



# Country Partnership Strategy

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## Timor-Leste, 2023–2027 —A Strategy for Economic Recovery, Inclusive Development, and Climate Resilience

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Asian Development Bank



## CURRENCY EQUIVALENTS

The currency of Timor-Leste is the United States dollar.

## ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
CKP	–	country knowledge plan
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
CPSFRV	–	CPS final review validation
ERP	–	Economic Recovery Plan
FCAS	–	fragile and conflict-affected situation
GDP	–	gross domestic product
ICT	–	information and communication technology
O&M	–	operation and maintenance
OP1–OP7	–	operational priorities 1–7
PFM	–	public financial management
PPP	–	public–private partnership
RCI	–	regional cooperation and integration
SDG	–	Sustainable Development Goal
SDP	–	Strategic Development Plan
SIDS	–	small island developing state(s)
TA	–	technical assistance
TVET	–	technical and vocational education and training
UN	–	United Nations
WTO	–	World Trade Organization

## NOTE

In this report, “\$” refers to United States dollars.

<b>Vice-President</b>	Ahmed M. Saeed, Operations 2
<b>Director General</b>	Ramesh Subramaniam, Southeast Asia Department (SERD)
<b>Deputy Director General</b>	Winfried F. Wicklein, SERD
<b>Country Director</b>	Sunil Mitra, Timor-Leste Resident Mission (TLRM), SERD
<b>Team leaders</b>	Kavita Iyengar, Country Economist, TLRM, SERD Euna Shim, Public–Private Partnership Specialist, Office of Public–Private Partnership (OPPP)
<b>Team members</b>	Pedro Aquino, Senior Project Officer, TLRM, SERD Alan Baird, Principal Urban Development Specialist, Urban Development and Water Division (SEUW), SERD Stephane Y. Bessadi, Senior Procurement Specialist, Procurement Division 2 (PFP2), Procurement, Portfolio, and Financial Management Department (PPFD) Alix Burell, Principal Investment Specialist, Private Sector Operations Department (PSOD) Isabelle Chauche, Senior Public–Private Partnership Specialist, OP Aekapol Chongvilaivan, Senior Economist (Public Finance), Public Management, Financial Sector, and Trade Division (SEPF), SERD Angelita M. Cortez, Results Management Officer, Results Management and Aid Effectiveness Division (SPRA), Strategy, Policy, and Partnerships Department (SPD) Georgete Da Cruz Gomes, Project Analyst, TLRM, SERD Elsty Davidz-Morato, Social Development Officer, TLRM, SERD Marko Davila, Operations Coordination Specialist (Conflict-Affected Situations), Office of the Thematic Cluster Head, Sustainable Development and Climate Change Department (SDCC) Stefania Dina, Senior Natural Resources and Agriculture Specialist, Environment, Natural Resources, and Agriculture Division (SEER), SERD <sup>a</sup> Rikard Elfving, Senior Social Sector Specialist, Human and Social Development Division (SEHS), SERD Takeshi Fukayama, Transport Specialist, Transport and Communications Division (SETC), SERD Kelly Hattel, Senior Financial Sector Specialist, SEPF, SERD Prabhjot Rehan Khan, Social Development Specialist (Gender and Development), SDCC Keiko Koiso, Senior Procurement Specialist, PFP2, PPFD Veronica Mendizabal Joffre, Senior Gender and Social Development Specialist, Office of the Director General, (SEOD), SERD Rosalind McKenzie, Principal Operations Coordination Specialist (Fragile Situations), Social Sectors and Public Sector Management Division, Pacific Department Daniel Miller, Senior Finance Specialist, Energy Division (SEEN), SERD Delaney P. Miram, Financial Management Officer, SEPF, SERD Shinichiro Nagao, Transport Specialist, SETC, SERD Jose Perreira, Senior Project Officer, TLRM, SERD

Vivek Raman, Principal Knowledge Management Specialist, Knowledge Advisory Services Center, SDCC  
Lindsay Marie Renaud, Results Management Specialist, SPRA, SPD  
Tiago Ribeiro, Urban Development Specialist, SEUW, SERD<sup>b</sup>  
Junko Sagara, Water Resources Specialist, SEER, SERD  
Kanya S. Sasradipoera, Senior Trade Specialist, SEPF, SERD  
Chaorin Shim, Transport Specialist, SETC, SERD  
Arghya Sinha Roy, Principal Climate Change Specialist (Climate Change Adaptation), Climate Change and Disaster Risk Management Division (SDCD), SDCC  
Jose Luis Syquia, Principal Public Management Specialist, Governance Thematic Group, SDCC  
Sakiko Tanaka, Principal Social Sector Specialist, SEHS, SERD  
Witton Tawisook, Principal Transport Specialist, SETC  
Seok Yong Yoon, Principal Public Management Specialist (e-Governance), Digital Technology for Development Unit, SDCC  
Guoliang Wu, Principal Results Management Specialist, SPRA, SPD

**Peer reviewers**

Maria Rowena M. Cham, Senior Economic Officer, Economic Analysis and Operational Support Division, Economic Research and Regional Cooperation Department  
Soon Chan Hong, Senior Economist, Bangladesh Resident Mission, South Asia Department  
David Freedman, Resident Representative, International Finance Corporation, Timor-Leste (external reviewer)

<sup>a</sup> Outposted to the Viet Nam Resident Mission.

<sup>b</sup> Outposted to the Timor-Leste Resident Mission.

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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021<sup>a</sup></b>
GDP (\$ billion, current)	1.62	1.58	1.70	1.60	1.65
GDP per capita (\$, current)	1,300	1,249	1,318	1,210	1,230
GDP growth (% , in constant prices)	(3.07)	(0.69)	2.07	(8.57)	1.50
Consumption (annual % change, constant price)	(1.25)	0.76	3.46	0.86	21.54
Investment (annual % change, constant price)	(13.61)	(0.77)	(4.42)	(33.93)	(20.00)
Consumer price index (annual % change)	0.56	2.44	0.98	0.48	3.76
Overall fiscal surplus, including oil revenues (% of GDP)	44.92	(4.46)	0.15	77.19	(8.03)
Total revenue, including oil revenues (% of GDP)	128.36	77.09	81.33	159.24	89.80
Tax revenue (% of GDP)	34.02	40.30	51.55	27.88	14.95
Merchandise export (\$) growth (annual % change)	(17.43)	48.65	5.50	(32.99)	123.10
Merchandise import (\$) growth (annual % change)	11.45	(2.88)	(3.38)	(10.99)	71.17
Current account balance (% of GDP)	(17.55)	(12.07)	7.80	(19.31)	(39.10)
External debt (% of GDP)	7.71	9.98	11.94	14.53	17.04
General gross government debt (% of GDP)	6.63	9.20	11.28	13.69	16.99
Reserves (\$ million)	17,344	16,467	18,337	19,647	19,816
<b>Poverty and Social</b>	<b>2007/2010/2012</b>		<b>Latest year</b>		
Population (million)	1.1	[2010]	1.3	[2020]	
Population growth (annual % change)	2.4	[2010]	2.0	[2015-2020]	
Unemployment rate <sup>e</sup>	3.3	[2010]	4.7	[2016]	
Population with access to electricity (%)	36.6	[2007]	94.7	[2019]	
Maternal mortality ratio (per 100,000 live births)	557	[2009/10]	142	[2017]	
Infant mortality rate (below 1 year/per 1,000 live births)	52	[2009/10]	30	[2016]	
Life expectancy at birth (years)	65	[2010]	68	[2017]	
Expected years of schooling	11.2	[2010]	12.6	[2019]	
Completion rate for primary education	47.0	[2007]	80.7	[2016]	
Child malnutrition (% below 5 years old)	46.8	[2007]	32.4	[2014]	
Population below national poverty line (%)	50.4	[2007]	41.8	[2014]	
Population with access to safely managed drinking water services (%)	65.9	[2010]	79.8	[2016]	
Population with access to safe sanitation services (%)	41.2	[2010]	53.8	[2016]	
Population with access to soap and water for handwashing (%)	27.8	[2012]	28.4	[2020]	
<b>Environment</b>					
Carbon dioxide emissions (kiloton)	640	[2018]			
Carbon dioxide emissions per capita (metric tons)	0.51	[2018]			
Forest area (% of land area)	61.9	[2020]			
Urban population (% of total population)	29.5	[2018]			
Renewable energy share in total final energy consumption	18.4	[2018]			
<b>ADB Portfolio (active loans and ADF grants)<sup>b</sup></b>	<b>As of 31 December 2021</b>				
Total number of loans and ADF grants					17
Sovereign					17
Nonsovereign					0
Total loan and ADF grant amount (\$ million) <sup>c</sup>					482.12
Sovereign					482.12
Nonsovereign					0
Disbursements (sovereign)					
Disbursed amount, total (\$ million, 2021)					17.76
Disbursed amount, excluding PBL (\$ million, 2021)					17.76
Disbursement ratio, excluding PBL (%)					12.50

( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = non-oil gross domestic product, PBL = policy-based lending.

<sup>a</sup> Estimates; <sup>b</sup> Covers ADF and ordinary capital resources financing for projects and programs, including PBL, unless otherwise stated; <sup>c</sup> Net of droppages and cancellation

Sources: Timor-Leste General Directorate of Statistics; World Bank World Development Indicators; ADB Timor-Leste Fact Sheet; Food and Agricultural Organization of the United Nations. 2020. *Global Forest Resource Assessment. Report Timor-Leste*. Rome.



## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Challenges.** Timor-Leste is categorized as being in a fragile and conflict-affected situation (FCAS) and a small island developing state (SIDS) with the typical challenges of both. It has a narrow economic structure, and growth is largely reliant on government spending. After a period of rapid growth in 2007–2013 driven by high levels of public investment, growth slowed to 1.5% during 2014–2019. Periods of political uncertainty, especially since 2017, albeit short, caused delays in passing annual budgets and affected development efforts. Despite progress on some human development indicators and Sustainable Development Goals (SDGs), real gross domestic product (GDP) per capita fell in 2020 to its 2013 level because of the coronavirus disease (COVID-19) pandemic. The hurdles to broader economic diversification and private sector development include inadequate infrastructure and services; weak human capital development, exemplified by low levels of general education and skills; public sector inefficiency; a weak business-enabling environment; and an underdeveloped financial market. Environmental degradation and climate change pose challenges to food security and sustainable development. As two-thirds of the population depend on agriculture for subsistence, improving and strengthening agricultural resilience and productivity are vital. The high prevalence of food insecurity has been exacerbated by rising global food and fuel prices because of the pandemic and severe floods in 2020 and 2021, and more recently the Russian invasion of Ukraine.<sup>1</sup> With 20% of the population between 15–24 years old, creating jobs for youth is one of the most pressing priorities.

2. **Strategy.** Asian Development Bank's (ADB) country partnership strategy (CPS) for Timor-Leste, 2023–2027 aims to support the country's economic recovery, in line with its long-term Strategic Development Plan 2011–2030 (SDP) and the medium-term strategy of economic diversification elaborated in the Economic Recovery Plan (ERP); it is also aligned with ADB's Strategy 2030.<sup>2</sup> The CPS is geared to helping Timor-Leste overcome critical development impediments and emerge stronger from the COVID-19 pandemic by focusing on two pillars: (i) build climate-resilient infrastructure and basic services by improving connectivity, ensuring equitable access to water and sanitation, introducing more efficient and cleaner energy, investing in livable neighborhoods, and improving infrastructure governance; and (ii) promote an enabling environment for economic diversification by strengthening rural development and agriculture, human development, private sector development, financial access, and regional cooperation and international trade. Crosscutting priorities across the pillars are strengthening governance and institutional capacity; accelerating gender equality; and promoting knowledge and innovation, including digitalization. The strategy provides for flexibility to respond to evolving needs and priorities in a rapidly changing, fragile, and complex development context.

3. **Approach.** The CPS embraces the One ADB approach, tailored to Timor-Leste, for the envisaged suite of ADB support modalities that include both sovereign and nonsovereign operations. ADB will promote greater market orientation by leveraging private sector participation in infrastructure, intensifying knowledge work and policy dialogue, and advancing partnerships with stakeholders, using innovative technologies and simplified processes in operations. It will strengthen the design of projects to better tackle climate change and build institutional capacity in alignment with the Paris Agreement.<sup>3</sup>

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<sup>1</sup> K. von Grebmer et al. 2021. [Global Hunger Index: Hunger and Food Systems in Conflict Settings](#). Dublin: Concern Worldwide and Bonn: Welthungerhilfe. Timor-Leste ranked 108th out of 116 economies.

<sup>2</sup> Government of Timor-Leste. 2011. [Timor-Leste Strategic Development Plan, 2011–2030](#); Government of Timor-Leste. 2020. [Economic Recovery Plan](#). Dili; and ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. ADB supported the preparation of the ERP.

<sup>3</sup> United Nations. 2015. [Adoption of the Paris Agreement, 21st Conference of the Parties](#). Paris.

## II. COUNTRY DEVELOPMENT CONTEXT

4. **Macroeconomic context.** Timor-Leste became a lower middle-income country in 2007. Rising government expenditure, funded from the offshore petroleum income, underpinned GDP growth.<sup>4</sup> Constrained public spending because of delays in budget approvals on account of political uncertainties caused GDP to contract to –3.1% in 2017, –0.7% in 2018, and –8.6% in 2020, highlighting the country’s fragility. In 2020, the situation was compounded by floods, restrictive state-of-emergency measures to contain the COVID-19 pandemic, and the global slowdown. The government response through the ERP increases public spending by 30% over 2021–2023 to stimulate growth, financed mostly through the Petroleum Fund.<sup>5</sup> Growth in 2021, estimated at 1.5%, was subdued on account of the pandemic surge and the devastating floods. Inflation increased sharply in 2021 as prices of food and nonalcoholic drinks, which make up 54% of the consumer price index basket, rose. In 2022, the Russian invasion of Ukraine further pushed up prices of food items and fuel. The use of the United States dollar has contributed to macroeconomic stability overall, but the appreciation of the real effective exchange rate has hindered the development of the tradable sectors, although the main exports (petroleum and coffee) are dollar-denominated. Meanwhile, the lack of diversification of the economy has inhibited the growth of the tax base and induced an overreliance on petroleum revenues. The government recognizes the need to increase domestic revenue collection, and a new umbrella law on public financial management (PFM) was approved by Parliament in 2021.<sup>6</sup>

5. **Petroleum wealth and structural composition of the economy.** Timor-Leste is one of the countries most dependent on natural resources, globally. Petroleum revenues, excluding Petroleum Fund investment income, represented 88% of total government revenues in 2015–2020. The Petroleum Fund provides a unique opportunity for growth.<sup>7</sup> By December 2021, its net assets peaked at \$19.6 billion.<sup>8</sup> Public spending, financed mostly through the Petroleum Fund, was directed at infrastructure—roads, ports, airports, bridges, and public institutions. As is the case in many other SIDS, the production base and competitiveness are constrained by limited connectivity and a narrow domestic market. About 70% of Timor-Leste’s population is rural.<sup>9</sup> Agriculture represents only about 19% of GDP, but 66% of the households are involved in some form of agriculture activity.<sup>10</sup> The country has underdeveloped productive capacity, and formal employment opportunities are limited and concentrated in the public sector and in businesses that

<sup>4</sup> GDP refers to non-oil GDP, as it refers to the domestic economy exclusive of production activity in areas of joint sovereignty, such as the Joint Petroleum Development Area.

<sup>5</sup> The Petroleum Fund was established in 2005. All petroleum revenues are transferred entirely to the Petroleum Fund. The portfolio was managed by the Central Bank of Timor-Leste and invested only in United States government bonds from 2005 to June 2009. In June 2009, the Bank for International Settlements was appointed as the fund’s first external manager to manage 20% of the total Petroleum Fund and invested in a broader range of government and supranational bonds. In October 2010, Schroder Investment Management, the fund’s first equity manager, was brought in to manage a global equity mandate amounting to 4% of the total Petroleum Fund.

<sup>6</sup> Government of Timor-Leste. [National Parliament overall approves the Law Proposal on the General State Budget Framework and Public Financial Management](#). (accessed 10 Jun 2022). Political uncertainties impacted annual budget approvals in the past. The risk of delayed budgets is reduced with the new PFM law which includes multi-year budgeting.

<sup>7</sup> Government of Timor-Leste. 2021. [National Accounts 2001–2020](#). Dili. The oil industry’s share is declining as production from the current field peaked in 2007 and is forecast to end by 2023.

<sup>8</sup> Central Bank Timor-Leste. 2021. [Petroleum Fund of Timor-Leste, Quarterly Report, vol 17 no. XIV](#). Dili. Estimated sustainable income measures the level of resources that can be sustainably withdrawn each year, calculated as 3% of the net present value of petroleum wealth. Any withdrawal above the estimated sustainable income (excess withdrawals) must be justified to Parliament. These excess withdrawals have averaged 44% of total withdrawals since 2012.

<sup>9</sup> Government of Timor-Leste. 2015. [2015 Timor-Leste Population and Housing Census](#). Dili.

<sup>10</sup> Government of Timor-Leste. 2020. [Timor-Leste Agriculture Census 2019: National Report on Final Census Results](#). Dili.

serve government programs, such as construction. Besides government spending, small-scale wholesale and retail activities, subsistence agriculture, construction, and real estate activities are the major contributors to GDP. Although increasing, the contribution of manufacturing sector is negligible, accounting for an estimated 2% of GDP in 2021. The productive capacity index, at 29.28, is below the Association of Southeast Asian Nations (ASEAN) average of 31.9.<sup>11</sup>

6. **Poverty.** Despite revenues from oil and gas since 2005, Timor-Leste remains one of the world's poorest economies, ranking 160th out of 194 on a GDP per capita basis, and the gap with the ASEAN average is wide.<sup>12</sup> Living conditions have improved across many dimensions, but the rate of progress is slow and uneven. Since 2014, GDP per capita saw limited growth. The political uncertainty in 2017–2020 and the COVID-19 pandemic have undermined recent welfare gains, and poverty rates are estimated to have risen by 3 percentage points since 2019. In 2018, only 25% of the population was food secure, and 36% faced moderate to severe chronic food insecurity.<sup>13</sup> The pandemic further impacted vulnerable households, and it is estimated that moderate to severe chronic food insecurity has risen to 41% in 2021, aggravated by the floods.<sup>14</sup> In 2020, social protection accounted for almost 15% of government expenditure, which included cash and near-cash transfers for health and education services.<sup>15</sup>

7. **Sustainable Development Goals.** Timor-Leste published its SDG road map in 2017 and conducted a review of selected SDGs in 2019.<sup>16</sup> The review reported progress on (i) SDG 3 (good health and well-being) because the child mortality declined between 2010 and 2016; (ii) SDG 4 (quality education) because the attendance rate at primary schools rose impressively from 65% in 2001 to 92% in 2018; and (iii) SDG 5 (gender equality) because women now hold 38% of the parliamentary seats in the country, one of the highest shares in the world and the highest in Asia and the Pacific, although helped by the use of quotas.<sup>17</sup> For SDG 16 (peace, justice and strong institutions), Timor-Leste's democracy indicators are satisfactory and its post-conflict institutions are functioning—despite being the youngest country in Asia and having seen civil unrest in 2006. However, progress across other SDGs was uneven. For SDG 2 (zero hunger), the level of malnutrition for children is the highest in the region and among the highest in the world. Rising food and fuel inflation could further aggravate food insecurity. As for SDG 6 (clean water and sanitation), only 34% of the urban and 14% of the rural population have access to piped water.<sup>18</sup> The 2019 review of selected SDGs recommended identifying innovative opportunities for private sector investment and partnerships to bridge the SDG financing gap and increase access to information and communication technology (ICT) systems.

8. **Climate change and environmental degradation.** Timor-Leste is vulnerable to various geophysical and climate-related hazards. Heavy seasonal rainfall causes flash floods, landslides,

<sup>11</sup> United Nations (UN) Conference on Trade and Development. [Productive capacities index, 2000–2018](#) (accessed 12 Jun 2022).

<sup>12</sup> International Monetary Fund. 2021. [World Economic Outlook: Managing Divergent Recoveries](#). Washington, DC. Timor-Leste's per capita at \$3,552, including oil, is significantly lower than the ASEAN average of \$25,166. All data are for 2019.

<sup>13</sup> Intergovernmental Panel on Climate Change; and Government of Timor-Leste. 2019. [The First IPC Analysis Report on the Chronic Food Insecurity Situation in Timor-Leste](#). Dili.

<sup>14</sup> United Nations Development Programme. 2021. [Socio-Economic Impact Assessment of COVID-19 in Timor-Leste, Round 2, 2021](#). Dili.

<sup>15</sup> Government of Timor-Leste. 2022. [State Budget 2022: Book 1](#). Dili.

<sup>16</sup> Government of Timor-Leste. 2018. [Timor-Leste's Roadmap for the Implementation of the 2030 Agenda and the SDGs](#). Dili; Government of Timor-Leste. 2019. [Report on the Implementation of the Sustainable Development Goals: From Ashes to Reconciliation, Reconstruction and Sustainable Development, Voluntary National Review of Timor-Leste 2019](#). Dili. Timor-Leste is one of the nine economies in the UN High Level Group on SDG implementation.

<sup>17</sup> The Electoral Law amendment of 2011 ensures that at least one-third of parliamentary candidates are women.

<sup>18</sup> World Bank. 2018. [Timor-Leste Water Sector Assessment and Roadmap](#). Washington, DC.

and erosion. These lead to high economic costs with damage to homes, crops, and infrastructure. The impacts have far-reaching effects on the livelihood and food security of the poor, given existing vulnerabilities and limited state capacity. Staple crops are sensitive to rising temperatures, changes in the seasonality of rainfall, and seawater inundation. In 2021, Timor-Leste was ranked 16th out of 181 economies in the highest disaster risk category.<sup>19</sup> In addition, land degradation has been amplified by deforestation stemming from illegal logging and firewood collection, and unsustainable agricultural practices. Overfishing because of weak enforcement is damaging the marine ecosystem. In 2020, the government formulated the initial National Adaptation Plan 2020–2022, which requires the establishment of legal and regulatory mechanisms for its implementation and data for decision-making.<sup>20</sup> However, the collection of environmental data is limited and relies on periodic compilations by development partners.

9. **Infrastructure development.** While substantial investments in road transport and energy infrastructure have been made, more efforts are required to build sufficient capacity to improve quality and maintenance. Trade is constrained by the limited capacity and location of the current cargo port and one international airport in Dili. Electricity grid coverage has progressed, but persistent service outages need to be addressed and full electrification still needs to be achieved. Despite overcapacity in electricity production, about 24% of the population, mostly in remote rural areas, is not connected to the grid. Renewable energy tends to account for a small part of the energy mix. The digital divide continues to be a challenge. Regulatory issues that hold back broadband development, digital identification, cybersecurity, and e-governance need to be resolved. ICT capacity in the workforce and ICT literacy in the country also need strengthening.

10. **Access to water and sanitation.** Timor-Leste has adequate water resources, with heavy rainfall several months in the year, but poor infrastructure and lack of proper management cause severe water shortages and inefficiencies. The coverage of rural and urban water supply, sewerage, and solid waste management is vastly inadequate. In 2020, 26% of urban households and 62% of schools had no or poor access to sanitation services.<sup>21</sup> Water sources are contaminated, including in some public water supply systems (footnote 17). Rising sea-level and changing rainfall patterns impact ground and surface water resources. During the pandemic, half of the rural health posts did not have running water.<sup>22</sup> The allocation for water supply and sanitation infrastructure for domestic and industrial needs has been underbudgeted at just 1.4% of the allocation of the Infrastructure Fund during 2012–2022 (footnote 15).

11. **Challenges to economic diversification.** While public spending has stimulated growth, future progress hinges on the emergence of a private sector that can also drive employment. The challenges to diversification and private sector development include, among others, legal and regulatory impediments, weak human capital development, and limited domestic markets. Increasing agricultural productivity is essential for food security, and creating job opportunities for youth is critical. The Russian invasion of Ukraine has impacted Timor-Leste through supply chain disruptions and rising global prices of food, fuel, construction materials, and fertilizer. Since the

<sup>19</sup> Bündnis Entwicklung Hilft. 2021. [WorldRiskReport 2021](#). Berlin.

<sup>20</sup> Government of Timor-Leste. 2021. [Timor-Leste's National Adaptation Plan: Addressing Climate Risks and Building Climate Resilience](#). Dili. Timor-Leste ratified the Paris Agreement and submitted its first set of nationally determined contributions to the UN Framework Convention on Climate Change in 2017. No explicit emission target was announced, but mitigation measures include the development of renewable energy as well as energy efficiency in the transport, agriculture, forestry, and energy industries. A key focus is on adaptation, and on the priority areas of food security, water resources, health, natural hazards, forestry, biodiversity and coastal ecosystem resilience, livestock production, and physical infrastructure.

<sup>21</sup> World Health Organization/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene. [Data](#) (accessed 10 Jun 2022).

<sup>22</sup> UNICEF. [Child Survival and Development](#). (accessed 23 Jun 2022).

country is highly dependent on imports, increases in transportation costs will have effects on domestic inflation. After a decade of steady prices, inflation rose to 3.8% in 2021 and 5.9% in January-April 2022, driven by an upward trend in food prices—particularly edible oil, rice, wheat, and eggs.<sup>23</sup> A prolonged elevation of fuel and fertilizer prices will raise transport and production costs, further constraining diversification efforts.

12. **Education and training.** Sustained additional investments in the education aspect of human capital development are critically needed. The lack of adequate, efficient, and quality physical infrastructure results in overcrowded or multigrade classrooms and multiple shifts that burden the teachers and impact learning for students.<sup>24</sup> The expected years of schooling are 10.3 years for boys and 10.9 years for girls, but they fall to 6.0 and 6.3 years when adjusted for expected learning.<sup>25</sup> Planning and budgeting weaknesses result in inequities in material and human resources.<sup>26</sup> Secondary and tertiary education suffers from the absence of adequate information technology infrastructure. Teacher competencies and the quality of technical and vocational education and training (TVET) in secondary schools are low, and enrollment ratios are below target. Only a few training programs and centers exist, and there is a perception that TVET is a second-best option to general education.<sup>27</sup> The TVET system also suffers from a high level of fragmentation, and lack of coordination between government agencies.

13. **Health care services.** The health care system in Timor-Leste is inadequate, as seen during the COVID-19 pandemic. Facilities, equipment, and the number of health care providers are all limited. Access is also hindered by physical distances and costs. Although the government health budget increased in absolute terms from \$67.2 million in 2014 to \$114 million in 2022, with a historic high of \$372.2 million in 2021, the current health expenditure per capita is only \$51.8.<sup>28</sup> It is estimated that about \$41.0 million is lost annually because of low productivity, poor worker performance, and increased health costs.<sup>29</sup> More importantly, the low quality of health care, an important aspect of human capital development, undermines the quality of life.

14. **Financial inclusion and access to credit.** The proportion of adults with access to a deposit account remained at 68% during 2016–2020, but the number of adults excluded from the financial system has declined from 32% to 16% during the same period, largely due to the rapid rise in e-wallet services.<sup>30</sup> Microfinance institutions play an important role in improving access to loan and deposit services, especially for women. Financial inclusion, however, remains challenging—access points are concentrated in urban areas; financial products and services are not user-friendly, convenient, or affordable; and financial literacy and adequate consumer protection frameworks are missing. The finance sector is limited in size and diversity, with basic digital payment systems but few nonfinancial institutions and no capital market. Private sector credit is limited and expensive. The ratio of domestic credit to private sector was 15% of GDP in 2020, far lower than the Southeast Asia average of 75%.<sup>31</sup>

<sup>23</sup> Government of Timor-Leste. [Monthly CPI Time Series April 2022](#). (accessed 10 Jun 2022).

<sup>24</sup> Government of Timor-Leste. 2011. [National Education Strategic Plan, 2011-2030](#). Dili. The average class size for the first grade was 45 students per teacher.

<sup>25</sup> World Bank. 2020. [Timor-Leste Human Capital Index 2020](#). Washington, DC.

<sup>26</sup> World Bank. 2019. [Basic Education Strengthening and Transformation Project \(Timor-Leste\)](#). Washington, DC.

<sup>27</sup> Government of Timor-Leste. 2014. [Youth Training and Employment Perception Study for Timor-Leste](#). Dili.

<sup>28</sup> World Bank. World Bank [Domestic General Government Health Expenditure per capita \(current US\\$\)](#) (accessed 23 Jun 2022). This is far below the average of \$228.9 for East Asia and the Pacific, excluding high-income economies (World Bank categorization).

<sup>29</sup> World Food Programme. [Timor-Leste](#) (accessed 9 Jun 2022).

<sup>30</sup> Banco Central de Timor-Leste. 2021. [Financial Inclusion Report 2021](#). Dili.

<sup>31</sup> World Bank. [Domestic credit to private sector](#) (accessed 13 Jun 2022).

15. **Regional cooperation and integration.** Timor-Leste is seeking full ASEAN membership, which will provide direct benefits through closer trade, investment, and labor market links. After becoming a World Trade Organization (WTO) observer in 2016, it has initiated procedures for full membership. In 2012, a trilateral relationship was formalized with the creation of the Timor-Leste–Indonesia–Australia Growth Triangle, aiming to boost cooperation across several areas such as agriculture, fisheries, tourism, manufacturing, and human capital development. ADB has been supporting Timor-Leste's ASEAN and WTO accession efforts since 2012 and helped improve bilateral links with Indonesia since 2017.<sup>32</sup> Developing frameworks for greater participation in international trade and global supply chains will help boost trade and economic diversification in the country.

16. **Legal and regulatory frameworks for private sector development.** Legal and governance weaknesses relating to contract enforcement, commercial dispute resolution, submission to international arbitration, land rights, and low capacity in the judiciary impede the development of a business-enabling environment.<sup>33</sup> Importantly, bureaucratic jurisdictions lack clarity. The bankruptcy framework is outdated. An insolvency law approved by the Council of Ministers in March 2017 has yet to be enacted by Parliament. Business regulations need to be better harmonized to ease market entry for new firms. A comprehensive and actionable strategy to boost domestic and foreign direct investment, based on Timor-Leste's potential comparative advantages in ecotourism and agricultural products, as identified in the ERP, is essential for the diversification of the non-oil economy.

17. **Governance.** On the government effectiveness dimension in the Worldwide Governance Indicators, Timor-Leste scored  $-0.80$  on a scale of  $-2.5$  to  $2.5$  in 2018, placing it in the 19th percentile of economies assessed.<sup>34</sup> The procurement regulatory process is weak, and the country scored "D" in the 2020 Public Expenditure and Financial Accountability assessment on all four indicators related to public procurement—monitoring, methods, public access to procurement information, and complaints management.<sup>35</sup> Core administration capacity in policy and regulatory management remains modest, and there is little evidence of progress.<sup>36</sup> Overall, PFM needs strengthening to ensure efficiency, integrity, and transparency in managing public resources, fiscal discipline, and service delivery. Some progress was made toward stability and the establishment of democratic institutions, but Timor-Leste ranks 82nd out of 180 economies in Transparency International's 2021 Corruption Perceptions Index.<sup>37</sup> The Open Budget Survey puts Timor-Leste in the category of "limited information available," noting that the country registered progress in terms of transparency, public participation, and oversight since 2019.<sup>38</sup>

18. **Gender.** Ensuring equitable and gender-balanced access to resources, assets, services, and work opportunities is a key development challenge. Supporting women's access to employment by increasing their participation in higher education, credit markets, and in nontraditional trades needs to be integrated into efforts to grow the private sector. Despite the approval of the second National Action Plan on Gender-based Violence in 2017 and the passing of a law prohibiting domestic violence, greater effort toward increased accountability and access

<sup>32</sup> ADB. [Promoting Prosperity and Equality in Indonesia and Timor-Leste](#) (accessed 9 Jun 2022).

<sup>33</sup> Dalberg. 2018. [Timor-Leste Business Enabling Environment Root Cause Analysis August 2018](#). Geneva.

<sup>34</sup> World Bank. [Worldwide Governance Indicators](#). (accessed 9 Jun 2022).

<sup>35</sup> World Bank. 2020. [Timor-Leste Public Expenditure and Financial Accountability Assessment 2018](#). Washington, DC.

<sup>36</sup> For instance, in the past 10 years, Timor-Leste's score for Regulatory Quality in the Worldwide Governance Indicators rose just 0.2, from  $-1.0$  in 2011 to  $-0.8$  in 2020. World Bank. [Worldwide Governance Indicators](#). (accessed 9 Jun 2022).

<sup>37</sup> Transparency International. 2022. [Corruption Perceptions Index 2021](#). Berlin.

<sup>38</sup> International Budget Partnership. 2022. [Open Budget Survey 2021](#). Washington, DC.

to justice is needed, in addition to stepping up prevention, awareness-raising, and educational activities for both men and women. A significant gender gap is also visible in social protection programs, despite efforts to target women—women still only receive the equivalent of 4.1% of GDP per capita, compared with 7.7% for men.<sup>39</sup>

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

19. The CPS final review validation (CPSFRV) report noted the strong focus of the CPS 2016–2020 on infrastructure, in particular road transport.<sup>40</sup> The overall program was rated *less than successful* because the strategy, despite being well-aligned with the government’s development objectives, fell short of most of the SDP and CPS framework targets, mainly due to budgetary delays and bureaucratic changes caused by political uncertainties and lack of capacity. The CPS 2016–2020, extended to 2022, is expected to broadly achieve its targets, particularly in core areas such as road infrastructure, public sector management, regional cooperation and integration (RCI), agriculture, education, and finance.<sup>41</sup> Key findings were that (i) the benefits from oil revenues did not reach the majority of the population, who continue to rely on subsistence agriculture; (ii) the private sector is still not developed; (iii) infrastructure remains deficient and vulnerable to disasters and climate change; and (iv) the pace of qualifying for full ASEAN and WTO membership (para. 15) is slow.

20. Given the multiple challenges Timor-Leste is facing, the CPSFRV recommends that ADB build on its experience in infrastructure development to improve the quality of implementation, strengthen the capacity of implementing agencies, develop regulations and procedures, and produce sector studies. The CPSFRV also recommends that the nonlending program continue support for the preparation of high-quality investment projects and that efforts be stepped up to promote institutional capacity across sectors to drive economic diversification, private sector development, and ASEAN and WTO accession. This entails stronger governance, more capacity for public service delivery and management—especially operation and maintenance (O&M) of infrastructure to ensure its sustainability—and RCI. ADB also needs to focus its efforts on strengthening policy reforms, building institutional capacity, and preparing knowledge products.

#### B. National Development Strategy

21. The government prioritizes stability as a prerequisite to development. The SDP's long-term vision and development priorities target upper middle-income status and a gender-fair society by 2030, and underline infrastructure and policy reforms for human capital development and economic diversification. The SDP has strong political consensus and has been the basis of the official program of all governments since 2012. The present government is updating the SDP 2030 targets.<sup>42</sup> The SDP also provides a road map on how to achieve the SDGs and updating of the SDP provides an opportunity to consider and incorporate SDG targets.

<sup>39</sup> ADB. 2019. [The Social Protection Indicator for the Pacific: Assessing Progress](#). Manila. The unequal distribution results from the high payments to predominantly male war veterans.

<sup>40</sup> ADB. 2021. [Timor-Leste Country Partnership Strategy 2016-2020 Final Review Validation Report](#). Manila.

<sup>41</sup> The priorities of the [CPS 2016–2020](#) were extended to 2022 through the enhanced [country operations business plan, 2021–2023](#).

<sup>42</sup> UN Timor-Leste. 2020. [United Nations Sustainable Development Cooperation Framework \(UNSDCF\), Timor-Leste, 2021–2025](#). Dili. Support is being provided by the UN.

22. In August 2020, the government launched the ERP as a medium-term planning document for post-pandemic recovery. The ERP aims to develop economic drivers such as agriculture, tourism, and small and medium-sized enterprises; health and education services; affordable housing and community empowerment; connectivity; access to clean energy and to basic community infrastructure and services, while ensuring environmental protection; and good governance, including national security and government accountability. It reemphasizes investing in human capital and related infrastructure, after a decade of frontloading investments in physical infrastructure with priority for transport and energy.

### C. Role of Development Partners

23. Official development assistance to Timor-Leste is significant. It totaled \$183.1 million in 2020, equivalent to 13.6% of government expenditures (including grants and loans), and 11.4% of GDP (footnote 14). Although reported in the state budget books, it is almost entirely extra-budgetary. In 2019, the government approved the Aid Management Effectiveness Policy, which emphasizes the need for development partners to align themselves around the principles of the Paris Declaration and the New Deal for Engagement in Fragile States, among others, and in particular the use of country financial systems to deliver support. The Ministry of Finance organizes quarterly coordination meetings with development partners, and partners regularly convene and take turns to host sector coordination meetings. ADB is the lead coordinator for infrastructure.

24. ADB has been an important development partner of Timor-Leste, working in close cooperation with other development agencies.<sup>43</sup> A joint project management unit has been established for ADB, Japan International Cooperation Agency, and the World Bank roads projects. The European Union supports governance, health, road transport, and agriculture and forestry projects. The World Bank supports road transport, governance, health, education, and trade diagnostics. The International Monetary Fund provides technical assistance (TA) on revenue administration, taxation, national accounts, and other areas of PFM. The UN agencies support climate change response, national disaster management, governance, gender equality, education, and health. The largest bilateral partners in the last CPS period were Australia and the United States. Australia is active across most sectors and provides grants and TAs that include governance and security aspects, education, health, agriculture, rural infrastructure, and support to civil society organizations. The United States Agency for International Development focuses thematically on environmental protection and private sector development, and sector-wise on agriculture, tourism, and trade.<sup>44</sup>

### D. ADB's Strategic Objectives and Operational Priorities

25. **The strategy.** The overarching goal of the CPS 2023–2027 is to support Timor-Leste's pursuit of economic recovery, inclusive development, and climate resilience. The CPS identifies pathways for growth, building on findings from the inclusive and sustainable growth assessment, the fragility and resilience assessment, the governance and risk assessment, and the CPSFRV recommendation to diversify the areas of support while maintaining ADB's comparative advantage in infrastructure and services. The operational pipeline is being selectively extended in sectors where ADB has prior involvement and into new areas with targeted assistance. This is in line with the country priorities and ADB's experience in the region (para 30). The CPS proposes medium-term development interventions and crosscutting themes to support the country's

<sup>43</sup> Government of Timor-Leste. [Aid Transparency Portal](#) (accessed 27 Jul 2021). Includes loans, TA, and grants.

<sup>44</sup> Development Coordination Matrix (available from the list of linked documents in Appendix 3).

priorities and achievement of SDGs, in line with the operational priorities (OP1–OP7) of ADB’s Strategy 2030 and based on two pillars: (i) build climate-resilient infrastructure and basic services by improving connectivity, ensuring equitable access to water and sanitation, introducing more efficient and cleaner energy, investing in livable neighborhoods, and improving infrastructure governance; and (ii) promote an enabling environment for economic diversification by strengthening rural development and agriculture, human development, private sector development, financial access, and regional cooperation and international trade. Crosscutting priorities across the pillars are strengthening governance and institutional capacity; accelerating gender equality; and promoting knowledge and innovation, including digitalization. This framework is illustrated in the table. The CPS provides for flexibility to respond to evolving needs and priorities in a fragile, complex, and rapidly changing development context.

### The Country Partnership Strategy, 2023–2027

<b>Objective: To support Timor-Leste’s pursuit of economic recovery, inclusive development, and climate resilience</b>	
<b>Pillar 1</b>	<b>Pillar 2</b>
<p><b>Build Climate-Resilient Infrastructure and Basic Services</b></p> <p>SDP: infrastructure and social capital ERP: social capital (WUS)</p> <p>Priority SDGs: SDG 1, SDG 5, SDG 6, SDG 7, SDG 8, SDG 11, SDG 13</p>	<p><b>Promote an Enabling Environment for Economic Diversification</b></p> <p>SDP and ERP: economic development and institutional framework</p> <p>Priority SDGs: SDG 1, SDG 2, SDG 4, SDG 5, SDG 8, SDG 9, SDG 14, SDG 16</p>
<ul style="list-style-type: none"> <li>• Improve connectivity infrastructure (OP1, OP2, OP3, OP4, OP5, OP7)</li> <li>• Ensure access to water and sanitation for all (OP1, OP2, OP3, OP4)</li> <li>• Introduce more efficient and cleaner energy (OP1, OP2, OP3, OP4)</li> <li>• Invest in public housing and livable neighborhoods (OP1, OP2, OP3, OP4)</li> <li>• Improve the quality of infrastructure governance and public investment management (OP6)</li> </ul>	<ul style="list-style-type: none"> <li>• Promote rural development, agricultural value chains, blue economy, and food security (OP1, OP2, OP3, OP5)</li> <li>• Strengthen human development through improved skills (OP1, OP2)</li> <li>• Explore public–private sector partnership opportunities (OP1, OP6)</li> <li>• Improve financial access (OP1, OP2, OP5, OP6)</li> <li>• Promote regional cooperation and international trade (OP6, OP7)</li> </ul>
<p><i>Crosscutting priorities</i></p> <ul style="list-style-type: none"> <li>• Strengthen governance and institutional capacity, PFM, public service delivery, and enabling legislations for market-driven development, revenue forecasting, planning and mobilization, and domestic resource mobilization (OP1, OP2, OP5, OP6, OP7)</li> <li>• Accelerate gender equality measures (OP1, OP2)</li> <li>• Promote knowledge and innovation—strengthen ICT capacity and promote digital solutions (OP1, OP6, OP7)</li> </ul>	

ERP = Economic Recovery Plan; ICT = information and communication technology; OP = operational priority; PFM = public financial management; SDG = Sustainable Development Goal; SDP = Strategic Development Plan, 2011–2030; WUS = water and other urban infrastructure and services.

Notes: OP1 = addressing remaining poverty and reducing inequality; OP2 = accelerating progress in gender equality; OP3 = tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; OP4 = making cities more livable; OP5 = promoting rural development and food security; OP6 = strengthen governance and institutional capacity; OP7 = fostering regional cooperation and integration. SDG 1: No Poverty; SDG 2: Zero Hunger; SDG 4: Quality Education; SDG 5: Gender Equality; SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 8: Decent Work and Economic Growth; SDG 9: Industry, Innovation, and Infrastructure; SDG 11: Sustainable Cities and Communities; SDG 13: Climate Action; SDG 14: Life Below Water; SDG 16: Peace, Justice, and Strong Institutions.

Source: Asian Development Bank.

26. **Pillar 1: Build climate-resilient infrastructure and basic services.** This pillar will support basic infrastructure development in five areas by embedding climate-resilient designs, O&M, private sector participation, and cofinancing. In addition, the related support for knowledge and capacity assistance, including sector planning documents and governance reforms, is detailed in the country knowledge plan (CKP) (Appendix 2).

- (i) **Improve connectivity infrastructure.** ADB will support the government in building sustainable transport infrastructure and will continue efforts to strengthen road safety and O&M. The public transport project aims to reduce urban traffic congestion and expand business development and job opportunities.
- (ii) **Ensure access to water and sanitation for all.** ADB will build sustainable water infrastructure and help expand services to all municipal capitals. ADB will also support measures to attract early involvement of the private sector in O&M service delivery to enable knowledge and technology transfer to the newly created water utility.<sup>45</sup>
- (iii) **Introduce more efficient and cleaner energy.** ADB will focus on investments to improve the reliability of electricity supply by strengthening the transmission and distribution network. Energy sector reforms and private sector participation will be prioritized to strengthen institutions, planning systems, and capacity. ADB will also support the shift to renewable energy sources by exploring solar power production with innovative battery storage solutions through the private sector.
- (iv) **Invest in public housing and livable neighborhoods.** ADB will adopt an integrated, climate-friendly, and resilient urban development approach, including support for policy, regulation, and governance reforms in new city development projects, which could be replicated in other municipalities. Digital and advanced technologies will be mainstreamed with private sector participation.
- (v) **Improve the quality of infrastructure governance and public investment management.** ADB will assist the preparation of governance legislation and provide institutional support across infrastructure sectors, including implementation arrangements to enhance private sector participation.

27. **Pillar 2: Promote an enabling environment for economic diversification.** This pillar will help create the preconditions for economic diversification, such as human development and strengthening the business climate, in five support areas, with a focus on improving the overall policy environment and institutions. Upstream assessments to identify potential areas for interventions, such as agriculture value chains and strengthening private sector development, are expanded in the CKP.

- (i) **Promote rural development, agricultural value chains, blue economy, and food security.** ADB will support rural livelihoods and food security by improving agricultural productivity, natural resource management, and local government planning. Opportunities for nonsovereign operations to develop agriculture value chains will be explored. ADB will also explore support to strengthen environmental management in rural and farming communities and ocean-related projects, with a focus on pollution control in coastal areas,

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<sup>45</sup> ADB is developing an O&M contract template for water and wastewater management agencies.

nature-based solutions for coastal climate adaptation, fisheries governance, and sustainable aquaculture development.<sup>46</sup>

- (ii) **Strengthen human development through improved skills.** ADB will help build human capital through knowledge products, policy reforms, and investments in secondary technical education, i.e., upgrade school infrastructure, improve teaching and learning materials as well as learning outcomes, and create an integrated skills development system.
- (iii) **Explore public–private partnership opportunities.** To improve regulatory frameworks for private sector development, ADB is supporting the preparation of a Strategic Road Map, 2022–2030 for TradeInvest, Timor-Leste’s investment and export promotion agency, as well as establishing an electronic business registration platform. This will allow the government to identify priority sectors and projects for private sector participation. Further programmatic support for implementation is planned. In addition to the upstream support for increased private sector participation, ADB has identified transaction advisory opportunities in waste management, renewable energy, and ICT and will explore other areas.<sup>47</sup> For the renewable energy sector, there may be an opportunity for private sector financing.
- (iv) **Improve financial access.** ADB will explore support for the government’s reforms aimed at expanding financial services, diversifying financial products, and establishing regulatory frameworks for private sector development.
- (v) **Promote regional cooperation and international trade.** ADB will intensify support for Timor-Leste’s accession to ASEAN and the WTO, and promote RCI by assisting cross-border trade, as well as strengthening trade policies for exports and foreign direct investment in areas such as agribusiness.

28. **Crosscutting themes.** ADB, in cooperation with development partners, will support government priorities through three crosscutting themes.

- (i) **Strengthen governance and institutional capacity.** ADB will support governance and institutional strengthening, PFM, public service delivery, and enabling legislation for market-driven development, revenue forecasting, planning, and domestic resource mobilization. The SDP and ERP contain a broad governance agenda for reforms, and other development partners are active in the areas of PFM and fiscal management. ADB will explore support for a regulatory framework for private sector development, involving a well-sequenced and programmatic approach tailored to the government’s priority policy areas. It will also help develop the capacity of public institutions and procurement systems as part of investment projects.<sup>48</sup>

<sup>46</sup> ADB. 2019. [Action Plan for Healthy Oceans and Sustainable Blue Economies](#). Manila.

<sup>47</sup> With support from ADB’s Office of Public–Private Partnership, Timor-Leste’s first sanitary landfill will be constructed and operated by private sector partners in the second half of 2022 to improve solid waste management. Contracts and tenders for ICT (digital ID) and renewable sector (solar IPP) are under preparation.

<sup>48</sup> A Methodology for Assessing Procurement Systems (MAPS) is being developed in cooperation with the World Bank.

- (ii) **Accelerate gender equality measures.** ADB will step up gender mainstreaming across operations and will target to achieve its own corporate indicators.<sup>49</sup> It will continue efforts to strengthen Timor-Leste's judicial capacity to combat gender-based violence. It will explore helping the government improve the registry systems that form the backbone of social protection programs, to achieve better gender targeting and contributions to policy dialogues on women's economic empowerment.
- (iii) **Promote innovation and knowledge.** ADB will promote digital solutions in pipeline projects (e.g., in the ICT and energy sectors), such as introducing unique digital identities to assist public service delivery and targeting of government programs. It will build long-term climate sustainability across operations. Knowledge support will be explored to help achieve adaptive social protection and better economic and environmental forecasting systems for the benefit of vulnerable communities.

29. **Alignment with ADB priorities.** The CPS 2023–2027 reflects the seven operational priorities (OP1–OP7) of ADB's Strategy 2030, as shown in the table.<sup>50</sup> Support areas built across the pillars include reducing poverty and inequalities (OP1) by strengthening gender equality (OP2), climate change resilience (OP3), and governance (OP6). The OPs also encompass various aspects of human capital development and SDGs. In light of Timor-Leste's growing urban population and its vulnerability to health and climate change issues, improving water supply, sanitation, and planning is an urgent priority. Energy projects aim to improve network sustainability and service reliability. Support for agriculture will target rural development and food security (OP5). ADB is supporting Timor-Leste's accession to ASEAN and the WTO and will continue to foster RCI (OP7). About 80% of the projects in the pipeline aim to strengthen governance and institutional capacity (OP6). ADB's advisory and TA support will also include nonsovereign operations in food and agribusiness, health, and renewable energy.

## E. Differentiated Approach and Value Addition

30. Road transport projects have so far dominated the ADB portfolio in Timor-Leste. The pipeline will be selectively extended into new areas with targeted, built-in project management and technical assistance for diversification in line with government priorities, lessons from previous engagements, and ADB's country knowledge. Strategy 2030 calls for fragility- and context-specific approaches. Support for differentiation in Timor-Leste will be reflected in stronger institutional capacity building and PFM assistance. The CPS will exploit One ADB's comparative advantages of targeted and synergy-building support by combining (i) tailored policy advice, upstream analytical work, dissemination of best practices and operationally relevant knowledge products, and results-focused partnerships in areas such as domestic revenue mobilization, PFM, RCI, and climate change; (ii) judiciously scaled-up financial assistance, e.g., by catalyzing more official cofinancing, private sector financing, investment, and innovation and technology support for basic infrastructure and related O&M, agriculture, pursuit of SDGs, and governance; (iii) and targeted and enabling TA and capacity development based on the FCAS–SIDS approach, and process improvements in project preparation, implementation, and procurement.<sup>51</sup>

<sup>49</sup> ADB. 2019. [Strategy 2030 Operational Plan for Priority 2: Accelerating Progress in Gender Equality](#). The targets to be achieved by 2030 are: 75% of ADB operations will support gender equality, 55% will support gender mainstreaming, and 80% will achieve the intended gender equality results.

<sup>50</sup> OP1: addressing remaining poverty and reducing inequalities; OP2: accelerating progress in gender equality; OP3: tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; OP4: making cities more livable; OP5: promoting rural development and food security; OP6: strengthening governance and institutional capacity; OP7: fostering regional cooperation and integration.

<sup>51</sup> ADB. 2021. [Fragile and Conflict-Affected Situations and Small Island Developing States Approach](#). Manila.

## F. Priorities for Knowledge Support

31. ADB knowledge support through the CKP will align with the CPS pillars, prioritizing solutions for thematic and sector-specific analyses, policy reforms, private sector development, and digital technologies for public administration, such as education, health, and trade facilitation. Knowledge sharing and dissemination of best practices will benefit the regulation of utilities and transport agencies. To improve infrastructure governance and public investment management, ADB will provide capacity development in project identification and procurement modalities, including PPPs, and infrastructure O&M. Strengthening domestic non-oil revenue forecasting, planning, and mobilization will help address the significant challenges of declining petroleum revenues. ADB will also share knowledge and experience through economic and policy dialogues at regional platforms such as ASEAN, country workshops, and national training programs. TA projects will directly support the preparation and implementation of pipeline projects.

## IV. STRATEGY IMPLEMENTATION

### A. Indicative Resource Parameters

32. Timor-Leste is a Group B country eligible for both regular ordinary capital resources and concessional ordinary capital resources lending. The indicative available resources include \$464.0 million in ordinary capital resources and \$76.7 million in concessional resources for 2023–2025. The resources to be committed for each year will depend on project quality-at-entry and readiness, and the outcome of the country performance assessments. Cost-sharing parameters remain the same and allow ADB to finance up to 99% of loans and TA costs on a portfolio-wide basis. Actual cost-sharing parameters will be determined based on project-specific considerations and justified during a project's economic and financial due diligence. Given Timor-Leste's increased investment needs, ADB will strive to leverage cofinancing and mobilize private sector financing. In addition, cost-sharing with the government will support investments and knowledge work.

### B. Implementation Priorities

33. **Project readiness and portfolio implementation.** To enhance the performance of the growing portfolio and ensure timely project implementation, ADB, in close coordination with the government, introduced more rigorous project readiness criteria at approval. ADB will help the executing and implementing agencies improve their portfolio management, procurement, and contract management capacities, targeting any identified bottlenecks. Project development facilities and TA will augment project-processing resources in procurement, safeguard matters, financial management, and disbursement. Differentiation will apply, along with specific business processes under the FCAS–SIDS approach.

34. **Reinforcing the One ADB approach.** ADB operations will emphasize an integrated, One ADB approach that encourages collaboration and exploration of joint opportunities between sovereign, advisory, and nonsovereign departments including the Southeast Asia Department, the Office of Public–Private Partnership and Private Sector Operations Department. Given the nascent nature of private sector development, it is likely the Office of Public–Private Partnership's advisory opportunities will precede, followed by some of the advised projects being funded by the Private Sector Operations Department. The Southeast Asia Department will collaborate with the Economic Research and Regional Cooperation Department and the Sustainable Development and Climate Change Department on knowledge. ADB will continue to strengthen its presence in Timor-Leste through outposted staff from sector divisions. The Timor-Leste Resident Mission will

drive the One ADB approach, including through explicit links to workplans and regular coordination and monitoring meetings.

35. **Modalities.** Investment projects and TAs will provide both the infrastructure and the capacity-building support for improved service delivery as part of the post-pandemic recovery efforts. ADB will also explore opportunities to provide reform support in priority areas such as public sector management and climate change.

### C. Monitoring of Results

36. The progress of CPS implementation will be monitored through a comprehensive CPS results framework that includes both physical and institutional indicators (Appendix 1). Key outcome indicators are harmonized with the government goals in the SDP and ERP to strengthen alignment with national priorities. Progress will be monitored through project and TA review missions, annual portfolio reviews, and the midterm update of the CPS results framework.

### D. Risks

37. **Exposure to global volatility.** The narrowness of the country's economic activities, its dependence on exports of crude petroleum, and reliance on imports of food and refined petroleum, leave Timor-Leste exposed to volatilities in the global economy, as exemplified by the recent sharp increases in the prices of food and refined petroleum. The price volatility could further aggravate food insecurity and malnutrition in the country. Returns on the Petroleum Fund are also vulnerable to downturns and volatility in global equity markets. The CPS emphasizes support for economic diversification; a shift to renewable energy; and increased agricultural productivity and value addition, including greater food security through stronger domestic agricultural production.

38. **Climate and disaster risk.** Climate and disaster risks threaten livelihoods, economic performance, and infrastructure, and may affect the sustainability of ADB-financed projects. The CPS prioritizes strengthening mitigation and adaptation measures to reduce climate change-related risks and enhance climate resilience. ADB will continue to support the government on disaster risk reduction, preparedness, and response in line with its 2021 Revised Disaster and Emergency Assistance Policy and Revised Emergency Assistance Loan Policy.<sup>52</sup>

39. **Public finance challenges.** Given the relatively high level of savings held in the Petroleum Fund, the government may delay carrying through the necessary reforms to ensure long-run fiscal sustainability. This may be further impacted by the political context. ADB will support governance reforms, establishing key public institutions responsible for infrastructure investment and management, policy dialogues to improve aid effectiveness in consultation with development partners, and strengthening of the country financial management systems.

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<sup>52</sup> ADB. 2021. [Revised Disaster and Emergency Assistance Policy \(R-Paper\)](#). Manila; ADB. 2021. [Revised Emergency Assistance Loan Policy \(R-Paper\)](#). Manila.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

### Alignment with Government Objectives

<p><b>Country Goals<sup>a</sup></b></p> <ol style="list-style-type: none"> <li>1. Reduce the proportion of the population living below the national poverty line (SDG 1*): to 35.0% in 2027, from 41.8% in 2014</li> <li>2. Increase the annual growth rate of non-oil gross domestic product per capita (SDG 8**): to 7.2% in 2027, from 5.5% in 2019</li> <li>3. Reduce the number of persons per 100,000 inhabitants directly affected by disasters: to 8,300 by 2027, from 11,310 in 2020 (SDGs 1*, 11*, and 13*)</li> </ol>
<p><b>National Development Impacts<sup>b</sup></b></p> <ol style="list-style-type: none"> <li>1. Improved Human Development Index scores (SDGs 1, 3, 4, and 5)</li> <li>2. Improved food security and decreased malnutrition rates (SDGs 1, 2, and 3)</li> <li>3. Increased population using electricity, and improved water and sanitation services (SDGs 6, 7, 10)</li> <li>4. Enhanced human capital in vocational skills dimension (SDGs 4 and 11)</li> <li>5. Increased public-private partnerships, in both number and investment value (SDG 17)</li> </ol>

### ADB-Supported Program Results and Performance

<b>CPS Objective 1: Build climate-resilient infrastructure and basic services</b>			
<b>Key Outcomes</b>	<b>Indicators</b> (target: 80% achievement; baseline: established at project level) <sup>b</sup>		
1. Reliable, resilient, and sustainable transport connectivity improved		Transport infrastructure assets established or improved (expected: 6) (OP1.3.1)	
		Time-saving or gender-responsive infrastructure assets and/or services established or improved (expected: 1) (OP2.4.1)	
		People with strengthened climate and disaster resilience (expected: TBD) <sup>c</sup> (OP3.2)	
		Service delivery standards adopted and/or supported in implementation by government entities (expected: 2) (OP6.2.1)	
2. Access to resilient, quality, and sustainable basic services (health services, water supply and sanitation services, electricity, and housing) improved		People benefiting from improved services in urban areas (expected: TBD) <sup>c</sup> (OP4.1)	
		Entities for infrastructure services with improved management functions and financial sustainability (expected: 3) (OP6.1)	
		Measures to strengthen the governance of state-owned enterprises supported in implementation (expected: 8) (OP6.2.3)	
<b>Resources</b>			
Ongoing portfolio <sup>d</sup>	Sovereign Operations	Nonsovereign Operations	TA
	\$525.000 million (9 projects)	0	\$49.000 million (13 TA projects)
Indicative pipeline <sup>f</sup>	Sovereign Operations (2023–2025)	Nonsovereign Operations (2023–2025)	TA (2023–2025)
	\$390.000 million (6 projects)	\$50.000 million <sup>e</sup> (1 project)	\$6.200 million (5 TA projects)
<b>CPS Objective 2: Promote an enabling environment for economic diversification</b>			
<b>Key Outcomes</b>	<b>Indicators</b> (target: 80% achievement; baseline: established at project level) <sup>b</sup>		
1. Rural development, agricultural value chains,		Farmers with improved market access (expected: 10,600) (OP5.2)	

blue economy, and food security improved		Land with higher productivity (expected: 100,240 hectares) (OP5.3)	
2. Access to relevant and quality education services improved		People benefiting from improved education services (expected: TBD) <sup>c</sup> (OP1.1)	
		Women enrolled in TVET and other job training (expected: 6,360) (OP2.1.1)	
		Solutions to prevent or address gender-based violence implemented (expected: TBD) <sup>c</sup> (OP2.2.3)	
3. Private sector development strengthened (covering SMEs and PPPs, including access to financing)		Poor and vulnerable with access to improved financial services (expected: 5,300) (OP1.3)	
		Measures supported in implementation to improve capacity of public organizations to promote both international and domestic private sector participation in public projects (expected: 2) (OP6.1.2)	
		Government officials with increased capacity to design, implement, monitor, and evaluate relevant measures (expected: 6) (OP6.1.1) <sup>d</sup>	
4. Regional cooperation and international trade promoted		Transport and ICT connectivity assets established or improved (expected: 1) (OP7.1.1)	
		Measures to improve execution of provisions in existing or new trade or investment agreements supported in implementation (expected: 5) (OP7.2.1)	
<b>Resources</b>			
Ongoing portfolio <sup>e</sup>	Sovereign Operations	Nonsovereign Operations	TA
	\$304.000 million (6 projects)	0	\$21.000 million (7 TA projects)
Indicative pipeline <sup>f</sup>	Sovereign Operations (2023–2025)	Nonsovereign Operations (2023– 2025)	TA (2023–2025)
	\$156.000 million	\$16.000 million <sup>g</sup> (1 project)	\$1.575 million (6 TA projects)

ADB = Asian Development Bank, CPS = country partnership strategy, ICT = information and communication technology, OP = operational priority, PPP = public–private partnership, SDG = Sustainable Development Goal, SMEs = small and medium-sized enterprises, TA = technical assistance, TBD = to be determined, TVET = technical and vocational education and training.

<sup>a</sup> The targets for the country goals are based on the government's Government of Timor-Leste. 2010. *Strategic Development Plan, 2011-2030*. The last census was carried out in 2014. The baseline for reduction in poverty will be adjusted when data is available. Dili. SDG alignment: \* = Official SDG indicator, \*\*\* = SDG-aligned indicator, \*\* = Proxy indicators for identified SDGs.

<sup>b</sup> All outcome indicators target at least an 80% achievement rate, meaning aggregate results achieved by a completed operation should be at or above 80% of the aggregate expected results, as set out in advance in the project documents. Indicative expected results are the aggregate results expected to be achieved by projects for which a completion report (i.e., project completion report, TA completion report, or extended annual review report) is expected to be circulated during the CPS's reporting period which spans 2022-2026. The expected results are indicative values only; the specific target values that will be used to evaluate the effectiveness of ADB country programming in the country assistance program review will be established based on the project completion reports circulated during the CPS period.

<sup>c</sup> TBD. This result is a focus of operations under implementation; however, these projects are not expected to be completed during the CPS reporting period.

<sup>d</sup> By definition, OP6.1.1 (Government officials with increased capacity to design, implement, monitor, and evaluate relevant measures) refers to government policies and regulations that support private sector development. Therefore, outcome indicator OP6.1.1 contributes statement on private sector development.

- <sup>e</sup> Resources for the ongoing portfolio refer to the total committed amounts. Resources for an operation or technical assistance (TA) are included under every CPS objective the operation or TA is aligned with; therefore, the same resources may be included under more than one CPS objective.
- <sup>f</sup> ADB estimates.
- <sup>g</sup> These are public-private partnership projects under the Office of Public Private Partnership. The loan amount is indicative and to be confirmed.

Source: Asian Development Bank.

## COUNTRY KNOWLEDGE PLAN

### A. Introduction

1. The Timor-Leste Country Knowledge Plan (CKP) 2023–2027 will support the implementation of the country partnership strategy (CPS), 2023–2027 with targeted knowledge products through sector and thematic analyses and capacity development activities. In alignment with the Knowledge Management Action Plan 2021–2025 of the Asian Development Bank (ADB), the CKP uses a programmatic approach to support applied, country-driven, needs-based, and results-focused knowledge products. Since Timor-Leste classifies as being in a fragile and conflict-affected situation (FCAS) and a small island developing state (SIDS), ADB will apply the FCAS–SIDS approach to bring in additional resources for capacity development and knowledge, with emphasis on institutional reforms, private sector development, and regional cooperation and integration (RCI).

### B. Knowledge Needs

2. Knowledge needs for Timor-Leste are grouped by the two CPS pillars: (i) build climate-resilient infrastructure and basic services, and (ii) promote an enabling environment for economic diversification. Project preparedness and delivery require capacity building initiatives. Economic diversification requires strong knowledge support. The fragility assessment will be selectively built upon with localized resilience assessments for project preparation. The CKP is aligned with the pillars and the crosscutting themes of the CPS framework. It draws from ADB's sector and thematic assessments; continuous discussions with the government; and extensive country consultations with donors, the private sector, and civil society. It also includes inputs from ADB's sector and thematic groups and the knowledge team.

3. **Build infrastructure and basic services.** Timor-Leste has made progress in building transport and electricity infrastructure, and the government-initiated investments in water supply and sanitation and social infrastructure. Physical and institutional strengthening for climate resilience will help build inclusive and sustainable infrastructure and services, fiscal sustainability, and environmental feasibility. The operation and management (O&M) of infrastructure is also an issue, and the government is keen on public–private partnership (PPP) options. Meeting specific needs will require (i) improving planning and budgeting in the infrastructure sector and subsectors, and developing strategic plans; (ii) filling capacity gaps in O&M management, including contracting; (iii) addressing issues in legal and regulatory frameworks; (iv) accelerating private sector capacity development in infrastructure; and (v) deepening knowledge of, and information on, infrastructure-related climate risks. Improved access to infrastructure and basic services supports human capital development.

4. **Promote an enabling environment for economic diversification.** Economic diversification requires strengthening human capital and the business-enabling environment to accelerate job creation for youth. The government has identified agriculture as a priority area and catering to its needs will involve assessing and strengthening the value chains to promote private sector development and increasing productivity to meet food security issues. Meeting the knowledge needs for human capital development requires identifying gaps in the provision of technical and vocational education and training (TVET), improving access to health, and strengthening the delivery of social protection programs. Key challenges to private sector development are limited access to financial products, governance issues with contract enforcement, commercial disputes, limited regional integration, mismatches between labor market needs and available workforce skills, as well as expensive or limited access to information

and communication technology (ICT) connectivity. The knowledge needs to be met involve tackling remaining legal and regulatory gaps and governance risks; improving access to finance and deepening financial literacy; and accelerating international trade and RCI.

### **C. Scope of ADB's Planned Knowledge Operations**

5. The CKP is aligned with the CPS objective of supporting Timor-Leste's pursuit of economic recovery, inclusive development, and climate resilience. It will contribute to the achievement of the following knowledge results: (i) improved access to long-term fiscal and environmentally sustainable infrastructure and services and strengthened infrastructure management through support for sector policies and capacities; and (ii) improved knowledge and capacity to develop human capital and a viable private sector and intensify Timor-Leste's regional integration efforts.

6. **Build climate-resilient infrastructure and basic services.** Knowledge services to help build climate-resilient, inclusive growth will include support for governance reforms. ADB will improve the design of climate-resilient infrastructure projects through policies and action plans, research, and enhanced government capacities. In addition to project preparedness for road transport projects, support for public transport management and power grid strengthening will complement urban planning. Sector assessments will explore options for PPPs in solar development. ADB will also explore options for the development of a government-led and development partner-supported asset management and O&M strategy with credible financing plans. ADB will continue its long-term support for knowledge transfer in the regulation of water and power utilities, and for transport. Masterplans for water and sanitation will be developed for remaining municipal capitals. Studies will be conducted to assess the needs and opportunities in the subsector of urban housing in Dili, as well as analyses of PPP options for the digitalization of services, including the development of unique digital identities.

7. **Promote an enabling environment for economic diversification.** ADB will assist human capital development and private sector development through project support as well as sector and thematic analyses. Given chronic food insecurity in the country and ADB's new commitments on nutrition, the potential for a multisector response in agriculture will be explored, such as developing agricultural value chains and strengthening water harvesting. Strengthening financial inclusion and good governance will help remove the constraints to the development of an enabling business environment. ADB will explore knowledge work on the blue economy and sustainable agricultural practices, and support Timor-Leste's enhancement and implementation of its nationally determined contributions as per the United Nations Climate Change Conference (COP26) Glasgow Climate Pact.

8. ADB aims to use its knowledge support to improve public sector capacity for planning and management in education and TVET services to scope for the skills project. Sector studies will be planned in the health sector to explore opportunities to strengthen health service delivery. Opportunities for knowledge to strengthen the social protection system will be discussed with the government. ADB will also propose capacity-building technical assistance (TA) in relation to PPPs with a view to further strengthening the institutional and regulatory frameworks that underpin human capital development and private sector participation in the economy.

9. Strengthening RCI also stimulates private sector development. ADB will reinforce its support for Timor-Leste's process of full accession to the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization. Studies are planned on developing regional value chains and cross-border trade. The participation of government officials in thematic seminars will

be supported. ADB will explore previous support work on access to finance for micro, small, and medium-sized enterprises. Further, improving the country's ICT capacity—connectivity is expensive and existing services are of insufficient quality—will help accelerate a business-enabling environment and the development of e-governance systems. Sector studies will identify gaps in the legal and regulatory framework, while identifying potential areas of support from ADB.

10. **Crosscutting themes.** ADB will support crosscutting themes for improved governance, institutional reform, and capacity strengthening across operations, and back up ongoing public sector reforms related to infrastructure management with TA to reinforce the capacity for O&M, corporatize service-providing entities, and strengthen fiscal sustainability. Strategic knowledge work will be planned to identify priority investments and the subsectors most conducive to economic diversification, and to carry the post-pandemic economic recovery efforts. Analytical support to monitor progress on the Sustainable Development Goals will be discussed at thematic, national, and municipal levels, and in collaboration with the government agencies responsible for data collection and analysis, especially as regards access to basic services where data is lacking or insufficient for proper monitoring. ADB will help strengthen gender indicators and improve the compilation of sex-disaggregated data during project preparation and implementation, to inform gender analysis and better assess the impact of gender mainstreaming in ADB projects. ADB will also explore innovative ways to disseminate knowledge and use technology.

11. **Capacity building and knowledge sharing.** ADB will continue to focus its support on institutional capacity during project implementation, ensure compliance with ADB procedures—such as in all aspects of procurement, financial management, safeguards, and gender equality—and introduce financing tools such as policy-based loans effectively. ADB will plan to increase knowledge sharing through field visits and best-practice demonstrations. Procurement modalities and contract management practices will be supported through specific training sessions for entities involved in ADB projects. In line with the revised FCAS–SIDS approach, simplified procedures will be applied. ADB will also help strengthen country financial management systems by developing regular capacity building initiatives and providing handholding support to share best financial management practices through TA and regular engagement with government staff.

#### **D. Areas of Collaboration with Partners**

12. ADB will collaborate with other development partners and civil society organizations in improving public financial management—e.g., planning, budgeting, procurement, and controls—through projects and cross-sector capacity-building TAs; and in supporting reforms and activities related to corporatization, national accounting and audit systems, fiscal policy, and agricultural productivity. Likewise, future requests from the government will be considered in coordination with development partners already active in Timor-Leste, such as the Government of Australia (through its Department of Foreign Trade), the European Union, and the World Bank Group. Support to help solve infrastructure governance issues will be discussed with the World Bank and the Japan International Cooperation Agency. A follow-up of the Methodology for Assessing Procurement Systems and related action plan will be monitored and supported. Opportunities for operational knowledge partnerships will be explored.

#### **E. Resource Allocation**

13. The pipeline for 2023–2025 includes 18 regional and country-specific TA projects totaling \$14.8 million. The delivery of knowledge products in the CKP will be planned through a knowledge TA, and additional options will be explored through dedicated TA resources and trust funds for gender equality, high technology, and poverty reduction.

## Country Knowledge Plan

<b>CPS Pillar 1: Build Climate-Resilient Infrastructure and Basic Services</b> <b>Objective:</b> Achieve inclusive growth by providing environmentally sustainable connectivity, power, and basic water and sanitation services to the population. <b>Knowledge Result:</b> Improved access to long-term fiscally and environmentally sustainable infrastructure and services, and strengthened infrastructure management through support for sector policies and capacities.		
<b>Knowledge Results Categories and Outputs</b>		
<b>Improved program/project delivery</b>	<b>Enhanced capacities and skills</b>	<b>Increased awareness and evidence-based information</b>
<ul style="list-style-type: none"> <li>• Strengthen engagement in existing sectors (transport, water and urban services, and energy) for inclusive and environmentally sustainable green growth</li> <li>• Design new public housing project.</li> </ul> <p>KPS</p> <ol style="list-style-type: none"> <li>1. Network Operation and Improvement Preparing for ICT, TRTA</li> <li>2. Timor-Leste Energy Sector Study</li> <li>3. Hydro and solar power technical study (TBD)</li> <li>4. Public housing (TA)</li> </ol>	<ul style="list-style-type: none"> <li>• Provide institutional strengthening and capacity-building support in government departments and agencies for infrastructure management, focused on operation and maintenance, planning capacity and administration, project implementation, financial management, and fiscal and governance risks for SOEs.</li> <li>• Strengthen expertise and knowledge for private sector participation.</li> <li>• Provide capacity building technical assistance in relation to PPPs and advise on possible strengthening of institutional and regulatory framework to promote private sector participation in the economy.</li> </ul> <p>KPS</p> <ol style="list-style-type: none"> <li>1. Experience sharing on Market Access offers for multilateral and regional trade (TA 6542)</li> <li>2. Power Distribution Automation Training (Loan: Power Distribution Modernization Project)</li> <li>3. Capacity building of EDTL on Distribution Network Operation and Improvement (Loan: Power Distribution Modernization Project) PPP capacity development for renewable energy projects</li> </ol>	<ul style="list-style-type: none"> <li>• Document and disseminate policy briefs, sector plans, and road maps to improve planning, strategies, and sector data analyses.</li> <li>• Raise awareness through knowledge-sharing events on sustainable infrastructure management and fiscal sustainability for better decision-making.</li> <li>• Hold consultations on urban housing schemes.</li> </ul> <p>KPS</p> <ol style="list-style-type: none"> <li>1. Designing public housing schemes in Timor-Leste</li> <li>2. Strengthening SOEs for infrastructure delivery</li> <li>3. PPP for renewable energy in Timor-Leste</li> </ol>

<b>CPS Pillar 2: Promote an enabling environment for economic diversification.</b>		
<b>Objective:</b> Reduce dependence on oil revenues and achieve resilient growth with private sector development and regional integration.		
<b>Knowledge Result:</b> Improved knowledge and capacity for private sector development and human capital development as well as for Timor-Leste's regional integration efforts.		
<b>Knowledge Results Categories and Outputs</b>		
<b>Improved program/project delivery</b>	<b>Enhanced capacities and skills</b>	<b>Increased awareness and evidence-based information</b>
<ul style="list-style-type: none"> <li>• Conducting studies on food security, developing agriculture value chains, and strengthening rural development.</li> <li>• Strengthening education sector policies for TVET.</li> <li>• Preparing assessments and policy documents for enhanced human development in the health sector and for social protection.</li> <li>• Identifying new areas of regional integration and fostering a business-enabling environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Hold knowledge-sharing workshops, training, and seminars to improve PPP and private sector capacities to unlock private sector development in line with government priorities e.g., in agriculture.</li> <li>• Conduct knowledge-sharing events and workshops to strengthen regional integration and cooperation that improve private sector participation in business opportunities and trade.</li> <li>• Strengthen judiciary capacity to deal with gender-based violence.</li> </ul>	<ol style="list-style-type: none"> <li>1. Publish and disseminate knowledge products to support reforms in technical education.</li> <li>2. Identify gaps in existing legal and regulatory frameworks that hinder business development and economic diversification.</li> <li>3. Share regional knowledge and experience to support policy reform and create synergies across sectors.</li> <li>4. Publish sector study and plans in private sector areas with high potential, such as value chain development, to accelerate diversification.</li> <li>5. Identify gaps in legislation and improve information systems to enhance judicial services.</li> </ol>
KPS	KPS	KPS
<ol style="list-style-type: none"> <li>1. Agriculture sector scoping assessments (55139-001)</li> <li>2. Food and nutrition in Timor-Leste</li> <li>3. Education and skill development project scoping study</li> <li>4. Health sector support assessment</li> <li>5. New areas for RCI</li> </ol>	<ol style="list-style-type: none"> <li>1. Toolkits for ASEAN</li> <li>2. Training Workshop for Communication Unit of Ministry of Foreign Affairs</li> <li>3. Market Access Offer Guidelines</li> <li>4. Rules of Origin: Gaps and impact assessment of ASEAN and ASEAN FTAs, policy briefs, draft legislation, and relevant operational procedures (TA 6542-TIM)</li> <li>5. Building capacity of judges and judicial officers to handle cases of violence against women and girls (TA 6702-REG)</li> </ol>	<ol style="list-style-type: none"> <li>1. Development Partners Meeting on ASEAN Economic Community, event (TA 6542-TIM)</li> <li>2. Technical Education (Policy brief) (Grant 0274)</li> <li>3. Toolkit for judges and judicial officers on gender-based violence cases and access to justice issues (TA 6702-REG)</li> <li>4. Cost-benefit analysis of Timor-Leste's accession to ASEAN (TA 6542-TIM)</li> </ol>

ASEAN = Association of Southeast Asian Nations, CPS = country partnership strategy, ECTL = Eletricidade de Timor-Leste, FTA = free trade agreement, ICT = information and communication technology, KPS = knowledge products and services, PPP = public-private partnership, RCI = regional cooperation and integration, REG = regional, SOE = state-owned enterprise, TA = technical assistance, TBD = to be determined, TIM = Timor-Leste, TRTA = transaction technical assistance, TVET = technical and vocational education and training. Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=TIM-2023>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix