



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation intends to provide assistance to the Government of Timor-Leste to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being sent to the Congress on November 16, 2021. The assistance may be provided and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Aysha House  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

November 16, 2021

PROGRAM: Eligible Countries  
APPROPRIATIONS CATEGORY: Fiscal 2021 Program Funds  
OBLIGATION AMOUNT: \$3,000,000

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021; and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$3,000,000 under section 609(g) of the Act to provide assistance to the Government of Timor-Leste for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with MCC.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed compact, further design activities, and develop implementation strategies.

## **SUPPLEMENTAL INFORMATION - MCC 609(G) ACTIVITIES FOR TIMOR-LESTE**

### **Background**

Timor-Leste is the world's second youngest democracy, occupying the eastern half of the island of Timor at the edge of the Indonesian archipelago. It is home to a population of 1.3 million.

In 2002, Timor-Leste voted for independence from Indonesia in a referendum that had substantial support from the United States and the international community. When the Indonesian military pulled out, nearly all public infrastructure—including health clinics, schools, roads, ports and airports, water and sanitation systems, and government facilities—was destroyed. As the country emerged from its violent twenty-year struggle for independence, the Timorese faced enormous development needs as they began to build their country. There were severe shortages of human capital and exceptionally weak governing institutions. Few Timorese had access to formal education and an even smaller number had any government experience. Extreme poverty and hunger were widespread, and conflict and violence consistently threatened to break out, leading to instability.

In the twenty years since independence, the Timorese have overcome many of these early challenges and built a vibrant democracy that aims to invest in its people. After a period of prolonged political gridlock that produced two elections in three years, Timor-Leste came together to address the COVID-19 pandemic in early 2020, making a series of unprecedented political and economic decisions that enabled the country to thus far weather the worst of the pandemic. At the onset of the pandemic, Timor-Leste closed its borders, locked down the capital city, and invested in testing and health care capacity in an effort to contain the virus. With these policies in place, the small-island nation was able to remain a “COVID Zero” country for nearly a year.

In June 2020, a government restructure resulted in an alliance between three key parties, finally giving the government a majority in parliament. With nearly 80 percent of its capital and 68 percent of the country vaccinated with at least one dose and daily cases falling, Timor-Leste currently has one of lowest COVID-19 prevalence rates globally. The country is on track to meet the government’s goal of vaccinating 80 percent of the population to fully re-open the economy and enter Timor-Leste’s new, post-pandemic normal.

### **Compact Eligibility and Constraints Analysis**

MCC’s Board of Directors selected Timor-Leste to develop a compact in December 2017, one year after it was selected to develop a Threshold Program. Timor-Leste has continued its strong performance on the MCC scorecard, passing 15 out of 20 scorecard indicators in Fiscal Year 2022, including strong performance on both the Democratic Rights and Control of Corruption hard hurdles.

In discussions with MCC, the government of Timor-Leste has shown strong commitment to an inclusive and transparent compact development process to identify investments that will drive poverty reduction through economic growth. In 2016, the government provided staff and resources to conduct a constraints analysis to identify the key factors inhibiting economic growth. That analysis identified four primary constraints: (a) an uncompetitive real exchange rate (Dutch disease); (b) ineffective public financial management; (c) a weak business enabling environment; and (d) low human capital attributed to poor nutrition outcomes and lack of skilled workers.

In October 2018, MCC and the Government of Timor-Leste held a root cause analysis workshop to discuss the key challenges and primary constraints to economic growth. In November 2018, the Government of Timor-Leste submitted two concept notes for MCC's consideration that prioritized addressing the core problems of child stunting and a lack of skilled workers that underlie the human capital constraint, recognizing the importance of a more skilled, healthier workforce in improving the business environment for investments and generating significant and sustainable economic returns for the country.

Based on these findings, on September 11, 2019, the Council of Ministers submitted two project proposals to MCC to address the human capital constraint. The two project proposals are for a water, sanitation, and drainage infrastructure project as the Government of Timor-Leste's main priority and an education project as the second priority. MCC anticipates that the MCC Board of Directors will consider a fully developed compact program for Timor-Leste in Fiscal Year 2022.

### **Summary of Proposed Project Interventions**

Potential compact projects would address the human capital constraint with two projects:

- The Water, Sanitation, and Drainage Infrastructure Project aims to reduce widely prevalent fecal contamination in water resources and the environment. This contamination impedes effective improvements in both child and adult well-being due to frequent and extended incidences of diseases. The proposed project includes constructing a plant to produce chemical disinfectant for city water supply, building the country's first central wastewater system, improving the drainage network for the capital city of Dili, policy and institutional reform, and social and behavior change.
- The Education Project aims to improve the quality of secondary education in Timor-Leste through educating every current and future secondary teacher and school leader in the country, in order to equip students with the necessary skills to succeed in jobs and tertiary education. The proposed project includes creating a center for teacher and school leader education, pre-service education to all prospective teachers and school leaders, and in-service training for all existing teachers and school leaders. This will lead to improved secondary schools and secondary students who will be better prepared for jobs or tertiary

education, thereby improving their ability to contribute to the economic growth of the country.

### **Assistance to Develop the Compact Proposal**

In order to assist Timor-Leste to further develop the proposed compact, MCC intends to fund preparatory activities for each of the projects listed above. Due to global travel restrictions and health and safety protocols enacted by the Government of Timor-Leste and MCC in response to the pandemic, preparatory activities for finalizing the design of the proposed projects, including critical feasibility studies requiring travel to Timor-Leste, have been delayed, prolonging the timeline for compact signing. With the pandemic, the costs of the contracted studies have also increased. Specifically, 609(g) funds would be used to support the additional administrative and project preparatory costs incurred as a result of these COVID-19 delays as well as to support critical activities to prepare for compact implementation, including efficient start-up of an accountable entity. Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner, prior to compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

### **Update on and Sustainability of the Threshold Program**

In September 2010, MCC and Timor-Leste signed a \$10,496,000 threshold program. The Timor-Leste Threshold Program was funded by MCC with implementation supervised by the United States Agency for International Development. The program worked to tackle corruption through an integrated approach involving a number of key institutions and actors and improved access to immunization services through the creation of a more effective community health system. The program began on February 1, 2011 and concluded on March 31, 2014.

The Fostering Transparency Initiative (FOTI) accounted for \$6,961,340 of the total threshold program budget. The program worked to reduce corruption and emphasized building human and institutional capacity. FOTI assistance delivered a broad suite of activities to build corruption fighting capacity that included coaching and mentoring to enhance the government's capacity to investigate corruption crimes. The components were also effective in increasing the audit capacity of staff in the Government of Timor-Leste's Office of Inspector General and developing principles of procurement and trainings on public procurement that were rolled out nationwide. The program resulted in legislative achievements, including amendments to the country's law for preventing and combating money laundering and the financing of terrorism, and passage of a law creating a Financial Intelligence Unit, which was established in September 2014. These measures were unanimously approved by Parliament.

At the start of the threshold program, Timor-Leste's immunization coverage was among the lowest in Asia. The capital city Dili had even lower coverage (43.4 percent) than the national urban average. Administrative and official immunization coverage rates in infants were among the lowest in the Southeast Asia region. The Imunizasaun Proteje Labarik (Immunization Protects Children or IPL) program in the threshold program assisted the Ministry of Health in

improving immunization coverage and strengthening routine immunization services. The program provided support, facilitation and funding for the Ministry of Health to conduct micro-planning sessions at the 35 community health centers in its seven focus districts (covering approximately two-thirds of the national population). Over the course of the program, IPL raised the national average of DTP3 and measles vaccination in infants from 67.5 percent to 81.5 percent in those districts. The program's tools and approaches were viewed positively at all levels with beneficiaries who were directly involved in the intervention at subdistrict and village levels being most appreciative of the collaborative approach of the program.