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ANNEX

to the Commission Implementing Decision on the financing of the multiannual action plan in favour of Timor-Leste for 2024-2025

Action Document for Partnership for Public Financial Management (PFM) and Digital Transition in Timor-Leste (PADIT-TL)

MULTIANNUAL PLAN

This document constitutes the multiannual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title OPSYS business reference Basic Act	Partnership for Public Financial Management (PFM) and Digital Transition in Timor-Leste (PADIT-TL) OPSYS number: ACT-62317 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in Timor-Leste
4. Programming document	Multiannual Indicative Programme for Timor-Leste (2021-2027) ¹
5. Link with relevant MIP(s) objectives / expected results	This action is included in Priority Area 2: Good governance for sustainable development Specific objective "i" under priority areas 2: Support improvement of public sector management and reform in TL, including e-governance. Expected results under the specific objective: Support accountable and transparent institutions; Strengthen domestic and other revenue mobilisation
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	151 - Government and civil society-general
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 16 (Peace, Justice and Strong Institutions)

¹ C(2021) 9071 of 14.12.2021

	Other significant SDGs (up to 9) and where appropriate, targets: SDG 1 (No Poverty), 5 (Gender Equality), 10 (Reduced Inequalities) and 17 (Partnership for the Goals)			
8 a) DAC code(s)	Public finance management (DAC code 15111); Public sector policy and administrative management (DAC code 15110)			
8 b) Main Delivery Channel	Recipient Government 12000			
9. Target	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital connectivity digital governance digital entrepreneurship		YES <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	NO <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	

	digital skills/literacy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	digital services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Connectivity @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	
	energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	<p>Budget line(s) (article, item): 14.020132 The Pacific</p> <p>Total estimated cost: EUR 12 000 000</p> <p>Total amount of EU budget contribution EUR 12 000 000, for budget support of which EUR 9 million for budget support and EUR 3 million for complementary support</p> <p>The contribution is for an amount of EUR 9 000 000 from the general budget of the European Union for financial year 2024 and for an amount of EUR 3 000 000 from the general budget of the European Union for financial year 2025, subject to the availability of appropriations for the respective financial years following the adoption of the relevant annual budget, or as provided for in the system of provisional twelfths</p>			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	<p>Direct management through:</p> <p>Budget Support: Sector Reform Performance Contract</p> <p>Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.1</p>			

1.2 Summary of the Action

Timor is embarking on a digital transition process, and although financial inclusion and access to formal financial products in Timor-Leste are still limited, the country aspires to achieve a digital government that is simple, transparent, and easily accessible to all, where public institutions are more efficient and transparent, able to provide services nationwide, and enabling and fostering civic participation in public policy.

This Action will build on the previous Budget Support programme, the “Public Financial Management and Oversight (PFMO)” program. It also aligns with the Global Gateway Strategy, particularly with the digitalisation objective. At the same time, by enhancing various aspects of its institutional socioeconomic landscape and focusing on key features such as E-commerce and E-trade platforms, E-Government services, digital literacy programs, internet connectivity,

digital public and financial services, digital tools for social welfare programs and climate resilience, Timor-Leste can also leverage digitalisation to enhance its capabilities, align with international and ASEAN standards, contribute to regional integration of the Southeast Asia region, and support the priority of digital governance and partnerships in the Indo-Pacific Strategy.

Digitalisation of PFM systems and processes aims to support optimal budget planning and resource allocation to better deliver on public sector policies as well as strengthen expenditure control and monitoring, facilitate efficient expenditure allocation, deliver improved public services, promote fiscal transparency, budget credibility, and accountability even more so in times of crisis. The development of digital services will seek to improve service delivery processes, enhance efficiency, and improve service accessibility.

The overall objective of the proposed Action is to reduce inequalities and strengthen public service delivery at central and local level, in line with its national Strategic Development Plan 2011-2030. By modernising governmental processes, enhancing citizen service delivery efficiency, and fostering inclusive development through the use of digital technologies, this Action will increase accountability and trust in organisational operations.

- I) The Action is to be implemented over three years (2025-2027), and it is to be delivered through a combination of Budget Support to assist the Ministry of Finance's (MoF) ongoing implementation of the new Public Finance Management (PFM) Strategy and in enhancing the digitalisation of the PFM system; and
- II) Capacity building to state and non-state institutions through Technical Assistance, namely the Ministry of State Administration, the Ministry of Justice, the Central Bank, the National Parliament, the Ministry of Transportation and Communication, TIC Timor, The Institute for Public Administration and Civil Society Organisations.

The intervention is suggested as a Sector Reform Performance Contract enabling the EU to engage in high-level policy dialogue to support reforms. The budget support will be accompanied by complementary measures that include developing the necessary legislative framework, building the capacity of civil servant training institutions, and developing digital public services, including mainstreaming digital payments.

The Action contributes directly to the attainment of the SDG objective "16. Peace, justice and strong institutions", which highlights the purpose of improving transparency and effectiveness of the public administration as well as the gradual decentralisation of planning and budgeting to the municipal level. It will also contribute to the attainment of the SDGs "1. No poverty" through the setting up of planning and budgeting systems that will address the provision of public services to the poorer population, "5. Gender equality" through the inclusion of this dimension in the PFM reform goals and budget systems, "10. Reduced Inequalities", through developing training programs in digital and financial literacy skills and increasing the availability of basic public e-services in rural areas, and "17. Partnerships for the Goals", focusing on the international cooperation and partnership supporting PFM reforms in a coordinated and complementary manner.

The action will also contribute to the realisation of the EU Gender Action Plan 2021-2025 (GAP) III ^{2 3}, in particular to its thematic area of engagement "Addressing the challenges and harnessing the opportunities offered by the green transition and the digital transformation, Digitalisation, Climate change and environment" and "Promoting economic and social rights and empowering girls and women". Likewise, it will contribute to the implementation of the EU Strategy on the Rights of Persons with Disabilities 2021-2030⁴, and the EU's Action Plan on Human Rights and Democracy 2020-2024⁵.

² EU Gender Action Plan (GAP) III 2021-2025

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022IP0073>

³ The Gender Action Plan III is a Joint communication by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy which was welcomed through the EU Presidency Conclusions of 16 December 2020, endorsed by 24 Member States.

⁴ EU Strategy on the Rights of Persons with Disabilities 2021-2030

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52021DC0101>

⁵ EU's Action Plan on Human Rights and Democracy 2020-2024

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020JC0005>

2 RATIONALE

2.1 Context

Since 2014, the EU has supported the government of Timor-Leste in carrying out Public Finance Management reforms. In 2022 and 2023, the EU provided legal and technical assistance to support the government with a new fibre-optic cable.

Our support for the government's digitalisation processes in Timor-Leste, with a specific focus on PFM and ongoing digital initiatives, is designed to bring about tangible benefits. These include better budget alignment with public sector policies, enhanced fiscal discipline, efficient expenditure allocation, improved public services, and increased service delivery efficiency. Ultimately, the aim is to foster inclusive development through the effective use of digital technologies.

Supporting the government on increasingly important digitalisation processes in Timor-Leste, with a focus on PFM and ongoing initiatives related to the provision of a variety of digital services, will aim, in a close and complementary way, to better align budgets with public sector policies, enforce fiscal discipline, and facilitate efficient expenditure allocation.

This support will also aim to deliver improved public services, enhance service delivery efficiency, and foster inclusive development through digital technologies.

It will also build on the alignment with government priorities on PFM (Timor-Leste Public Financial Management Reform Strategy 2022-2027, MoF's Five Year Strategic Plan 2024-2028) and Digitalisation (National Strategy for Financial Literacy 2022-2027 and Timor Digital 2032) and Consolidate the EU's position as a critical partner on Digitalisation and PFM in Timor-Leste.

2.2 Problem Analysis

Timor-Leste is a fragile, small island developing country. Following its independence in 2002, its institutions are still in construction and consolidation. Timor-Leste has undergone a continuous process of PFM reform, which has been affected by political instability, limited capacity of its human resources, and, more recently, the COVID-19 pandemic. Consequently, the country still requires support to move forward with institutional reforms in general and PFM reform in particular.

This document is based on several diagnostic studies and assessments carried out over the last years, namely:

- PEFA 2018 provides a thorough assessment of the status of the PFM system in Timor-Leste from 2015 to 2017.
- Public Investment Management Assessment 2016, elaborated by the IMF (not published).
- Public Expenditure Review (PER) 2021, elaborated by the WB.
- The Tax Administration Diagnostic Assessment Tool (TADAT), still ongoing.
- Methodology for the Assessment of Procurement Systems (MAPS), still ongoing.
- The EU annual public finance assessments and the lessons learned from the previous budget support program, "Public Financial Management and Oversight" (PFMO), which ended in December 2022.

PFM reform seems, however, to be gaining momentum with the approval in December 2022 of the Public Financial Management Reform Strategy 2022-2027, which aimed to improve accountability, transparency, and service delivery. Meanwhile, the new government team that emerged from the May 2023 general elections has expressed the intention to pursue the PFM reform initiated by the previous government and even to integrate its objectives and indicators of this reform in the future five-year work plan of the Ministry of Finance (MoF's Five Year Strategic Plan 2024-2028).

Programme budgeting has been adopted with the 2022 budget, but there is still a long way to go before reaching a fully developed and consolidated system. Medium-term budgeting has some steps, but a coherent system linking the overall Medium-Term Fiscal Framework (MTFF) to the Medium-Term Expenditure Frameworks (MTEF) at the sector level still has to be developed. The M&E system, which is a crucial pillar of the programme budget, has also made notable progress with the development of the Dalan ba Futuru system (The Road to the Future of Timor-Leste), a tool designed to assist the elaboration of annual plans, monitoring and tracking its implementation and to evaluate its results, but the link between planning (medium-term) and budgeting (short term) still needs to be developed.

Although "Collecting more" is an integral component of the Strategic Development Plan 2011-2030, the revenue composition remains unbalanced and unsustainable over the longer term. The government's total revenue depends on 86% of the withdrawals from the petroleum fund, 6% on taxes on commodities (excise, import duties, sales), 4% on income, and 4% on non-tax revenue. Diversifying domestic revenues while drastically reducing the dependence on the Petroleum Fund is a critical strategic objective that informs the ongoing fiscal reform.

The tax administration reform has advanced with the creation of the Customs and Tax Authorities. However, these organisations still need more resources to fulfil their mandate fully. Some key legislation, like the tax procedural rules, still needs approval. The information management systems of those authorities have been developed (ASYCUDA World in Customs and SIGTAS in the fiscal administration), with EU support, but still need to be interlinked with the information systems network of the government, namely the budget information system (FreeBalance). PEFA highlighted, in particular, the poor monitoring and control of the revenue arrears, namely the need for a procedure to categorise the revenue arrears based on their aging. A strategy to recover those arrears seems absent.

Timor-Leste's National Strategic Plan for Digital and ICT Development (Timor Digital 2032) was approved under the previous government and presents a 10-year digital transformation plan across all sectors. As part of the overall strategy, a comprehensive set of legislative projects have been initiated, including but not limited to:

1. Timor-Leste's National Strategic Plan for Digital and ICT Development (Timor Digital 2032) was approved under the previous government and presents a 10-year digital transformation plan across all sectors. As part of the overall strategy, a comprehensive set of legislative projects have been initiated, including but not limited to an e-commerce law, giving legal value to e-signatures, e-documents, and e-contracts, and also establishing a legal framework for e-service providers (trust providers);
2. A privacy and data protection law, including protection against collection of incorrect or inaccurate data, profiling in unauthorised or improper ways, unauthorised access or improper use or disclosure of information, and other possible abuses;
3. A law on cybersecurity and on cybercrime;
4. An intellectual property (IP) code, which is also part of the roadmap towards Timor-Leste's accession to the World Trade Organisation;
5. A Decree-Law on a unique digital ID (UID or e-ID) for all citizens and residents in Timor-Leste.

These legislative projects aim to adopt international best practices standards and guidelines and, in appropriate cases, to ratify or accede to international treaties and conventions.

These laws, however, have yet to be approved by the new government. When approved (and regulated and disseminated), they will further build on the already existing Customs Code Decree-Law (2017), which, already now, allows for paperless cross-border trade, even if further improvements to Timor-Leste's national Single Window trading portal and ASYCUDA system are required as part of Timor-Leste's WTO membership and its goal to join ASEAN.. This Action could also support its implementation following EU standards and best practices.

The new government is also committed to further fast-tracking Timor-Leste's connection to the world's high-speed data transmission network by speeding up the implementation of the various contracts signed by the outgoing government: Timor-Leste's South Submarine Cable (TLSSC), which the EU supported in 2022 and 2023 on the

legal and commercial aspects of the project is expected be “ready for service” by November 2024 and, combined with the existing fibre optical network put in place as part of the upgrade of the country’s electrical grid, this should contribute to reliable, affordable and high-capacity bandwidth down to the municipality level, even if questions remain regarding how the additional bandwidth will be auctioned and commercialised by the three existing telecom operators and, possibly, new entrants.

Nevertheless, extensive collaborative efforts are required to address the low levels of financial and digital literacy in Timor-Leste. According to a Digital and Financial Literacy Survey conducted in 2023⁶, the Timorese possess low-to-moderate levels of digital and financial literacy. Despite significant numbers of adults having access to a smartphone (71% access), just 35% use the Internet daily and almost half (46%) feel that technology is leaving them behind.

Adults with access to traditional financial products refrain from using digital tools to manage their financial resources. Among those with current accounts, the usage of banking apps and web-based banking services is below 3%. Local economies remain cash-based. Internet access and most digital transactions are conducted on smartphones, with fewer Timorese adults having access to other types of digital devices (access to a smartphone within the household does not guarantee internet access).

Limited access to digital devices and to available Internet connection among significant population segments is a pressing issue that manifests in diminished confidence in engaging with digital tools. This hampers participation in online activities, (including finance-related activities) which are limited beyond news and social media consumption.

The digitalisation of municipal-level services received new impetus with the start of a open source pilot one-stop-shop (or single window) project⁷, which will modernise the delivery of government services and improve access at the local level. These services to be progressively introduced include issuing passports, ID cards, criminal record certificates, birth and death certificates, and other more informative services provided at the municipal level.

The new government has also empowered the Ministry of State Administration (MSA), which is responsible for local government and associated matters, to mediate and align all other ministries and governments, such as the Ministry of Justice directorates in charge of issuing ID cards, birth certificates, and other civil registry documents, the STEA (Technical Secretariat for the Electoral Process) in charge of voter/electoral cards and various other central service departments around Timor-Leste’s e-government and digitalisation plan.

In addition, telecom operators and banks are already using somewhat limited connectivity to rapidly implement the ‘digital wallet’ concept and proper e-banking services. Such a private-sector ICT ecosystem for trust services and e-payments will likely facilitate e-commerce and e-business, even without a fully-fledged legal, governmental, or institutional framework for the digital transformation of Timor-Leste’s public and private sectors.

Nevertheless, innovative public-private partnerships are needed to move forward—especially in the core infrastructure required to enable digital transformation, establishing an integrated legislative framework to underpin digital transformation, sufficient training capacity to support civil servants in providing digital services, and more developed and mainstreamed digital platforms overall.

In terms of gender equality and women’s empowerment, the importance of applying a gender lens to the PFM system is critical. According to the UN Women’s Gender Snapshot 2022 report, women’s exclusion from the digital world has shaved \$1 trillion from the gross domestic product of low- and middle-income countries in the last decade—a loss that will grow to \$1.5 trillion by 2025 without action. Reversing this trend will require tackling the problem of online violence, which a study of 51 countries revealed 38 per cent of women had personally experienced. In the case of Timor-Leste, the study 'Digital Youth in Timor-Leste' notes that during the 2022

⁶ <https://www.uncdf.org/article/8606/assessing-digital-and-financial-literacy-in-timor-leste-a-survey-on-knowledge-skills-and-access>

⁷ <https://balkaununu.gov.tl/en/>

presidential election campaign, attacks against female presidential candidates were prominent. Female political actors are at additional risk, and attacks against them are often based on gender discrimination.

At the same time, a gender-responsive approach to innovation, technology and digital education can increase women's and girls' awareness of their rights and civic engagement. Growing inequalities in digital literacy and access to technology are increasingly evident, with women being left behind as a result of this digital gender divide. The need for inclusive and transformative technology and digital education is therefore crucial for a sustainable future.

Identification of leading stakeholders (duty bearers and right holders) and corresponding institutional and organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The Ministry of Finance is the government department responsible for the design, execution, coordination, and evaluation of the policy, defined and approved by the Council of Ministers, for annual planning, monitoring and evaluation, the General State Budget, and public finances.

The Ministry of State Administration is critical in promoting effective governance, improving public service delivery, and modernising administrative systems to meet the country's evolving needs. It is also in charge of implementing the decentralisation in Timor-Leste and training all civil servants. The Ministry is responsible for developing policies, regulations, and strategies related to administrative governance, including decentralisation. These responsibilities involve ensuring the effective functioning of government institutions, promoting good governance practices, and enhancing administrative efficiency and effectiveness through Civil Service Capacity Building, Public Service Delivery, Local Governance, and Administrative Modernisation.

The Ministry of Justice is crucial in service delivery to citizens, particularly concerning issuing various legal documents and certificates. Its mandates and potential roles include Civil Registry and Identification, Passport Issuance, Notarial Services, Legislative Oversight, and Information Systems.

The Central Bank is the country's central monetary authority, responsible for regulating and overseeing the financial sector to ensure the banking system's stability, efficiency, and integrity. From the service delivery perspective to citizens, including regulation and digital payments, its mandates, potential roles, and capacities include Payment Systems Oversight and Financial Inclusion Promotion.

The National Parliament of Timor-Leste serves as the highest legislative body in the country, with the primary mandate of enacting laws and policies to govern various aspects of national life. In approving policies and legislation for data protection, cybersecurity, digital service delivery, and regulation for digital payments, its mandates and capacities include Legislative Authority, Policy Formulation and Public Engagement.

The Ministry of Transportation and Communication of Timor-Leste plays a critical role in leading the establishment of digital infrastructure and overseeing digital transformation initiatives, including the coordination of the public agency known as TIC Timor. In addition to managing transportation and communication sectors, the Ministry's mandates, potential roles, and capacities in the perspective of digital infrastructure development and service delivery include, among others, infrastructure development, digital transformation leadership, oversight of TIC Timor and issuance of driving licenses.

TIC Timor – The Agency for Technology, Information, and Communication is a public agency tasked with driving digital transformation initiatives across government agencies and promoting technology, information, and communication to improve service delivery and governance.

The Institute for Public Administration (INAP) operates under the authority of the Ministry of State Administration. It can be crucial in fostering digital transformation projects across government agencies.

Banks and other financial institutions. At this stage, the financial institution landscape in Timor-Leste is composed of Banco Central de Timor-Leste (BCTL), four branches of foreign banks, one local state-owned commercial bank, two general insurance companies, and one life insurance company, four foreign currency exchange bureaus, two other deposit-taking institutions, and one credit corporation finance.

Telecommunications companies. These can play an essential role in supporting the dissemination/mainstreaming of financial digital cybersecurity skills, and promoting the availability and usage of financial platforms and participate in enhancing operational cybersecurity (including incidence response and critical information infrastructure protection).

CSOs. Women's organisations, youth, community and people with disabilities' organisations, and business and entrepreneurship entities, including the Chamber of Commerce and the Women's Business Organisation, will be among the main beneficiaries for digital and financial literacy and digital payments initiatives. Also, CSOs are important partners in designing digital e-governance services and raising public awareness on digitalisations, skills and digital literacy.

Additionally, **two microfinance institutions**, Kaebauk Investimentu no Finansas SA and Moris Rasik, are obtaining licenses as Other Deposit-Taking Institutions. Two Fintech companies, Telemor Fintech, Lda, and Tellin Digital Solution, Lda, are also part of the landscape.

2.3 Additional Areas of Assessment

2.3.1 Public Policy

Progress of ongoing reforms. Since 2022, significant advances have been made in public finance reform in Timor-Leste. The most notable milestone was the approval in December 2022 of the first PFM Reform Strategy in December 2022-2027. The legislation basis of the reform was enlarged with the approval of the Budget Framework Law (Law 2/2022 of 10th February), the Law of Municipal Finance Law (Law 16/2023 of 31st May), and some relevant secondary legislation such as the approval of decrees on budget programme (Decree-Law 18/2022 of 11th May), and budget classifications (Government Decree 19/2022 of 11th May).

The new government is also revising the public procurement law (Decree-Law 22/2022 of 11th May) and expects to approve the revised text in 2024. And even though Timor Leste is at the beginning of its Green Public Procurement (GPP) Journey, this revision already includes provisions related to GPP due to the Green Public Procurement Technical Advisory supported by the European Union-funded SWITCH-Asia programme. The initiative will also be able to support the government in developing a GPP Roadmap that aligns with other countries in the region.

Some other legislation is in the pipeline, like a new tax law to replace the Tax and Duties Act and legislation on the VAT and the MoF's Five Year Strategic Plan 2024-2028 is expected to provide continuity to the PFM Reform Strategy adopted in 2022.

Public investment and procurement management. These are two critical domains of the PFM management system that can contribute to the efficiency and effectiveness of public expenditure. Progress was recently made in those domains. The government developed the main national standards, programming, and managing tools between 2016 and 2023. The main tools include Feasibility study Guidelines, Projects Appraisal Guidelines, Ex-post Evaluation Guidelines, and an Administration Manual. A Project Brief Standard Form was also developed between 2017 and 2022, together with a database for project management.

The public investment management system's main legal, institutional, organisational, and programmatic pillars are already in place in Timor-Leste, but their operationalisation can still be improved. The consolidation of these pillars has been carried out over the last few years. It is presently in the process of consolidation. The recommendation based on the previous PIMA (not published) on project selection has been followed according to the data released by the informative document on the Fund Infrastructure published together with the Budget report for 2023, which provides concise statistics on the number of proposals submitted to the Fund by the line ministries, including those that should be submitted to appraisal.

At the central level, the implementation of some procurement processes in line with the new legislation (Decree-Law 22/2022 of 11th May) is underway. However, there are still challenges in the interpretation of the law, which need to be addressed. The National Planning Commission, with the support of technical assistance, has developed

some management tools to tackle these issues. This included a procurement procedures manual, which clarifies several issues that were previously unclear or controversial in the law, particularly regarding the jury's competencies. To ensure widespread understanding and use, the manual has been translated into Tetum. Technical assistance, under the complementary support of the former budget support program, PFMO, provided by Camoes, has also played a crucial role in developing the templates of the procurement documents, such as contracts and other documentation to be submitted by the bidders.

State budget programming. Since 2022, all public entities implemented program-based budgeting, although with different levels of accuracy. The State budget elaboration and approval procedures were consolidated in 2022 and are well-established. In 2022, the number of budget programmes was reduced from 145 to 43, although at the cost of reducing the budget information available for public scrutiny.

Budgetary innovations were adopted in 2022 and 2023, with the integration of transversal policies into the budget in a more visible manner. This was done by adopting markers to expenditures in the domains of gender equality, children, and persons with disabilities, as well as climate, nutrition, and value chains. Budget tagging was thus improved, consolidating the developments already made in some of those fields.

Domestic Revenue Mobilisation. Over the past few years, tax administration reform has been a key focus, with actions initiated since 2020 to build upon previous efforts. Key highlights include the upgrading of the Standard Integrated Government Tax Administration System (SIGTAS-V3), the implementation of the Automated System for Customs Data (ASYCUDA World), and the Taxpayer Registration Programme (TREP), which saw continued consolidation in the 2022 financial year. Additionally, a diagnostic assessment of the Timor Leste Tax Authority (TLTA) was conducted in December 2021, yielding noticeable improvements in communication between taxpayers and the tax administration, particularly in registration, tax return filing, and payments.

Challenges persist within the tax administration, such as managing tax arrears and non-compliance and addressing inconsistencies in the taxpayer database and identification numbers. Integration issues between the registration process and the Business Registration Service (SERVE) further complicate matters. External support, notably from Australia's TA program PROSIVU and PIFTAC, has been provided to enhance revenue collection and business auditing. EU technical assistance is anticipated to commence in 2024, aiming to bolster the Tax Authority's capabilities further.

The Treasury has developed a plan (internal document) to improve accounting standards, including those in the private sector, to impact tax collection positively. The Treasury has provided training to the Municipalities on treasury operations and reporting. Legislation regarding state guarantees and the unification of revenue collection is in progress. The Central Bank launched the "Campo Digital" initiative to promote knowledge and the use of technological tools for financial activities in rural areas of the country. This system will facilitate the transfer of funds to families in rural areas.

New functionalities were also developed in the R-TiMOR system, allowing the payment of taxes at automatic teller machines or through electronic money wallets ('e-wallet'). The electronic payments made through GRP and R-Timor interface are reported back to Treasury by electronic account statements outside GRP, which need to be manually reconciled with payment details. The Treasury Payment Order number is included in the statement, which should be used to facilitate system-based reconciliation.

While reforms in tax administration are expected to positively impact revenue collection, evidence of this impact is yet to be fully realised, primarily due to the disruptive effects of the COVID-19 pandemic on system functionality and economic behaviour. Encouragingly, strides have been made in aligning tax policies with national objectives, including the launch of the first National Diaspora Engagement Policy and Remittance Mobilisation Strategy, integration of pro-health tax measures into the national budget, and the introduction of climate tagging to enhance transparency and accountability in climate-related activities.

PFM capacity building. From a human capital perspective, in 2022, 1,800 civil servants were trained by MoF's PFM Capacity Building Centre and INAP, including 300 staff from municipalities, and in 2023, 1,835, 442 from municipalities. Coordination among these training entities could nevertheless be improved. The training provided

to central government and municipal civil servants included accounting, budgeting, execution, reporting, M&E, budget compliance analysis, procurement process, treasury management, and assets management.

Substantial work is in progress, the results of which still need to be visible but which, in any case, reflect the government's intention to reform public finances under the direction of the Ministry of Finance. Such work is particularly significant in tax administration, procurement, accounting, and external control, which is compounded by the effort that has been made in capacity building covering the different public finance functions.

Also, the new Ministry of Finance team, which took office on July 1st, 2023, has prepared a 5-year strategic development plan. This new strategy will include the strategic objectives of the PFM action reform plan) and should be presented to the donor partners in the second quarter of 2024. The need for better reporting on the strategy has been mentioned as key and is expected to be addressed in the new 5-year plan.

The former EU budget support program, PFMO, has strategically prioritised the establishment of architecture for oversight institutions and enhanced PFM information systems. Moreover, close coordination with authorities and key partners such as the World Bank, International Monetary Fund, Australia, and UNDP has facilitated intense dialogue on PFM reform strategies, revitalising efforts to develop and refine these strategies effectively.

Furthermore, PFMO has played a crucial role in addressing pivotal aspects of tax reform, as evidenced by the design of variable tranches within budget support programs targeting key DRM areas. Recent data highlights a notable increase in the share of revenue derived from income tax and taxes on international transactions, attributed partly to improvements in customs administration facilitated by the introduction of ASYCUDA World. The continuation of support in these areas, with a strong focus on digital transformation, will build on ongoing advancements, such as implementing an online platform for tax declarations and payments.

In conclusion, the policy is sufficiently relevant and credible for the budget support contract objectives to be largely achieved. Therefore, the Commission can support the policy with the proposed budget support contract.

2.3.2 Macroeconomic Policy

Timor-Leste, despite its progress since gaining independence in 2002, continues to face significant socioeconomic inequalities. The nation remains one of the poorest in Southeast Asia, with substantial disparities in income distribution and access to essential services. Rural areas, home to the majority of the population, suffer from limited access to education, healthcare, and infrastructure compared to urban centers like Dili. Unemployment and underemployment rates are high, particularly among the youth, exacerbating economic disparities. Gender inequality also persists, with women often having fewer economic opportunities and facing higher rates of poverty. Efforts by the government and international organizations to address these issues include infrastructure development, educational initiatives, and economic reforms, yet progress remains slow and uneven, highlighting the ongoing challenge of bridging the gap between different socioeconomic groups in Timor-Leste. With a Human Development Index of 0.566, it decreases a 19% when adjusting for inequalities (0.407).⁸ The Gini Index in 2018 was 28.7.⁹

Non-oil real GDP growth in 2022 soared to 4 percent, fuelled by the post-pandemic reopening and robust fiscal expansion. However, growth tapered off to 1.5 percent in 2023, attributed to challenges in budget execution surrounding the May elections, which constrained public spending. Inflation spiked to over 8 percent in 2023 due to surges in food prices and transport costs. Still, it receded to 4.3 percent year-on-year by January 2024.

Anticipated growth is set to rebound to 3.5 percent in 2024, bolstered by the government's emphasis on public capital expenditure. Inflation is projected to further moderate to 2.5 percent by year-end, driven by the anticipated easing of global commodity prices. Long-term growth is expected to stabilise around the pre-pandemic average of 3 percent, with potential for acceleration through strategic policy interventions. According to the latest published data, ADB's projections are even more optimistic (<https://www.adb.org/news/timor-leste-forecast-grow-3-4-2024>).

⁸⁸ UNDP 2022

⁹ World Bank 2018.

accelerating-2025-adb). Immediate concerns include the potential onset of a global recession and increased volatility in commodity prices, which may necessitate fiscal responses, challenging expenditure control and impacting the balance of the Petroleum Fund. Commitment to rationalising public spending would mitigate uncertainty in the medium term.

Additionally, the development of the Greater Sunrise oil field presents a substantial upside risk in the medium term. Gradual fiscal consolidation is recommended to safeguard the Petroleum Fund, ensure fiscal sustainability, and prioritise capital expenditures to enhance growth and protect vulnerable populations. The IMF encourages revenue mobilisation efforts, including the introduction of a VAT complemented by tax administration reforms. Moreover, fiscal responsibility laws and medium-term fiscal frameworks are advocated to promote sustainability and address external imbalances.

The Timorese economic growth is mainly constrained by its lack of economic diversification and its high dependence on oil to finance its economy in general and the state accounts in particular. Oil and gas production ended in 2023, leaving coffee the primary commodity export. Tourism-driven services account for less than 4 percent of GDP. In contrast, a lack of domestic production necessitates imports to meet domestic consumption, resulting in susceptibility to commodity price volatility. The economy relies therefore mainly on the public sector, which channels and redistributes the funds from the oil sector through the state budget. Agricultural production is self-subsistence since the only significant export crop is coffee. However, it has a reduced contribution to the country's revenue.

Domestic revenue represents, on average, 13 percent of all income sources, while the Petroleum Fund provides 86 percent of the State Budget. Created in 2005, the Petroleum Fund was designed as a perpetual fund that provided the government with yearly budget financing. It was named the Estimated Sustainable Income (ESI).

Withdrawals from the Petroleum Fund are categorised as ESI and excess withdrawals. ESI is a nonbinding benchmark indicating the sustainable level of withdrawal from the PF that does not reduce the actual value of the total petroleum wealth in the long term. When the Government and Parliament agree, amounts above the ESI can be transferred from the PF. The ESI is 3 percent of the total petroleum wealth, comprising the PF balance and the net present value of expected future revenues from oil and gas.

The PF, however, could be depleted by 2034 if the fiscal policy remains unchanged (WB estimate) or sometime later, considering the more optimistic government's scenarios, prolonging the lifetime of the Fund until 2049 if a policy of gradual spending cuts is put in place combined with the introduction of VAT and property taxes

Timor-Leste is drawing on its Petroleum Fund to bridge the large budget gap. The balance of the Fund stood at 18.2 billion by the end of 2023 (10.6 times of GDP). However, due to the cessation of oil and gas production, the revenues of the Petroleum Fund will be outweighed by the annual withdrawals needed to finance the budget.

Since its inception, the Fund's annual average return has been 4.2%, with a cumulative income of USD 8.16 billion. Due to the decrease in production, the Fund's sustainability is affected by continued withdrawals over the 3% ESI rule in the context of declining oil revenues.

The Excess Withdrawals from the Petroleum Fund ensured the financing of the state budget in 2023, following the same pattern as previous years. The IMF estimates withdrawals at 5.2% of GDP between 2010 and 2020.

Despite the persistent budget deficits, the public debt is presently very low. Outstanding public external debt reached 15 percent of non-oil GDP (\$258 million) in 2022. All external loans signed since 2012 have consisted of concessional loans from the Asian Development Bank, the World Bank, and JIKA, mainly used to finance road infrastructure projects, water supply and sanitation, and airport development. The Asian Development Bank has the largest share of total external debt, comprising nearly 65 percent of total external debt at end-2022. The average maturity of existing loans is 25.5 years, with grace periods ranging from 5 to 10 years. Debt service payments on existing debt average \$20 million (close to 1.2 percent of non-oil GDP) per annum in the medium term and decline afterward.

The fiscal policy objectives for 2024 set by the Government in the context of the 2024 Budget are aimed at setting the conditions for the establishment of budgetary balance over the long term: i) mobilising domestic revenues and introducing new tax incentives; ii) making increasing the use of alternative sources of financing such as concessional and commercial loans and treasury bills; iii) focusing government expenditure on quality over quantity through moving from traditional line-item budgeting and improving annual and medium-term program budgeting.

The Petroleum Fund's revenues mainly sustain the current account. That situation reflects the Timorese economy's structural weaknesses, namely the need for more diversification of its productive structure. Hydrocarbon exports represent 99% of goods exports; the remaining 1% is mainly coffee. From the import side, fuel and food represent half of the total imports, so the changes in international prices of those products strongly impact the current account. Another relevant current account inflow is the migrant's remittances, which reached US\$185 million in 2022, or 5.8% of GDP. This contrasts with the payments of US\$363 million to foreign workers in Timor-Leste. Foreign direct investment (FDI) and portfolio investment are the primary capital inflows. However, the capital inflow could be more significant, reflecting a low level of attractiveness of private investment in TL.

The macroeconomic projections made by the IMF show steady economic growth for Timor-Leste over the medium term, but this depends on stabilising the international economy and effectively mobilising the internal growth factors. The government's projections are around 3.5% over the next four years, but the risks of external shocks remain high. The main risks identified by international agencies that follow the economy of Timor-Leste's continuity of global prices of commodities, namely food and energy, significantly impact the population's cost of living. Moreover, a general decline in international financial market shares could reduce the Petroleum Fund's return duration.

The improvement of the medium-term prospects depends very much on resolving the economic and fiscal imbalances, with appropriate policies to ensure fiscal consolidation and the implementation of reforms to promote and stimulate economic growth and diversification. If the Greater Sunrise fields go into operation, an optimistic scenario could be anticipated. The respective exploration model, including the processing of natural gas, still needs to be developed, including a cost-benefit analysis and an agreement among the interested stakeholders needs to be established.

According to the WB, without major revenue reforms, the fiscal deficit is projected to hover at around 50% of GDP in the medium term. The government assumes, however, an optimistic approach regarding the duration of the Petroleum Fund. In the 2023 Budget Report, it is believed that the Petroleum Fund can last longer if some policy measures are taken. The government recognises that decisive policies are needed to tackle the structural imbalances of the public and external accounts. It has expressed the desire to implement these reforms, although they have faced substantial implementation hurdles. Precisely, the Strategic Development Plan 2011-2030, as well as the Major Plan Options that the VIII Government and Parliament have approved, reflect the political and policy commitments by the executive to advance the reforms.

The Strategic Development Plan 2011-2030 envisages the diversification of the economy, led by the private sector while expressing the government's willingness to use its oil financial resources in a balanced and sustainable fiscal framework. This plan has been recently revised, and a new version, the Readjusted Strategic Development Plan (PEDR) 2023-2028, has been approved.

The strategic objectives are in line with the recommendations of international partners and point to i) increased domestic revenue mobilisation, including the adoption of VAT; ii) rationalisation of the public expenditure through the stabilisation, over the medium-long term, of the ratio of public expenditure/non-oil GDP; iii) improvement of the public investment management through better appraisal, selection, and prioritisation of projects; iv) reduction of the Petroleum Fund withdrawals as a mean to secure fiscal sustainability while preserving the Fund's assets; v) structural reforms to improve the business environment, including progress in facilitating the ease of doing business, addressing digital infrastructure and connectivity bottlenecks, increasing financial assets, building human capacity and strengthening the justice sector.

The budget for 2024 already signals an increase in public investment expenditures. Still, the need for an MTEF prevents verification that this is part of a sustained medium-term trend.

The reform scenario, elaborated by the IMF, shows that the public deficit can soon be sustainable with a reorientation of fiscal policy, both on the expenditure and revenue sides. In the absence of financing alternatives, the public deficit can only be covered by the Petroleum Fund. In the absence of this source of financing, public expenditures will be drastically reduced, with a brutal impact on the provision of public services. The IMF's reform scenario includes some quantitative targets, which, if achieved, will permit fiscal consolidation and a consequent reduction of fiscal risk while creating the conditions for a more diversified and sustainable development.

Timor-Leste must embark on a comprehensive reform agenda. This reform includes reducing public expenditure to align it with the economy's absorptive capacity. A well-designed Fiscal Responsibility Law is also crucial to enhance fiscal discipline. Moreover, the quality of public spending should be improved by prioritising investments in human and physical capital, addressing PFM weaknesses, and improving the quality and frequency of macroeconomic statistics, analytical skills, and macroeconomic forecasting and policy analysis.

It is imperative to gradually mobilise domestic revenue, a critical step towards fiscal sustainability. This includes strengthening the tax administration to improving tax compliance. These efforts should be underpinned by a medium-term fiscal framework, providing a clear roadmap to fiscal sustainability.

To boost growth and diversify the economy, the government should implement structural reforms to remove bottlenecks in the agriculture and tourism sectors, including land and property, foster digitalisation to boost productivity, and address legal constraints hindering business operations and financial development.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy that meets the eligibility criteria.

2.3.3 Public Financial Management

The PFM strategy 2022-2027, published in December 2022, continues to be relevant in addressing the main weaknesses of the PFM system identified in the last PEFA published in 2020 and other diagnostic studies. The PFM strategy document identifies and addresses the main weaknesses by formulating consistent reform objectives. However, implementing the PFM strategy faces challenges that the government and donor partners must consider to moderate the expectations regarding attaining short- or medium-term results. Timor-Leste is struggling with a significant shortage of skilled personnel in PFM, so it still depends on extensive foreign technical assistance, which draws a remarkable volume of financial resources from the state budget annually.

The credibility of the PFM strategy has been reinforced with the approval of the reform strategy document and the Ministry of Finance 5-Year Strategic Plan, which will guide the government to deploy the critical pillars of a reliable PFM reform system (institutional set-up, sustainable financial basis, and effective M&E system) over the following years.

The PFM reform actions carried out over the last few years have yet to produce visible policy outcomes regarding fiscal discipline, efficient and effective resource allocation, and better public service delivery. Given the minimal tax base, the state budget financing depends on the Petroleum Fund. Tax collection is still meagre and has decreased in the last few years. Therefore, a significant effort still needs to be made to mobilise domestic fiscal resources while rationalising public expenditure to uphold the long-term sustainability of the petroleum fund.

Tax administration reform has been a priority over the last few years. Since 2020, some actions have been carried out, giving continuity to previous reforms. The main highlights are i) the Upgrading of the Standard Integrated Government Tax Administration System (SIGTAS-V3), ii) the Automated System for Customs Data (ASYCUDA World), and iii) the Taxpayer Registration Programme (TREP), whose consolidation continued during the 2022 financial year; iv) A diagnostic assessment of the Timor-Leste Tax Authority (TLTA) was undertaken in December 2021. The results produced by these information systems are already apparent in improving communication

between taxpayers and the tax administration and providing some services. Specifically, there have been improvements in taxpayers' registration, tax return filing, and payments.

Remaining issues in the tax administration include i) tax arrears and non-compliance management, which require better monitoring and intervention; ii) taxpayers' database and the tax identification number (TIN), which still present inconsistencies and information gaps; iii) poor integration between the registration process with the Business Registration Service (SERVE) and tax registration.

Through its TA programs PROSIVU and PIFTAC (see Relations with IMF), Australia has provided TA to the Tax Authority, mainly for revenue collection and auditing businesses. EU TA to the Tax Authority under AAP 2022 is expected to start in the 4th quarter of-2024.

The government has introduced reforms in the tax administration that will undoubtedly have an impact on revenue collection. However, at this stage, there is still no evidence of that due to the effects of the COVID-19 pandemic on the system's functioning and the behaviour of economic agents. The World Bank report of December 2022 reveals a slight increase in total revenue in the first three quarters of 2022 compared to the same period of the previous year. However, there still needs to be a gap regarding the collection returns from the pre-pandemic period.

However, some positive developments are worth mentioning in line with the Integrated National Financial Framework (INFF). According to this report, the first National Diaspora Engagement Policy and Remittance Mobilisation Strategy have been launched, setting diaspora finance as a significant source of financing in the medium term. Pro-health tax measures were integrated with the national budget. Climate tagging has been introduced, with the adoption of specific markers, enhancing the transparency of climate-related activities while demonstrating climate accountability and the possible financing gaps of the environmental policy.

The government has underscored the importance of strengthening budget credibility by improving execution rates, coordinating with line ministries and development partners, and maintaining the legal framework. The focus is prioritising enhancements to public procurement, including human resources, aiming to enhance the effectiveness of public expenditure and guarantee prudent utilisation of Timor-Leste's substantial public savings.

The new MoF team, which emerged from the May 2023 general elections, has expressed the intention to pursue the PFM reform initiated by the previous government and integrate its objectives and indicators of this reform into the MoF's five-year work plan.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4 Transparency and Oversight of the Budget

The government submitted the 2023 budget proposal to the National Parliament on October 3, 2022, and approved the budget law on November 17, 2022. Following the May 2023 general elections, the President promulgated an amending budget for 2023 on August 29 and the budget for 2024 on December 22.

The approved budgets were published on the MoF's website. According to the Budget Support Guidelines, the entry point has, therefore, been respected.

The Open Budget Survey (OBS) 2023 report highlights Timor-Leste's mixed performance in budget transparency. The country has improved by promptly publishing the Pre-Budget Statement and Mid-Year Review online. However, it has decreased the availability of other budget information by limiting the Year-End Report to internal use, reducing the information in the Executive's Budget Proposal, and cutting details in the In-Year Reports. To enhance transparency, Timor-Leste needs to publish the Year-End Report online promptly, provide more comprehensive data in the Executive's Budget Proposal and In-Year Reports, expand the inclusiveness of the Citizen's Budget, and ensure budgetary information is accessible and published in the Budget Book. Moreover, improving the Budget Transparency Portal's reliability, timeliness, and accessibility is essential. In the OBS 2023, Timor-Leste has a transparency score of 37, decreasing from 52 in the 2021 survey.

Timor-Leste has a public participation score of 11 out of 100, a slight increase from the 2021 survey. OBS recommends expanding engagement mechanisms during budget formulation and implementation to involve civil society organisations, media, and the public to further this progress. It also suggests establishing channels for public input on line ministries' proposed budgets before parliamentary submission and actively engaging vulnerable and underrepresented communities. Reinstating the Major Planning Options Law or similar mechanisms is advised to enable public and Parliamentary discussions on budgetary priorities. Engaging citizens in budgeting ensures their needs and priorities are considered during line ministries' discussions.

The National Parliament in Timor-Leste has established public hearings for the annual budget approval. Still, it should enhance public participation by allowing any individual or civil society organisation to testify during Committee hearings on the budget proposal and the Audit Report, ensuring these sessions are open to the media. The Court of Appeals should create formal mechanisms for public involvement in developing its audit program and contributing to audit investigations. Despite these areas needing improvement, Timor-Leste's legislature and supreme audit institution provide adequate oversight with a composite score of 68 out of 100, increasing from 56 in 2021 showing limited oversight during the implementation stage but sufficient oversight during the budget planning stage.

The 2022 Budget Framework Law established public consultation on its budgetary policy as part of the annual budget cycle. The Ministry of Finance launched a pilot consultation in six municipalities, and several recommendations were made regarding the priorities in the budget allocations.

In conclusion, the relevant budget documentation has been published, and the eligibility criterion is met.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective of this action is to

The overall objective is to reduce inequalities and improve human development for all in Timor-Leste.

The Specific(s) Objective(s) of this action are to

1. Improve efficiency, transparency, sustainability and equality of the budget cycle.
2. Increase use of safe e-governance services by the citizens and enterprises with a focus on women and vulnerable groups

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives are:

Outputs 1.1.-1.6. contributing to Outcome 1 (or Specific Objective 1):

- 1.1. Improved monitoring of the State General Budget execution
- 1.2. Strengthened internal audit
- 1.3. Improved digitalisation of accounting, revenue reconciliation and debt management
- 1.4. Improved M&E Plan for OGE, including municipalities
- 1.5. Improved budget formulation transparency
- 1.6. Improved inequality- and gender-sensitivity of the budget and its analysis

Outputs 2.1.-2.7. contributing to Outcome 2 (or Specific Objective 2):

- 2.1. Improved legal regulatory framework for Cybersecurity, Cybercrime and Personal Data Protection
- 2.2. Cybersecurity and data protection standards are enhanced

- 2.3. Approved and budgeted ‘National Digital and IT skills development National Plan’
- 2.4. Improved skills of population groups, including civil servants and vulnerable groups, in using e-governance IT platforms trained by the relevant national authorities / entities, including Ministry of Finance, INAP, and CSOs
- 2.5. Increased availability of e-government and e-services to the population, including for rural areas, vulnerable groups and people with disabilities
- 2.6. Enhanced integration, interoperability and usage of ICTs/digital technologies in public service delivery, including where possible based on open-source software
- 2.7. Coordination between digital sector planning and budgeting improved

Direct Outputs

- DO 1. Increased fiscal space in the state budget for reforms
- DO 2. Improved Policy Dialogue on PFM and digitalisation
- DO 3. Improved capacity of relevant government bodies to manage and participate in e-governance is strengthened.
- DO 4. Improved IT system and infrastructure for state budget cycle management
- DO 5. Improved skills of government staff for Cybersecurity and Personal Data Protection
- DO 6. Availability of draft legal acts
- DO 7. Enhanced public gender-sensitive awareness of the right to privacy and data protection
- DO 8. Increased national and local operational capacities to prevent, respond to and address cyber-attacks and other accidental failures

3.2 Indicative Activities

This budget support will address all specific objectives through policy dialogue and leverage to support necessary reforms, ensure the government’s full engagement, ownership, and commitment, sufficient budgets, and budgetary planning coherent with the PFM reform policy. It will also contribute to necessary changes in the institutional and socioeconomic environment, including organisational flexibility, societal attitudes, government spending, ease of business, and long-term regulatory outlook.

Activities relating to Outputs 1.1-1.6.:

- Continued policy dialogue with the Government, emphasising the specific objectives, results, disbursement conditions of the Sector Reform Performance Contract as well as the adequate implementation of the complementary measures;
- Regular monitoring and policy dialogue on achievements of the digital policy and digital education objectives, on macro-economic and Public Finance Management (PFM) developments and budget transparency;
- Preparation of the disbursement files and monitoring of performance targets and indicators to be used for disbursement;
- Participation in the high-level digitalisation-related events, sector meetings, reviews and technical working groups.

Activities relating to Outputs 2.1.-2.3.:

1. Conducting Stakeholder Consultations:

- Organise workshops and meetings to engage relevant stakeholders, including government officials, legal experts, private sector entities and civil society representatives.
- Facilitate discussions to gather input and feedback on the development of the integrated legislative framework, focusing on cybersecurity, and cybercrime and Personal Data Protection.

2. Legal and Policy Analysis:

- Conduct in-depth analysis of existing national legal and strategic frameworks related to cybersecurity and data protection, to ensure clarity, coherence, and legal soundness.
- Solicit feedback from legal experts, government officials, and relevant stakeholders to identify areas for refinement and revision in legislation and policies (current and in preparation).
- Research EU best practices and standards in cybersecurity and data protection to inform the development of the legislative framework.

3. Drafting Legislative Documents:

- Provide technical assistance and expertise to support the drafting of legislative documents, including bills, regulations, and policy guidelines and strategies, including in cybersecurity, cybercrime and in data protection.
- Collaborate with legal experts and government officials to ensure the alignment of proposed draft legislation with international standards and EU best practices.
- Incorporate feedback and recommendations from stakeholder consultations into the draft documents.

Activities relating to Output 2.4.:

1. Capacity Building:

- Conduct training sessions and capacity-building workshops for government officials and relevant stakeholders on cybersecurity, data protection, and legislative drafting.
- Provide guidance on the interpretation and implementation of the proposed legislative framework.
- Empower stakeholders with the knowledge and skills necessary to support the adoption and enforcement of cybersecurity and data protection measures.

2. Awareness Raising Campaign:

- Develop and implement an awareness-raising campaign to inform the public about the importance of cybersecurity and data protection through CSOs and private sector organizations. These campaigns will use various communication channels, such as social media, workshops, and community events, and will aim to raise awareness and promote understanding of the legislative framework.

3. Training Needs Assessment:

- Conduct a comprehensive assessment of the digital skills and training needs of civil servants across government agencies.
- Identify gaps in knowledge and expertise related to digital tools, platforms, and technologies.
- Use the assessment findings to tailor training programs and initiatives to address specific skill gaps and requirements.

4. Design and Development of Training Programs:

- Develop targeted training programs and skill development initiatives focused on building digital literacy and competence aimed to foster training capacity within the public administration.
- Design training modules and materials covering topics such as digital tools and platforms, data management, cybersecurity awareness, and e-government practices.
- Customise training content to align with the diverse roles and responsibilities of civil servants across different departments and sectors.

5. Training Delivery and Implementation:

- Deliver training sessions and workshops to public training institutions, utilising a variety of formats such as in-person sessions, webinars, and online courses.
- Engage experienced trainers and subject matter experts to facilitate practical learning experiences.
- Provide ongoing support and follow-up sessions to reinforce learning outcomes and address any challenges or questions that arise.

6. Technical Assistance and Coaching:

- Offer technical assistance and coaching to civil servants to support their application of digital tools and platforms in their day-to-day work.
- Provide one-on-one support and guidance to help civil society groups overcome barriers and challenges related to digital adoption and implementation.
- Encourage experimentation and innovation by empowering civil servants to explore new digital solutions and approaches in their respective areas of expertise.

7. Monitoring and Evaluation:

- Establish monitoring and evaluation mechanisms to assess the effectiveness and impact of capacity building efforts.
- Collect feedback from participants to measure the relevance, quality, and usefulness of training programs and initiatives.
- Use evaluation findings to refine and improve capacity building activities and ensure their alignment with organisational goals and priorities.

8. Stakeholder Engagement and Needs Assessment:

- Conduct consultations with government agencies, citizens, and other stakeholders to identify service delivery needs and requirements.
- Gather feedback on existing processes and systems (ex: eID, e-signature, base registries, and interoperability) to inform the design and development of digital platforms.
- Analyse user preferences and expectations to ensure the digital platforms are tailored to meet citizen requirements.

Activities relating to Outputs 2.5-2.6.:

1. Design and Development of Digital Platforms:

- Collaborate with technology experts and developers to design user-friendly digital platforms that streamline government service delivery processes and ensure interoperability
- Customise digital platforms to accommodate various service offerings, including digital payments, online applications, and information portals.
- Ensure compatibility with different devices and accessibility features to maximise usability for all citizens, including those with disabilities.

2. Technical Assistance and Support:

- Provide technical assistance and support to government agencies in the development and implementation of digital platforms.
- Offer guidance on EU best practices for user interface design, data management, and security features to ensure the reliability and effectiveness of digital platforms.
- Conduct training sessions for government staff on how to use and maintain the digital platforms effectively.

3. Pilot Testing and Iterative Improvement:
 - Conduct pilot testing of the digital platforms to identify any usability issues or technical glitches.
 - Collect feedback from users and stakeholders to inform iterative improvements and enhancements to the digital platforms.
 - Iterate on the design and functionality of the platforms based on user feedback and testing results to optimise performance and usability.
4. Integration of Digital Payments:
 - Incorporate digital payment functionalities into the digital platforms to facilitate secure and convenient transactions for government services.
 - Integrate payment gateways and secure payment processing systems to enable citizens to make payments online using various payment methods.
 - Ensure compliance with relevant regulations and standards for digital payments to safeguard financial transactions and protect user data.
5. Awareness Raising and Promotion:
 - Launch an awareness raising campaign to promote the availability and benefits of digital platforms for government service delivery.
 - Educate citizens about how to access and use the digital platforms to access government services conveniently and efficiently.
 - Collaborate with media outlets, community organisations, and government agencies to disseminate information about the digital platforms and encourage adoption among target audiences.

3.3 Mainstreaming

Environmental Protection & Climate Change

Timor-Leste has adopted a National Adaptation Plan (NAP) in the context of the United Nations Framework Convention on Climate Change (UNFCCC). The plan foresees integrating climate change adaptation considerations into day-to-day governance processes and the Paris Agreement.

In addition, the PFM reform strategy envisages the addressing of climate change/resilience as a cross cutting issue. In that regard, the new Ministry of Finance 5Y plan intends to mainstream climate change into ministry-level programming, drawing upon global best practices tailored to enhance policy design, program implementation, and service delivery to ensure “no one is left behind.”

The expected result is the increased effectiveness in climate-related spending across all relevant sectors and climate resilience, public investments to include green procurement requirements).

Furthermore, enhancing digital transactions significantly reduces the need for paper receipts, invoices, and statements, decreasing overall paper consumption. Also, traditional, paper-based transactions often involve transportation and physical storage of documents, contributing to carbon emissions. Digital transactions require less physical movement and can be processed more efficiently, thus making them more energy-efficient. Digital platforms can be used to promote sustainable practices encouraging users to adopt sustainable practices.

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening

Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening

No or low risk (no need for further assessment)]

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this Action is labelled G1 / G0. This implies that by allowing women more accessible access to essential government services, such as social welfare programs, healthcare, and education, through access to digital financial services, such as mobile banking and digital wallets, this Action will promote financial inclusion and business opportunities, particularly to those women in rural areas with less access to formal financial systems, thus reducing dependency and vulnerability.

Also, fostering digital payment systems and delivering financial literacy programs specifically tailored for women will enable entrepreneurs to reach a wider audience, grow their businesses, and participate more in the economy.

It is worth mentioning that the GoTL has committed to developing gender-responsive budgeting, which has translated into adopting a gender-marker classifying the gender-related expenditure in the context of the state budget. This procedure guides the allocation of budget funds that impact gender equality.

Human Rights

This Action can enhance the right to timely and quality services, especially for marginalised or remote communities. It can also help bring financial services to unbanked and underbanked populations. By providing accessible and affordable financial services to a broader population, it promotes financial inclusion.

Digital transactions and services can help reduce corruption by promoting transparency and accountability. They can also enable access to information and educational resources and the distribution of aid and relief funds, contributing to good governance and protecting citizens' rights. Digital technologies can also be used for human rights monitoring and reporting, raising awareness and potentially leading to corrective actions.

In this sense, this Action is guided by the mainstreaming of principles, objectives, and measures that promote democratic principles of citizen participation and guarantee gender equality, supported by public policies that address disability and respond to the needs of the most vulnerable segments of the population.

Strengthening capacities of right holders to hold authorities accountable and to ensure more transparency of service provision are part of the proposed approach. This action strengthens the capacities of the State of Timor Leste as duty bearer as it has particular obligations and responsibilities to respect, promote and fulfil human rights. The Action in its interventions will pay attention to the situation of persons living in the most vulnerable and marginalised situations (persons living in poverty, persons with disabilities, indigenous peoples, persons belonging to ethnic minorities, etc.) It shall leave no one behind throughout the programme cycle and the design process.

Disability

As per the OECD Disability DAC codes identified in section 1.1, this Action is labelled D1. This implies that promoting digital services and payments can significantly benefit people with disabilities by enhancing accessibility, convenience, and independence. Education and training resources and programs will help individuals with disabilities to become more proficient in using digital services.

This Action will also advocate for and comply with government regulations that promote digital accessibility.

Reduction of inequalities

As per the Inequality Marker, this Action has been labelled as an I-1. Reduction of inequalities is a significant objective of the Action. Timor-Leste faces economic disparities, with a significant portion of the population engaged in subsistence agriculture. There is a divide between urban and rural areas regarding access to economic opportunities, education, and healthcare. While the government has made progress in improving access to education, there are still disparities, particularly in rural areas. Factors such as poverty, distance to schools, and gender-based barriers can affect educational opportunities for specific population segments.

Access to healthcare services can also be limited in some remote regions, contributing to health inequalities. Malnutrition and preventable diseases can disproportionately affect vulnerable populations, including children and pregnant women. Women in Timor-Leste may face challenges related to gender-based violence, limited access to education and employment opportunities, and unequal representation in decision-making roles.

The promotion of digital services and digital payments can contribute significantly to the reduction of inequalities in Timor-Leste. They can provide access to financial services for individuals previously excluded from the traditional banking system, including people in remote or underserved areas, benefit individuals with lower incomes, create new opportunities for small businesses and entrepreneurs, and enhance the efficiency and transparency of government assistance programs.

Digital services can improve access to education and healthcare services, and collecting and analysing digital payment data can help governments and organisations better understand economic trends and address specific inequality-related issues.

Democracy

Using digital services in governance (e-governance) can streamline government processes, increase transparency and reduce bureaucracy. Online portals for government services, electronic tax filing, and digital documentation reduce bureaucracy, save time, and make it easier for citizens to interact with government agencies. This can lead to increased citizen satisfaction and trust in democratic institutions.

Digital payments can help include marginalised and unbanked populations in the formal economy, thus better able to participate in economic activities and contribute to the democratic process.

Conflict sensitivity, peace and resilience

Economic stability contributes to peace and resilience Digital services can help to reduce economic vulnerability and promote financial stability. E-commerce and digital marketplaces can create economic opportunities, especially for small businesses and entrepreneurs in conflict-affected areas.

Digital payments can streamline the distribution of humanitarian aid, and more transparency can help track funds and ensure that resources are allocated appropriately, reducing the potential for corruption that may contribute to conflict. Access to digital services empowers communities by providing them with tools for self-reliance (digital financial services can enable individuals to save money, access credit, and invest in income-generating activities, enhancing community resilience).

Disaster Risk Reduction

Timor-Leste is prone to several disasters induced by natural phenomena, including floods, droughts, storms, and, to a lesser extent, tsunamis. As an island where most of the economic infrastructure is at sea level, the increasing sea level is an anticipated risk. There is a natural focus on building back better and other initiatives related to reducing the possibility of future disasters, and the development partners are fully aware of this.

By incorporating digital services and payments into disaster risk reduction strategies, Timor-Leste can build a more resilient and responsive framework to mitigate the impact of disasters on its population and economy.

Encouraging digital payments also provides individuals and communities with better access to financial resources. Digital payment systems facilitate faster and more transparent distribution of financial aid during and after disasters, reducing delays and minimising the risk of corruption. Digital platforms can also disseminate early warnings and emergency information to the public, enabling timely action in response to disaster threats.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/Medium/ Low)	Impact (High/Medium/ Low)	Mitigating measures
Political	Changes in the political sphere might reduce support for the continuity of the PFM reform.	Medium	High	The EUD, in coordination with external partners, will keep the PFM reform high on the agenda of the policy dialogue with the government.
	Other complementary key reforms (like civil service management, strategic sector planning, and decentralisation) progress at a different pace, which may compromise the success of public finance reform.	Medium	High	The EUD will comprehensively approach policy dialogue, interlinking the different policy domains.
	The high-level vulnerability to exogenous shocks (e.g., sudden changes in international prices and climate-related shocks) will divert political priorities from the PFM reform.	Medium	High	In coordination with other international partners, the EUD will emphasise the need to keep the PFM reform and a sound fiscal policy as critical priorities.
Public Finance Management	Institutional and organisational reforms envisaging the control of corruption and budget oversight by external independent entities could not be effective enough.	Medium	High	The EUD will monitor and prioritise these particular reforms in the agenda dialogue with the government. The dialogue with the implementing team regarding the Complementary measures of the budget support program will be ensured and reinforced.
	The government does not assume the financing of the PFM reform, and it is not included in the state budget.	Medium	High	The preparation of the state budget will be systematically monitored. The EUD and the government will regularly engage in policy dialogue to ensure adequate budgeting for the reform actions.
	Coordination among the main stakeholders is weak and negatively affects decision-making about the advancement of reforms.	Low	Medium	The EUD, in coordination with other partners, will obtain assurance from the government that budget reform coordination mechanisms will be in place from the beginning.

Organisational	Key legislation is not passed promptly, which slows down the progress of reforms.	High	Medium	The TA team, under the supervision of the EUD, will raise awareness inside the administration about the reform objectives and the need to accelerate the legislative process.
Human rights	Limited engagement in favour of gender equality and the empowerment of women, a human rights-based approach, and persons with disabilities by the targeted institutions and non-state actors	Medium	Medium	The project will provide adequate resources to work with institutions and non-state actors on the importance of integrating gender equality, a human rights-based approach, and the rights of persons with disabilities
Operational	Finding suitable professional profiles for the technical assistants' mobilisation is an obstacle. The availability of consultants for long-term missions is also an obstacle.	High	High	The EUD will ensure the availability of consultants with a suitable profile. The project management must propose alternative solutions to guarantee the achievement of the project objectives.
	Connectivity remains slow and reduced, without reaching rural areas, due to delays in the implementation of fibre optic cable project (TLSSC)	Medium	High	The EU remains available to assist the government in preparing for the service of TLSSC, which must also include regulatory aspects.

Lessons Learnt:

The pace and sequencing of the PFM reform have been marked by political instability and weak communication among the ministries. As a result, decisions have been delayed, and processes have been interrupted or slowed. The protracted approval of the PFM reform action plan results from those factors.

Despite the government and its external partners (PFM sector: EC, Australia, USAID, IMF, WB) placing a high priority on capacity building, the need for more skills in implementing PFM reforms remains a significant challenge.

Timorese authorities, especially at the executive level (director-general and staff), need help understanding the budget aid programs' spirit and (tight) procedures. Likewise, there needs to be more understanding of the importance of a policy/strategy and appropriate implementation mechanism, with discussions regarding budget support revolving mainly around indicators. This lack of knowledge could be because the dialogue maintained with senior MoF officials is not passed on to intermediate levels (who feel more evaluated and less benefited from the exercise). Also, newly appointed ministerial-level officials tend to focus on often more pressing policy and political issues, making it challenging to keep PFM reform at the top of the political agenda).

Therefore, it will also be crucial to maintain regular political dialogue at different levels with national authorities, particularly with the decision-making structures at the Ministry of Finance, civil society, line ministries, and other government institutions involved.

The Timorese administration's absorption capacity could be more robust. The government organisations have partially internalised the outputs of the PFM reform. However, reliance on technical assistance is still necessary to ensure the continuity of the new tasks and procedures. Human resources are generally limited and need more qualifications in the PFM domain. Moreover, a severe problem with staff retention in the public administration is mainly apparent in the line ministries and the local administration.

Public finance reform and administrative decentralisation are part of the institutional reforms that have been more closely supported and monitored by the EU through previous budget support programmes and respective complementary measures. These reforms have progressed much slower than initially anticipated due to the abovementioned factors. The need for qualified human resources, compounded by a strong management culture in the public administration, affects the preparation and implementation of the reform instruments. Those constraints have been offset by technical assistance, advising that the objectives of public interventions and related technical assistance take into account the time needed to develop and adopt innovative methods and processes within the administration, focusing on the transfer of knowledge, to create adequate local capacity.

Over the last years, significant investment has been made in developing staff capacity in different PFM domains. Still, despite the progress made in the same areas, the overall impact of improving PFM governance needs to be made apparent. A comprehensive needs-based capacity assessment is required to design a capacity-building strategy. These actions should be carried out in the context of implementing the PFM reform action plan.

Language is a significant communication issue within the administration. The coexistence of four languages (Portuguese, Tetum, English, and Indonesian, the first two being the official languages) is a factor that does not facilitate communication and dialogue between the stakeholders involved in the reform processes. The legislation is drafted in Portuguese, but most PFM tools are developed in English and eventually translated into Portuguese and Tetum. However, the managerial and technical staff speak mainly Tetum and communicate with the external stakeholders using English as a lingua franca. This situation makes communication dysfunctional, increases the time needed to prepare and implement decisions, and substantially increases the transaction costs of administrative action.

On the digital services side, Timor-Leste has an emerging ICT sector characterised by only one-third of its 1.3 million population having access to broadband services, an apparent digital divide, the presence of three major mobile operators (after liberalisation in 2012), and persistent challenges in infrastructure availability and affordability. The country's power sector also faces several challenges related to high technical and non-technical losses, weaknesses in the distribution network, and high generation costs.

No regulations still guide the leasing of fibre transmission for connectivity purposes. The country is challenged by a need for more technically competent human resources. As a result, development in other sectors, such as mobile financial services, is slowed due to constraints in rapid ICT development. Nevertheless, a comprehensive set of legislative projects have been initiated, including but not limited to:

1. An **e-commerce law**, giving legal value to **e-signatures, e-documents, and e-contracts**, and also establishing a legal framework for e-service providers (**trust providers**)
2. A **privacy and data protection law**, including protection against collection of incorrect or inaccurate data, profiling in unauthorised or improper ways, unauthorised access or improper use or disclosure of information, and other possible abuses.
3. A **law on cybersecurity and cybercrime law**.
4. An **intellectual property (IP) code**, which is also part of the roadmap towards Timor-Leste's accession to the World Trade Organisation.
5. A **Decree-Law on a unique digital ID (UID or e-ID)** for all citizens and residents in Timor-Leste.

Even if revised before final approval by the Parliament, these initiatives constitute a solid base for digital integration and transformation, allowing citizens better access to public digital services and protection.

On the civil society side, there are organisations with the capacity and experience to provide training in digital and financial literacy, especially in rural areas. These organisations and existing digital financial platforms constitute a starting point for strengthening more widespread access to digital services, especially among the younger population, women, and small entrepreneurs.

In addition, the country has its own financial capacity and public institutions with some training capacity, and it is dedicated and accustomed to working with international partners. In this way, they can provide recurrent digital literacy training to most employees, just as they already do in other subjects.

3.5 The Intervention Logic

The underlying intervention logic for this action responds to the central objective of the government, expressed in its Strategic Development Plan 2011-2030, of coordinated development of social capital, infrastructure development, and economic development, underpinned by a professional, capable, and responsive public sector in the provision of public services. In addition, it will seek to promote and mainstream, through a broader focus on digital processes, the citizens' access to better public services.

In this context, reforming public finances constitutes one of the central pillars of good governance, thereby strengthening democracy, the rule of law, and management, including e-governance.

To that end, the purpose of this Action is to support the government in strengthening its Public Finance Management system to ensure efficient, effective, and accountable use of public resources as a basis for improved public service delivery. The Action seeks to support the implementation of the public finance reform and to enhance service delivery efficiency and inclusive development through the promotion of digital technologies, including the development of a legislative framework, capacity building of public training institutions, and the promotion of digital public services and payments.

At this stage, it will be necessary to enforce the dynamics of the reform coordination structure and support the monitoring and evaluation mechanisms, including setting up the report system and information flows underlying the M&E system. It will also be crucial to maintain regular political dialogue at different levels with national authorities, particularly with the decision-making structures at the Ministry of Finance, civil society, line ministries, and other government institutions involved.

The achievement of the Action's specific objective is supported by four results, which respond to priority areas of reform and to the need to promote digital services and payments, namely through the strengthening of planning, management, auditing, monitoring, and oversight of public finances, the increase of citizens privacy and data protection, the development of public training capacity and citizens' digital skills, financial literacy and access to digital public services.

Continued political willingness to advance the PFM reform program is essential to ensure the continuity of the reforms. An inter-ministerial consensus allowing for prompt decision-making in key domains of the PFM reform and the timely conclusion of the Timor-Leste South Submarine Cable (TLSSC), including its regulatory aspects, is also needed.

It is furthermore assumed that Government-led donor coordination of PFM reform is well organised and effective. Such coordination will allow external partners and civil society to participate in the monitoring of the reform process in a systematic manner while ensuring that technical assistance and capacity-building support will be provided in a complementary manner.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for monitoring, reporting, and evaluating the intervention.

Based on this logframe matrix, a more detailed logframe (or several) may be developed at the contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at the signature of the contract(s) linked to this AD or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever relevant.

- At inception, the first progress report should include the complete log frame (e.g., including baselines/targets).
- Progress reports should provide an updated log frame with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

Depending on its different implementation modalities, the indicative logical framework matrix may evolve during the action's lifetime.

The activities, the expected Outputs, and related indicators, targets, and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Caveat: the indicators used in the *Logical Framework Matrix* refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (2024)	Targets by the end of the budget support contract (2027)	Sources of data (1 per indicator)
Indicative Impact of the policy	To reduce inequality and improve human development for all in Timor-Leste	1. Human Development Index (HDI) 2. SDG 17.1.2 Proportion of domestic budget funded by domestic taxes (**GERF 1.16) 3. Volume of public investments into development of e-governance infrastructures 4. World Bank Doing Business distance to the frontier score (** GERF 1.13) 5. Public and private investments in climate adaptation and resilience	1. 155 (2021) 2. TBD for 2023 3. 4. 5.	1. TBD 2. TBD for 2023 3. 4. 5.	1. Human Development Report (UN) (link) 2. Timor-Leste statistics services 3. 4. 5.
Expected Outcomes of the policy	1. Improved efficiency, transparency, sustainability and equality of the budget cycle.	1.1. % discrepancies between the MTEF and annual budgets' main headings / programme budgets 1.2. Status of the systems to track and make public allocations for gender equality and women's empowerment 1.3. Number of participants of public consultations (a) over the budget proposal and (b) during annual reporting sessions (disaggregated by sex and age) 1.4. Number of comments by the individuals, civil society and enterprises on (a) the budget proposals and (b) on the budget implementation report	1.1. 1.2. 1.3. 1.4.	1.1. 1.2. 1.3. 1.4.	1.1. Next PEFA, as agreed with the Government 1.2. Service log and usage reports from IT admins 1.3. Sign-in lists and/or registers of the organisers 1.4. Comments on the MoF web-site for draft budgets?

Expected Outcomes of the policy	2. Increased use of e-governance services by the citizens and enterprises, with the focus on women and vulnerable groups	2.1. Number of e-government services failures due to cyberattacks 2.2. Number of detected breaches of personal or entrepreneurial data 2.3. Number of enterprises using e-taxation, e-customs and other e-services, disaggregated by the type of service and sex of the business lead 2.4. Number of people supported by the EU with enhanced access to digital government services (GERF 2.12 b)**	2.1. 2.2. 2.3. 2.4.	2.1. 2.2. 2.3. 95% of cases involving importers not complying with customs regulations resolved within three days 2.4.	2.1. – 2.4. Relevant host institutions' IT admin reports
Induced Outputs	1.1. Improved monitoring of State General Budget execution	1.1. Status of monitoring of the execution of the State General Budget (SGB)	1.1. Semi-annual Report for Expenditure Analysis for 2023 and Budget Journey / Yellow Road for 2023 conducted.	1.1. Quarterly Reports for Expenditure Analysis for 2026 and Budget Journey / Yellow Road for 2027.	1.1. Quarterly Reports for Expenditure Analysis
	1.2. Strengthened internal audit	1.2. Number of Internal Audits Elaborated	1.2. XX in 2023	1.2. xx submitted in 2027	1.2. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	1.3. Improved digitalisation of accounting, revenue reconciliation and debt management	1.3. Status of IT systems for budget execution and accounting revenue mobilisation and debt management.	1.3. ASYCUDA, SIGTAS V1, TREP and business tax registry are basically operational by 2023	1.3. SIGTAS is improved to V3 and ASYCUDA, TREP and business tax register updated with [tbc with what]	1.3. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	1.4. Improved M&E Plan for OGE, including municipalities	1.4. Status of Monitoring and Evaluation Plan for OGE Implementation in public administrative sector entities, including Municipalities	1.4. Monitoring and Evaluation Plan is compiled and M&E of OGE Implementation in public administrative sector entities, including Municipalities, conducted in 2023	1.4. Monitoring and Evaluation of OGE (general state budget) Implementation in public administrative sector entities (including Municipalities) conducted.	1.4. MOF reporting on the MOF Five Year Strategic Plan 2024-2028

	1.5. Improved budget formulation transparency	1.5. Status of pre-budget statement, citizen budget, and civil society participation.	1.5.1. Pre-Budget Statement 2023 including Mid-Year Review 2022 issued 1.5.2. Citizen's Budget 2022 issued 1.5.3. Public participation score of 11 out of 100 (OBS 2023)	1.5. Pre-budget statement is prepared annually, and consultation process is held annually	1.5. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	1.6. Improved inequality- and gender-sensitivity of the budget and its analysis	1.6.1. Status of gender disaggregated data in the state budget. 1.6.2	1.6.1. No or partial gender-sensitive data in the budget and its analysis.	1.6.1. Integrate gender disaggregate data system and analysis for the state budget	1.6.1. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	2.1. Improved legal-regulatory framework for cybersecurity and personal data protection	2.1.1. Improved protection for MOF database centre against system -related and external risks?	2.1.1. Configuration of the Disaster Recovery site is still underway.	2.1.1. The Disaster Recovery site is implemented / deployed?	2.1.1. The site and its administrative procedures accepted by MOF
		2.1.2. Status of the Law on Cybersecurity	2.1.2. None in 2023	2.1.2. Circulated by the government and submitted to Parliament for adoption?	2.1.2. The Law and its status documents
		2.1.3. Dissemination campaigns on the privacy and data protection laws once approved	2.1.3. Privacy and data protection laws have not yet been approved	2.1.3. Campaigns were delivered to civil society	2.1.3. TBC
	2.2. Cybersecurity and data protection standards are enhanced	2.2. Status of guidance on best practices for cybersecurity and data protection standards	2.2. TBC	2.2. Guidance on best practices for cybersecurity and data protection standards are developed	2.2. TBC

	2.3. Approved and budgeted 'National Digital and IT skills development National Plan'	2.3. Status of the comprehensive National Digital and ICT Skills Development Plan	2.3. No National Digital ICT Skills Development Plan has been drafted in 2023 (tbc)	2.3. The National Digital and ICT Skills Development Plan is approved by Government	2.3. Timor Digital 2032; approval decision of the National Digital and ICT Skills Development Plan.
	2.4. Improved skills of population groups, including vulnerable groups, in using e-governance IT platforms trained by the relevant national authorities / entities, including Ministry of Finance, INAP, and CSOs.	2.4.	2.4.	2.4.	2.4.
	2.5. Increased availability of e-government and e-services to the population, vulnerable groups and people with disabilities.	2.5.1. Status of the government's consultations with civil society. 2.5.2. Number of people having received a training on digital literacy disaggregated by, sex, age, area of residence, disability.	2.5.1. Civil society consultations on the quality of e-gov outputs/services being delivered not done as of 2023.	2.5.1. Consultations with civil society on the quality of outputs and services budgeted for are held by the government on a semi-annual basis.	2.5.1. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	2.6. Enhanced integration, interoperability and usage of ICTs/digital technologies in public service delivery	2.6. Status of interconnection and interoperability / DataMart between the Government Resource Planning tax and customs systems, payment systems, budget reconciliation, MoF website and databases	2.6. The data mart is not established by 2023.	2.6. The data mart is established by [mention of the year] with regular data sharing protocols established and security and reporting controls in place.	2.6. MOF reporting on the MOF Five Year Strategic Plan 2024-2028
	2.7. Coordination between digital sector planning and budgeting improved	2.7. Status of the budget / multiannual budget of Timor Digital 2032	2.7. No annual and multiannual budgets for Timor Digital 2032	2.7. Annual budget for <mention the year> and multiannual budget for <mention the years> for Timor Digital 2032 are approved and harmonised with MTEFs	2.7. Acceptance and feedback by the government IT service host

Direct Outputs	DO 1. Increased fiscal space in the state budget for reforms	1.1. Budget Support amounts transferred to the treasury 1.2. Size and schedule of the budgets for (a) PFM strategy 2022-2027 and (b) Timor Digital 2032			
	DO 2. Improved Policy Dialogue on PFM and digitalisation	2.1. Status of the Steering Committee on the BS operation, including its schedule 2.2. Status of self-reporting schedule of the Government 2.3. Status of schedule for external review missions			
	DO 3. Improved capacity of relevant government bodies to manage and participate in e-governance is strengthened.	3. Status of guidance on best practices for user interface design, data management, and security features to ensure the reliability and effectiveness of digital platforms.			
	DO 4. Improved IT system and infrastructure for state budget cycle management	4. Status of digital platforms and infrastructures directly supported by the Action.			
	DO 5. Improved skills of government staff for Cybersecurity and Personal Data Protection	5. Number of government staff for usage and maintenance of the digital platforms, per platform, institution and sex.			
	DO 6. Availability of draft legal acts	6. Status of draft legal acts related to this action			
	DO 7. Enhanced public gender-sensitive awareness of the right to privacy and data protection	7. Dissemination campaigns on the privacy and data protection laws once approved			

	DO 8. Increased national and local operational capacities to prevent, respond to and address cyber-attacks and other accidental failures	8. Status of guidance on best practices for preventing, responding and addressing cyber-attacks and other accidental failures			
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4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 9 000 000 and for complementary support is EUR 3 000 000. This amount is based on past experience and lessons learnt. The level of support should allow providing sufficient fiscal space to advance the PFM reform implementation with a digital focus, and to consolidate achievements. The complementary measures will make it possible to strengthen citizens' access to public services through digital platforms, including payments, and strengthen the capacity of public administration to provide these same services

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Public Finance Management reform strategy, including its digital component, and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- To strengthen planning, management, auditing, monitoring, accountability and oversight of the use of public finances.

c) Modifications:

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into United States dollars will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The following monitoring period and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Indicative disbursement schedule	Total	2025	2026	2027	2028
Fixed tranche EUR (Million)	3	1	1	0.5	0.5
Variable tranche EUR (Million)	6	0	2	2	2
Total	9	1	3	2.5	2.5

4.4 Implementation Modalities

The Commission will ensure that the EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹⁰.

4.4.1 Indirect Management with an entrusted entity

A part of this action may be implemented in indirect management with (an) entity/ies, which will be selected by the Commission's services using the following criteria:

- Experience in providing digital transformation-related technical assistance and having the expertise required for the delivery of the results expected under this project.
- Expertise in conducting capacity-building programs to enhance the digital skills of government officials, civil society organisations, and the private sector,
- Experience in advocating for policies and programs that ensure marginalised groups, such as women, youth, and people with disabilities, have equitable access to digital technologies and opportunities.
- Expertise in strengthening digital infrastructure, including data centres, and ICT facilities.
- Experience in working with the government to develop and implement e-government solutions that improve the delivery of public services. This may include digital platforms for citizen engagement,

¹⁰ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

online portals for accessing government information and services, and digital payment systems to enhance efficiency and transparency

- Experience with similar programmes in the ASEAN region.

The implementation by above mentioned entity/these entities entails stronger results on objectives 2, 3 and 4 and related outputs of this action.

4.4.2 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case, due to circumstances outside of the Commission's control, it is not possible to implement the action in indirect management with a pillar-assessed entity/ies described under section 4.4.1, the alternative implementation modality will be direct management (procurement).

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	9 000 000
Implementation modalities – cf. section 4.4	
Indirect management with an entrusted entity – cf. section 4.4.1	2 900 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	100 000
Contingencies	n/a
Totals	12 000 000

4.7 Organisational Set-up and Responsibilities

The EU Delegation to Timor-Leste constitutes the Contracting Authority for the Partnership for Digital Services SRPC. The Ministry of Finance of Timor-Leste (MoF) is the principal counterparts.

A Steering Committee, chaired by the Ministry of Finance of Timor-Leste and co-chaired by the EU Delegation, will be responsible for oversight of the Partnership for PFM and Digital Transition in Timor Leste (PADIT-TL) Sector Reform Performance Contract (SRPC).

The Steering Committee will include as a minimum: MoF, EU Delegation, the Ministry of Foreign Affairs and Cooperation (MNEC) and other relevant line ministries, civil society organisations and private sector representatives.

A Project Steering Committee will be convened for the complementary support component. The exact composition of the Committee will be agreed with the leading stakeholders, implementing partner and the

Contracting Authority during the Inception Phase of the project. The Chair of the Committee will be taken by the MNEC and co-chaired by the EU Delegation.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix and the partner's strategy, policy or reform action plan list.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- Budget support performance indicators and general conditions will be reviewed taking into account self-assessments provided by the Government (MoF, Central Bank), international organizations (IMF, World Bank), and, if needed, framework contract review missions.
- For the specific indicators, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports, as mentioned above.
- The Project Steering Committee will follow the Action implementation, giving particular attention to the programming and monitoring of the Action activities and respective outputs, taking as key reference the indicators set out in the logical framework. Particular attention will be given to the planning of the activities that need to be undertaken to ensure the achievement of the Action outputs in a timely manner.
- The Action might be subject to external results-oriented monitoring (ROM) in line with the European Commission rules and procedures.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: the policy dialogue will support the government in this process, by also focusing on what needs to be done regarding reporting and statistical data.

The Ministry of Finance as the main implementing partner under the Budget Support component will be responsible for performance monitoring and reporting during the Steering Committees and independent review missions. The disbursement request along with a self-assessment report for year N shall be submitted by the Ministry of Finance indicatively by end of Q2 of year N+1 every year.

All monitoring and reporting shall assess how the action is considering the principle of gender equality, human rights-based approach, and rights of persons with disabilities including inclusion and diversity. Indicators shall be disaggregated at least by sex whenever possible and meaningful and age and disability where feasible.

All monitoring and reporting shall assess how the action is taking into account inequality reduction.

5.2 Evaluation

Having regard to the importance of the action, a mid-term or a final evaluation may be carried out for this action or its components via independent consultants contracted by the Commission.

A mid-term evaluation would be carried out for problem solving and learning purposes, in particular with respect to the complementary AT component.

A final evaluation would be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this programme introduces some innovative elements.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment and disability inclusion. Expertise on human rights, disability and gender equality will be ensured in the evaluation teams.

All evaluations shall assess to what extent the action is taking into account inequality reduction. Expertise on inequality reduction will be ensured in the evaluation teams.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 "[Communicating and Raising EU Visibility: Guidance for External Actions](#)", it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents,

allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;

Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);

Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present Action identifies as (tick one of the 4 following options);

Action level (i.e. Budget Support, blending)		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action
Group of actions level (i.e. top-up cases, different phases of a single programme)		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSYS#):
Contract level		
<input type="checkbox"/>	Single Contract 1	
<input type="checkbox"/>	Single Contract 2	
	(...)	
Group of contracts level (i.e. series of programme estimates, cases in which an Action includes for example four contracts and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other)		
<input type="checkbox"/>	Group of contracts 1	