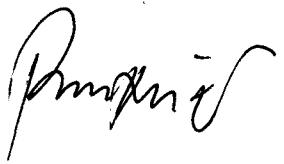


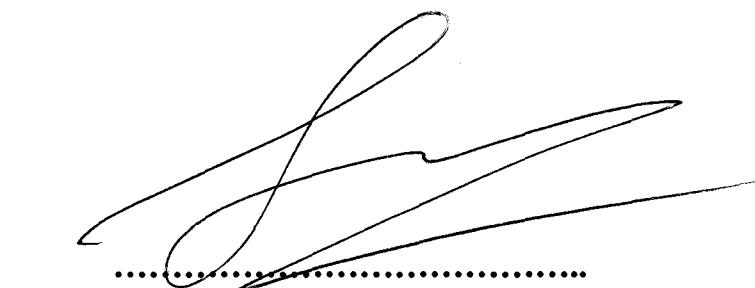
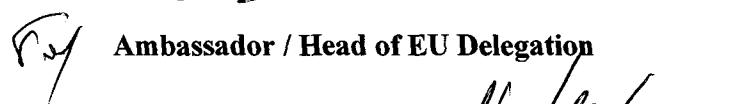
Joint Annual Report 2009-2010

Report of the National Authorising Officer and the European Union Delegation to Timor-Leste



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National Authorising Officer / EDF

Date: 19/12/2011


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R.S./ Ambassador / Head of EU Delegation


14/12/2011

TABLE OF CONTENTS

1. Executive Summary and Conclusions	3
1.1 Executive Summary	3
1.2 Conclusions and recommendations on the relevance of the response strategy	4
2. Country analysis	6
2.1 Update on political situation and political governance	6
2.2 Update on economic situation and economic governance	8
2.3 Update on the poverty and social situation	10
2.4 Update on the environmental situation and climate change	13
2.5 Update on the cross-cutting issues	14
2.6 EU Strategy for the Pacific: involvement of partner country	15
3. Overview of past and on-going cooperation	17
3.1 Reporting on financial performance of EDF resources	17
3.2 Reporting on General / sector Budget Support	17
3.3 Projects and programmes in the focal and non-focal areas	18
3.4 Other actions	19
3.5 Policy Coherence for development (PCD)	20
3.6 The in-country dialogue	20
3.7 Aid effectiveness and joint programming	21
 Annexes	
A-I.1-A Table of macro-economic and trade capacity indicators	23
A-I.1-B Key MDG and development indicators	24
A-I.2 Checklist on NSAs	25
1. General Country Context	25
2. 10th EDF MTR Consultation Process	26
3. Assessment of NSA / LA / Parliament involvement in the MTR process	26
4. Conclusions: overall value/impact of NSA/LA participation in the MTR process	27
A-I.3-A: Donor Matrix – template for planned donor disbursements	28

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JOINT ANNUAL REPORT 2009-2010

1. Executive summary and Conclusions

1.1 Executive summary

Since the elaboration of the 10th EDF CSP in early 2008, Timor-Leste has registered important progress in all main areas of the nation's life. More specifically: (a) the political situation continued to stabilise with the central Government leading the country out of the conflict situation towards an era of long-term socio-economic development, the Parliament becoming assertive and increasingly a pillar of democratic governance, and the opposition acting in a mature and responsible manner, (b) the national economy showing resilience in a context of adverse global environment and recording substantial real growth in 2008, (c) the social situation improving due to the stabilisation of internal security and due to cash transfers from the Government to vulnerable groups, which in return is expected to lead to a reduction of poverty, and (d) the general environmental situation expected to benefit from the country's ratification of relevant global agreements and the stricter implementation of EIA at project and programme levels.

On the other hand, important challenges still remain, including the consolidation of peace, the achievement of sustained progress in the pursuit of the MDGs, facilitating the strengthening of the private sector in order for it to become a locomotive of economic growth, responding in an appropriate manner to the challenges posed by the high population growth, ensuring a fair balance of short and long term considerations in the use of the Petroleum Fund, mobilising the substantial financial resources needed for rehabilitating and maintaining the infrastructure assets, continuing with the reforms of the public service and of public financial management as well as with the decentralisation drive, building up human resources capacity, fighting corruption, and striving to enhance aid effectiveness by aiming at assuming ownership and leadership.

Since, for reasons of national interest, Timor-Leste has made a choice to integrate into the ASEAN group of countries, it is not a participant in the EPA negotiations.

In the governance front, significant progress has been achieved in different areas: (a) political governance, where an assertive Parliament is increasingly becoming a responsible forum for constructive dialogue of all political forces and elections are being organised in a peaceful environment, (b) economic governance, where the Government created a new post of Vice-Prime Minister with enhanced authority for fighting corruption, and the Parliament increasingly becoming a guarantor of the proper use of public funds, (c) social governance, where the Government follows pro-poor policies as demonstrated by the cash transfers to vulnerable groups and aims at creation of employment through increased investments and adoption of labour-based works wherever feasible, and (d) environmental situation, where the country is progressively becoming a partner in relevant international endeavours and is building domestic capacity to improve the application of existing legislation. Concerning the Government's compliance to the governance commitments annexed to the CSP, a recent assessment showed significant progress in several areas and a positive trend in others.

On the political dialogue, the good will has been demonstrated by the Government to enhance it as feasible, when considering capacity constraints. The single EU Embassy (Portugal) present in Timor-Leste, does maintain a regular political dialogue with the Government on a bilateral basis, whereas the other EU MS missions and the EC Delegation do have frequent contacts with the line Ministries concerned in the framework of their development cooperation activities. Plans are underway for commencing soon a structured Article 8 dialogue between the Government and the EU "troika".

In the EC/Timor-Leste cooperation area, this has now evolved from a conflict-induced humanitarian/emergency nature to a long term development planning. The resources made

available under the 9th EDF, i.e. €18 million, are currently under full implementation, and they start having an impact. More specifically: (a) through participation in a multi-donor funding arrangement, capacity building in the Government, and especially in the Ministry of Finance, is recording impressive achievements (and this despite the serious constraints imposed by the inadequate infrastructure), which are reasonably expected to have beneficial spill-over effects to the other Ministries, and (b) through funding a national seminar on sustainable rural development, solid progress towards an enhanced cooperation between the Ministries concerned and the Donors active in the sector is being registered, and an appropriate framework for a rural development strategy is being prepared. In the field of rural development, which is of a paramount importance to Timor-Leste due to the fact that over 80% of the population lives in those areas, the Government has shown its determination to strive for sustained progress through the creation of an inter-Ministerial committee chaired by a Vice-Prime Minister. On possible future delivery of EDF resources through Sector Budget Support modality, discussions are being held with a view to identifying relevant constraints and agreeing on necessary actions to overcome them.

The current review exercise has been carried out in a participatory manner by associating to the process other stakeholders, including (in addition to the NAO representing the Government) the Parliament, the EU Member States active in Timor-Leste, the Non-State Actors (NGOs, Private Sector), and the other Development Partners present in the country.

In the context of aid effectiveness, the Government has established a dedicated Directorate in the Ministry of Finance, which will aim at ensuring that the country takes progressively full ownership of and exercises leadership in Timor-Leste's development agenda. Moreover, the country has volunteered and is a member of the Group of Seven of Fragile States that participate in an OECD led exercise of monitoring the principles for good international engagement in fragile states and situations. On its part, the EC Delegation is an active participant in Development Partner coordination fora, and indeed is advocating reinforced cooperation with a view to enhancing aid effectiveness through concentration of aid, an effective division of labour, and support to Government in order to eventually meet the eligibility requirements for Budget Support modality of aid delivery.

1.2 Conclusions and recommendations regarding the relevance of the response strategy

Based on the evolution of the overall situation (political, economic, social/poverty, implementation of EDF) the MTR assessment (see following pages) concluded a by and large improved situation in the governance sector, a positive macroeconomic situation, however not yet sustainable due to a largely missing private sector and a critical situation in the social sectors with missing targets on the MDGs. Implementation of the EDF is behind schedule. Special considerations were applied due to the fragility of the country which lead to a correction of the rating to "average progress".

The response strategy of the CSP as adopted in early 2008 is still relevant and needs not to be changed.

More specifically, the improvement of the living conditions of the majority of the Timorese people who live in the rural areas through an enhancement of the non-agricultural employment creation and through the delivery of better services remains the highest priority of the Government. National Priority No 1 for 2010 is infrastructure development, essentially comprising of rural roads and water/sanitation works. Therefore the first focal sector in the CSP/NIP, i.e. Rural Development remains highly relevant. A new intervention will build upon the recently developed rural development strategy. Due to the significant size of the EC's planned intervention and also due to the perceived comparative advantage of the Delegation in terms of expertise especially with rural infrastructure operations, the EC is tacitly accepted as a leading donor.

At the same time, capacity building across national administration as a cross-cutting issue is vigorously pursued by the Government because it is realised that this is imperative for sustainability. With a view to ensuring that capacity building in terms of human resources development is properly matched by commensurate working environment, emphasis is also given to physical infrastructure improvement. Consequently, facilities throughout the country are being improved, albeit in a slow pace, within the means of the annual national budgets. Thus, the EDF's second focal area of support to capacity building for Government remains highly relevant. Remaining resources under this focal area should be used in a manner that will balance the human resources development in the Ministry of Finance with the necessary improvement of infrastructure for the staff concerned, so that the latter can in future exercise their duties without the current constraints imposed by the inadequacy of the existing, colonial era, facility. In delivering its aid in the field of capacity building for Government, the EC Delegation will endeavour, in close consultation with the NAO's office, to achieve synergies with other Development Partners active in this area and indeed to consider appropriate modalities for aid delivery through established structures that are deemed to perform well (in line with Paris Declaration and Accra Agenda for Action commitments).

The envisaged intervention of the EDF in the health sector remains also relevant due to the need to assist the Government to intensify efforts in boosting progress towards achieving the relevant MDGs. The recent review of the country's progress in the MDG context has shown that the health-related goals are at a high risk of not being achieved even until 2020, unless increased concerted efforts in this respect will be made. Hence, there is need to maintain this focal area in the CSP/NIP. Concerning the modality for the delivery of the relevant € 10 million allocation, this is still the subject of discussions with the Government as well as with other stakeholders (donors active in the sector and NGOs involved in relevant service delivery). The aim of these consultations is to ensure that coherence and synergies in the sector can be achieved. Whereas reliance on country systems through a Sector Budget Support modality (when eligibility requirements will be satisfied) remains the preferred option for both the Government and the European Commission, it is realised that more work in this area needs to be done. It would therefore be appropriate to consider joining other donors who are actively supporting the health sector through the operation of a Trust Fund. This issue will be the subject of intense discussions, between the Government and the EC Delegation, in order to arrive to an informed decision on the best way forward.

Concerning the main intervention under the support to non-focal areas, assistance to Non State Actors is planned. Supporting the NSA capacity building, empowering the civil society, grass roots organisations, the private sector and other actors in the field would contribute to the improvement of governance in diverse areas (political, economic, social/poverty, environment) because the NSA have shown that they can become strong advocates of transparency, accountability, human rights and environmental protection. The planned EC support is to be designed in consultation with other Development Partners active in this field. It is due to the Donors' (including the EC) actions in this area that the Government realizes that potential great benefits to the nation's life can derive from the responsible activities of well intended and well capacitated Non State Actors.

2. Country analysis

2.1 Update on political situation and political governance

After the 2007 Presidential and Legislative elections and after the shootings on February 11, 2008 which nearly killed the President and narrowly missed the Prime Minister, 2008 was the year of political consolidation of the AMP Government. The increased popular isolation of the rebel soldiers and the Government's skilful response to the attacks created the conditions for their surrender. The Joint Military and Police operation, established for this purpose, also contributed to bridging some of the divisions which continued to be felt between the two institutions since the 2006 crisis. A further consequence of the February shooting and effective Government response was a general reduction of sympathy for the adoption of violent and radical means of conflict resolution, which induced the more than 600 dissident soldiers, "the Petitioners", not to push for their reintegration into the military and instead accept a financial package to facilitate their reintegration back into civilian life.

A similar strategy was adopted when dealing with populations displaced during the 2006 crisis. Throughout 2008, 54 out of 63 IDP camps in Dili and Baucau were closed and the families returned either to their previous houses and communities or resettled with relatives in their neighbourhoods. This is a major achievement of the Government and one which many international agencies believed would not be possible.

The Government took advantage of this favourable context and launched a six week nationwide weapons collection campaign, and as a result significant number of weapons and ammunition stocks were handed over to security forces. Security has improved and serious crime incidents decreased from an average of four to two per week throughout 2008.

The Government also initiated a number of reform processes with key ones concentrated on the strengthening of the civil service, the decentralization of basic services and on tackling corruption. Legislative activity comprised organic laws of the Government and different Ministries, laws related to investment, budget approval, civil and penal codes, laws protecting witnesses, international conventions such as those related to anti-corruption, and approved resolutions in relation to the career structure of civil servants and security officers.

Due to the specific structure of Timor-Leste's non-oil economy, in the absence of and negligible remittances and trade, the global economic and financial crisis did not have any immediate impact on the general situation in the country. However, the country became aware of possible adverse effects by a prolonged crisis, and embarked on a more prudent handling of its financial affairs including the management of the Petroleum Fund.

The first 9 months of 2009 saw the continuation of the 2008 positive trends. All camps for the internally displaced people were closed. New volunteers have been screened and recruited in the army, which had suffered defections during the 2006 crisis. Screened police recommended for discipline or for exclusion have been progressively left out of service during the gradual handover of police responsibilities from the UN to Timor-Leste. Trials of people involved in the crisis have continued, albeit at a low pace. Legislative progress has been made in relation to the internal security and defence; the statute for the remuneration of the judges and justice personnel; the laws for election of community leaders and for local Government (Municipalities); the law for the general inspection of the state; the civil code. Resolutions were also passed for ratification of UN conventions related to traffic of human beings including traffic of migrants and agreements with the CPLP.

The Government continued to allocate resources aimed at maintaining stability, mainly by increasing public servants salaries, benefits for vulnerable groups, rice subsidies and drawing more than the sustainable amount from the Petroleum Fund. However, with the awareness that oil prices would not reach the levels of 2008, the 2009 mid-year budget revision has not increased resources. In planning the budget for 2010, which still plans

drawing above the sustainable drawing from the petroleum fund, the Government is becoming aware that not all the problems can be solved with money in a sustainable way. At the same time, in spite of continuous attacks by the Opposition on corruption allegations, the Government has become more confident about a perceived popular support and has become able to manage the relations with the opposition. In spite of dynamic discussions, Government, Opposition, Parliament and Civil Society have been able to participate to consensus dialogue sessions, facilitated by the Norwegian Embassy, for starting to take on board the recommendations of the Commission of Reception, Truth and Reconciliation, the Commission of Truth and Friendship with Indonesia, and the Commission of Inquiry of the 2006 crisis. Although the Opposition continues to consider the Government as an unconstitutional one, nonetheless the possibility of earlier elections has appeared more remote in 2009 and the Opposition does not seem to be willing to risk assuming the responsibility for a return to violence by organising demonstrations.

Whereas Timor-Leste has made a strategic choice to join and eventually integrate into the ASEAN group of South East Asia countries, it has also been prompted by the EC Delegation to endeavour to derive maximum benefits from the 10th EDF Regional Programme for the Pacific by working with the Pacific ACPs, and from the PALOP programme. In this respect, missions to Fiji and to Cairns by high-level Government officials have taken place, thus enhancing Timor-Leste's participation and coordination with their Pacific neighbours, and meetings concerning the PALOP projects/programmes are being attended to. Also, the country has enhanced its relations with the CPLP countries by appointing an ambassador and attending their summit. The country has been actively cooperating with the UNMIT, Australia, New Zealand and Portugal, and also receiving financial support under the EC's Instrument for Stability, in the national effort of security reform. Also, the country is collaborating actively with the OECD and with Development Partners with a view to realising the objective of exiting from the post-conflict situation and embarking on long term development.

Despite of the above positive trends, the possibility of further political instability has not been eliminated and the following challenges remain:

- Timor-Leste's history of unresolved disputes during the occupation by Indonesia and different readings of the 2006 crisis can still be causes for instability. Moreover, the perception that security can better be enhanced by belonging to groups or gangs could easily contribute to the fragmentation of society. It is in recognition of this fragility that the Government has requested the UN and the international forces to extend their presence in the country.
- Public expectations have increased since oil and gas revenue started to come on stream and since revenues have started to be spent for vulnerable sections of the population.
- The population is rapidly increasing in urban areas along with unemployment while rural poverty remains a concern. The standard of living survey of the WB, based on 2007 data, indicates that food security has worsened in rural areas. The management of the community elections and the municipal elections in 2009-10 will be an important test for assessing the post crisis' political maturity as well as the performance of the security forces.
- The performance and credibility of the established Anti-Corruption Commission will be determinant in increasing the credibility of the state institutions and their functioning. At the same time the establishment of crucial institutions like the Court of Auditors is of paramount importance.

The monitoring of the Government's governance commitments has shown that significant progress has been achieved in the area of human rights. More specifically, the strengthening of the Ombudsman's Office and its extension to the districts, the training of police and army forces in gender and human rights sensitive manner, and the enhancement

of reporting to Parliament, demonstrate the Government's commitment to continue addressing shortcomings. Also, progress has been achieved in strengthening the state institutions mandated to conduct elections. More specifically relevant laws have been introduced in Parliament and they are debated, financial resources towards realising Suco elections in 2009 have been made available, and preparations for Municipal elections in 2010 have been boosted. In the area of judicial and law enforcement there has been progress in strengthening the Public Defender's office, in providing training and IT equipment to the sector, and in launching public consultations aimed at developing appropriate mechanisms to link traditional justice with the formal system. Concerning the control of corruption, the establishment of the Anti-corruption Commission, as well as the nomination in early 2009 of a 2nd Vice Prime Minister with specific mandate to address governance issues, the installation of the Inspection and Audit Office, the promulgation of the penal code, and the commencement of the drafting of a National Strategy on Combating Corruption, are firm indications of progress. Finally, in the area of institutional capacity progress has been achieved by revising the Civil Service Act, by establishing an independent Civil Service Commission, and by reviewing staff training and development.

It can be concluded from the above update of the political situation in the country (up to September 2009), and from the above assessment of the political governance situation, that the **Government has largely adhered to its governance commitments annexed to CSP/NIP**, and indeed **significant progress has been achieved in the political governance situation since the adoption of the CSP**.

2.2 Update on economic situation and economic governance

In 2008 the economy grew at 12.8% prompted by the substantial increase in oil revenue due to increased oil price during the first half of the year, by the increased budget for public services, cash transfers and a more stable political and security situation. The 2008 budget implementation has been the highest ever recorded, reaching about 61% of the total. Although Parliament, through the mid-term review of the budget, approved a proposal to withdraw from the Petroleum Fund an amount in excess of the Sustainable Income, the Government did not withdraw more than the sustainable level.

By the end of 2008, the specific structure of Timor-Leste's economy (heavily relied on oil resources), had enabled the country to be protected from effects of the global financial and economic crisis. It is however realised that any prolonged global crisis would eventually affect the country. The Government, cognizant of this fact, has planned to review the situation and initiate relevant actions with a view to making the country more resilient to external shocks and indeed in order to encourage the private sector, which it is intended to become, in time, the motor for driving the economy forward in a sustainable manner.

The investment of the petroleum fund in US Treasury bonds proved to be safe and generated an investment return of 7%, bringing the annual average return since inception of the Fund to above 5%. However, the Governments have prudently decided to diversify this portfolio by entrusting the management of USD 1 billion to BIS.

Agricultural production was estimated to have increased benefiting from government support to productive crops, the provision of tractors, favourable weather and increase in cultivated areas. Coffee exports in 2008 doubled in quantity compared to the previous year. Rice production has been estimated to have increased by 21% during the 2007-08 agricultural campaign and it is expected to further increase due to the increased provision of services and inputs.

Encouraged by the buoyant oil prices during the first semester of 2008 the Government revised the state budget upward, including an allocation of \$240M to the Economic Stabilization Fund, thus allowing the purchase of additional commodities such as rice and

fuel to offset price increases to these key commodities in 2008. The driving reason for the Economic Stabilization Fund was the threat to stability caused by food shortages and the increasing price of rice, fuel and construction materials. In this context rice was subsidized at 50% of its cost. Fuel has also been subsidized mainly through the subsidies for energy generation.

The Government has been able, with the support of the international community, to significantly improve budget execution. This has allowed stabilizing the situation through subsidies and allowances. However, the risk is that the population could perceive that all problems must be solved with money, thus putting pressure on sound economic policies.

During 2009 the Government continued its progress in creating stability, but also in carrying out a program of infrastructures. The year's budget reflected the above objectives: allocation for infrastructure was increased 74% compared to the previous year. Goods and services were increased 29% to include also food subsidies. Transfers for veterans, aged people and former holders of public offices were increased 15%, and salaries increased 44%. The total budget, set at \$681 million, provides drawing from the Petroleum Fund in excess of the Sustainable Income. A justification for such excess withdrawal was provided to Parliament in accordance with the Petroleum Fund Law.

The Government, cognizant of the fact that infrastructure is a key driver of sustained economic growth, pays particular attention to the need to deliver infrastructure services and maintenance with a view to protecting existing assets and planning new ones in order to create jobs and boost the economy. An Infrastructure Development Plan drafted recently, the recent preparation of the Master Plan for the National Roads, and the coming preparation of the Master Plan for the Rural Roads, provide a useful platform for enhanced dialogue between the Government and Donors on aspects of infrastructure development in Timor-Leste. Such dialogue is imperative due to the huge size of the investment required to rehabilitate the existing assets, and thus bring them to a "maintainable" state, but also to plan for new works, which are essential for boosting the national economy in order to enable it improve productivity and become competitive. An important feature of this dialogue is the exploration, by Government, of new possibilities for obtaining affordable funding in order to bridge the existing major financing gap and thus respond better to the economic and financial crisis.

While the global crisis has had limited immediate impact on Timor-Leste because of the particular structure of its economy, on the other hand a prolonged crisis would adversely affect the country, since oil and gas provides the country's main source of revenue (97% of revenues). The fall in the petroleum price, from an average of US\$140 per barrel in October 2008 to a projected annual average of US\$60 per barrel during 2009, is reducing to half the income of Timor-Leste and the sustainable resources which can be used for the budget. Consequently, the 2009 proposed budget expenditures represent 13% increase in comparison to 2008 (less than the 25% increase in previous years). The continuation of high level of spending like in 2008, while the price of oil remains \$ 60 per barrel in the medium term, would deplete rapidly the petroleum fund.

The Government is aware of this and is preparing the 2010 budget accordingly (expenditure increase around 4%). Whereas expenditure growths of 13% in 2009 and 4% in 2010 are justified by previous commitments, they are still 15-20% above the sustainable level. If the spending growth continues to be limited, it can be brought to the sustainable level by 2012.

In the medium term the IMF considers positively Timor-Leste's economy, although with a decline in the fiscal and external surplus. Inflation is projected to stay low and real non oil GDP would still be around 7.5% in 2009-10. The major uncertainties are related to the international price of oil, the internal security and political stability, the quantity and quality of public spending and the capacity to attract foreign investors. Under current oil price

projections, petroleum revenues are expected to decrease from US\$2.3 billion in 2008 to US\$1.1 billion in 2009.

Concerning trade, Timor-Leste has an open trade regime with a uniform duty on imports which was reduced in 2008 to 2.5% (from 6%). The institutional structure for developing and coordinating trade policy continues to require strengthening, an area in which the Government recognizes and is responding to. Interestingly there has been a rise in microfinance service demand despite the high interest rates. However most of the loans are related to houses rehabilitation or to trade, and very little to agricultural production.

With the exception of the petroleum sector, Timor-Leste has a narrow non-oil exports base and is not integrated with international financial markets. IMF data (2006) showed that the ratio of non-oil merchandise trade to non-oil GDP was rather low (about 42%) compared to the rest of Low Income Asia (around 99%) but also compared to Fiji (about 85%). Non-oil exports in 2008 are estimated at around \$12 million (over 90% of which is green coffee). Imports in 2008 exceeded \$300 million (mainly from SEA and Australia). Petroleum receipts in 2008 amounted to 484% of the non-oil GDP.

Since Timor-Leste has made a strategic decision to join ASEAN, aimed to be achieved by 2012, it is not interested on the EPAs. Consequently, there may not be much involvement of the country in the planned regional Aid-for-Trade programme with the exception of training and technical assistance directly relevant to the needs of the sector in Timor-Leste. The country has not yet joined the WTO, because it is still assessing the obligations and potential benefits of such a move.

The assessment of Timor-Leste's governance commitments in the area of economic governance, including Public Financial Management, results in a **positive**, on balance, conclusion. More specifically, preparatory activities for the effective decentralisation of Ministry of Finance (MoF) functions has continued, a quality control system in the MoF has been put in place, quarterly reporting from all Ministries has been improved, technical assistance from the MoF to other Ministries is being provided, the FMIS is being rolled over to all Ministries and eventually to the districts, and the procurement law is being reviewed. A working group on examining land laws has been established and it is functioning, the law concerning the setting up of businesses is being reviewed, and the drafting of cooperatives legislation has commenced. In the area of "Doing Business", Timor-Leste ranked 164 in 2010 (released recently by IFC), up by +10 from its rank of 174 in the 2009 survey. The country was also ranked 19th of the 183 countries in terms of "Paying Taxes", from its rank of 75th in 2009.

With important assistance from Development Partners, through a multi-donor trust fund managed by the World Bank, Timor-Leste has realised impressive progress in putting in place a well functioning MoF. Having achieved this first objective, (although it should be noted that severe constraints in qualified national human resources necessitate several foreign advisors assuming line jobs), the Ministry is now turning its attention to longer term objectives in the pursuit of the overarching goal of reducing poverty through sustainable economic development. A Strategic Development Plan is under preparation, aid effectiveness matters are being addressed, and macroeconomic aspects are being gradually addressed, thus aiming at putting in place sound economic policies as required supporting sustainable growth.

2.3 Update on the poverty and social situation

Together with the UN the Government of Timor-Leste has produced a first MDGs report in 2004. This report has been updated in 2009 and provides a good base for appraisal of trends in poverty and social situation utilising the most recent information, even if the statistical base is often poor, especially regarding health conditions. The country remains the poorest

of the region and one of the poorest of all ACP. It has started being built from the scratch only ten years ago with an infrastructure largely destroyed, and has had various political crises since then. Besides it faces a severe lack of skilled human resources. Human development index remains very low as the last published one by UNDP (2007/8) was only 0.514, being the country ranked 150th on 177. The progress in achieving the eight MDG goals are quite varied as detailed below:

Goal 1- Eradicate extreme poverty and hunger

There has been little change in the poverty conditions in the country as poverty measurement by examining expenditure revealed significant worsening between 2001 and 2007. Percentage of population below the poverty line (USD 0.88 per capita per day in 2007) has increased from 36% in 2001 to 49.9% in 2007. This can be related to poor labour conditions (only 10% of the work force were paid workers in 2006), the fact that 80% of population depend on the agricultural sector which has a low productivity and dependency on imported food sources with price fluctuation implication. With half the population below the poverty line, it is clear that the Government will need to make concerted efforts to reduce poverty. Realistically speaking it would not be possible to achieve the target of 14% by 2015 but perhaps by 2020.

Under-nutrition for the under-five children (percentage of under-weighted has deteriorated from 45% in 2001 to 48.6% in 2007) results into weak physical and intellectual capacities and a 2006 survey indicates clearly that the majority of Timorese population is in need of improved nutrition. This can be related to low purchasing power of nutritious food, poor public knowledge in nutrition and poor eating habits. The target set for 2015 of only 31% of underweighted children clearly require great efforts to achieve.

Goal 2 – Achieve universal primary education

Although the dropout rate for primary education is declining, net enrolment, which had risen from 1999 to 2004 (65% to 78%) decreased subsequently and was only 63% in 2007 with a large disparity between urban and rural areas. This can be a consequence of the very high population growth rate and of the cost of access to school and other related charges. Literacy rate of 15-24 years, which was low (50% in 2000) has increased to 85% in 2007 due to important efforts of the Government. In all these indicators Timor-Leste remains far from its neighbouring countries but significant improvements have been realised with regard to primary education after a five-year period of stagnation (2001-2006), which shows that Government has been making strides in improving availability of facilities and supporting resources for primary schools. Continuing efforts, and indeed intensifying them, could allow Timor-Leste to reach a level close to the target of universal primary education.

Goal 3 – Promote gender equality and employment women

Although the ratio of girls to boys at the basic level of education (primary and secondary) are in favour of girls, it decreases at higher education levels and opportunities for women to enter the labour market are lower than those of men. There is also a large difference of literacy rate between urban and rural areas, most of women in rural areas being illiterate. The contribution of women in the labour force remains at a low of 40% between 2001 and 2007. The Government's determination to intensify efforts in this area, coupled by the fact that important advocacy work is being done by Non-State Actors, provide valid reasons for optimism.

Goal 4 – Reduce child mortality

Weak institutional and human resource capacity, limited infrastructure, long distance to health care services combined with poor knowledge and practices of the population in health care explain the poor indicators. Under-five mortality remains stable at a high level

(fluctuating between 125 and 144 out of 1,000 live birth from 2001 to 2004). Due to lack of data it is impossible to verify if the country is on track; in any case it is necessary to plan and implement necessary policies and programs in order to reach the target. Proportion of one-year children immunised against measles has reached 74% in 2008 but still remains low. It would seem that, whereas improvement can be registered by 2015, it would be unrealistic to expect the relevant target to be achieved. It could be done by 2020.

Goal 5 – improve maternal health

Limited number of midwives able to offer maternal health and family planning services and the limited number of health facilities are a severe constraint regarding maternal and reproductive health care. Data do not exist, since 2000, about maternal mortality even if it is probable that efforts initiated by the Government have had a positive impact. Last ratio, for 2000, indicated a very high maternal mortality (660 per 100,000). Antenatal and postnatal cares are improving but remain low (only 55.4% of women made the first antenatal care visit in 2007, 31% the fourth and 21% the postnatal one). Percentage of birth attended by skill personnel remains low, especially in rural areas (66% in urban areas and 21% in rural ones for 2007). Contraceptive prevalence rate is increasing (8% in 2001, 19.8% in 2007). There is a strong commitment by the Government to carry out important efforts regarding health strategy, reproductive care and family planning; if these steps are further strengthened they would bring a positive impact on the current conditions. However, it would be unrealistic to expect that the relevant target would be achieved by 2015. Perhaps by 2020.

Goal 6 – Combat HIV/AIDS, malaria and other diseases

Knowledge about HIV/AIDS prevention (percentage of 15-24 years old having a comprehensive knowledge) has risen since 2002 (from 3% to 13%) but this is still low. The level of risk behaviour is still high with young people engaged in unprotected sex and the level of condom use is low (less than 1% of the Contraceptive Prevalence Rate in 2006).

Incidence rates for malaria do not show any decreasing rate but this can probably be explained by a better reporting system as the health sector has intensified preventive and curative intervention with funding from the Global Fund. Tuberculosis remains a major problem and the National TB Control Program is being strengthened for improved delivery of TB diagnostic and treatment services.

The assessment in this area points out towards a positive outcome in 2015, provided the Government works in harmony with the Civil Society and Development Partners.

Goal 7 – Ensure environmental sustainability

Improvement of access to water sources remained constant between 2002 and 2006 and in urban area is reaching the level of 80% of the population. There are important inequalities in the standard of safe drinking water (80% in urban areas and a little more than 60% in rural one in 2007), and basic sanitation (79% in urban areas and 35% in rural one for 2007) across the country and specifically between urban and rural areas. Due to deforestation, quality and quantity of water is decreasing. Due to the specificities of the country's morphology and the remoteness of many communities it would require substantial investment in the relevant infrastructure in order to show good progress by 2015 and achieve the relevant targets by 2020.

Goal 8 – Develop a global partnership for development

The country is investing substantially, with the help of development Partners, in establishing a rule-based financial system. Related economic governance issues are being addressed. Synergies with other island states are being pursued with a view to learning from their experiences. Whereas efforts towards developing conditions favourable to youth

employment are being made, the unemployment rate remains very high regarding youth in urban areas (11.5%). It is particularly high in Dili, especially for young people, which seems to have contributed towards maintaining causes of conflicts. Recent technologies, particularly information and communications, are slow to be adopted when comparing with neighbouring countries. If cellular phones equipment is progressing quickly due to aggressive promotional campaigns, only 1% of the population was connected to internet in 2006, with an insignificant access in rural areas.

Conscious of the above situation in the national endeavour to achieving the MDG, the Government is following certain **pro-poor policies** reflected in public expenditure, (i.e. subsidising staple food, making cash transfers to vulnerable groups, and engaging in a constructive dialogue with Development Partners and Civil Society with the aim to improve service delivery to the people, especially in the education and health sectors). It is reasonably expected that national surveys planned to take place in 2010/2011 will point towards an overall improvement. Taking into account the fact that Timor-Leste has become effectively independent only in 2002, and had since then several serious crises, it is only reasonable to set the time horizon for achieving all MDG goals to 2020.

2.4 Update on the environmental situation and climate change

An important part of Timor-Leste environment – world class coral reefs, untouched forests, scenic vistas - remains relatively unspoiled and constitute an important asset for development, either tourism or sustainable exploitation of marine and land resources. Until now, in large part due to its low economical development, the country has experienced relatively few environmental problems. A detailed assessment of the environmental situation of Timor-Leste is difficult to realize due to the lack of information and the fact that existing ones are generally sparse and inconsistent but it is evident that Timor-Leste is only a very minor emitter of greenhouse gases (0.2 CO₂ tons per capita in 2005 compared with 1.4 ton in Indonesia), and other pollutants, due to the fact that the vehicle fleet is very small and concentrated in Dili and that it does not exist industry in the country. Also, agriculture makes a very limited use of fertilizer and pesticides. There is little information and analysis on the impact of climate change and it is evident that the country will be affected by climate change, climate becoming hotter and dryer in the dry season and increasingly variable. This will naturally impact on natural resources, (water, soil, coastal zone), but due to its size and geographical configuration (main part of the country is mountainous), consequences will probably be less severe than in other Pacific islands countries. A recent “Country environmental analysis” realised for the World Bank has highlighted the following main issues:

- Land degradation is one of the main areas of concern. It is related to combined climatic (a large part of precipitations come in torrential downpours) and geological conditions (many thin fragile soils on steep slopes) and bad traditional agricultural practices (slash-and-burn practice in a context of increasing population density which reduces the time for the land replenishing its nutrients). Hard driven rains on steep mountainous slope contribute to high level of erosion, cause high degree surface runoff and reduce the fertility of soils.
- Deforestation is a large cause of the above mentioned hazard. It is due to uncontrolled harvesting of wood for local construction and furniture manufacturing, slash-and-burn agricultural practice, and quasi exclusive dependence of households on firewood for cooking (98.0% of household fuel used in Timor-Leste in 2003) even if fuel wood supply/demand balance seems to be positive. Large amounts of the country's biomass resources are being wasted in inefficient traditional cook stoves. Deforestation has negative

consequence not only on flora and fauna through species destruction or fragmentation of habitat, but also on regulation of the hydrological cycle of watersheds leading to an increased frequency and severity of floods and droughts.

- The scarce available information suggests that coastal and marine resources are still in relatively good condition, which is positive as Timor-Leste is one of the Coral Reef Triangle countries (with Indonesia, Malaysia, Papua-New Guinea, Philippines and Salomon islands) which contains 75% of all coral species known and is a world biodiversity hotspot. Even if destructive activities of the coral reef and mangroves seem to have declined since Indonesian occupation, there is evidence of use of explosives in fishing in a number of reefs and a substantial impact of the small-scale cutting of mangroves. Sedimentation in relation to heavy erosion in the interior of the country has also a negative impact.
- Indoor air pollution appears as an environmental priority. It is related to the traditional cooking practices, which cause to many children and women premature death or sickness because of breathing polluted air while cooking with firewood.
- The lack of clean water, appropriate sanitation and hygiene pose a major threat to human health as there is a lack of adequate water production, treatment and distribution infrastructure in the cities combined with inadequate sewage installations and solid waste management.
- Environmental legal framework is still weak and lacks several important elements. Environment is actually under the responsibility of the State Secretariat for the Environment (under the Ministry of Economy and Development) which has not yet defined the generic legal and institutional framework for the protection of the environment. There is particularly neither specific legislation for the protection of marine resources, nor on air quality. Some important regulations have been drafted by various Ministries, for example the National Forest Policy, the National Water Policy, regulatory framework for Mining Operation and two laws related to environment impact assessment and pollution control, but they have not yet been approved. A better coordination of the various entities in charge of environmental issues is necessary but the very limited human resources available for their further effective implantation will in any case be a constraint.

On the basis of the World Bank report mentioned above, it is intended to procure EC-funded expertise for the preparation of the first ever Country Environmental Profile (CEP) for Timor-Leste. Furthermore, final evaluations and mid-term reviews of completed or ongoing Rural Development Programmes include environmental considerations in order to derive lessons learnt, which will then be used in the design of new EDF interventions in the rural areas.

The Government is making efforts in **enhancing national capacity** in the environment field by providing training and scholarships, and by linking with the University. Also, relevant legislative steps are being taken (finalising the Environmental Licence Law, and ratifying international conventions and protocols). In addition, public awareness campaigns are being carried out with the objective to keep people informed on these important issues and thus solicit their active participation in measures aiming at preserving the environment.

2.5 Update on other cross-cutting issues

Decades of political violence and armed conflicts and political crisis have increased women's vulnerability to all forms of violence and exploitation. Women's access to justice for acts of violence is still facing a number of hurdles including conflict between adherence to customary beliefs and practices that uphold traditional gender roles and values which favour men, and a still partly incoherent formal legal system which mixes former legislation from Indonesia, newly adopted Timorese laws generally directly inspired from Portugal,

Brazil or international NGOs advocacy. As a result of this lack of clarity, women's access to justice is not always easy, procedural delays and errors are common and few scheduled hearings are taking place. Whereas Timorese police has Victim Protection Units (VPUs) since 2000 in district police stations, dealing with domestic violence, women, children and other vulnerable persons, they face severe staffing and resource challenges. Knowledge of laws and rights remains weak.

Support services for survivors are provided mainly by NGOs as the government's Department of Social Services still lacks sufficient resources. A "Gender-Based Violence Referral Partners Network" is operating since 1999 and allows good communication and referrals for particular services where needed: psychosocial recovery and psychological support, and safe havens.

Since 1999, peacemaking, reconstruction and nation building efforts have led a high level of engagement in gender equality and human rights, in large part coordinated by the various UN agencies operating in Timor-Leste but with a strong commitment from the Government. The Secretary of State for the Promotion of Equality has an Office for the Promotion of Equality, which is carrying out simultaneously multiple sectors' activities including drafting legislation on domestic violence, development of a network of basic services for survivors, civic education and other campaigns to increase public awareness, advocacy with the department of education to include in schools curricula the right of women and, training to increase women's participation in decision-making bodies.

Development Partners, including the European Commission, endeavour to mainstream in their interventions in Timor-Leste issues of gender equality, at times through an unofficial policy of "positive discrimination" in favour of women. Such practices are also supported by the Government through the National Priorities working groups and through its commitment to strive for social equity through public funds and subsidies. Maximum use, in these concerted efforts to promote true gender equality, is being made of the several local and international NGOs active in the country.

The specificity of the social fabric in Timor-Leste has deterred, so far, the spreading of HIV/AIDS in the country. Nevertheless, public awareness activities on this issue are being undertaken by a variety of actors with support, amongst others, from the Global Fund.

Cultural issues are being taken seriously, and the Government structure includes a post of Secretary of State for Culture. Participation, in this respect, to EC-funded cultural events has been supported. Possibilities for collaborating with EU MS in facilitating the declaration of a national site as World heritage, through UNESCO, are being explored. Also, building on the shared identity of the PALOP countries in terms of history, culture, language, relevant links are being enhanced through participation in common initiatives.

Conflict related issues are being addressed at the community level through the establishment of Community Conflict Prevention and Reconciliation Mechanisms. A new Directorate in this respect has been created in the Office of the Secretary of State for Social Solidarity. The work of the NGOs in the area of conflict prevention is also actively supported by Development Partners with the encouragement of the Government.

2.6 EU Strategy for the Pacific: involvement of partner country

The EU has defined a strategy for strengthened partnership with the Pacific ACP countries¹ which consists of three components: (i) a strengthened relationship between the EU and the Pacific ACP countries and region in order to pursue a broad political dialogue on matters of

¹ Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee. COM (2006) 248 SEC(2006) 642

common interest ranging from political and security to economic, trade, social, environmental and governance issues, thus enhancing the visibility and political profile of the EU-Pacific partnership on both sides; (ii) more focused development action, with greater emphasis on regional cooperation to build up critical mass, enhance regional governance and facilitate cross-fertilization. The main focus will be on matching the key priorities of the region, notably as defined in the Pacific Plan; and (iii) more efficient aid delivery, including greater use of budget support and closer coordination with other partners, in particular Australia and New Zealand.

Timor-Leste, as the newest country in the ACP group has had, until a recent date, very limited involvement in the region. The country has a status of special observer in the Pacific Forum Secretariat (since 2002) and since 2004 is member of the Southwest Pacific Dialogue together with Indonesia, the Philippines, PNG, Australia and New Zealand.

The country has not had historical and economic links with the other ACP countries of the Pacific region, and did not participate in the former EDF regional programmes and, as 90% of its commercial links are with South East Asia countries, does not want to participate in trade agreements with the Pacific ACP countries and is not part of the EPA negotiation with the EC.

However, since 2009 the country is actively participating in regional issues and has been improving its links with the Pacific Island Forum Secretariat, whose General Secretary is the Regional Authorising Officer. Timor-Leste has participated in the technical committee meeting in Suva, in January 2009, which was in charge of selecting programmes to be funded on 10th EDF Pacific Regional Indicative Program. It has, for the first time, sent a high level delegation led by the second vice Prime-Minister and the Minister of Foreign Affairs to the 40th PIF meeting held in Cairns in August 2009. During this meeting, links have been established with other Melanesian countries of the region in order to strengthen relationships. Possibilities of participation of Timor-Leste in some CROP agencies have been discussed with their higher representatives, and participation of the country in 10th EDF regional programmes in the fields of environment, fisheries and natural resources implemented by these agencies has been agreed. These first steps have been taken in order to enhance Timor-Leste's participation, in coordination with other Pacific ACP countries, to the 10th EDF Pacific Regional Indicative Programme, which represents a high added value for the country as it deals with issues complementary to the Timorese 10th National Indicative Programme.

3. Overview of past and on-going cooperation

In assessing Timor-Leste's performance in the implementation of the European Commission aid, particular attention must be paid to the following facts: (i) This is a country still in a fragile situation and in the phase of state/institution building, (ii) The EC Delegation has only been deconcentrated in July 2009, and it is still in the process of recruiting staff, and (iii) the 10th EDF CSP/NIP was only signed in 2008. Inevitably these factors affect adversely the level of the financial absorption and the contribution of the EC aid to development results at the level of output, outcome and impact.

3.1 Reporting on financial performance of EDF resources

a) 9th EDF: The total of the allocated € 18 million has been globally committed (100%).

By end-2010 contracted amounts reached € 13,136,027 or 73% of total allocation, and disbursements have totalled € 9,709,078 or 74% of total contracts.

Of the four projects, two have been completed, one is scheduled for completion in 2012 (although all EDF payments for this multi-donor project have been made) and the fourth one is expected to be completed by mid-2013.

For one completed project the final audit for its main contract is to be carried out by mid-2011, thus allowing the decommitment of around €600,000.

Concerning the challenges faced in implementing the €10 million RDP III project, a mid-term evaluation is to be carried out by mid-2011, potentially leading to a restructuring that could require an amendment to the relevant Financing Agreement.

b) 10th EDF: By end-2010, global commitments reached €5,000,000 representing only 6.4% of the total NIP allocation of €78,500,000 (excluding the €2,500,000 allocation to PALOP projects that are not managed by Timor-Leste).

However, by end-2010, Financing Decisions were taken for four (4) new projects, of a total funding of €39,000,000 or about 50% of the above mentioned NIP envelope.

By end-2010 the total amount of contracts was €3,105,389 or 62% of the total of global commitments. In the same period, the amount of payments totalled €1,527,203 or 49% of the total of contracted amount.

With the anticipated signing of the Financing Agreements of the four new projects mentioned above during the first quarter of 2011, it is reasonably expected that there will be acceleration in the overall implementation rate of the 10th EDF projects.

3.2 Reporting on General/Sector Budget Support

Understandably, the overall Public Financial Management conditions in the country are not yet conducive to adopting budget support modalities for the delivery of aid. It is noted however, that significant progress has been achieved in improving PFM, thanks largely to the on-going multi-donor project of Public Financial Management and Capacity Building Programme (PFMCP), to which there is an EDF contribution of €3,500,000 under the 9th EDF. The Ministry of Finance is the main beneficiary of this programme, and indeed it shows increasingly improved performance. It is expected that the Minister of Finance, who is also the National Authorising Officer for EDF operations in Timor-Leste, will press Development Partners to consider the increased use of country systems.

It is noted that the 10th EDF CSP/NIP provides for an eventual delivery of the €10 million earmarked for support to the health sector, as a Sector Budget Support (if relevant eligibility criteria would be met). However, due to the need to implement this project in the near future, it has been decided to adopt the project approach for its implementation. Nevertheless, in order to respond to the Ministry of Health's preference for Sector budget

Support, the EC is planning to provide assistance in helping the country meet the eligibility criteria for implementation of SBS in the health sector. More specifically, a roadmap towards a SWAp in the health sector has been prepared, Government and Development Partners active in the sector are committed working together in order to address shortcomings, and concrete steps in enhancing the capacity of the Ministry of Health are being taken. At the same time, and at the macro level, the Ministry of Health is finalising its National Health Strategy (2011-2030).

In parallel, the Government is finalising the country's medium to long term Strategic Development Plan. At the same time, macro-economic aspects are being addressed by the Ministry of Finance, Public Financial Reforms as well as civil service reforms are continuing, and particular attention is being paid to the procurement legal regime.

On the basis of the above considerations, it is reasonably expected that the country could meet the eligibility criteria for Budget Support by 2014 and thus qualify for such aid delivery modality under the post-10th EDF assistance.

3.3 Projects and programmes in the focal and non-focal areas

a. The contribution of projects and programmes in the focal sectors

The main concentration area under both the 9th and the 10th EDF is *rural development*. In this multi-sector field, important progress has been realised with EC assistance. More specifically, a national seminar on sustainable rural development has taken place at the end of March 2009, bringing together all stakeholders including the districts and helping in reaching a consensus on the main axes of coordinated interventions. As a positive follow-up, the Government has established a high level inter-Ministerial Committee charged with the task of ensuring effective coordination between the different Ministries concerned and with the Development Partners, and a Framework for Sustainable Rural Development Policy/Strategy has been developed. By end-2010, the 9th EDF project of RDP III (€10 million) had entered into full implementation, making a positive contribution in terms of capacity building at central and district levels as well as in rehabilitating essential rural infrastructure. These activities are to be complemented and indeed expanded with the coming implementation of the 10th EDF RDP IV (€23.5 million). It is also noted that the rural development focal sector activities under RDP III and IV are being complemented by important EC-funded Food Security interventions (€10.3 million) as well as other Budget Line projects directly relevant to rural communities.

For the second focal area under both the 9th and the 10th EDF, i.e. institutional capacity building for the Government, solid progress has been made. More specifically, under multi-donor support, impressive results have been recorded in capacitating the Ministry of Finance and making it a well functioning state entity. It is now expected that a strengthened MoF will be in a good position to assist the other Ministries in building up capacity in budgeting and execution, as well as in procurement. Also, solid ground has been laid for the good functioning of the NAO's office, since it is a fact that such well-operating NAO service is a pre-requisite for the smooth implementation of the EDF projects and programmes. However, this solid progress in the Ministry of Finance is severely strained by the lack of adequate space. The Ministry's Strategic Development Plan foresees the relocation to a new modern facility. At the request of the NAO, the Mid Term Review of the 10th EDF has indicated the possibility of EDF contribution towards the costs of construction of the new Ministry of Finance building.

For the third focal area of the 10th EDF, i.e. support to the health sector, the EU Delegation has been actively involved in the restructuring of a current single-donor supported project in a manner that will allow the participation of the EC in a new multi-donor project of support to the health sector. In this endeavour, close collaboration with the Ministry of Health, the

WB (managing the fund), the AusAID and the EC Headquarters has been pursued. By end-2010, the relevant Identification Fiche had been approved and the ensuing Action Fiche had been prepared. It is expected that this AF would be finalised by mid-2011, thus allowing a Financing Decision for the envisaged €10 million support to the health sector by end-2011.

b. The contribution of projects and programmes in the non-focal area

In recognition of the crucial role played by Non-State Actors in a country that is in a fragile situation, a programme of support, under the 10th EDF, of €4 million towards building their capacity had been approved by end-2010. The EU Delegation, in close cooperation with the NAO services, plans to commence the implementation of this 4 year project by mid-2011. Under this project and on the basis of a comprehensive mapping of the civil society organisations active in the country, specific assistance to the NGO umbrella organisation of the country is foreseen in order to build up its coordination and networking capacity. Also, technical assistance to other umbrella organisations, trade union, chamber of commerce, would be provided to enable them serve better the interests of their members. It is intended that the planned capacity building of the local NGOs will enhance their involvement in service delivery. This is crucial because the Government is not yet in the position to cover all parts of the country.

Also in the non focal area, a Technical Cooperation Facility project of €1.5 million was approved at the end of 2008. Contracting under this project has commenced in September 2009 and by end-2010 the relevant funds were largely committed. With a view to ensuring the uninterrupted availability of funds for the preparation/implementation of the EDF interventions, as well as to facilitating the participation of Timorese nationals in important international events, a new TCF was approved by end-2010.

3.4 Other actions

a. RSP/RIP

Since Timor-Leste has become eligible to participate in the 10th EDF regional programme for the Pacific, the country is getting increasingly involved in the regional encounters including high level participation in the annual Pacific Forum Summits. The NAO's technical service is actively involved in regional meetings that aim at identifying and processing regional projects under the 10th EDF. As a result of these endeavours, delegations from different Pacific regional organisations have been visiting Timor-Leste in order to sensitize counterparts in the respective Timorese entities on the details of the various regional projects, thus facilitating the active participation of the country.

In the pursuit of its integration in the Regional Programme, Timor-Leste is taking a pragmatic view of the planned projects, so that it concentrates its efforts on those regional interventions which complement activities under the national programme and/or are directly relevant to the country's policies/strategies.

b. Intra-ACP Programmes

Timor-Leste has received in the past important humanitarian assistance through ECHO. Currently, the country is benefiting from support under EC-managed budget lines, especially in the area of Food Security. By end of 2010, eight operations were on-going (about €9 million).

Under the Water Facility, a €1,095,000 project is being implemented by a European NGO. Three new projects, totalling €4,701,942 were approved by end-2010. The respective contracts will be negotiated and signed during the first half of 2011.

Timor-Leste is also participating in the 10th EDF PALOP programme, to which the country's contribution will be €2.5 million from the NIP resources. Active participation of

Timorese officials in PALOP meetings is being pursued in order to ensure that the country benefits fully from this programme.

Under the NGO-LA budget line, six projects are being implemented of a total funding of €2,900,522. Three new projects were approved, and their contracts are expected to be concluded by mid-2011.

c. EIB interventions

Timor-Leste has not had yet any agreement with the EIB. However, with the country progressing from a post-conflict situation to a normal development status, contacts with the EIB will be intensified in order to explore the possibility of a future cooperation.

d. Unforeseen needs

There has not yet been recourse to the B-envelope allocation of the 10th EDF CSP/NIP, i.e. €1.1 million. It is foreseen to consider recourse to such funding in case of unforeseen events of humanitarian or emergency assistance nature. Such use would be appropriate due to the fact that ECHO's presence was terminated in 2009.

e. Other Community interventions

With a view to contributing to the consolidation of the relative stability of the internal situation in the country, the Instrument for Stability has been funding four operations, implemented by two UN bodies, one international organisation and one NGO, of a total of about €5.3 million. By end-2010 two of these projects, implemented by UN Agencies, were completed. The project implemented by the international organisation will end in the first quarter of 2011. These interventions built on the solid progress achieved by the ECHO activities and they provided a good link with the long term development operations planned. The fourth IfS project, implemented by an international NGO, is scheduled to be completed during 2011.

3.5 Policy Coherence for Development (PCD)

With the gradual move of the country from the humanitarian-based aid to the development one, and the finalisation of the country's medium to long term strategic development policy, Timor-Leste aims at ensuring that optimum benefits are derived from a realistic policy coherence, thus supporting the overall development of the country and enhancing the efforts towards realising the MDG targets. For the EU, possibilities that might be opened from the EU's Trade-for-Aid policy or from future Fisheries Agreements will be explored. In this respect it is expected that the coming Strategic Development Plan will induce moves towards developing an appropriate policy coherence mix.

3.6 The in-country dialogue

The EU Delegation is in regular contact with the NAO technical services on matters pertaining to the implementation of on-going activities and the preparation of new ones. In these meetings, the involvement of the line Ministries concerned is being sought, and the association of other stakeholders, as appropriate, is being pursued.

In addition to these technical meetings, high level dialogue with the NAO does take place at different fora. Such a dialogue deals with matters mainly pertaining to the aid effectiveness agenda, especially in connection with Timor-Leste's perceived fragile situation.

Concerning the National Parliament, the EU Delegation does communicate to them important documents soliciting their views. However the latter does not readily come due to the fact that the Parliament is a young institution, still building up its capacity. In this respect, a new project of Support to the National Parliament has been approved in late 2010. Its implementation, by UNDP, is expected to start in the second half of 2011, thus providing to the EU Delegation an appropriate platform for a regular dialogue with the Parliament.

Dialogue with the Local Authorities takes place during visits to EC-funded projects in the districts by EU Delegation staff. It is expected that this dialogue will take a structured form once the decentralisation process will be implemented in the coming years.

The important role of the NSAs in the socio-economic development of Timor-Leste, especially in a context of state institutions which are still building up their capacities and trying to reach outlying parts of the country, is being recognised by both, the Government and Development Partners. It is for this reason that the civil society is treated as a development partner and they are encouraged to participate in respective processes. Indeed, the EU Delegation endeavours to involve the NSAs, and especially their umbrella organisations, in the various phases of the EC-funded project cycles. In addition, the EU Delegation has been vocal in recommending that the NSAs should be represented in an appropriate manner in the different fora that deal with various horizontal matters (aid effectiveness, good governance, gender, environment, human rights, etc). It is in this context that a new project of Support to NSAs was approved in late 2010, specifically aiming at building up the capacities of the local NGOs and thus making them reliable development partners.

The EU Member States with active presence in Timor-Leste (PT, DE, FR, ES, IR) have been regularly meeting, at Heads of Cooperation level, with the EU Delegation. In these meetings, the EU MS are kept informed of the progress in the implementation of the different EC-funded projects, as well as their views are being solicited on diverse matters. These deliberations are also being used for advancing with the issue of an eventual joint programming, for which an agreement in principle does exist.

Finally, other main Development Partners are being regularly consulted on matters pertaining to projects in the same sectors, as well as during participation in meetings, usually chaired by Government, especially concerning issues to do with the use of Government systems.

3.7 Aid effectiveness and joint programming

Timor-Leste is increasingly taking up the ownership of its development agenda and exercising an effective leadership in the aid effectiveness area. To this effect, an Aid Effectiveness Directorate has been established in the Ministry of Finance, and technical assistance is being provided by Development Partners. In addition, the country is actively involved in the OECD Monitoring of the Principles of Good International Engagement in Fragile States and in fact is co-chairing the "g+" group of such nations. It is expected that once the new medium to long term Strategic Development Plan will be finalised by mid-2011, this will provide an impetus for an enhanced alignment of the development assistance by Donors, and an improved harmonisation amongst them, thus leading towards improved aid effectiveness in Timor-Leste.

Steps are being taken by the EC Delegation and the EU MS active in Timor-Leste to work towards an eventual joint programming, which would significantly benefit the country due to reducing transaction costs to Government (having at present to deal with a number of different CSPs) and due to enhancing the effectiveness of aid by following a proper division of labour. The first step in this endeavour is the agreement, in principle, for the EU MS and the EC to collaborate closely in the analytical work that is required (political, economic, social, governance and environmental situations in the country). This would then be followed by enhanced cooperation, on the basis of an appropriate Division of Labour, in sectors of common interventions. The ultimate goal is to strive to achieve a true joint programming by 01.01.2014, i.e. by the onset of the post-10th EDF programme.

Also, the EC is actively exploring the possibility of enhanced cooperation with other Development Partners (AusAID, ADB, Brazil, WB), possibly in the form of triangular

operations with the Government, aiming at enhancing the effectiveness of the respective aid programmes to Timor-Leste.

The EC Delegation has been proposing that the current bi-weekly informal meetings of the Development Partners be upgraded and take a structured form in order to facilitate the division of labour amongst them and thus enhance aid effectiveness. In this context, it is noted that the Aid Effectiveness Directorate, with JICA and AusAID assistance, has already carried out a comprehensive exercise of donor mapping, which is normally the first step towards a Division of Labour amongst Donors. The fact that Development Partners are committed to assisting the Government of Timor-Leste in pursuing the localised Paris Declaration Principles of Aid Effectiveness, in the spirit of the Accra Agenda for Action, does provide reasonable assurances that Timor-Leste is steadily advancing towards taking the required leadership in this field.

A-I. ANNEXES TO THE JAR / A-I.1 COUNTRY AT A GLANCE
A-I.1-A TABLE OF MACRO-ECONOMIC AND TRADE CAPACITY INDICATORS

		2005	2006	2007	2008 ^e	2009 ^f	2010 ^f
Basic data							
1	Population (in 1000)	983	1,015	1,056	-	-	-
	- annual change in %	6.3	3.3	4.0	-	-	-
2a	Nominal GDP (in millions EUR)	265.6	261.6	292.6	338.5	-	-
2b	Nominal GDP per capita (in EUR)	270	262	276	305	-	-
2c	- annual change in %	-0.3	-1.5	11.8	15.7	-	-
3	Real GDP (annual change in %)	6.2	-5.8	8.4	12.8	7.4	7.5
4	Gross fixed capital formation (in % of GDP)	-	-	-	-	-	-
Balance of payments							
5	Exports of goods (in % of GDP)	2.4	2.7	1.7	2.8	1.7	2.0
	- of which the most important: coffee (in % of exports)	100.0	100.0	85.7	85.7	70.0	69.2
	- of which share of regional trade (in % of exports) ²	-	-	-	-	-	-
5a	Trade balance (in % of GDP)	-34.9	-27.8	-42.5	-45.6	-	-
	- of which share of EU imports (in % of imports)	-	-	-	3.2	-	-
6	Export of services (in % of GDP)	11.1	10.4	15.8	12.2	14.7	12.1
	- of which the most important: travel (in % of exports)	56.8	58.8	41.3	40.9	31.0	37.5
6a	Current account balance (in % of GDP)	82.8	165.1	295.7	-	-	-
7	Net inflow of remittances (in % of GDP)	-	-	-	-	-	-
8	Net inflows of foreign direct investment (in % of GDP)	-	-	-	-	-	-
9	External debt (in % of GDP)	00.0	00.0	00.0	00.0	00.0	00.0
10	Service of external debt (in % exports goods+services)	00.0	00.0	00.0	00.0	00.0	00.0
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	-	-	-	-	-	-
Trade capacity							
12	Average cost to export ³	-	-	-	-	1,010	-
13	Global competitiveness index ⁴	-	-	-	3.3	-	-
Government budget							
14	Revenues (in % of GDP)	128	205	343	490	279	257
	- of which: grants (in % of GDP)	10	0	3	0	0	0
	- of which: external tariff income (in % of GDP)	-	-	-	-	-	-
15	Expenditure (in % of GDP)	26	32	59	106	101	94
	- of which: capital expenditure (in % of GDP)	-	-	-	-	-	-
16a	Deficit (in % of GDP) including grants	102	174	284	384	178	162
16b	Deficit (in % of GDP) excluding grants	92	174	281	384	178	162
17	Total (domestic+external) debt (in % of GDP)	-	-	-	-	-	-
Monetary policy							
18	Consumer price inflation (annual average rate in %)	1.8	4.0	8.9	7.6	7.1	6.5
19	Interest rate (for money, annual average rate in %)	-	-	-	-	-	-
20	Exchange rate: annual average national currency 1 USD/1€	0.80	0.80	0.73	0.68	-	-

² Possible sources of information: WTO Trade policy reviews; UNCTAD Handbook of statistics 2008, chapter II. 2.1 (<http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx>).

³ Part of the WB Doing Business Report, chapter on 'trading across borders' (www.doingbusiness.org).

⁴ If available: WEF's Global Competitiveness Report (www.weforum.org/pdf/GCR08/GCR08.pdf).



A-I.1-B KEY MDG AND DEVELOPMENT INDICATORS

Indicators 1-10 are core MDG indicators, indicators 11-16 provide additional information on the development and economic growth process, indicators 17-18 refer to the employment situation.

Key indicators	1990	2000	2005	2006	2007	2008	Intermediate target 2010	2015 Goals
1. % population below 0.88 \$/day in PPP ¹		36.0 ²			49.9			14%
2. Prevalence of underweight children under five years		45.0 ²			48.6			31%
3. Under 5 child mortality		144 ²	130 ⁴					96
4. % HIV prevalence in population aged 15-24	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		≤
5. % births attended by skilled health personnel			19.0 ⁶		41.3			60
6. % 1 year old children immunised against measles		28 ⁵			59	74		100
7. Net enrolment ratio in primary education		65.0 ³	78.0 ⁴		63.0		86	100%
8. Ratio girls/boys								1:1
- in primary education		109	107 ⁴		110			100
- in secondary education		100	100 ⁴		119			100
- in tertiary education		62	60 ⁴		85			100
9. Primary school completion rate		47% ²		47%	73%			100%
10. % population with sustainable access to improved water source		50	65		60			78
11. Fixed lines and mobile telephone per 1000 inhabitants ⁹				3	5	7		
12. Formal cost required for business start up ^{6, 7}				125.4	83.3	11.9		
13. Time required for business start up ⁶				92	82	83		
14. Real GDP per capita (in purchasing power parity, in USD)						776 ⁸		
15. Access of rural population to an all season road	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
16. Household electrification rate					36			
17. Unemployment (in % of labour force, ILO def.)		5.3 ²			4.1			
18. Employment in agriculture (in % of total employment)		81.6			85.4			

* specify year of intermediate target.

¹ 0.55 \$/day per capita until 2007 and 0.88 thereafter

² 2001

³ 1999

⁴ 2004

⁵ 2002

⁶ WB Doing Business Report

⁷ % of income per capita

⁸ sources: IMF Staff report for the 2009 art. IV mission

⁹ Only mobile phones, landline connection was estimated at less than 0.5% in 2007

A-I.2 CHECKLIST ON NSAs

1. General Country Context

a) Type of country: 2

The country is emerging from post-conflict situation and is on its way to the development era. Local civil society organisations are rather weak. Some umbrella organisations exist, but without effective presence in all districts. Whereas involved in the implementation of some Government and Donor programmes, their involvement in government as well as donor processes is rather limited.

b) NSA/LA Mapping

An EC-funded study, carried out in the first half of 2009, has produced a comprehensive mapping of the NSAs in Timor-Leste, principally the local ones but also foreign ones active in the country. In addition, it has identified weaknesses and has made recommendations for implementing a programme of NSA capacity building under the 10th EDF.

The country is in the early stages of implementing an important decentralisation programme, which will see the empowerment of the Local Administrations in all districts. This process is going to be a long one due to severe constraints in both, human and financial resources, as well as due to the fact that necessary behavioural changes need time to be effective.

c) Amount reserved for NSA/LA capacity building (NIP)

There was no specific provision in the 9th EDF for direct support to Non-State Actors.

The 10th EDF NIP provides for the allocation of €4 million for a programme of capacity building of NSAs. This represents 5% of the total programmable aid.

Since this new programme is expected to start its effective implementation in early 2011, there is no change foreseen in the Mid-Term Review of the NIP as far as the allocation to NSAs is concerned.

d) NSA/LA involvement in implementation

Local and international NGOS active in Timor-Leste are getting increasingly involved in the implementation of both, Government and Donor programmes. Such involvement has been necessitated by the fact that the central government has not yet the required outreach capacity to ensure the delivery of essential services to all people, especially to the vast majority living in the rural areas of the country. This involvement is mostly noticeable in the health sector, but also in areas of governance.

Concerning EC budget lines, the NGOs involvement is substantial in the area of food security.

e) NSA/LA involvement in policy dialogue

The Delegation of the European Commission is actively promoting regular contacts with the local umbrella NSA organisations. In this respect they are kept informed of various processes (JAR, MTR, Governance Profile) and they are encouraged to provide inputs. Regular interlocutors comprise the umbrella NGO organisation (FONGTIL) and the private sector representatives (Chamber of Commerce). The meetings give the opportunity to these NSAs to comment on different issues of a general interest. Another form of dialogue with them are the regular National Priority Meetings, chaired by Government and attended by stakeholders who include donors and representatives of the NSAs. As for the international ones, their involvement in the implementation of some EC-funded actions allows frequent meetings with the Delegation. In addition, a dialogue with them is maintained through the regular International NGSS / Diplomatic Missions meetings held in the country. These meetings allow frank exchanges of views on matters pertaining to developments in Timor-Leste.

Local Administrations have not yet built a representative body. Nevertheless, they are consulted whenever donor representatives effect visits to their areas. Also, the EC Delegation

endeavours to include them in workshops/seminars of a national character, requests that Consultants carrying out EC-funded assignments consult with the Local Administrations concerned, and as a rule requests that the preparation of area development plans ensure the active participation of the local authorities concerned. In addition, they are encouraged to participate in Calls for Proposals launched under the NGO/LA budget line.

It is planned to publish relevant information in the website of the Delegation, once operational.

f) Civil society focal point in the Delegation

The Operations Section of the Delegation has the responsibility for managing all interventions involving the Non State Actors. These comprise both, activities in support of the NSAs funded under the NIP and operations carried out by NSAs under EC Budget Lines. A dedicated Programme Officer ensures this management under the supervision of the Head of the Section and under the overall responsibility of the Head of Delegation.

2. 10th EDF MTR consultation process

a) Initiative for the consultation

The Delegation dispatched to the NGO umbrella organisation the MTR Guidelines when these were received. Also, at the suggestion of the Delegation, the NAO's office organised a consultation meeting with the NSAs on 15.09.2009. In the meeting, chaired jointly by the DDAO and the Delegation, the NSA representatives made some oral submissions. However, they were encouraged to make written contributions to the MTR process. In addition to the guidelines, the updated Governance Profile was also transmitted to the NSA in order to facilitate their consideration of the relevant assessment of the Government commitments. It is noted that the draft update of the Governance Profile had been communicated to FONGTIL earlier soliciting their inputs. Finally, the draft updated Joint Annual Report (to September 2009) was also transmitted to the representatives of the NSA and their reactions were solicited.

b) Meetings organised

In addition to the communication to NSAs of the documentation mentioned above, the MTR process was explained to them in early July, and an update of the review process was undertaken during the meeting of 15.09.2009 mentioned above. The main issues were dealt with in these meetings. In these thematic meetings representatives of both, the local NGOs and the Private Sector participated.

c) NSA/LA input

During the annual high level Government Development Partners meeting held in Dili in the beginning of April 2009, the NSA representatives had made important interventions and a comprehensive statement on the overall socio-economic development agenda in the country was submitted and circulated amongst participants. The MTR process gave the opportunity to verify that indeed the CSP/NIP is largely in line with the aspirations of the NSA. Consequently, the need to consider a change of the CSP/NIP objectives has not arisen.

Oral submissions have been made in the various consultation meetings, mainly emphasising the need to concentrate aid to the rural areas where the majority of people live, and indeed whether the vast majority of the poor are. The need to nurture the development of the private sector has also been highlighted. Another interesting suggestion is to encourage behavioural changes in the Timorese society, so that a gradual change in the mentality of people can be made in order to facilitate their integration into the modern development process.

3. Assessment of NSA / Las / Parliament involvement in the MTR process

a) General awareness of Cotonou Agreement provisions on NSA and LAs

NSA's awareness of the Cotonou Agreement provisions concerning them has been the objective of several meetings, including a specific national workshop organised in the context of the EC-

funded study for the preparation of a programme of support to the NSAs under the 10th EDF. This issue was also discussed when meetings with the NSA representatives were organised by the Delegation on the occasion of missions to Timor-Leste by EC HQs officials. Consequently, it can be said that a good, in overall, knowledge in this respect exists among the NSAs.

On the other hand such knowledge is not yet satisfactory among the LAs, mainly due to the fact that the decentralisation process is in its initial stages.

Since there was no programme of support under the 9th EDF, it is not possible to make any comparisons of the level of such awareness.

b) Local stakeholder involvement

As it has been demonstrated in various meetings, the Government is supportive of the NSAs involvement in the socio-economic development of the country. Indeed such support is validated by the fact that the Government makes annually provisions for financial support to NSAs through the national budget. The NAO's Office in particular, is actively working with the EC Delegation to promote the substantive involvement of the NSAs in all stages of the project management cycle of the EDF projects.

The NSAs response to the various calls for their deeper involvement is indeed positive. However, capacity deficiencies constrain such full involvement. It is in this spirit that Donors, and in particular the European Commission, allocate dedicated resources for building up the capacities of the NSAs and thus make them reliable development partners.

Concerning the Local Administrations, the decentralisation reform decided by the Government aims directly at empowering them, in time, to take full responsibility of their own affairs. The prevailing severe shortage of qualified staff in the country, which is more serious in the districts, affects adversely the implementation of the decentralisation reform. It is in this context, that both, the Government and Development Partners, are mainstreaming in their various interventions measures that aim at building up capacities in the districts.

The national Parliament is another state institution that is also building up its capacity. To this effect, a number of Donors are channelling financial support through the UNDP, which has been entrusted with the implementation of this institutional development programme under the aegis of the President of the Parliament. The 10th EDF NIP makes also a provision in support of the Parliament. It is anticipated that the relevant project would be approved by the EC in the course of 2010. In the mean time, the EC Delegations has been communicating to the Parliament various documents (JAR, MTR Guidelines) soliciting their reactions. In addition, the good offices of the NAO service have been sought to arrange a joint (NAO/Delegation) meeting with the Parliament in order to update them on the MTR process.

4. Conclusions: overall value/impact of NSA/LA participation in the MTR process

The important role of NSAs in the socio-economic development of Timor-Leste, especially in a context of state institutions building up capacities and trying to reach outlying parts of the country, is being recognised by both, the Government and Donors. It is for this reason that the civil society is treated as a development partner and they are encouraged to participate in respective processes. This is directly relevant to the MTR process, which aims at ascertaining the appropriateness of the CSP/NIP in the light of internal and exogenous developments occurred since its adoption. Consequently, the umbrella organisations of the NGOs and Private Sector have been associated with the MTR: (i) through the communication to them of related documentation inviting their reactions, and (ii) through specific meetings during which detailed discussions of the relevant topics were carried out, and indeed the views of the NSAs were obtained. A particular value is being accorded to these views because it is accepted that they are genuinely representing the feelings of the common people.

A-I.3-A: Donor matrix – template for planned donor disbursements

DONORS MATRIX- PLANNED DISBURSMENTS IN 2009

	Donors	Education	Health	Agriculture	Management & Public Sector	Justice	Sanitation	Water & Sanitary	Social Welfare	Transport	Natural Resources & Environment	Security & Defence	Pillar of States	GBS	Multi Sector	Humanitarian	Total Per Donor
1	Australia	4001	6046		6242	3694	5774	3138	2707		17800					1349	5075
2	Brazil	584			554	870											2008
3	China	1500	1500	3020								6000	2000				14020
4	EC		2374		1857			324	1661		274	1318			8005	1586	17399
5	French	23				8						44					75
6	Germany			2306		260			860	1159							4588
7	Italy					781											78
8	Japan	955	420	5228	348		710	143	12618			386					20808
9	Korea		190		1360												1550
10	New Zealand	1159	76		1000	146			261								2642
11	Norway				6977	2028			182	260		177				434	10058
12	Portugal	11374	346		678	1760			4081			1432	216	411			20298
13	Spain			270		1302	399	1882									202
14	UK				340												4056
15	USA	1800	2083	3300	6458	2558	4600	5042				1181					520
16	ADB						500		6017								6517
17	WB	4400	1090		5945				975		137		1468	320			1250
18	UNDP																1788
	Total Per Sector	25796	14125	14124	31767	13399	12307	18225	21761	411	29806	2536		8416	5341	199012	Grand total
																	199012

* Public Sector Management: It includes support to the Ministry of Finance and to the Ministry of State Administration

* Pillars of State: It includes support to the Office of President, to National Parliament, to the Office of Prime Minister and to the Council of Minister

DONORS MATRIX-EXPECTED DISBURSEMENTS IN 2010

Donors	Sector Per Donor													
	Humanitarian Aid	Multisector	GBS	Pillar of States	Security & Defense	Natural Resources & Environment	Transport	Social Welfare	Water & Sanitation	Justice	Management	Agriculture	Health	Education
1 Australia	3992	5865		6521	3821	4646	560	2676		11484				3956
2 Brazil														
3 China	1500									3000				450
4 EC	369			1952			3556			780		7314	723	1469
5 French														
6 Germany		2306		1016	260		1016							459
7 Italy														
8 Japan	213	311	1117	56		411								210
9 Korea														
New														
10 Zealand	1069	31												110
11 Norway				6328	1590		91	578		177				876
12 Portugal											15621			1562
13 Spain			483		1302		2376							416
14 UK														
15 USA	22	375	100	1000	550		2062			300				440
16 ADB						2000		1000						300
17 WB	4500	350		3775			900							952
18 UNDP										780				78
Total Per Sector	9796	8201	4006	20648	7523	7057	10551	4254		16521	15621	7314	723	112825
Grand total														112825

- * Public Sector Management: It includes support to the Ministry of Finance and to the Ministry of State Administration
- * Pillars of State: It includes support to the Office of President, to National Parliament, to the Office of Prime Minister and to the Council of M

DONORS MATRIX-POSSIBLE DISBURSMENTS IN 2011

Donors	Education	Health	Agriculture	Management	Public Sector	Justice	Water & Sanitation	Social welfare	Transport	Natural Resources & Environment	Security Defence	Pillar of States	GBS	Multi Sector	Humanit. Aids	Total Per Donor	
1 Australia	1991	2920			5641	4447	3982		1644								20625
2 Brazil																	
3 China																	
4 EC	369				1130		182	3403			37			5754	111	10986	
5 French																	
6 Germany			1302			260		507									2069
7 Italy																	
8 Japan			699				95										794
9 Korea																	
New																	
10 Zealand	1069																1069
11 Norway					4684	1157											5841
12 Portugal																	
13 Spain			170														170
14 UK																	
15 USA				1000													1000
16 ADB							2000		1000								3000
17 WB	2000	350			3550												5900
18 UNDP											37						37
Total Per Sector	5060	3639	2171	16005	5864	6259	3910	2644	74					5754	111	51491	
																Grand Total	51491

* Public Sector Management: It includes support to the Ministry of Finance and to the Ministry of State Administration

* Pillars of State: It includes support to the Office of President, to National Parliament, to the Office of Prime Minister and to the Council of Ministers