: 291–309; Bell, D.N.F. and Blanchflower, D.G. (2011) 'Young People and the Great Recession', *Oxford Review of Economic Policy* 27.2: 241– 67.
- <sup>48</sup> [Pursuing Women's Economic Empowerment](#) (2017). Meeting of G7 Ministers and Central Bank Governors, June 1-2, 2018 Whistler, Canada: IMF.
- <sup>49</sup> [Program for the Eighth Constitutional Government](#) (2020). Government of Timor-Leste.
- <sup>50</sup> [Timor-Leste Economic Report: Unleashing the Private Sector](#) (2019). World Bank Group.
- <sup>51</sup> [IMF Country Report No. 19/124](#)
- <sup>52</sup> The demographic dividend is the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). It is a boost in economic productivity that occurs when there are growing numbers of people in the workforce relative to the number of dependents. See [UNFPA](#) for more information.
- <sup>53</sup> [Timor-Leste Economic Report: Unleashing the Private Sector](#) (2019). World Bank Group.
- <sup>54</sup> [Timor-Leste Economic Report: A Nation Under Pressure](#) (2020). World Bank.
- <sup>55</sup> [IMF Country Report No. 19/124](#)
- <sup>56</sup> [IMF Country Report No. 19/124](#)
- <sup>57</sup> [IMF Country Report No. 19/124](#)
- <sup>58</sup> [National Human Development Report: Timor-Leste](#) (2018). UNDP.
- <sup>59</sup> [IMF Country Report No. 19/124](#)
- <sup>60</sup> The Asia Foundation. 2016. Understanding Violence against Women and Children in Timor-Leste: Findings from the Nabilan Baseline Study – Main Report. The Asia Foundation: Dili.
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- <sup>70</sup> USAID (2020). USAID/Timor-Leste Tropical Forest and Biodiversity Analysis (FAA 118/119).
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