



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

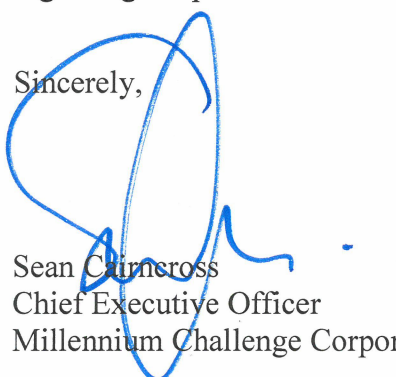
We wish to inform you that the Millennium Challenge Corporation intends to provide assistance to the Government of Timor-Leste to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss the planned assistance, please contact Dan Petrie at (202) 521-3583 or PetrieDB@mcc.gov.

The attached notification is being sent to the Congress on November 22, 2019. 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,



Sean Cairncross
Chief Executive Officer
Millennium Challenge Corporation

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

November 22, 2019

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2020 Program Funds
OBLIGATION AMOUNT:	\$2,920,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019, as carried forward by the Continuing Appropriations Act, 2020, 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 \$2,920,000 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.

Timor-Leste currently faces a historic moment of political uncertainty and transition. Over the last two years, the country has experienced three national-level democratic elections. For the first time in Timor-Leste's history, the President dissolved Parliament and called early elections in February 2018. In May 2018, a new, fragile, governing coalition emerged victorious. While tensions remain in the coalition, the Prime Minister has made strides to stabilize the political environment and economy, passing the national budget and continuing to govern, even though only a portion of his cabinet has been confirmed. Most importantly, at this moment of democratic maturation, the Timorese have remained peaceful in the face of uncertainty.

Today, Timor-Leste has a government that is committed to economic development. Since independence, the country's economy has been shaped by the discovery of oil. Timor-Leste's sovereign oil-wealth fund, which grew to nearly \$10 billion within a decade, was used to rebuild the electric grid and build roads, showing the government's commitment to development and reform. Health indicators have also improved significantly due to improvements in access to health facilities. While Timor-Leste has made important strides in human development, private investment has remained flat, and growth of the non-oil sector has been stagnant since 2011. The legal and regulatory framework necessary to enable business development and growth is also extremely nascent. Going forward, private sector-led growth that is enabled, but not driven, by the government will be critical for sustaining Timor-Leste's social and economic progress.

Compact Eligibility and Constraints Analysis

Following the MCC Board's selection of Timor-Leste to develop a compact in December 2017, the country has shown continued strong performance on the MCC scorecard, passing 14 out of 20 scorecard indicators for Fiscal Year 2020. In particular, the country has shown significant improvement in scores on political rights, civil liberties, and control of corruption. In discussions with MCC, the government of Timor-Leste has shown strong resolve and commitment to an inclusive and transparent 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.

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 projects that the MCC Board of Directors will consider a fully-developed compact program for Timor-Leste later in Fiscal Year 2020.

Summary of Potential Compact 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 the water supply, building the first central wastewater system, improving the drainage network for the capital city of Dili and two municipal capitals, policy and institutional reform, and social and behavior change.

The Education Project aims to improve secondary education in Timor-Leste through educating every current and future secondary teacher and school leader in the country to improve the quality of secondary education, 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

The proposed assistance, in addition to funds previously notified on February 8, 2019, will be used to assist Timor-Leste in further developing the proposed compact. MCC intends to fund assessment, feasibility, and design activities to further develop activities for both proposed projects. These funds will also be used to assess and safeguard compliance, identify opportunities for enhanced participation of women and vulnerable groups, collect economic data, start cost-benefit analyses, and identify policy reform priorities to ensure that the proposed compact projects are ready for implementation. Funding these activities reflects MCC's commitment to prepare projects in a comprehensive manner prior to compact signing, increase confidence in the economic justification and technical feasibility of the proposed projects, and reduce implementation risk.

Update and Sustainability of Timor-Leste's 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.

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 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). 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.