



FOREIGN AID POLICY

Principles and Procedures Governing
Non-lending Assistance to Timor-Leste

Message from the Prime Minister



It is with great pleasure that I present the “Foreign Aid Policy, Policies and Procedures Governing Non-lending Assistance in Timor-Leste,” a paper that underlines the importance of the international community’s assistance to Timor-Leste and sets out how best to continue to support our nation’s goals and aspirations.

It would be difficult to overstate the importance of the international community’s support to our country throughout its history. Following the United Nations-sponsored referendum of 1999, the international community came together to help us make our dreams of sovereignty a reality, establishing the United Nations Transitional Administration in East Timor, and in many ways, setting the foundations for our current state institutions.

This year also marks the twentieth anniversary of the first Timor-Leste Development Partners Meeting that took place in Tokyo, Japan, underlining development partners’ commitment to our nation’s success.

Twenty years later we find ourselves under the mandate of the VIII Constitutional Government, a testament to our achievements in securing peace, stability, democracy, and in establishing a state that can deliver services to its people. Our nations’ successes are not ours alone, it is a result of our shared work and vision with our development partners from the international community.

Timor-Leste has significantly evolved in the past 20 years, so too, must our relationship with development assistance. The paper presented here lays out clear principles that ought to be followed in the design of development partner programs. It is presented in the hopes of deepening development partner and Government coordination so that we can both learn from and with one another on how to best deliver services to improve the lives of Timorese people.


H.E. Taur Matan Ruak
Prime Minister, Timor-Leste



Message from the Vice Minister and Acting Minister of Finance



It is a privilege to present the “Foreign Aid Policy- Policies and Procedures Governing Non-lending Assistance in Timor-Leste.” The work contained herein is influenced by several key agreements and documents spanning from the Paris Declaration on Aid Effectiveness to the Aid Management Effectiveness Policy.

The heart of the Foreign Aid Policy is enshrined in the principles set forth in the New Deal for Engagement in Conflict-Affected States, that is, country-owned, country-led development that makes use of country systems. In line with SDG 16, the VIII Constitutional Government calls upon our development partners to work together with Government to support our continued efforts towards building effective and accountable institutions at all levels. We expect that working directly with the Government will improve coordination, result in an increase in knowledge transfer and Government capacity, and will ultimately improve service delivery.

Importantly, the policy also provides our development partners with guidance on several areas by:

1. Clearly defining priority areas for development partner support.
2. Establishing a new and clear procedure for development partner project approvals.
3. Calling on development partners to, at the minimum, design their projects to support at the SDP Sub-pillar level and Government Sub-program level, and, if possible, at the Annual Action Plan level. Thereby leading to improved data on allocation of resources.
4. Clearly defining and ranking Government preferences in how development partner support is delivered.

We look forward to working together with our development partners in the implementation of this policy, deepening our coordination, and improving the ways in which we work towards our shared goal of improving the lives of the Timorese people.



Sara Lebo-Brites,
Vice-Minister and Acting Minister of Finance

List of Acronyms

AAP	Annual Action Plans
CoM	Council of Ministers
CPS	Country Partnership Strategies
CSO	Civil Society Organizations
DP	Development Partners
IFMIS	Integrated Financial Management System
INGO	International Non-governmental Organizations
LM	Line Ministries
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MNEC	Ministry of Foreign Affairs and Cooperation
NGO	Non-governmental Organization
PEFA	Public Expenditure and Financial Accountability
PSG	Peace-building and State-building Goals
SDG	Sustainable Development Goals
SDP	Strategic Development Plan 2011-2030
TA	Technical Assistance
TOR	Terms of Reference

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Introduction

The Government of Timor-Leste recognizes the international community's important historic and ongoing contributions to Timor-Leste. Since the inception of this nation, development cooperation has played a crucial role in providing support to the Government and people of Timor-Leste and has bolstered development efforts towards achieving the goals set out in the Strategic Development Plan 2011-2030, that is, to transform Timor-Leste from a low income to an upper middle income country, with a healthy, well-educated, and safe population by 2030.

The role of external assistance in Timor-Leste is changing. Due to a combination of factors ranging from the nation's sustained growth and relative stability to shifting donor global priorities, levels of external assistance are experiencing a general downward trend. This is why it is vital for all development stakeholders to work together to maximize the benefits of development assistance in a country-owned, and country-led manner. In order to achieve this, the Aid Policy calls on development partners to:

1. Align and cost all activities to Timor-Leste's Planning Frameworks: the SDP Sub-pillar level, the Government Sub-program level, the SDGs, and, when relevant, the Ministerial Annual Action Plans and/or Sector Strategies.
2. Follow the proposed procedures for the approval of activities and country partnership strategies, thus improving planning and integration of assistance into Government systems.
3. Take measures to improve and increase their use of country systems.

Through this document, the Government reaffirms that all development stakeholders must remain committed to Timor-Leste's country-owned and country-led development path. The Aid Policy builds on the lessons learned from the "Aid Management Effectiveness Policy," approved by the Council of Ministers on 28 March 2017. The framework presented below maintains the spirit of the previous document while expanding on the processes and procedures necessary to effectively implement the ambitious goal of more effectively coordinating non-lending assistance in the country while emphasizing the need for development partner support to be channeled via country systems. For the purposes of this document, non-lending assistance can be provided in one, or a combination, of the following ways:

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|--|--|
| <p>I. Direct Financing</p> <p>a. General budget/sector Support</p> <p>b. Project Support</p> | <p>II. In-Kind Support</p> <p>a. Technical Assistance</p> <p>i. Advisory and Analytical Work</p> <p>ii. Training and Capacity Building</p> <p>b. Value of Goods</p> <p>i. Construction</p> <p>ii. Equipment Transfer</p> |
|--|--|

Timor-Leste's Planning Frameworks

Timor-Leste's Strategic Development Plan 2011-2030

The Government's policies on aid follow the principles set forth in the New Deal for Engagement in Fragile States ("The New Deal"¹), that is, country-led, country-owned development while recognizing the

¹ See Annex 1 for more detailed information on the New Deal for Engagement in Fragile States.

importance of adhering to the use of the country systems. Timor-Leste's Strategic Development Plan 2011-2030 (SDP) articulates Timor-Leste's vision of development for the next two decades. The SDP is an integrated package of strategic policies, which aims to transform Timor-Leste from a low income to upper middle income country, with a healthy, well-educated and safe population by 2030. The SDP covers four pillars: (1) Social Capital, (2) Infrastructure Development, (3) Economic Development, and (4) Institutional Framework. In 2011, with the signing of the Dili Development Pact, the Government of Timor-Leste and Development Partners came to an agreement that the SDP will be the overarching framework to which all programs and projects must align to.

Each pillar sets out the areas and programs that need to be completed in order to achieve the collective vision of the SDP. The Social Capital pillar focuses on building a healthy and well-educated society to address the social needs of Timor-Leste's people and promote human development. It covers five main areas: education and training, health, social inclusion, environment, and culture and heritage.

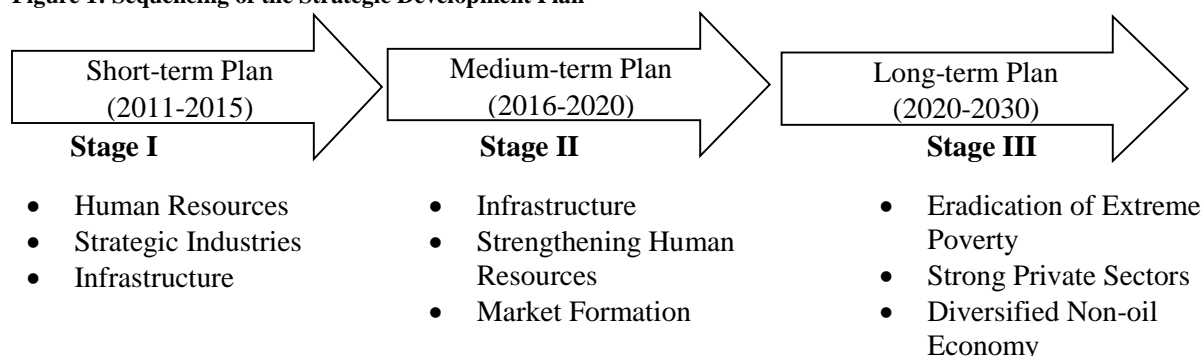
The Infrastructure Development pillar is in place to ensure that the nation has the core infrastructure needed to build a productive, sustainable, growing and connected nation. It covers six areas: roads and bridges, water and sanitation, electricity, seaports, airports, and telecommunications. The Economic Development pillar aims to achieve a prosperous, modern economy and jobs for Timor-Leste's people. It covers five areas: rural development, agriculture, petroleum, tourism, and private sector investment. The Institutional Framework pillar will help to provide an effective framework upon which the three other pillars of Timor-Leste's development will be built. It covers six areas: security, defense, foreign affairs, justice, public sector management and good governance, and the national development agency and economic policy and investment agency.

Table 1: Strategic Development Plan Summary

SDP Pillar	Purpose	SDP Sub-pillars	
Social Capital	To build a healthy and well-educated society to address the social needs of Timor-Leste's people and promote human development	<ul style="list-style-type: none"> • Education and Training • Health • Social Inclusion 	<ul style="list-style-type: none"> • Environment • Culture and Heritage
Infrastructure Development	To ensure that the nation has the core infrastructure needed to build a productive, sustainable, growing and connected nation.	<ul style="list-style-type: none"> • Roads and Bridges • Water and Sanitation • Electricity 	<ul style="list-style-type: none"> • Seaports • Airports • Telecommunications
Economic Development	To achieve a prosperous, modern economy and jobs for Timor-Leste's people.	<ul style="list-style-type: none"> • Rural Development • Agriculture • Petroleum 	<ul style="list-style-type: none"> • Tourism • Private Sector Investment
Institutional Framework	To provide an effective framework upon which the three other aspects of Timor-Leste's development will be built.	<ul style="list-style-type: none"> • Security • Defense • Foreign Affairs • Justice 	<ul style="list-style-type: none"> • Public Sector Management and Good Governance • National Development Agency and Economic Policy and Investment Agency

The SDP also presents sequencing of development priority areas in the short, medium, and long term in order to reach the goal of transforming Timor-Leste from a low income to an upper middle income country with a healthy, well educated, and safe population by 2030.

Figure 1: Sequencing of the Strategic Development Plan



The SDP establishes the main course for the Government to follow. Meanwhile, several key sector strategies set out interpretations on how the goals will be operationalized in the medium to long term. Sector strategies ought to be consulted in the design of country partnership strategies and proposed projects to ensure specific, targeted, and aligned development partner activities.

The SDP and the Sustainable Development Goals

The Government of Timor-Leste has expressed its strong support for the Sustainable Development Goals (SDG), becoming one of the first nations to adopt the SDGs and becoming a member of the High Level Group on SDG Implementation. The SDGs and the SDP have similar and oftentimes overlapping goals, which allows for relatively smooth alignment of the two strategic frameworks, from the local country-owned and country-led SDPs to the global SDGs. All proposed development assistance should be formulated in such a way that it can be understood first and foremost as supporting the local planning frameworks, and secondly, how the proposed initiatives contribute to the global SDGs.

Figure 2: Timor-Leste's Roadmap for the Implementation of the 2030 Agenda

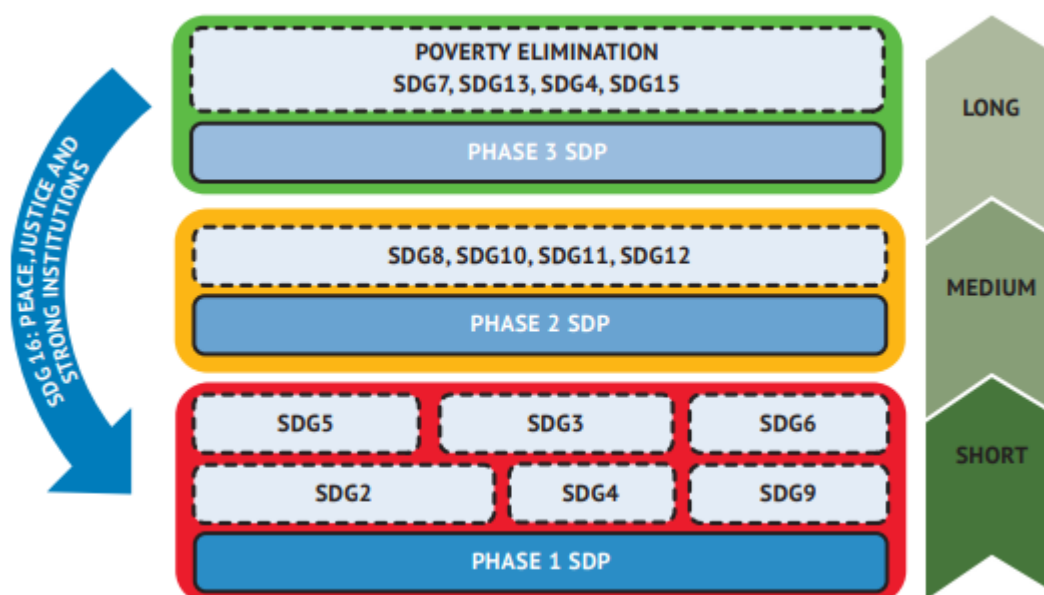
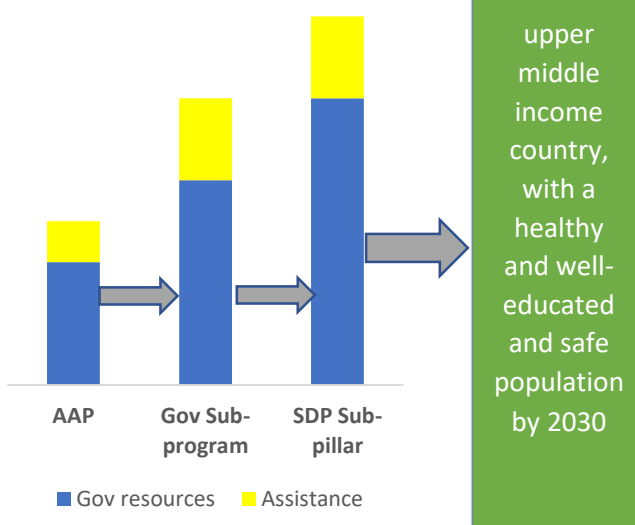


Figure 3: The SDP as the Overarching Development Framework

The figure on the right displays how each of the types of goals should not be thought of as separate from the overarching goal set forth in the SDP's twenty year vision to create a prosperous and strong nation.

Whether development partner's assistance rely on sector plans, ministerial plans, or emphasize their support for SDPs, all development partner programs must contribute towards creating an upper-middle income country, with a healthy, well-educated and safe population by 2030.



Program of the Government

The SDP sets out the national vision for the country's development, meanwhile, greater specificity of plans is presented through the Government five-year plans. These planning documents should not be viewed as separate from the SDP but instead as complementary to the SDP as they are intended to establish the means by which to operationalize and achieve the stated goals. All development partner projects and programs should be aligned at the sub-program level.

Table 2: "Summary Program of the Government"

PROGRAM	SUB-PROGRAM	
Continuing with Social Capital	<ul style="list-style-type: none"> • Education and Training • Health • Social Inclusion, Social Protection and Solidarity • Culture and Heritage • Youth • Sport 	<ul style="list-style-type: none"> • Information and Communication Technologies • Media • Religion • Civil Society • Housing
Continuing Infrastructure Development	<ul style="list-style-type: none"> • Infrastructure Sector Governance • Road Network • Water and Sanitation • Energy 	<ul style="list-style-type: none"> • Transport • Meteorology • Telecommunications • Postal Service
Continuing with Economic Development	<ul style="list-style-type: none"> • Agriculture, livestock, fisheries and forestry • Oil and Mineral Resources • Tourism • Trade • Industry 	<ul style="list-style-type: none"> • Private Sector • Employment • Cooperatives • Environment
Continuing with Governmental Consolidation	<ul style="list-style-type: none"> • Macroeconomic Policy • Financial Sector 	<ul style="list-style-type: none"> • Public Finance
Good Governance and Combating	<ul style="list-style-type: none"> • Public Administration • Decentralization • Election Administration • Land Use Management and 	<ul style="list-style-type: none"> • Electronic Government • Justice • Defense and Security • International Relation and Foreign

PROGRAM	SUB-PROGRAM
Corruption	<ul style="list-style-type: none"> Planning Rural Development Special Administrative Region of Oe-Cusse Ambeno and Special Zone of Market Social Economy
	<ul style="list-style-type: none"> Policy Delimitation of Land and Maritime Borders Timorese Communities Abroad

In an effort to improve Public Financial Management, particularly planning, all proposed external assistance must be costed vis-à-vis the SDP and the Government Program. A necessary condition for all external assistance is that it must be aligned to the SDP sub-pillar level and the Sub-Program of the Government. When possible, and especially when working directly with the Government, development partners should align their projects to the Ministerial Annual Action Plans. The format and forms of reporting for the planning processes will be developed and provided by the Ministry of Finance. This exercise will be carried out during the project proposal, or country partnership strategy proposal phase in order to ensure that external assistance is included in Government resource allocation strategies.

Priority Areas of Support for External Assistance

The Strategic Development Plan and the Program of the Government Program lay out the general vision for the nation's development. Meanwhile, external assistance providers each have their own pre-defined global and local priorities. A significant amount of effort and resources are used in determining areas that can fit the priorities from both parties. The Government remains open to dialogue and flexibility, however a list is presented below highlighting priority areas for external assistance support:

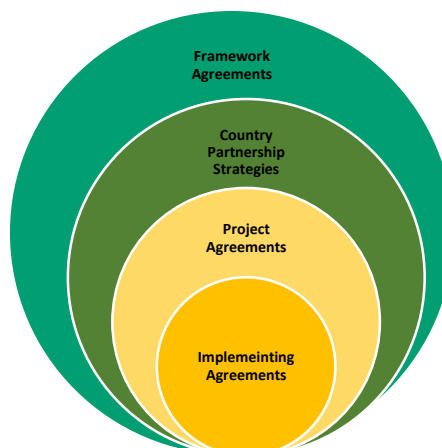
Box 1: Priority Areas for External Assistance	
<ul style="list-style-type: none"> Education Health Tackling malnutrition Youth and Gender Agriculture and Rural Development Tourism 	<ul style="list-style-type: none"> Infrastructure for growth, connectivity and accessibility Water and Sanitation Regional Integration Private Sector Development Public Sector Management

Improving Use of Country Systems in Planning and Approval Procedures

The term Use of Country System can include many areas, from planning, to budgeting, to banking arrangements, reporting systems, etc. This section highlights the steps the Government is proposing to improve the use of country systems as it relates to planning and approving development partner activities.

Development partners operate in Timor-Leste via a series of agreements that become increasingly specific in scope, ranging from Framework to Implementation Agreements. Figure 4 shows the relationship between each type of agreement.

Figure 4: Hierarchy of Agreements



Framework Agreements

Coordinating Entity: MNEC

Approvals Required: Council of Ministers and Parliament

Framework Agreements aim to address the status of a Development Agency in Timor-Leste (if separate from Embassy functions) and/or the treatment and conditions given to the assistance programs carried out by the entity in question. These agreements oftentimes set the overarching goals of the agency and/or the technical cooperation and grant assistance provided to Timor-Leste.

The negotiation of Framework Agreements shall be led by the Ministry of Foreign Affairs and Cooperation. Once finalized, Framework Agreements are to be approved by Council of Ministers and ratified by Parliament.

Country Partnership Strategies (Medium-term Planning Frameworks)

Coordinating Entity: Ministry of Finance

Approvals Required:

- For Country Partnership Strategies with a total indicative value of less than \$5 million:
 - Ministry of Finance
 - Ministry of Foreign Affairs and Cooperation
 - Relevant Line Ministries
- For Country Partnership Strategies with a total indicative value in excess of \$5 million:
 - Ministry of Finance
 - Ministry of Foreign Affairs and Cooperation
 - Relevant Line Ministries
 - Council of Ministers

All Development Agencies should produce periodic planning frameworks to update and align their priorities to those of the Government. These should establish the general direction of the agency's activities in the country and provide an estimate of the medium to long-term investments and projects required.

Development partners must first notify the Ministry of Foreign Affairs and Cooperation of their intention of devising a new Strategy. Then, the development partner shall be directed to engage the Ministry of Finance to enter into the process of establishing a new CPS. The Ministry of Finance shall convene, collect, and steward the consultative process of finalizing the CPSs with all relevant stakeholders. The Ministry of

Finance will present the Country Partnership Strategies to the Council of Ministers for approval and signature (should the value exceed \$5 million USD).

Project Agreements

Coordinating Entity: Varies according to Recipient, initial coordination by MoF

Approvals/No Objection Required:

- For Projects with a total indicative value of less than \$5 million:
 - Ministry of Finance
 - Ministry of Foreign Affairs and Cooperation
 - Relevant Line Ministries
- For Projects with a total indicative value of \$5 million or above:
 - Council of Ministers

Project Agreements are the ways in which development partners operationalize their CPSs or, in cases where no existing CPS is in place, formalize their support to Timor-Leste. Project Agreements or documents lay out, among other things, the detailed costing, timeline, and roles and responsibilities required to successfully implement the project.

Table 3: Summary of types of Agreements and Required Approvals

	Characteristics	Gov Lead	Required Approval	CoM Approval Required If
FRAMEWORK AGREEMENTS	Developed at the diplomatic/political level with inputs from technical team. Outlines high-level priorities of assistance. Usually contains details on privileges and immunities.	Ministry of Foreign Affairs and Cooperation	-Parliament - CoM	Mandatory in All Cases
Country Partnership Strategies	Based on the priorities established in the Framework Agreements and GoTL priorities. Usually provides indicative funding levels and outlines several projects/activities to support the high-level priorities. Must be agreed at the Whole of Gov level (CoM).	Ministry of Finance	- MoF - MNEC - LMs	- Total CPS estimated value exceeds \$5 million USD
Project Formulation with Gov	Ideally, document detailing an activity specified in the CPS. Includes description, outcomes, outputs, indicators, and roles and responsibilities.	- LMs	- MoF - MNEC - LMs	-Projects are over \$5 million
Project Formulation with non-gov	Ideally, document detailing an activity specified in the CPS. Includes description, outcomes, outputs, indicators, and roles and responsibilities.	N/A, MOF Consulted	- MoF - MNEC - LMs	-Projects are over \$5 million

Process for Establishing New Projects in Timor-Leste

Figure 5: Process Map for Establishing a New Project



Step 1: Diplomatic Cooperation

The Ministry of Foreign Affairs and Cooperation must be informed of a Development Partner's intention of providing support to Timor-Leste. The Ministry of Foreign Affairs and Cooperation will arrange for the Development Partner to discuss the specifics of their proposed support with the Ministry of Finance.

Step 2: Alignment and Coordination

The Ministry of Finance will discuss the existing available areas of potential donor support and ensure the development partner is aware of the Foreign Aid Policy and processes required for approval, including the requirements to align projects with the SDP, Government Sub-program, and, when relevant, the Ministerial Annual Action Plans. The Ministry of Finance will arrange the additional meetings with relevant Government stakeholders to continue the process of designing projects.

Step 3: Preparation and Design

At this stage the details of the project are developed, including but not limited to the methods of support, timeline, alignment to Ministerial Annual Action Plans, and Monitoring and Evaluation. This step should be deeply consultative with Government counterparts and should result in a draft project document.

Step 4: Approval

Once the details of support have been drafted, the development partner will submit the draft project documents to the Ministry of Finance who will serve as the focal point for circulation to relevant line ministries. All projects with an indicative value of \$5 million or more must be presented to Council of Ministers for approval by the Ministry of Finance. Projects below the thresholds mentioned must receive “No Objection Letters” from relevant Line Ministries (as determined by the Ministry of Finance), and the Ministry of Finance. Government institutions will be provided with a two-week window to provide feedback or request additional time, if no information is received within that time frame, a no objection will be assumed.

Once approved, and if required, the following Government representatives are authorized to provide signatures formalizing the agreements.

Table 4: Determining Signatories for Project Agreements/Documents with Government

Indicative value of project	Approval for projects executed by Government
Up to \$1 Million	Director General level
Over \$1 Million and below \$5 Million	Minister level
\$5 Million and above	Decision of Council of Ministers

NOTE: In the event that a development partner will directly implement and/or execute the project with little to no Government involvement, the project must still follow the process outlined in Figure 8, including consultations with relevant line ministries and securing no objection letters from relevant line ministries, and, when applicable, be presented to Council of Ministers for approval.

Step 5: Implementation

Once the proposed project has been approved, it can enter the implementation phase. This phase consists of putting the agreed upon support into place. The implementation process will vary significantly depending on the nature of the project.

Step 6: Monitoring and Evaluation

Monitoring and Evaluation is a critical component to ensure that support is contributing to and achieving the goals set out in the project document, the Government Sub Program, the SDP, and when relevant, the Ministerial Annual Action Plans. When working with Ministries, all projects should report to the Ministerial Monitoring and Evaluation systems and abide by their practices. Meanwhile the Ministry of Finance will continue to gather information on development partner projects, including their adherence to the Foreign Aid Policy, levels and types of support, and progress of projects.

Implementing Agreements

As shown in figure 4, implementing agreements usually are characterized by a higher degree of specificity in terms of how the project will be carried out. Implementing agreements with government agencies can be negotiated directly with the beneficiary, the Ministry of Finance review will be necessary for projects calling for fiscal implications (cost-sharing or tax exemptions). Implementing Agreements with non-Government agencies must be submitted to the Ministry of Finance for review.

Improving Use of Country Systems in Project and Program Design

The use of country systems has long been recognized as an important and potentially transformative element in the delivery of external assistance, particularly in fragile contexts. The Government of Timor-Leste and the g7+ were among the strongest advocates for goal 16 of the SDGs, that is peace, justice and strong institutions. Our experience as a relatively young nation taught us the importance of establishing effective and accountable institutions as a means to promote peace, emerge out of fragility, and improve service delivery. Bypassing country systems imposes transaction costs, creates difficulties and inaccuracies in reporting data flows, and represents a missed opportunity for the Government to ‘learn by doing’.

The recent Public Expenditure and Financial Accountability Assessment (PEFA) found that Timor-Leste remains strongly committed to improving its Public Financial Management System, generally improving in several areas. An area that still has significant room for improvement is PI-6 that is Central Government Operations outside Financial Reports, a section that deals with, among other areas, measuring the integration of development partner assistance into the country’s PFM system. The section below highlights areas for improvement in the design of development partner funded activities to better integrate assistance into the PFM system, thus providing Government with a clearer sense of available resources, reducing the need for parallel systems, and strengthening the Government’s own systems.

Use of Country Systems- Ownership

In line with the New Deal, SDG Goal 16, the Busan Partnership and the Paris Declaration on Aid Effectiveness, the Government calls on development partners to channel their assistance through, or in partnership with, the Government. We believe that these types of arrangements will lead to higher Government efficiency, expertise, and probability of sustainability of the projects’ objective.

Table 5: Government Ownership of Development Partner Funded Activities

Delivery Channel	Characteristics	Government position
Sector and Budget Support to Government	A large degree of Government ownership with little to no development partner control and daily involvement. This can include pooled funding arrangements or single development partner support.	Preferred method
Government executed project	Assistance is managed by a government agency with development partner support. This can include pooled funding arrangements or single development partner support.	Preferred method, this can include a capacity-building component that will be beneficial to the Government.
Development partner executed	Assistance is managed directly by a development partner. This can be done either directly or through the use of private, for-profit implementing agencies.	Generally speaking, the number of activities designed in this way should be reduced, particularly those working with for-profit implementing agencies.

Use of Country Systems- Financing

A large portion of development partner’s assistance comes in the form of direct financial support. When working with and through the Government, this can be delivered in a number of ways:

1. On Treasury/Budget

On treasury support involves a direct transfer of funds to the Government's budget or to a Government accessible Central Bank account. This type of assistance is by its very nature strengthening country ownership as it acts to finance Government priorities and promotes the use of national systems. When developed through effective partnerships and dialogue with Government, on budget support typically creates minimal additional administrative costs and benefits from and further strengthens the existing systems and administrative infrastructure. Financial assistance to Government can be provided as Direct Budget Support, Sector/Ministerial Budget Support, or earmarked Project Support. All methods should use the Country Systems to deliver assistance, particularly, budgeting and procurement systems.

2. Off Treasury/off-Budget Support

As discussed above, bypassing Government systems has a series of detrimental effects. For the reasons discussed above, and as evidenced by the results of the PEFA assessment, the Government calls on development partners to adhere to the use of country systems when providing financial assistance as it relates to budget, procurement, and payment. In the event that development partners are unable or unwilling to use country systems in their projects, a justification must be provided, along with steps on how to move towards a greater use of country systems.

Box 2: Note on Providing Financial Support to the Government on Budget and on Procurement

There are three methods by which financial support can be delivered to the Government of Timor-Leste:

1. Place funds directly onto treasury via Central Bank (Government Control with Development Partner Oversight)
In this scenario, development partner funding is placed directly into a Central Bank sub-account, effectively becoming part of the government's budget. This type of arrangement is in line with the principles of the New Deal and is the clearest and simplest way of providing Direct Budget Support. Development partners will also benefit from support and guidance from the Ministry of Finance.
2. Use of commercial bank while using Government procedures (Partial Government control and use of systems)
In this scenario, the commercial bank and the Government's Integrated Financial Management Information Systems are not directly connected. In other words, development partners control the funding, however, an account is created in IFMIS to mimic the presence of funds. This results in the establishment of parallel systems and reporting and increases the risk of non-compliance with country systems. These types of arrangements should be avoided.
3. Exclusive use of commercial bank (No Government control or use of systems)
This scenario is most often encountered for projects that are not meant to support the Government directly and instead fund CSOs, private sector, external implementing agencies, or NGOs. Projects providing financial support to Government should strive to avoid this type of arrangement in delivering support as the Government is prioritizing use of country systems.

Box 3: Principles on Cost Sharing Arrangements

Closing financing gaps is a priority for development partners and Government alike. Development partner funding and support is a vital source for the Government to carry out its ambitious programs found in Annual Action Plans and Sector Strategic Plans.

There are cases however, in which development partners and Government cost sharing arrangements should be carefully considered. For example, cases in which development partners have requested cost sharing arrangements for projects that largely fall in line with their agency priorities, as opposed to those in existing Government operational plans. There are also instances in which Government essentially outsources the activities to development partner agencies, utilizing them as implementing agencies. Although this may fall in line with the Government priorities, it does not lead to sustainably designed projects and deprives the Government of important capacity building opportunities that may arise throughout the life of the project.

The following principles should be applied to projects that fall outside of existing AAPs and Sector Strategies or that use development partner agencies' expertise to implement projects directly:

1. Government cost sharing should be avoided.
2. When cost-sharing is required, the total amount of Government funding requested cannot exceed USD\$30,000.
3. Projects benefiting from cost sharing arrangements should strive to use the Country Systems.
4. Cost-sharing models should not be requested for piloting projects or demonstrating their scalability.

Use of Country Systems- In-kind Support

Although funding is the preferred method of supporting Government priorities, the Government of Timor-Leste is aware that funding alone cannot solve many of the challenges that the country is experiencing. One of the main distinguishing features of in-kind and financial support is that the former is not as easily quantifiable as the latter, thus it can lead to complications in terms of accounting for resources. In effect, the amounts associated with in-kind support reflect the value of the support as opposed to funding being provided to the Government. In-kind support can take the following forms:

1. Technical Assistance (TA)

TA is defined as funds provided to nationals for education and training; or payments to consultants, advisors or teachers. These broad categories include such activities as embedding an advisor in a Ministry, funding for advisory and analytical work, and trainings and capacity-building activities. TA forms a vast part of development partners' activities portfolios and is a crucial component in ensuring effectiveness of projects and of encouraging continuous improvement of national counterparts. All technical assistance activities should be designed to enhance the capacity and/or knowledge of Timorese counterparts.

Box 4: Improving advisory support in Public Institutions

Embedding advisors in Public Institutions for project support or project preparation is often an effective way of ensuring capacity is built and relationships are deepened between development partners and Government. That being said, steps should be taken to ensure that relationships remain effective, productive, and beneficial to all parties involved. A list of simple steps is included below to help design effective advisory and project support for Government institutions:

1. Working closely with the recipient agency to develop the TOR, ensuring that the TOR has been approved and fitted to the needs of the institution.
2. Inclusion of the recipient agency in the candidate selection process.
3. Ensuring advisor reporting lines also include Government counterparts.

Box 4: Improving advisory support in Public Institutions

4. Designing TOR to include indicators, targets, and tangible outputs and outcomes to improve local counterpart capacity.
5. For assignments exceeding six months, development partners should make arrangements for international advisors/consultants who do not speak Tetun to ensure that the consultant is able to best communicate so as to enable the counterpart capturing the knowledge and skills to the satisfaction of the institution.

2. Construction/equipment transfer

This type of assistance is vital in providing the Government with the technology or the infrastructure to deliver its program. In this scenario, development partners provide either equipment or the work itself resulting in a transfer of value. Although this assistance is welcomed and appreciated, development partners should consider designing these projects in ways that ensure the use of country systems.

Stakeholder Roles, Responsibilities, and Commitments in Non-lending Assistance

Development Assistance is inherently collaborative by nature. It requires an agreed upon shared vision from development stakeholders; a shared belief in the value of development assistance; clear commitments towards common goals; continuous coordination and building of relationships; and clearly defined roles and responsibilities. The section below outlines key commitments stakeholder groups will adhere to.

Development Partners commit to:

- a) Designing all projects and programs in line with the New Deal Principles.
- b) Familiarizing themselves with all relevant regulatory and policy frameworks.
- c) Coordinating with relevant Government departments to prepare Country Partnership Strategies and projects that are in line with the Strategic Development Plan (at the sub-pillar level), the Government five year program (at the sub-program level), and when relevant, the Ministerial Annual Action Plans, Sector Strategic Plans, and Timor-Leste's Roadmap for the Implementation of the 2030 Agenda.
- d) Providing timely and up to date information on activities to government agencies and systems.
- e) Regularly dialoguing with relevant Government departments in order to improve coordination, communication, and strengthen relationships.
- f) Participating in Quarterly Development Partners Meeting and the annual Timor-Leste Development Partners Meeting.
- g) Ensuring that non-government recipients of funding are using development partner resources in a way that is in line with Government's policies.
- h) Increasing use of Government systems and procedures in project designs.
- i) In line with global commitments endorsed in the Addis Ababa Action Agenda that recognize the importance of domestic resource mobilization, limiting requests for tax exemptions.
- j) Understanding that all program and project designs will be regulated by Timor-Leste's legal frameworks, unless otherwise agreed.
- k) Being ultimately responsible for any activities that make use of external implementing agencies.

Government Recipient Agencies commit to:

- a) Reviewing proposed agreements to ensure need and alignment to priorities.
- b) Establishing forums for coordination and dialogue with development partners.
- c) Monitoring and evaluating project implementation/support.

- d) Reporting to MoF on the project progress.
- e) Reviewing and determining approvability of projects.

Non-Government Recipient Agencies (INGOs, NGOs, and CSOs) commit to:

- a) Reporting funding sources and use to the Ministry of Finance.
- b) Reporting independently financed activities to the Ministry of Finance.
- c) When possible, creating partnerships with relevant Government agencies to work with and report to.
- d) When deemed necessary, cooperating with inspections and audits.

The *Ministry of Finance* commits to:

- a) Reviewing, coordinating, and determining approvability of proposed Country Partnership Strategies and projects.
- b) Acting as the central body for high-level development partner coordination and dialogue via forums such as the Timor-Leste Development Partners Meeting and the Quarterly Development Partners Meeting.
- c) Reviewing projects and programs that include a Government financial commitments for approval.
- d) Reviewing projects and programs to ensure alignment to Government programs and New Deal Principles of country-owned, country-led activities that use the country systems.
- e) Maintaining and improving upon a database to track development partners' activities in Timor-Leste. The data collected will be used to continuously improve upon how development assistance is accounted for in budget discussions and to monitor overall development partner activity performance.

The *Ministry of Foreign Affairs and Cooperation* commits to:

- a) Acting as a window for diplomatic protocol purposes.
- b) Reviewing and determining approvability of Country Partnership Strategies.
- c) Leading negotiations of Framework Agreements.
- d) Reviewing and determining approvability of projects.

The *Council of Ministers* commits to:

- a) Reviewing and determining approvability of projects and/or CPSs that exceed \$5 million USD.
- b) Granting Authorization for Signature to relevant line Ministries for projects requiring the Council of Ministers' approval.

Annex 1: The New Deal for Engagement in Fragile States

The Government's policies on aid follow the principles set forth in the New Deal for Engagement in Fragile States ("The New Deal"), that is, country-led, country-owned development that adheres to the use of country systems. The New Deal stemmed from a growing number of voices calling for greater effectiveness in aid. The resulting document is informed by the lessons of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action that was agreed to 2011. The New Deal is now subscribed to by 44 sovereign states and numerous international organizations.

The New Deal outlines a new global paradigm for international engagement in fragile states. It is designed to accelerate the effectiveness of international engagement through the promotion of country-owned and country-led pathways that use the country systems towards achieving peace and resilience. The New Deal is comprised of the three following components:

- i. **Peacebuilding and State Building Goals (PSGs):** The goals promote five key areas as the foundations for progress towards achieving the Sustainable Development Goals and to guide the work in fragile and conflict affected states. These areas include: legitimate politics, security, justice, economic foundations, and revenue and services.
- ii. **FOCUS:** promotes inclusive country-led and country-owned mechanisms for planning and coordination. These mechanisms ask development partners to work with governments towards a single set of peacebuilding and state building priorities as identified by country stakeholders themselves.

FOCUS stand for five important principles as follows:

- **F**ragility Assessment: aims to measure the nation's progress towards Resilience when viewed through the lens of the PSGs. Fragility Assessments in Timor-Leste were conducted in 2012 and 2015 and will be conducted periodically with key stakeholders' participation. The results of any fragility assessment shall inform national policies and plans as well as the programs of development partners.
- **O**ne Vision, one plan: refers to a country-owned and country-led framework for all programs and projects to align to. In the case of Timor-Leste, the Strategic Development Plan will act as this framework, as agreed in the Dili Development Pact 2011. Plans will be flexible so as to address short-, medium- and long-term peacebuilding and statebuilding priorities.
- **C**ompact: is a key mechanism to implement one vision, one plan. Recognizing differences in fragility and national contexts, and that a compact may take different forms at different points in transition out of fragility, a compact will ensure harmonization and development partner coordination, reduce duplication, fragmentation and program proliferation. A compact can guide the choice of aid modalities, and can provide a basis to determine the allocation of development partner resources aligned to the country-led national priorities, in line with good aid effectiveness principles. A compact can also be used as a short-term key transitional mechanism to guide country-led priorities while establishing one vision one plan, but always country-led.
- **U**se of PSGs to monitor: The PSG targets and indicators shall be used to monitor country-level progress and its monitoring process shall be embedded with the general mechanisms for planning and coordination.

- **Support political dialogue and leadership:** initiatives for political dialogue at the country level should be supported by all and help to build the capacity of government.
- iii. **TRUST:** promotes principles for providing aid and managing resources more effectively and to align these resources for results while using country systems. TRUST stand for five important principles as follows:
- **T**ransparency: The Government commits to ensure transparency through the use of several Transparency Portals (Budget, Aid, eProcurement and Results). The Ministry of Finance manages the database system that centralizes all aid information in a local format and in the time schedule set by the Government. Through the endorsement of the New Deal, Development Partners commit to maintaining up to date information up to date information on their activities and to providing, when possible, three to five year disbursement projections. This is requested in order to enable the Government to produce effective budgets, reduce development partner funding volatility, improve coordination, and is in line with Aid Effectiveness Principles.
 - **R**isk Sharing: The Government promotes joint risk assessment and joint mechanisms to reduce and better manage risks so as to build the capacity, and enhance the use of country systems, including PFM systems and procurement systems.
 - **U**se and Strengthening Country Systems: When supporting the public sector, development partners agree to use country systems as the first option for aid delivery. Systems typically include national budget execution procedures, national financial reporting procedures, national auditing procedures, and national procurement systems. The Government, with the support of Development Partners, will work towards strengthening its public financial management and procurement systems. Development partners can play a pivotal role in this area by channeling their support through the Government's PFM systems, thereby demonstrating their trust and, in the process, enhancing the quality of our systems.
 - **S**trengthening Capacities: Comprehensive measures to strengthen capacities of the state and civil society shall be developed and implemented. In order to ensure the efficient support to build their critical capabilities, pooled funding facilities should be promoted to avoid fragmentation, duplication, the proliferation of project implementation units, and high transaction costs.
 - **T**imely and Predictable Aid: Development partners operating in Timor-Leste are required to provide accurate 3-5 years estimates of future aid flows to the Ministry of Finance's development partner tracking system, in conjunction with reporting on aid provided. In addition, the Government and development partners will work together to significantly improve the quality of external assistance tracking and to produce information in a way that is useful and accessible to all stakeholders.



FOREIGN AID POLICY

Principles and Procedures Governing
Non-lending Assistance to Timor-Leste