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MILLENNIUM CHALLENGE ACCOUNT (MCA) – TIMOR LESTE

POLICY IMPROVEMENT PLANS

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Executive Summary

I. Introduction

Timor-Leste performance as reported in MCC Scorecard FY08 (data 2006) showed that the country did not pass Control of Corruption and Rule of Law indicators in Ruling Justly category. Timor-Leste will pass the category of Ruling Justly only need to pass Control of Corruption indicator.

In Investing in People category, Timor-Leste needs to pass either Immunization (DPT3 and Measles), or Girl's Primary School Completion, or Natural Resource Management, especially water and sanitation and eco-region protection.

Timor-Leste is competitive in economic freedom category and it will be more competitive when trade policy indicator is also scored given Timor-Leste has an open trade regime. However, Timor-Leste needs to be attentive on Business Start Up indicator since other countries are moving fast to reform and improve business start-up process.

Below is the presentation of brief Policy Improvement Plans (PIPs) that the government of Timor-Leste supported by Donors and NGOs in addressing the weak indicators.

These PIPs are part of the government priorities that regardless of MCC Scorecard will be carried out. In addition, these PIPs only partially document policy reforms that address weak indicators. Many of these PIPs need to be validated by the end of the year. Therefore, we submit this report together with the submission of Concept Paper for MCC Board Consideration.

II. Policy Improvement Plans

In the area of *Ruling Justly*, the government is undertaking major initiatives in Control of Corruption, especially Prime Minister's declared 2008 as the Year of Administrative Reform that include:

- Create an independent Civil Service Commission (CSC) reporting to National Parliament. The draft law to create the CSC was analyzed by the Council of Minister.
- Anti-Corruption Commission under discussions; A public consultation was conducted by a national NGO and public agreed to establish the commission.
- Upgrade Inspector General Office to Auditor General reporting to National Parliament; draft legislation is on process to be presented to Council of Minister.
- Completing internal audits in all ministries and secretary of states: Still in ongoing process.
- Assets declaration by members of the government submitted to Court of Appeal.

- National Parliament to establish a network of anticorruption and a draft report to be debated in the Parliament.
- The suspension of 8 PNTL officers and 2 State's Directors.
- Training of Procurement Law to all line Ministerial staff who involve in procurement.
- The office of Prosecutor General is under process of investigation 31 corruption cases (3 cases submitted to Court and 1 cases was decided and punished)

With these initiatives, Timor-Leste will make a big leap in controlling corruption over the years to come.

The government of Timor Leste major improvement on rule of law indicators including:

- Four Military soldiers were sentenced to Prison for their involvement in 2006 crisis
- Two high rank Military were called for investigation by the Office of Prosecutor General on their involvement in 2006 crisis.
- The approval of penal code in the Parliament waiting for President promulgation

In the category of ***Investing in People***, major initiatives in:

1. *Immunization Rate:*

- Launching of Integrated Community Health Services (SISCA).
- The Minister of Health targets that by the end of 2009, coverage of immunization, including DPT3 and Measles will be more than 90%.
- The government also has showed its commitment through increased of budget for immunization coverage.

2. *Girls Primary Education Completion* indicators including:

- The introduction of Mothers pocket policy that is to provide subsidy to mothers who have their children in the school (including in primary school) and those economically are weak.
- Policy of Free and Compulsory Education of Nine Years continuously in implementation.
- Continuation of school feeding program and free school fee for both state and private schools in 2008.
- The Law of basic education (generality) has been approved by the Parliament
- Training to all teachers and 1500 teachers graduated with bachelor qualification.
- Timor-Leste government has completed and submitted UNESCO form A & B.

3. *Natural Resource Management:* The total of protected areas has increased to 18.39% with the inauguration of the new national park in Lautem district.

In ***Economic Freedom Category***, the government plans to improve three indicators, namely:

1. *Regulatory Quality:*

- Public consultation for the new investment legislation has been finalized and the draft law in a process to be submitted to Council of Minister.
 - The Tax Reforms in implementation by bringing down drastically tax rates in place, especially direct and indirect taxes except luxury and excise taxes.
2. *Business Start-Up:*
- Plans to create a One Stop Shop continuously under process of discussion within relevant Ministries.
 - Activate Better Business Initiative, a Forum of Government and private sector facilitated by International Financial Corporation (IFC) of the World Bank.
 - The Ministry of Tourism is going to launch their website by end of this year in order to provide information and facilitate investors.
3. *Trade Policy:* Timor-Leste signed a trade agreement with Indonesia. This indicator will be scored for next year.

Appendix 1 presents these Policy Improvement Plans (PIPs) in detail, according to the weak indicators.

III. Conclusions

The above PIPs show that Timor-Leste has made substantial advances in addressing the weak indicators of the MCC Scorecard FY08. There are substantive programs to address control of corruption, especially in creation of independent civil service, audit, and anti-corruptions institutions, Prosecutor General Investigation on corruption cases, the suspension state official and Parliament network of anticorruption.

In the area of Investing in People, the free school up to 9 years, mothers pocket policy, teacher training and approval of basic education law will contributed to the increase number of girl's primary education completion. On immunization, there are also plans to increase coverage of immunization of DPT3 and Measles through SISCA program.

In the area of economic freedom, Timor-Leste also is making substantial efforts in addressing regulatory quality including the new investment legislation and the establishment of independent agency of trade and investment and also includes revision of laws, tax reform, and one stop shop.

Appendix 1: Policy Improvement Plans (PIPs) in detail, according to the weak indicators.

A. RULING JUSTLY

A.1. Control Corruption

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
The Government declared 2008 as the Year of Administrative Reform	OPM	The year reform with three major initiatives: establishment of Civil Service Commission, Auditor General, and Anti Corruption Commission.	May 2008	January 2009
Draft Law that creates the Civil Service Commission	CoM	Council of Minister (CoM) analyzed the draft on their meeting on 17 September 2008.	September 2008	January 2009
Public Consultation on Anti corruption commission	OPM & National NGO "LABEH"	A public consultation was conducted across the country and public agreed to establish this commission. The result of the consultation has been presented to CoM.	August 2008	September 08
Inspector General Office to be an independent institution	CoM & OPM	Draft legislative framework for boosting of the Inspector General power is in process to be developed and to be presented to the CoM. The Inspector General office was previously reported to Prime Minister office.	May 2008	Early 2009
National Parliament will urgently establish an investigation commission for corruption cases	Parliament	This is to respond to recent Transparency International report	Initiated in the end of September 2008	October 2008
National Parliament plans to establish a national network of anticorruption	Parliament	Two days of International conference was held in Dili with main agenda how to strengthening the role of parliament in promoting of transparency, responsibility and combat of corruption through the establishment of national network of anticorruption. Parliament is currently working on preparing draft report to be debated in the Parliament.	September 2008	January 2009

Government changed Budget Year to Calendar Year	Parliament	Parliament approved the changing of this budget year in September 2007 and government implemented in January 2009	January 2008	December 2008
The discussion of state budget was nationally broadcasted on local TV.	Parliament	It covered since the discussion of transitional budget until the budget review for 2008. The coming 2009 budget discussion which is scheduled to be in October 2008 also will be covered.	Since September 2007	Will cover all state budget discussion
Preliminary discussion to establish the Audit Court.	CoA and MoJ	It is expected that a mechanism on Audit Court will be in place in 2009	Mid 2008	Mid 2009
Ratification of UN Convention against Corruption.	CoM	CoM ratify the UN Convention Against Corruption on 24 September 2008	September 08	September 08
Installation of X-Ray at Customs service	MoF	Implementation since May 2008.	Since May 2008	Ongoing
The suspension of 8 PNTL officers and 2 State's Directors	OPM, MoI & MoH	Prime Minister announced it on a public press conference (local TV and newspaper covered the news). The suspension is for further investigation with allegation of misuse of state budget. These 8 PNTL officers were called for an investigation by Prosecutor General and the final recommendation will be submitted to Prime Minister on 30 September 2008. The two Directors are Mr. Joanico Marques, Director of Equipment Management under Ministry of Infrastructure and Mr. Mateus Jordao who was the Director of Finance for SAMES (Servisu Autonomo Medikamentu de Saude) which under Ministry of Health	September 2008	December 2008
Prosecutor General Office investigation on Corruption cases	OPG	There are about 31 corruption cases currently under process of investigation in the office of Prosecutor General. 3 cases has been submitted to Court and 1 case was decided and punished.		Ongoing

The current procurement process is reviewed	MoF	A review conducted by Deloitte on January 2008 and some the reform taking into place including slowly decentralize with the amount of \$100,000 (still with Ministry of Finance check and balance), computerized the system and strengthening the internal audit. A part from that training program is ongoing for all government staff involves in procurement process.	Since January 2008	ongoing
New Petty Cash System	MoF	Line Ministries has authority to spend & replenish up to \$180,000.	Since early 2008	ongoing
Tax reform: bringing down tax rates to lower than 5%, repeal minimum income tax	MoF	Tax Reform is in implementation	July 2008	July 2008
MoU signed between Office of Prosecutor General (OPG) and Ombudsman Office (OO) to fight against corruption.	OPG & OO	Prosecutor's General Office agreed to provide one anti-corruption prosecutor to the Ombudsmen Office. OPG plans to have more 4 definitive national prosecutors in the future	January 2008	Ongoing
Trainings on Procurement Law, Specification (trademarks), analyst (cases and how to deal with them), and management of procurement	MoF	All line Ministries staff who involve in procurement to attend this training.	Since early 2008	December 2008
Asset declaration of cabinet members	Government & CoA	The asset declaration of Member of Government submitted to Court of Appeal and it is available for public access.	September 2007	September 2007
Creation of internal audit unit in all government departments and also include drafting of auditing standard	Government	It is expected by end of 2009, draft of auditing standard is prepared and all Ministerial lines will have their internal audit. At present time, one additional Ministry has the internal audit.	April 2008	December 2009
Penal Code submitted to the National Parliament.	Parliament	Parliament approved penal code on September 2008 and it is now with President of Republic for promulgation	September 2008	Early October 2008
Adherence to EITI Standard	SS of NR	It was firstly established on November 2006 and currently a national working group was established with participation also from civil society	November 2006	Ongoing

A.2. Rule of Law

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
2006 crisis authors were called for investigation	OPG	Two high rank FDTL officials were called by Prosecutor General Office for further investigation of their involvement in 2006 crisis.	End of September 2008	October 2008
Four FDTL members were sentenced for their involvement in 2006 crisis	Court of Appeal	These four FDTL members were sentenced for 10-20 years prison (apply differently years to them) in Military Prison.	Early May 2008	End of May 2008
Increase of budget for construction of residence of judges, prosecutors, & public defenders	MoJ, OPG, CoA	2008 State Budget and the construction have been implemented in four regions (Dili, Baucau, Suai, & Oe-Cussi) and even construction still going on.	Mid 2008	December 2008
Provision of budget for domestic technical assistance, clerks, recruited by Courts, Prosecutor General, and Public Defender Office.	MoJ	Included in 2008 budget, some recruitment still in a process.	Mid 2008	December 2008
Financial subsidy for judges, prosecutors, and public defenders that passed professional training, pending the law on remuneration.	MoJ	MoJ plans to increase staff salary however since the law does not permit instead subsidy provision to judges, prosecutor and public defender.	Fiscal Year 2009	Fiscal Year 2009
Draft Law on Remuneration of Judicial Magistrates, Prosecutor General, and Public Defenders	MoJ	Draft law has been prepared and it is planned to submit for CoM approval	Mid 2008	December 2008
Penal Code submitted to the National Parliament.	Parliament	Please see detail on Control of Corruption indicator	October 2008	October 2008
Legal Framework for private lawyers Act	Parliament	Parliament has approved the this legal framework	Mid 2008	Mid 2008

Legal literacy & public feedback & complain mechanism in place	PDHJ & Parliament	Parliament and PDHJ are the two institutions that receive feedback and complaints in relation human rights violation, land dispute and also corruption cases.	Since end of 2007	Ongoing
Establishment of Crisis and Forensic units	OPG	The forensic unit will be established by December 2008.	Mid 2008	December 2008
Draft Revision of Law of Prosecutor General	MoJ	The draft is currently in Ministry of Justice in order to proceed to CoM.	September 2008	December 2008
Draft Law on witness protection	MoJ & Parliament	Parliamentary Commission A held a public hearing on the draft law on witness protection on 25 September 2008 with the participation from civil society who involved in human right and justice sector.	September 2008	December 2008
The government of Timor Leste announced its decision to decriminalize the country's Defamation Law	MoJ	The government through its decision Minister of Justice announced this decision on September 24 to members of the press gathered at the national parliament that the government will remove the Defamation Law from the country's Penal Code and will treat violations thereof as a civil case. The government also will sign into law a revised penal code as soon as the national parliament passes the bill.	September 2008	December 2008
Revised organic laws of FDTL	SSoD & FDTL	FDTL organic law still under revision to be made to the naval component and the Military Police.	Mid 2008	December 2008
A draft law on National Defense	SSoD & FDTL	A draft has been prepared and is currently being coordinated through F-FDTL HQ.	Mid 2008	Early 2009
Revision of FDTL & PNTL Career Regime	SSoD & FDTL	The revised career regime has been submitted to CoM on Sept 08.	Mid 2008	December 2008
Disciplinary status of F-FDTL Military Service Law to be amended to permit recruitment	F-FDTL and SSoD	Amendment prepared for submission to Parliament early 2009	Mid 2008	Early 2009

on a voluntary basis				
Revised organic laws of PNTL	PNTL and SSoS	PNTL organic law still under development and expected to be submitted to CoM	Mid 2008	November 2008
PNTL Inspector General office established	PNTL and SSoS	The office has been established pending formal of the organic law	Mid 2008	December 2008
Draft of National Security Policy (NSP)	PNTL and SSoS	A technical team is working on finalizing the draft of NSP. However it is pending waiting for the approval of Organic Law. Center for Security Studies in Hawaii has facilitates a week long workshop in September 2008 to define the draft.	Mid 2008	December 2008
A security reform development committee established	PNTL and SSoS	This committee is established to oversee police reform, restructuring and rebuilding.	Early 2008	Mid 2008
Civil-Military cooperation through coast guard joint training.	PNTL and SSoS	A Maritime Security Working Group reestablished. This working group includes members from FDTL, PNTL, fisheries and agriculture department also from Immigration.	Since 2006	December 2008

B. INVESTING IN PEOPLE

B.1. Immunization rate

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
Immunization DPT3 (70%), Measles (63%)	MoH	This data based on Timor Leste Survey of Living Standard (Preliminary Report, 2007) also data from Ministry of Health (2008). a. 2007: Measles (63%) & DPT3 (70%) b. 2008 July: Measles (48%) & DPT3 (data still unavailable)	January 2008	December 2008
Integrated Community Health Services (SISCA).	MoH	The service focused on service delivery with achieving more than 80% of immunization including DPT3 and Measles by the end of 2009. The implementation guidelines have been disseminated to all districts since January 2008.	January 2008	End of 2009
Emergency obstetric care services	MoH	This service has implemented in 65 community health centers across the country.	Early 2008	Ongoing
Basic Service Package plans, including basic emergency obstetric care by midwives.	MoH	This basic service package (BSP) has been completed in 10 districts with remain another 3 districts.	Early 2008	Ongoing
Increased budget for Immunization coverage	MoH	2008 State budget onwards.	January 2008	December 2008

B.2. Girls Primary Education Completion

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
Mothers pocket policy	MoEd	This policy is to provide subsidy to mothers who have their children in the school (including in primary school) and those economically are weak	September 2008	Ongoing
Inspector general of education, regional & school inspectors.	MoEd	Inspector General for national, regional and district level have been recruitment process. One school inspectors look after of 10 schools	May 2008	December 2008
Increased budget for school & classroom rehabilitation & construction	MoEd	2008 State budget onwards.	January 2008	December 2008
Teacher training	MoEd	The curriculum for intensive course for teachers' year 7-12 is completed for Portuguese, Mathematics, Biology, Physics and Chemistry. Training for 3000 teachers for 60 days has occurred in July – September 2008. Portuguese training is being delivered in 13 districts, Maths and Sciences is in five regional sites. 1,500 teachers graduated with bachelor qualification	July 2008	September 2008
Approval of Law on Basic education	MoEd	Parliament has approved the generality of the law on 24 September 2008. The discussion is currently undergoing for the specialization	End of September 2008	End of Oct 2008
Introduction of free school feeding & compulsory education of up to nine years:	MoEd	Introduction of basic school system in which basic schools look after 3-4 schools, especially on administration, finances, & transportation. 60 schools countrywide will be assigned as basic schools.	Early 2008	Early 2008

B.3. Natural Resource Management

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
Adherence to Kyoto Protocol on Climate Change	SSoE & CoM	CoM has approved the Kyoto Protocol on Climate Change	Early 2008	Early 2008
Draft laws on pollution control, on Environmental Impact Assessment, & on Biodiversity Law	MAFF	These laws will be presented to CoM in mid of November or early December 2008	September 2008	January 2009
Program on sustainable land management (slash & burn), prevent erosion (stop water uphill), and to grow vegetables. Inter-Ministerial Working Group on Environment	MAFF	Forestry guardians have been recruited and almost covered most of the areas	Since mid 2007	Ongoing
Biogas Program	SSoEP	The implementation has reached Seven (7) target locations. It is expected to achieve approximately of 100-200 target area across the country by the end of 2009.	Early 2008	December 2009
Solar cell	SSoEP	Total of 1246 household have access to solar cell besides UNDESA also has covered 100-200 households.	Early 2008	January 2009
Agro energy	SSoEP	14 locations were identified for preparation of seeds "Jatropha Kulkas" for future solar production. A study has been in a process	Mid 2008	End of 2009
Hydro power	SSoEP	Still in a planning process	September 2008	End of 2009
Wind power	SSoEP	Also still in planning process to find a location (some area has been identified) that suitable for the implementation.	September 2008	2010
Implementation of EITI	SS of NR	It was firstly established on November 2006 and currently a national working group was established with participation also from civil society	November 2006	Ongoing
National Park Nino Conis Santana in Lautem	MAFF	This new national park in Lautem district with total of land area is 123,600 hectares (Lore, Jako and Tutuala). This brings Timor-Leste protected areas to 18,39% (inclusive those 15 areas identified as per UNTAET Regulation No 19/2000).	Mid 2007	August 2008
Decree-Law on the regulation of Licensing, Commercialization and Quality of Drinkable Water	CoM	CoM approved the law on 17 September 2008	September 2008	September 2008

C. ECONOMIC FREEDOM

C.1 Trade Policy

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
Tariff (import & exports duties) decrease	MoF	The Tax reform implementation significantly impacted the tariff for import and exports duties	July 2008	July 2008
Procurement above \$250,000 is open to international competition.	MoF	Procurement of less than \$250,000 is prioritized to local competitive bidding. Possibility to go for international competition unless locally not available.	Since 2005	Ongoing until today
Trade agreement with Indonesia	MoED	Government of Timor Leste signed an agreement with Indonesia on the cross border market for population live in the border area.	April 2008	April 2008
One stop shop - Business registration and investment facilitated	MTCI	Working group established and concrete reforms proposal developed. Discussion still undergoing with relevant departments. For business registration, it takes maximum 1 week and minimum 1-3 days.	Since September 2007	December 2008
Adherence to ASEAN	Government			2012

C.2. Regulatory Quality

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
New investment legislation	MoED	The public consultation for the investment legislation has been finalized; MoED is currently working to adjust as per the result of consultation. Keys element form the law including Revision of Commercial Society Act: elimination of minimum capital & protection of minority investors. It is planned to submit to CoM sometime in the mid of October 2008	Mid 2008	December 08
Establishment of a single agency of trade and investment	MoED	An independent agency of trade and investment has been established	Mid 2007	Early 2008
Diploma Ministerial on Temporary Business activity	MTCI	This diploma Ministerial no.1/2008 (6 th February) to facilitate all commerce activities except insurance and Bank which should be from BPA. The duration is only for 1 year and then will be renewed. This diploma is to replace UNTAET regulation no.4/2002	February 2008	February 2008
Implementation of Phase II ASYCUDA to modernize & fasten import & export processing,	MoF	Customs department has been using this software since 2003 in order to modernize and proceed with imports and exports processing.	2003	Ongoing until today
Tax Reform	MoF	Tax Reform is in implementation	July 2008	July 2008

C.3. Land Rights and Access

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
Establishment of property registry and land registration	MoJ & USAID	USAID has signed MoU with MoJ to provide a support on property registration and land title for 5 years including drafting Land Law, property registry and land title with 10 million budgets. The project of property registration has been started with pilot project in some districts.	September 2008	Five years until 2013

C.4. Business Start Up

Policy Reforms	Responsible Entity	Descriptions	Start Dates	Conclude Dates
One stop shop - Business registration and investment facilitated	MTCI	See details as in Trade Policy indicator	Since Sept 2007	December 2008
National Better Business Forum	MTCI, MoJ & IFC	This forum established by the government of Timor Leste with donors support every 6 months.	Early 2008	Ongoing in every 6 months
The launch of Commerce, Tourism and Industry website	MTCI	MTCI plans to launch their website before the end of this year	Mid 2008	December 2008
Basic law on Tourism.	MTCI	In coordination with IFC to work on the draft and this basic law in currently under process and it is expected to be presented to CoM in 2009 after the completion of consultation	September 2008	Early 2009
Decree law with streamlined business registration procedures	MTCI & MoED	Detailed Diagnostic work conducted and broad strategy outline defined by MoJ and MTCI with IFC assistance. It is planned for the launching of technical assistance program on 3 rd quarter of 2008, aiming at streamlining business registration and business licensing.	Early 2008	December 2008

Abbreviations:

OPM	Office of the Prime Minister
OIG	Office of Inspector General
OPG	Office of Prosecutor General
MSATO	Ministry of State Administration and Territory Ordainment
CoA	Court of Appeal
NP	National Parliament
CoM	Council of Ministers
EITI	Extractive Industries Transparency Initiative
F-FDTL	FALINTIL-Forca Defesa de Timor-Leste
PNTL	National Police of Timor-Leste
MAFF	Ministry of Agriculture, Fisheries and Forestry
MoED	Minstry of Economic and Development
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoJ	Ministry of Justice
MTCI	Ministry of Tourism, Commerce and Industry
PM	Prime Minister
PNTL	Policia Nacional de Timor-Leste (East Timor National Police)
SISCA	Integrated Community Health Services
SSoS	Secretary of State for Security
SSoD	Secretary of State for Defense
SSOEP	Secretary of State for Energy Policy
OO	Office of Ombudsmen
MoDS	Ministry of Defence and Security