



Investment Concept Title: Timor-Leste: Governance for Development 2	
Start date: 1 January 2022 (tbc)	End date: 31 December 2029 (tbc)
Total proposed DFAT funding: AUD60 million	Total proposed funding from all donor/s: \$60 million
Overall Risk Profile: Medium Risk Medium Value \$60 million	
Proposed design pathway: DFAT-led design of a governance facility	
Concept endorsed by AGB: Yes	
Quality Assurance: Investment Concept was internally peer reviewed, and the Investment Design will be independently appraised and internally peer reviewed	

### A. Development Context (What is the problem?)

Timor-Leste has made strong economic and social progress and secured stability since independence in 2002. Successive governments have committed to the ambitious goal of reaching upper middle-income status by 2030 through its *Strategic Development Plan 2011-2030* (SDP). This goal requires a comprehensive reform agenda: strengthened governance/institutions; improved services; better transport and communications infrastructure; growth of domestic markets and the private sector, and diversification of the economy. As a fragile and post-conflict affected state, Timor-Leste's development is taking time and progress cannot be taken for granted.

Timor-Leste is a middle-income economy (population = 1.29 million; GDP = USD1.65 billion; GNI per capita = USD1,890<sup>1</sup>), but it is one of the most oil dependent economies in the world. Poverty is widespread, with 30 per cent of the population living on under USD1.90 per day (the international poverty line) and more than 40 per cent not able to meet their basic needs. The public sector dominates the economy, with Government of Timor-Leste (GoTL) spending – largely funded by transfers from Timor-Leste's Petroleum Fund – being the overwhelming driver of growth. Private investment is low and is dependent on GoTL spending. Progress is needed in addressing the structural constraints to growth, including:

- the limited availability of capital from the financial sector
- poor quality and high cost telecommunications
- the lack of international connectivity and tourism opportunities, and
- the limited and high cost of access to international markets.

COVID-19 has hit Timor-Leste hard, with the economy forecast to contract by at least 4.8% in 2020. Socio-economic indicators are likely to regress and there has been significant impacts on income and employment in both the formal and informal sectors. There are around 60,000 jobs in the private sector, many of which are at risk. The much larger informal sector is particularly vulnerable, with around 250,000 people facing reduced incomes or job losses.

The impact of COVID-19 on global energy markets will make it more difficult for Timor-Leste's to achieve its ambitions to develop a domestic oil and gas processing industry. After initial losses due to the impact of COVID-19 on global financial markets, the Petroleum Fund has recouped those losses and stabilised in value. However, the long-term outlook for Timor-Leste's economy will be challenging unless it can deliver on economic diversification. Recognising that the global pandemic will have long-lasting impacts, Timor-Leste has prepared a *COVID-19*

<sup>1</sup> 2019 World Bank data, sourced from [www.data.worldbank.org/country/timor-leste](http://www.data.worldbank.org/country/timor-leste).

*Economic Recovery Plan (ERP)* that includes short and medium term social and economic policies. GoTL is seeking donor support to implement the ERP.

Timor-Leste faces wide-ranging governance challenges that stifle the development of sound policy and service delivery. Line ministries responsible for delivering services are dependent on central agencies for a range of inputs, including: financial management systems for transferring and acquitting money and developing the budget; human resource systems for managing the workforce; and complicated procurement and governance systems that delay infrastructure projects. Improving these systems and having sound economic policy decisions is crucial for Timor-Leste's success as a stable and prosperous nation.

Governance for Development 2 (working name GfD2; title to be confirmed during design) will extend Australia's longstanding partnership with Timor-Leste in support of good governance and economic policy development. It will be Australia's main program for providing support to Timor-Leste's central government agencies and economic line-ministries. The program will complement Australia's broader bilateral program, including by targeting upstream blockages to downstream service delivery, and working with GoTL, civil society and the private sector on priority economic reforms aimed at growing and diversifying the economy.

## **B. Strategic Intent and Rationale (Why should Australia invest?)**

As Australia's Foreign Policy White Paper highlights, a strong and prosperous Timor-Leste is in Australia's national interest. The bilateral relationship has strengthened in recent times, particularly since maritime boundary negotiations were finalised in 2018.

Australia is Timor-Leste's largest development partner (\$100.7 million in total ODA in 2019-20<sup>2</sup>). The Australia - Timor-Leste Strategic Planning Agreement for Development (SPD) articulates our shared commitment to achieving Timor-Leste's development goals. More recently, Australia's *Partnerships for Recovery 2020-22* (PRP) explains how we will support Timor-Leste's response and recovery from COVID-19.

PRP has guided the development of the Timor-Leste COVID-19 Development Response Plan 2020-22 (CDRP), which describes how Australia is supporting the three priority areas of health, stability and economic recovery<sup>3</sup>. The CDRP outlines the importance of prioritising good governance, including effective expenditure and improving service delivery to continue strengthening Timor-Leste's COVID-19 preparedness and economic recovery. The CDRP also details how enhancing Timor-Leste's international competitiveness and connectivity is key to its post-COVID-19 recovery. In response, Australia is increasing investment in Timor-Leste's national economic infrastructure through transformational projects like the fibre optic submarine cable announced by Prime Ministers Scott Morrison and Taur Matan Ruak in 2019, and proposed upgrades to Dili's international airport. Providing complementary governance support for these initiatives will be a critical part of Australia's package of infrastructure financing to ensure benefits are realised from these investments.

Australia is a key partner in Timor-Leste's governance sector, providing over \$7.5 million annually in bilateral support. Australia's support has primarily focused on public financial management, inclusive economic policy and improving the business environment, public administration reform and aviation. While there are other multilateral and bilateral donors working on governance in Timor-Leste, Australia's program of support is the largest by value and is at the heart of the Government's reform agenda. There has been a steady decline in support for governance from European donors and other donors are not active in the sector, including, to an extent, multilateral partners, as Timor-Leste has been reluctant to seek sovereign loans.

Our governance support is valued highly by Timor-Leste and experience has shown the value of having a direct bilateral relationship with Timor-Leste, rather than only relying on other partners. It helps us engage directly with key decision makers, and to respond quickly to new opportunities, such as the development of Timor-Leste's ERP. We leverage our governance support to work with other donors on critical issues, such as the European Union on

<sup>2</sup> This figure is subject to confirmation in late-2020.

<sup>3</sup> Available from <https://www.dfat.gov.au/publications/development/timor-leste-covid-19-development-response-plan>.

public financial management, the Asian Development Bank on improving the business enabling environment and the International Finance Corporation on financial inclusion.

A particular strength of Australia's governance program has been the talented group of local advisers that are currently embedded in almost all central agencies and many economic agencies. This advisory support is appreciated and well-known across GoTL. Australian-funded advisers have supported evidence-based policy and provided a highly responsive capacity to inform GoTL's COVID-19 response and recovery policy, especially at a time where international advisers and program staff were withdrawn from Timor-Leste.

Australia's governance support will be critical to Timor-Leste's continued economic response to COVID-19. There is a strong demand for continuing support for strengthening governance systems (such as public financial management and improving public administration), plus policy and technical advice on stimulus measures and longer-term economic recovery. Women, girls and other vulnerable groups are particularly at risk from the economic and social impacts of COVID-19. Australia's support for inclusive economic growth that does not leave vulnerable groups behind will be crucial during the recovery phase.

In addition, Timor-Leste is seeking Australia's support through the Australian Infrastructure Financing Facility for the Pacific (AIFFP) for national economic infrastructure projects. Specifically, a fibre optic cable connection to Australia and the redevelopment of Dili's international airport. Governance support for these two projects – and other critical infrastructure – is a priority for Australia and aligns with Australia's objective of supporting Timor-Leste to make well-informed economic decisions. We will look to link Australia's governance support in the infrastructure sector to DFAT's Southeast Asia Economic Governance and Infrastructure Facility (SEAEGIF) which is due to begin implementation in late-2020.

As the 2020 independent review of GfD (\$72 million, 2013-21) found, Australia's governance program is relevant to Timor-Leste's development context, both as a driver of progress in its own right and as a coordination and support platform for the broader bilateral aid program. Given the strong connection between governance support to the centre (government and non-government) and service delivery at the local level, Australia's development investments in Timor-Leste are well-placed to work with and support each other, particularly GfD2, the Partnership for Human Development (health, education and social protection) and PARTISIPA (community-driven infrastructure and strengthening municipal government).

#### **Box 1 – Timor-Leste's COVID-19 Economic Recovery Plan (ERP) 2020-22**

Timor-Leste's ERP is a whole-of-government policy that is guiding the country's economic response to COVID-19. GfD's advisers in central and economic ministries provided timely, evidence-based advice to support the ERP's development – both immediate actions as well as planning and budgeting for longer-term recovery. This advisory support was bolstered by GfD's grant partners, including Monash University, The Asia Foundation and Oxfam, whose work was refocused to undertake research and provide advice on the social and economic impacts of COVID-19 and community perceptions of the response. The ERP is an example of how GfD is a vehicle to bring different skills, expertise and partners together to support GoTL, and demonstrated that the program's value is greater than its individual parts.

### **C. Proposed Outcomes and Investment Options (What?)**

GfD2 will contribute to better living standards and reduced poverty in Timor-Leste through stronger GoTL service delivery and economic development. This will be achieved through two end of program outcomes (note, the design will validate/refine these EOPOs):

**EOPO 1: GoTL central agencies and economic line ministries make evidence-based decisions and inclusive policy making, and improve implementation of these policies leading to better service delivery.**

GoTL central agencies and economic ministries will be the primary counterparts under this EOPO, including through strengthened policy development processes, enhanced capacity of GoTL to demand, generate and

analyse evidence, inclusive policy development is inclusive, and strengthened planning, monitoring and evaluation of policy implementation. Better policy and improved implementation will lead to improved service delivery and economic development.

**EOPO 2: the private sector and civil society in Timor-Leste contribute to inclusive economic policy and development, leading to better service delivery and economic diversification.**

The private sector and civil society will be the predominant direct beneficiaries under this EOPO, through support to participate in policy development and implementation and feedback on service delivery. Engagement with line-ministries, municipal authorities and feedback from Australia’s other bilateral investments, particularly PARTISIPA and PHD, will also be critical to understanding constraints to service delivery and how improvements can be made at the national-level. This will lead to a strengthened “feedback loop” between upstream policy decisions and downstream service delivery, and a strong social compact by increasing accountability of GoTL to the people and communities that it delivers services to.

These EOPOs will be achieved through “reform pathways” that will guide activities – see [Attachment A](#). As a facility, the design will not specify all activities at the outset. Instead, reform pathways will be identified during design and then GfD2 will refine and update these during implementation, in consultation with stakeholders. This will include supporting analysis and strategy to guide investment decisions and that linkages between GfD2 and Australia’s other investments are considered. The design will consider the right balance between medium-term activities and options for flexibility that enable DFAT to respond to emerging priorities.

While GfD2’s reform pathways will be confirmed during the design process, it is anticipated that they will address the following bilateral priorities for Australia’s governance assistance:

- 1. Improved public financial management** (contributes to EOPO1): including strengthening Timor-Leste’s systems and processes used to develop, approve and execute the national budget, and increasing budget transparency and effectiveness. The link between national PFM systems led by MoF, and line-ministries is critical for effective reform. GfD2 will build on the earmarked direct budget support (DBS) recently provided to GoTL in response to COVID-19, and support future DBS opportunities.  
*Example activities: preparation of national budget; budget classifications and tracking; gender-responsive budgeting; preparation of a medium-term expenditure framework; program based budgeting; supporting future direct budget support opportunities (which are likely to be earmarked/sectoral-based rather than general budget support); targeting barriers identified by stakeholders (e.g. PARTISIPA and PHD) downstream (e.g. procurement and disbursement)*
- 2. Inclusive economic policy and development** (contributes to EOPO1 and 2): support to implement COVID-19 ERP objectives to diversify the economy, as well as Timor-Leste’s broader economic policy priorities under the SDP, such as ASEAN and WTO accession and improvements to the business enabling environment. This also includes support to the private sector, civil society and multilateral partners. Given the broad nature of this reform pathway, the design will help identify priority sectors and partners to work with, drawing on GfD’s experience and the lessons from the independent review of GfD.  
*Example activities: grants to civil society partners for research and advocacy; legislation on business enabling environment; trade facilitation; publication of economic statistics; financial inclusion such as support to agent and mobile banking; e-commerce; aviation security and safety; targeting downstream barriers identified by stakeholders (e.g. improved business licencing)*
- 3. Governance support for national economic infrastructure** (contributes to EOPO1 and 2): this includes investments under AIFFP and linkages with SEAGIF. While the technical aspects of infrastructure design, procurement and implementation are likely to be supported under AIFFP, the high-risk nature of critical infrastructure projects demands additional oversight and advisory support to relevant agencies. This support is best delivered through a bilateral, rather than regional, program in order to ensure advice is tailored to the Timor-Leste context.

*Example activities: advisory support to complement investments in a new submarine fibre optic cable and Dili airport upgrades, advice on the oil and gas sector could be provided through the World Bank*

4. **Public administration reform and strengthening** (contributes to EOPO1): limited and targeted support for strengthening the policies and processes that govern the civil service to make it more efficient and effective.

*Example activities: civil service workforce planning and performance management; merit-based recruitment and promotion; salary policy; connecting GoTL's HR and finance systems; e-governance*

In addition to the four bilateral priorities above, gender and social inclusion will be a specific priority and mainstreamed across all program activities. This could, for example, include continued support for gender-responsive budgeting. Activities targeting women can be beneficial in their own right, for example women's economic empowerment under point two above. Where it makes sense and complements Australia's other bilateral programs, GfD2 could lead on some gender and social inclusion issues.

Civil society, including national organisations, are active in Timor-Leste, although the sector is thin in areas of relevance to GfD2, such as public financial management, infrastructure and public administration. GfD2 will look for opportunities to include civil society organisations in economic policy development and implementation, and as a partner for monitoring GoTL service delivery. Partnering with civil society also strengthens the sector more generally, and GfD2 will consider whether and how the program can support this goal.

Drawing on lessons learnt and our broader understanding of the bilateral context, some of Australia's existing partnerships through GfD could continue. Where they are performing well and align with GfD2's reform pathways, the design will take a critical look at existing activities while examining potential partnerships with other institutions working on priority issues. The design will pay particular attention to those gender and social inclusion activities that were impactful under GfD.

GfD2 will not be able to invest in every opportunity, nor should it. As agreed in DFAT's management response to the 2020 independent review of GfD, investments in the security and justice sectors will not be continued, and the program will need to be selective with the size and scope of grant-funded activities. Having clear criteria for assessing possible activities will help with these decisions, complemented by analysis and strategy documents. A number of analytical pieces to support GfD2 are underway, including a review of Australia's assistance in public administration reform in Timor-Leste, and preparation of an economic development strategy. An Assessment of National Systems to support direct budget support, and an analysis of barriers to service delivery are planned for 2021. GfD is also preparing a private sector engagement strategy and an updated gender and social inclusion strategy that will help guide GfD2. The design will also take account of the 2020 independent review of GfD, which included a range of relevant findings and recommendations for GfD2.

GfD2 will also build on Australia’s previous governance support, including what we have learnt and achieved through GfD – see Box 2 below.

### Box 2 – Governance for Development (AUD72 million, 2013-21)

The 2020 independent review of GfD found that the program was (and is) relevant in the Timor-Leste context. While GfD had made achievements in developing new laws, policies and systems, it had been less effective on their implementation. The program was designed to be adaptive and responsive, though the review found that GfD’s approach was sometimes more reactive, and management decisions could have been bolstered by additional analysis, including more use of formal political economy analysis.

A significant success factor was the quality of relationships and trust between GfD advisers and their GoTL counterparts, while it also used grant partners effectively to complement direct technical assistance. However, the review also found that GfD attempted to progress too many reforms simultaneously and was often too optimistic regarding timeframes for success. Additionally, the program would have benefited from a stronger strategic framework for prioritising reforms and activities. The review provided recommendations around the resourcing and skills required to manage a facility, and pointed to recent improvements in strategy, stakeholder engagement and monitoring and evaluation, including due to DFAT’s decision to bolster the size and skills of the program’s management team.

On specific reform areas, the review found that GfD’s approach on **public financial management (PFM)** with the Prime Minister’s Office was appropriate given past bilateral sensitivities, however effort should be made to advance these gains while re-engaging more directly with the Ministry of Finance as the lead agency on PFM. This work would be strengthened by working more closely with Australia’s other bilateral programs, particularly PARTISIPA and PHD, and undertaking an updated study on “barriers to service delivery”. On **economic policy development and implementation**, the review found that GfD targeted too many reform areas and would benefit from a clearer strategic framework to help guide investment decisions in this area. The review highlighted some particularly effective activities, including the Australian Bureau of Statistics “twinning” with its GoTL counterpart, the influence of Monash University’s economic research on GoTL, the private sector and civil society, and improvements in Timor-Leste’s management of the aviation sector, including on safety and security.

Australia’s long-standing relationship with Timor-Leste in **public administration reform** was found to be an area that could consolidate in the future, particularly as GoTL policies and systems are maturing. The review recommended that gains be protected, and a more targeted review of Australia’s support in this area be completed to help guide GfD2. Finally, the review complemented GfD’s efforts to strengthen its consideration of **gender and social inclusion** across all activities, and as a priority in inclusive policy development. GfD2 should continue this approach.

In addition to identifying reform pathways, the program will consider “value for money” (VfM) when assessing spending decisions. Given the nature of the program and the complex development environment, GfD2 will also “think and work politically” (TWP) by reviewing spending decisions through the lens of what is both politically possible and technically feasible. The program will draw on the experience of GfD to ensure TWP is mainstreamed into program governance arrangements, including appropriate contestability of decisions. The program will be strategically opportunistic to support potential high impact reforms that deliver economic growth and diversification that are politically feasible.

### D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)

GfD2 will be designed as a \$60 million program to be implemented over eight years (four plus four) from 1 January 2022 to 31 December 2029. An independent review will be scheduled in the first four year phase to help inform DFAT’s “stop/go” decision on whether to implement the optional second four year phase. This

funding level allows GfD2 to pursue core reform priorities with the flexibility to respond to an evolving bilateral context with GoTL:

- › approximately 20 per cent of activity funds will be flexible and allocated annually;
- › this funding level is appropriate given the bilateral budget and the relative size of DFAT's other bilateral investments (GfD2 will be medium sized for the Timor-Leste program).

Based on a review of possible implementation models, and the relative DFAT resources required, the preferred option is for GfD2 to be implemented as a facility by a contractor, including shared responsibility for strategy and stakeholder engagement. This approach provides the greatest likelihood of meeting Australia's objectives in providing governance support to Timor-Leste that is timely, effective and complements DFAT's broader bilateral objectives. Furthermore, it provides the greatest opportunity to influence GoTL and respond to emerging needs, as recently seen in GfD's wide-ranging support to GoTL in developing the country's economic response to COVID-19.

GfD2's design will draw on the lessons learned from GfD, as well as those from recent reviews of governance facilities. The design will also consider:

- › Timor-Leste's Strategic Development Plan 2011-2030;
- › Timor-Leste's COVID-19 Economic Recovery Plan (2020);
- › Australia - Timor-Leste Strategic Planning Agreement for Development (2011);
- › Australia's Timor-Leste COVID-19 Development Response Plan 2020-22;
- › The independent review of GfD and DFAT's management response (2020);
- › DFAT's Effective Governance: Strategy for Australia's Aid Investments (2015);
- › DFAT's 2016 Gender and Women's Empowerment Strategy, and GoTL's Maubisse Declaration (2018-23);
- › DFAT's Framework for Engaging on Public Financial Management: Increase the Impact of Your Program (2017); and
- › DFAT's Review of Selected DFAT Facilities and DFAT's management response (2018), plus DFAT's Performance Assessment Framework Guidance Note for Facilities (2020).

DFAT at Post will have primary oversight of the program, with support from Desk and thematic teams in Canberra. This team will provide oversight of GfD2, working in close partnership with the implementing partner. The team will include governance and economic expertise. The size of DFAT's team reflects learnings from other facilities that DFAT must adequately resource programs of this nature to help mitigate implementation risks.

One lesson from GfD is to ensure that the staffing capacity, skills and experience of the implementing partner team are appropriate for running a facility. Getting resourcing right will be critical from GfD2's outset, and the design will take this into account.

Strategy and stakeholder engagement will be jointly undertaken by DFAT and the implementing partner/contractor. The program requires an implementing partner that has proven capability to work closely and effectively with GoTL, that can operate under DFAT direction to deliver effective support in challenging environments, that promotes strong relationships at senior levels between Timorese and Australian officials, and that can respond to shifts in the operating environment to support the bilateral relationship.

The design will consider and recommend the best mix of aid modalities to deliver GfD2. This combination of modalities will help inform the resources required from a contractor and feed into defining the role of the development facility and DFAT's oversight. It is anticipated that grants (including administrative and performance aspects) will be channelled through, and managed by the contractor, unless otherwise directed by DFAT (for example, grants to multilateral banks will be managed directly by DFAT). Working with the contractor, DFAT will also play a "hands-on" role in any direct budget support opportunities, including policy dialogue and performance benchmarks in agreed sectors. The implementing partner will be responsible for contracting advisors and delivering other modalities of support (for example training and capacity building activities). Depending on the

final design, the implementing partner can be expected to consider some advisory personnel currently embedded in GoTL central agencies and economic ministries.

GfD2 will establish fit-for-purpose governance arrangements, including adequate oversight and engagement with GoTL throughout program inception, implementation and review. As a program that will “think and work politically”, GfD2 will include robust planning, review and analytical arrangements to support DFAT’s strategic oversight of the program and ensure GoTL’s views and priorities are reflected in implementation. As a flexible facility, GfD2 is likely to receive more requests than it can effectively support with the resources available. The design will develop governance mechanisms that prioritise program coherence and mitigate the risks of fragmentation and mission creep. The design will recommend how joint prioritising of GfD2’s limited resources can be made by Australia and GoTL, reflecting the Ministry of Finance’s responsibility for donor coordination, and will agree to transparent and consistent criteria for assessing implementation priorities.

Part of GfD2’s role will be to partner with and assist Australia’s other investments in Timor-Leste and the design will consider opportunities to pursue shared priorities. This includes testing the link between central agency policy development and service delivery outcomes. It is critical that GfD2 partner in this effort with other key Australian investments in Timor-Leste, namely PHD and PARTISIPA. This will involve drawing on the connection between the service delivery unit and municipalities, administrative posts and villages (sukus) through PARTISIPA, and linking with GfD2 on key constraints to service delivery that are within the remit of central ministries. PHD will also help to inform the policy priorities addressed by GfD2 at national and municipal levels so that they are grounded in the reality of challenges at the service delivery frontline.

A priority will be aligning the design of GfD2 with PARTISIPA (currently being designed to begin implementation in July 2021). The design process is an opportunity to ensure GfD2’s governance support to the centre complements and does not overlap with PARTISIPA’s governance support to municipalities (note, PARTISIPA will lead engagement on decentralisation, though the design will consider whether and how GfD2 will have a role to play in this sector). The design will also consider the donor landscape and opportunities to work with other donors and partners on specific governance reform priorities.

## E. Risks

GfD2 will be designed and developed in a complex environment – Timor-Leste is a young state in which governance systems and institutions are still being developed. While the bilateral relationship is strengthening, some sensitivities remain. And COVID-19 will continue to cause uncertainty across all the program’s activities. The design will explore these risks to GfD2 in detail and the strategies required to manage them, including:

- › Political risk: political changes across GoTL could lead to a lack of politically possible interventions and disagreement or conflict on priorities across the coalition government. Furthermore, political decisions in the bilateral relationship could impact on GfD2’s engagement with GoTL and/or GfD2 could be politicised impacting advisory support and grant partners. GfD2 will need to think and work politically, with systematic analysis of risks, opportunities and interventions.
- › Partner capacity and relations: reforms must take account of the variable capacity of GoTL and its agencies. The capacity of grant partners, including local civil society organisations, will need to be assessed and managed. In many instances it will be appropriate to include capacity development as part of GfD2’s partnerships, particularly with local partners.
- › Fiduciary: misappropriation of funds is possible. Robust oversight, controls and checks-and-balances will be required. Weak GoTL financial systems pose risks to further direct budget support – appropriate diagnostics and analysis will be required, including a separate assessment of national systems and additional PFM and procurement analysis of GoTL sectoral ministries.
- › Resources, management and planning: GfD2’s effectiveness will be at risk if it does not work in partnership with DFAT’s other investments and does not provide coordinated support to GoTL. GfD2 will need to work



in partnership with DFAT's other investments, particularly its sister governance program PARTISIPA, and those working with service delivery line ministries, such as the Partnership for Human Development.

- › Gender and social inclusion: GfD2 may not adequately address gender and social inclusion in design and implementation. The design team will include gender expertise, and the design will examine gender and social inclusion as its own objective and as a cross-cutting theme. The design will consider what success will like in terms of gender and social inclusion.
- › COVID-19: the pandemic could impact program mobilisation and implementation of GfD2. While the design will consider this risk in the context of achieving GfD's objectives, DFAT is actively managing the risk to the completion of this design and ensuring mobilisation will allow for implementation to begin from January 2022 onwards.

In addition, the 2018 independent *Review of Selected DFAT Facilities* and associated management response address the benefits and risks of delivering through a facility. GfD2's design will take account of the following risks associated with a facility:

- › Facility effectiveness: GfD2 will have continuous independent monitoring and evaluation measures in place, including through allocating adequate budget to M&E, establishing a Strategic Advisory Group, and working with DFAT's new cross-program facility M&E mechanism (currently under development).
- › Facility efficiency: GfD2 will generate a robust financial evidence base for DFAT to oversee facility management, and for comparing VfM of program activities.
- › Staff capabilities: GfD2 will be led by a senior officer at Post (Counsellor Development), with commensurate A-based and LE resourcing. As mentioned earlier, a strong team in the implementing partner will also be required.
- › Flexibility and coherence: GfD2 will have robust program governance mechanisms and adequate DFAT oversight to ensure strategic coherence and mitigate mandate creep. To ensure the program stays tightly focused on the most critical constraints to growth and service delivery, the design will examine how to embed timely high-quality analysis into the program.

DFAT's Risk and Safeguard Screening Tool has been completed and overall GfD2 is assessed as **medium risk**.

## F. What are the next steps?

DFAT at Post will lead and manage the design in consultation with Desk and thematic areas in Canberra. A contracted specialist design team with expertise in design, governance, public financial management, and gender will be engaged to prepare the design. Gender and social inclusion will be a specific priority and mainstreamed across all program activities. The design will be delivered by end-April 2021 ahead of an independent appraisal and an internal DFAT peer-review (note: see comment below). The Aid Governance Board is expected to consider the GfD2 Investment Design in June 2021.

As we expect some members of the design team will not be able to travel to Timor-Leste, the team will draw on expertise from DFAT's Governance, Public Financial Management, Development Economics and Gender teams in Canberra during the design process. A "DFAT Design Reference Group" has been established and will meet (remotely) at least twice with the design team to provide advice and assure DFAT that the design will be fit-for-purpose. The Design Reference Group was consulted on the specifications for the design team, this investment concept and will also participate in the internal peer review in 2021. The existing GfD implementing team will also contribute to the design given its understanding of the development context in Timor-Leste and deep connections with GoTL and non-government stakeholders.

Stakeholder consultation and feedback is an important part of the design, particularly engagement with GoTL. Close oversight by DFAT at post will ensure that stakeholders are engaged throughout the process.

At the same time that GfD2 is being designed, DFAT has published the CDRP for 2020-22. The CDRP aligns with Australia's Partnerships for Recovery policy and is available on DFAT's website (see

<https://www.dfat.gov.au/publications/development/timor-leste-covid-19-development-response-plan>). GfD2's design will align with the CDRP and its core objectives under the economic recovery pillar. There is substantial existing literature on development in Timor-Leste and the design team will reflect on this during the detailed design process.

DFAT anticipates tendering for a contractor to implement GfD2 in the second half of 2021.

**Better living standards and reduced poverty in Timor-Leste through stronger GoTL economic development and service delivery**

GoTL central agencies and economic line ministries make evidence-based decisions and inclusive economic policy, and improve implementation of these policies leading to better service delivery

The private sector and civil society in Timor-Leste contribute to inclusive economic policy and development leading to better service delivery

