

MILLENNIUM CHALLENGE ACCOUNT TIMOR-LESTE COMPACT

2024 Theme: Laying the Essential Groundwork and Systems for
Successful Implementation of the Compact



2024 Annual Progress Report January – December 2024

Cover Photo: *Negotiation team from the Min. of Justice, along with BTL and MCA-TL presenting the land compensation report for the WWTP to the Ministry of Finance for budget approval*

Photo credit: *Mr. Frederico Soares, Beé Timor-Leste E.P (BTL) Media Officer*

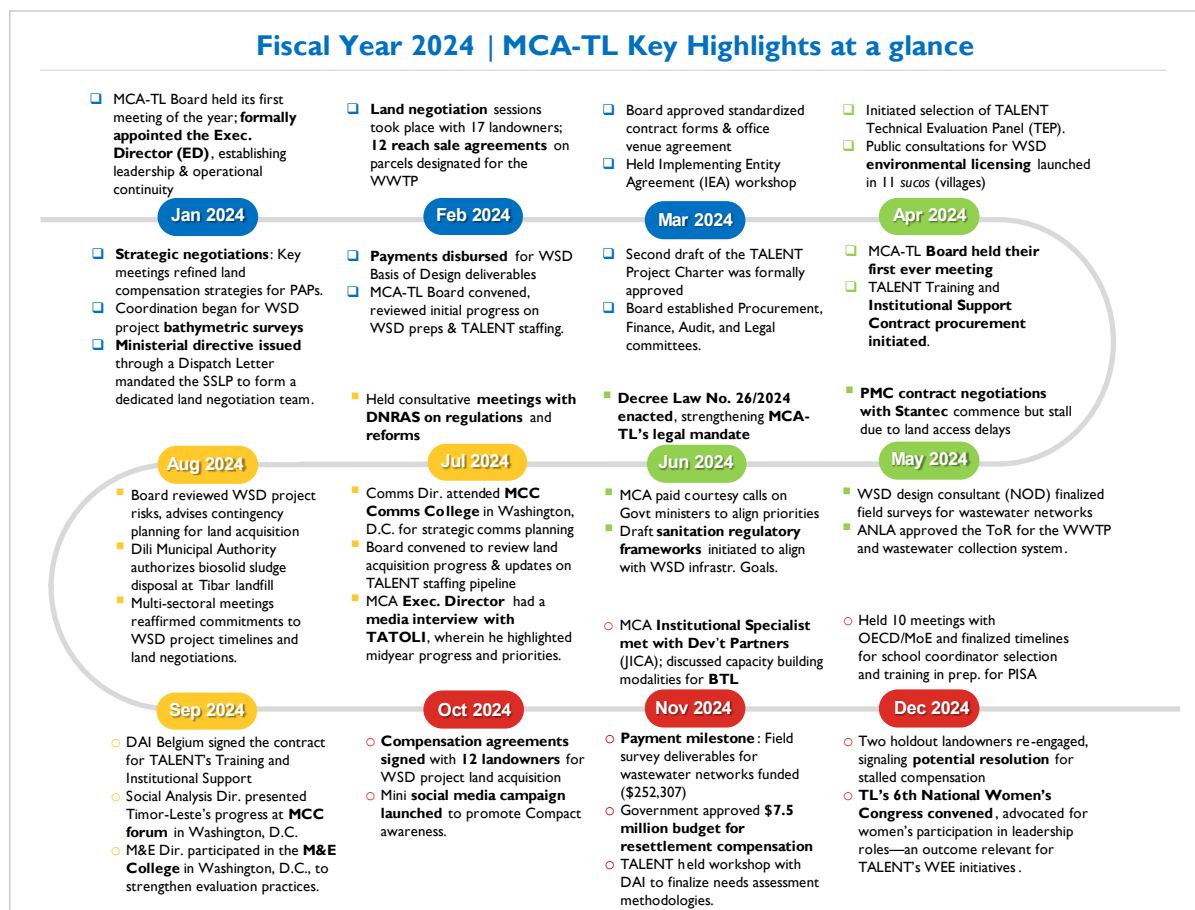
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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Executive Summary

The infographic depicts a timeline of key highlights, important events, pivotal moments, and milestones reached in the reporting period. The subsequent narrative describes the executive summary which synthesizes our comprehensive annual report.



The Millennium Challenge Account Timor-Leste (MCA-TL) marked 2024 as a pivotal year, dedicated to laying the essential groundwork for the successful implementation of the USD 484 million Timor-Leste Compact. Operating in the critical pre-Entry into Force (EIF) phase, MCA-TL focused intensely on establishing robust governance structures, advancing complex technical preparations for its two cornerstone projects – Water, Sanitation, and Drainage (WSD) and Teaching and Leading the Next Generation of Timorese (TALENT)—and navigating the intricate landscape of stakeholder engagement and institutional requirements. This period, while characterized by significant progress in foundational activities, also underscored the inherent challenges of launching a large-scale development program, demanding adaptive management and strategic foresight. This report details the substantial achievements, persistent hurdles, and key lessons learned, demonstrating MCA-TL's readiness to transition into full implementation in 2025.

Water, Sanitation, and Drainage (WSD) Project



The WSD project, aiming to reduce fecal pathogen contamination and improve public health in Dili, saw substantial advancement in its technical preparation phase, yet faced the most significant strategic challenges of the year. The Detailed Engineering Design (DED) consultant, Nicholas O'Dwyer (NOD), achieved approximately 25% completion, delivering

crucial outputs including the preliminary Basis of Design Report (BoDR) for the Wastewater Treatment Plant (WWTP), contract pre-qualification documents for both WWTP/Pump Stations and the Wastewater Networks, and initial field survey reports. The Environmental and Social Impact Assessment (ESIA) process also progressed significantly with the formal approval of the Terms of Reference (TOR) for both project phases by the National Authority for Environmental Licensing (ANLA), following extensive public consultations across eleven *Sucos* (villages).

However, the WSD project's timeline was critically impacted by persistent delays in land acquisition for the WWTP and associated pump station sites. This bottleneck, stemming from complex negotiation processes and landowner compensation finalization, directly hindered the DED consultant's ability to conduct essential geotechnical investigations and finalize designs. Analytically, this land access issue created cascading negative effects: it prevented the timely finalization of the DED, which in turn contributed significantly to the inability to finalize and award the crucial Project Management Consultant (PMC) contract. The suspension of the PMC procurement represents a setback, requiring a revised timeline and re-initiation once land access is fully secured.

Despite these hurdles, concerted efforts yielded significant breakthroughs in land acquisition towards year-end. Following intensive negotiations facilitated by the Inter-ministerial Technical Group (ITG) and supported by MCA-TL, agreements were secured with 12 Project-Affected Households (PAHs) of the 17 previously identified PAHs. These include five land plots (3.8 hectares), seven structure owners, and two tree/plants owners for the WWTP site. The subsequent approval of a US\$7.5 million compensation budget by the Council of Ministers in November, and the successful disbursement of \$4.65 million to 11 PAHs, marked crucial milestones. Furthermore, securing authorization from the Dili Municipal Authority to initiate discussions with the landfill operator for biosolid sludge disposal at the Tibar landfill represents significant progress on satisfying a key Compact condition precedent. Institutional strengthening efforts also advanced, notably through collaborative work with the National Directorate of Water and Sanitation Regulation (DNRAS) to develop Timor-Leste's nascent regulatory framework for the sector.

Teaching and Leading the Next Generation of Timorese (TALENT) Education Project



The TALENT project, focused on improving secondary education student learning outcomes through enhanced teacher training and school leadership, made considerable strides in establishing its operational framework and initiating key procurements. The successful onboarding of the Managing Director for Education in March and the Secondary Education Director in September provided crucial leadership capacity. A major achievement was the signing of the Training and Institutional Support contract with Development Alternatives International, Inc. (DAI) in September, a foundational element for developing course materials and delivering training programs to teachers and school leaders. Terms of Reference were also substantially developed for the critical Design and Supervision contract for the Center of Excellence (CoE) infrastructure and for the cross-cutting Women's Economic Empowerment in Education (WEEE) consultancy.



Strategically, MCA-TL proactively advanced the Program for International Student Assessment (PISA) for Schools initiative. The PISA for School Assessment serves as a baseline to determine students' performance prior to the implementation of the TALENT project. This evaluation will be complemented by the assessment carried out by DAI to identify the knowledge and skills gaps of teachers and school leaders at secondary education level. Securing the Ministry of Education's Expression of Interest to the OECD and establishing a dedicated Technical Working Group (TWG) demonstrated strong government buy-in and laid the groundwork for implementing this assessment, which will provide training to the Ministry of Education in student assessment and vital baseline data for the TALENT project's impact evaluation. For the TALENT

project, challenges were primarily related to staffing, particularly the delay in recruiting the CoE Infrastructure Manager, which impacted the finalization of the Design and Supervision contract TOR.

Governance, Management, and Cross-Cutting Themes



The year 2024 was foundational for MCA-TL's own institutional capacity. The Governing Board was fully constituted and held six meetings, providing crucial strategic oversight and making key decisions regarding leadership appointments, committee structures, contract approvals, and risk assessment. The legal framework was solidified through the enactment of Decree Law No. 26/2024, refining MCA-TL's mandate. Compact Facilitation Funding (CFF) was effectively utilized to support essential preparatory activities, including consultant procurements and operational setup. Strategic partnerships with key government ministries (Finance, Justice, Public Works, Education, Higher Education) were actively cultivated, particularly through the vital Inter-ministerial Technical Group addressing land issues.

Cross-cutting functions saw significant progress. Social analysis was integrated into WSD planning (ESIA, RAP, TIPs risk assessment) and TALENT design (WEEE strategy). Communications efforts focused on establishing foundational platforms, including the launch of the MCA-TL website and targeted media engagement.

Monitoring, Evaluation, and Learning (MEL): Proactive Planning and Capacity Enhancement



Recognizing M&E as central to adaptive management and accountability, MCA-TL took proactive steps despite being pre-EIF. Firstly, development of the comprehensive M&E Plan work plan commenced in late 2024. This anticipatory action, undertaken well ahead of the formal 180-day post-EIF deadline for M&E Plan approval, demonstrates strategic foresight, ensuring MCA-TL is positioned to rapidly finalize and operationalize its results framework upon Compact entry into force. Secondly, participation in the MCC M&E College event in Washington, D.C. provided significant capacity enhancement and strategic insights. Key takeaways, such as the critical linkage between Cost-Benefit Analysis (CBA) projections and performance indicators for real-time tracking of economic impacts, and best practices in adaptive management and ethical data collection, are being integrated into MCA-TL's approach, strengthening its ability to rigorously measure performance and make evidence-based adjustments throughout implementation.

2025 Outlook: Poised for Implementation



The 2024 reporting period marked a pivotal year for MCA-TL, transitioning from planning to pre-implementation readiness. While navigating the complexities inherent in the pre-EIF phase, MCA-TL successfully established critical institutional structures, advanced technical preparations, and forged essential partnerships in 2024. The persistent challenge of land acquisition, particularly for the WSD project, remains the most critical factor influencing the EIF timeline but saw tangible progress late in the year. Moving into 2025, priorities center on resolving remaining land issues, completing key staff recruitment (including the WSD Directors and TALENT CoE Director), finalizing and launching major procurements (including the revised WSD PMC and TALENT design/ supervision firms), and fulfilling all conditions precedent to achieve EIF. Based on the foundational work completed in 2024, MCA-TL is poised, with unwavering commitment from the Government of Timor-Leste (GoTL) and MCC, to transition effectively into the implementation phase and deliver on the Compact's promise of sustainable economic growth and poverty reduction for Timor-Leste.

1. Introduction

The Millennium Challenge Account Timor-Leste (MCA-TL) is a testament to the commitment of the Democratic Republic of Timor-Leste and the United States of America towards sustainable economic development and poverty reduction. Established under Government Decree Law No. 96, dated December 30, 2022, MCA-TL operates under the tutelage of the Ministry of Finance and plays a pivotal role in managing and facilitating the implementation of the Millennium Challenge Compact. The Compact, a five-year strategic initiative, will drive transformative economic growth, empower Timorese communities, and strengthen critical sectors that will propel Timor-Leste towards a prosperous and self-reliant future.

The Compact Agreement, a collaboration between the Millennium Challenge Corporation (MCC) and the Government of Timor-Leste, represents a landmark investment in the country's development trajectory. The Compact was signed in July 2022 with a commitment of U.S. \$484 million—\$420 million contributed by MCC and a co-financing commitment of \$64 million from the Government of Timor-Leste. This initiative aims to address fundamental challenges that impede economic growth and human capital development. MCA-TL will ensure these resources are effectively and transparently utilized to achieve the Compact's objectives.

The Compact, currently in its mobilization phase pending Entry into Force (EIF) to be determined in mutual agreement by the Government of Timor-Leste and the U.S. Government, prioritizes two transformative projects: the Water, Sanitation, and Drainage (WSD) project and the Teaching and Leading the Next Generation of Timorese (TALENT) project. The WSD project objective is to reduce fecal pathogens in piped and stored drinking water and groundwater. It is designed to improve access to clean and safe drinking water, reduce the prevalence of waterborne diseases, and improve drainage in Dili through the introduction of the country's first centralized wastewater treatment system, ensuring healthier communities and improved quality of life. Meanwhile, the TALENT project objective is to improve student learning outcomes at the secondary education level through providing targeted training for teachers and school leaders in the areas of pedagogy, students assessment as well as school leadership and school management. These interventions align strategically with Timor-Leste's national development agenda, reinforcing the country's long-term aspirations for economic resilience and human capital advancement, in alignment with Association of Southeast Asian Nations (ASEAN) ascension.

As the entity responsible for implementing the Compact program, MCA-TL is committed to a results-driven and inclusive approach, ensuring the active participation of key stakeholders, including government institutions, civil society, and the private sector. By fostering collaboration, leveraging data-driven decision-making, and upholding principles of transparency and accountability, MCA-TL aims to create lasting impacts that extend beyond the five-year implementation period.

This annual report, covering the period from **January 01, 2024, through December 31, 2024**, provides an in-depth overview of our progress, achievements, and the lessons learned prior to EIF, offering a transparent reflection on the journey towards a stronger, healthier, and more prosperous Timor-Leste. This report is essential for informing key stakeholders, including the Government of Timor-Leste, the U.S. Government, the people of Timor-Leste, and the global community, about our pre-EIF implementation progress, successes, and challenges. By sharing these insights, MCA-TL seeks to foster continued engagement and support for Timor-Leste's sustainable development.

1.1.1. Key lessons learned from the WSD project

1.1.1.1. *Navigating external dependencies requires robust adaptive management*



The 2024 reporting period starkly highlighted the WSD project's vulnerability to external factors beyond the direct control of the accountable entity (MCA-TL) and its consultants. Significant project activities, timelines, and even contractual arrangements were profoundly affected by dependencies on government land acquisition processes, the unforeseen renegotiation of a complementary donor-funded project (ADB Dili water supply loan) and shifts in the anticipated Compact EIF date.

- **Lesson:** Difficulties in securing timely site access for the Wastewater Treatment Plant (WWTP) and pump stations directly delayed critical design investigations by the Detailed Engineering Design (DED) consultant (Nicholas O'Dwyer). This, combined with EIF date uncertainty, ultimately led to the suspension of the procurement process for the crucial Project Management Consultant (PMC), despite reaching the negotiation stage with the preferred bidder/ firm. Furthermore, the renegotiation of the ADB loan critically undermined the financial modeling and flow assumptions for the Cost Recovery Plan (CRP), necessitating the termination of that consultancy contract mid-stream. Even payment schedules for the DED consultant deviated from initial plans due to site access uncertainties impacting deliverable completion and client evaluation capacity. Sharing the details of the land acquisition process prior to the cancelation of the WB and ADB loans would have improved outcomes.

1.1.1.2. *Proactive multi-level stakeholder engagement unlocks progress, demands sustained effort*



The report demonstrates that concerted and persistent stakeholder engagement across multiple levels was instrumental in achieving critical progress during the preparatory phase, yet it also underscores the significant resources and dedicated effort required. Engagement wasn't merely informational; it was a core mechanism for problem-solving, securing buy-in, and fulfilling essential project prerequisites.

- **Evidence:** Successes directly attributable to focused engagement include: securing agreements with 12 of 17 landowners for the WWTP site through negotiations led by the Government's Interministerial Technical Group (ITG) and supported by MCA-TL; obtaining official approval from the Dili Municipal Authority for biosolid sludge disposal at the Tibar landfill (a Compact condition precedent); gaining approval from the environmental authority (ANLA) for the project's Terms of Reference (TORs), classifying the project and enabling the EIS/EMP process; and establishing a collaborative pathway with the water regulator (DNRAS) to advance much-needed water and sanitation regulations. The coordination with Development Partners (ADB, JICA, WB) also ensured alignment and prevented duplication of capacity-building efforts for the utility (BTL). This required consistent effort, evidenced by 24 biweekly coordination meetings with the DED consultant alone, plus numerous specific high-level and technical meetings with government bodies, local authorities, and communities.
- **Lesson:** In environments with complex governance structures, nascent regulatory frameworks, and critical community interfaces (especially regarding land) sustained, targeted, and multi-pronged stakeholder engagement is not an optional add-on but a fundamental driver of project success. It requires dedicated personnel, strategic planning (identifying key influencers and decision points), and persistence to navigate bureaucratic processes, build trust, and achieve necessary consensus and approvals. While time-consuming, this investment proved essential for overcoming specific obstacles (like land negotiation deadlocks needing ministerial

directives) and unlocking key milestones that allow the project to advance. Simply having a plan is insufficient without the active, ongoing work of engaging the actors needed to execute it.

1.1.1.3. *Prep. phase interdependencies magnify delays, underscore foundational requirements*



The intricate nature of the project's preparatory phase in 2024 revealed how tightly interwoven key activities are, making the entire phase highly sensitive to delays in foundational elements. Bottlenecks in one area had cascading negative impacts on others, highlighting the critical importance of securing essential prerequisites early and efficiently.

- **Examples:** Delays in obtaining laboratory results impacted the timely submission of DED consultant reports (field survey, geotechnical). The critical dependency on securing land access for the WWTP and pump station sites not only delayed design work but was a primary factor in the inability to finalize the PMC contract. The report explicitly notes that the absence of the PMC impacted the evaluation process for the DED consultant deliverables, forcing reliance on MCC's due diligence consultant and potentially slowing approvals. Furthermore, uncertainties surrounding site access, and the associated consultant's progress contributed to misalignments between project payments and contractual timelines.
- **Lesson:** The preparatory phase of large infrastructure projects functions like a complex chain reaction; failure to secure foundational links – such as undisputed site access, key regulatory approvals (like TORs), and the presence of essential oversight structures (like the PMC) – early on can create disproportionately large delays and disruptions downstream. These interdependencies mean that seemingly isolated issues can rapidly stall multiple workstreams, affect consultant performance and payment cycles, and ultimately jeopardize readiness for implementation. Therefore, project planning must prioritize the aggressive identification and mitigation of potential bottlenecks in these foundational areas, potentially front-loading resources or diplomatic efforts to resolve them before they impede the broader sequence of interdependent preparatory activities. The cost of early delays is often magnified significantly as the project progresses.

1.1.2. **TALENT project | Key initiatives and accomplishments under the**



Teaching and Leading the Next Generation of Timorese (TALENT) is a project designed to restructure secondary teachers and school leader professional preparation through direct training of the existing personnel and the development of the country's first pre-service professional teacher training center. The objective of the TALENT project is to improve student learning outcomes at the secondary education level through raising the quality of teaching practice. To reach this objective the project intends to improve pedagogy, and school and classroom management; increase opportunities for women in teaching and leadership positions; improve language and information and communication technology (ICT) instruction for future teachers; and enhance instructional leadership and create a supportive and inclusive learning environment. The TALENT project will establish the country's first formal pre-service teacher training and certification institution for secondary education, the Center of Excellence for Teacher Education, through which trainings will be delivered to current and future secondary school teachers and school leaders across the country.

In terms of budget execution, of the total budget of USD 40.19 million allocated to the TALENT project, the Training and Institutional Support Contract represents the largest share, amounting to USD 19,452,250.00. This amount makes it the highest-valued contract among all service contract under the project. This contract plays critical roles in ensuring the development of high-quality, contextually

relevant training curricula and materials, as well as the effective delivery of various training modalities for teachers and school leaders, designing and setting up the new CoE, providing recommendations for the design of the CoE facility, and the integration of the Social Analysis aspects in both the curriculum design and the training delivery throughout the compact implementation period.

Since the Training and Institutional Support Contract was awarded on September 16, 2024, DAI in close collaboration with MCA-TL has successfully completed the first four deliverables of the Base Year period by December that same year. For instance,

1. Inception Report,
2. Institutional Capacity Assessment (ICA) description and timeline,
3. Teacher Training Needs Assessment (TTNA) description and timeline and School,
4. School Leader Training Needs Assessment (SLTNA) description and timeline.

The Inception Report outlined how the project team understood the assignment, confirmed the scope of work and presented a detailed workplan for implementation. The ICA provided a structured evaluation process used to determine an institution's ability to perform its mandated functions effectively, efficiently and sustainably, that is vital for the CoE. Additionally, the other two needs assessments (TTNA and SLTNA) are the systematic processes used to identify the gaps between the current competencies of teacher and school leaders, and desired knowledge, skills and attitudes needed to effectively deliver quality leadership and classroom performance in Timor-Leste's secondary school education.

1.1.3. Program for International Student Assessment (PISA) for schools



The Program for International Student Assessment (PISA) is an international program for the national level assessment of 15 years old secondary students' abilities in numeracy, literacy and social science. PISA provided standard tests for secondary students around the world, however, Timor-Leste has not had prior participation. The Organization for Economic Cooperation and Development (OECD) uses the result of the PISA test to compare the quality of one country with the others. PISA for school project is a smaller version of PISA that is administered locally among schools within one country. The result of the PISA for school project provides important and relevant information/ facts about the real competency of students, teachers and schools. The result will help the government to tailor make their educational interventions to improve students learning outcomes at the school level.

Through the TALENT project, Timor-Leste has expressed its desire to introduce PISA for school to assess quality learning in the secondary school level across the country and identify gaps/ challenges that the school communities face. It is important to note that the result the PISA for school will not be used to compare one school to the other. Rather, they will provide strategic insights to the government in its effort to improve the quality of learning for students. Unlike the International PISA, OECD will not publish the result of PISA for school, rather, the Ministry of Education can choose what to publish from the PISA for school report.

In relation to the TALENT project, the outcomes of the PISA for school will serve as the baseline and endline for the implementation of the project. In addition to providing the baseline and endline, the PISA for Schools will offer initial trainings to help Timor Leste develop and analyze standardized tests. In October 2023, MCA and MCC begun discussions with OECD on the possibility of implementing PISA in Timor-Leste. The TALENT team approached the Ministry of Education (specifically, the Office of the Curriculum Unit and the General Directorate for Secondary Education) immediately after the meeting with OECD to gauge the Ministry's interest in the initiative. The first virtual meeting

between Timor-Leste and OECD in France was held on November 15, 2023. For better understanding of the PISA for school initiative, OECD shared relevant documents/ information as well as minutes of the meeting with both MCA and MoE after the call. Consequently, the MCA TALENT convoked a follow up meeting in January 2024 to discuss any doubts or if there were things in the document shared by the OECD that needed clarifications prior to presenting it to H.E Minister of Education. As a result, on January 17, 2024, on behalf of the Minister of Education, H.E Minister Dulce de Jesus Soares, sent out a letter or “Expression of Interest” to OECD expressing Timor-Leste’s desire to introduce PISA for school in secondary schools in the country. As a follow up to the letter of Expression of Interest, H.E. the Minister established a Technical Working Group (TWG) for PISA composed of 10 people from key directorates and departments within MoE. The TWG worked closely with MCA-TALENT to support the preparatory work for the PISA implementation in Timor-Leste in 2025. The engagements with the TWG included, *inter alia*; reviewing the PISA questionnaires, roles and responsibilities of the TWG, testing period, selection of school coordinator for PISA tests, and selection of topics for workshops and training. A total of 10 meetings were held with OECD, MoE and MCC in December 2024 in relation to the PISA initiative. The timeline and scope of the PISA for school initiative was discussed and agreed upon and awaits a contract agreement between MCA-TL and OECD. Accordingly, MCA and MoE will work on the selection of the school coordinators for PISA tests and relevant trainings or workshops as soon as a contract is signed.

Conclusion

In conclusion, the Millennium Challenge Account Timor-Leste achieved significant milestones in 2024, laying a robust foundation for the effective implementation of the Compact. Throughout the year, strategic institutional advancements, rigorous stakeholder engagement, and comprehensive project preparations in water, sanitation, and education positioned MCA-TL firmly on the path toward transformative economic and social development in Timor-Leste.

Institutionally, MCA-TL transitioned effectively from the Compact Development Team (CDT-TL), emerging as a fully operational, autonomous entity navigating the complexities inherent in the pre-EIF phase. The strengthened governance structure, including active oversight from the Board of Directors and the establishment of specialized committees, enhanced transparency, accountability, and operational efficiency. These internal enhancements significantly bolstered MCA-TL’s readiness to manage and execute the ambitious Compact objectives.

Programmatically, notable advancements were made in both the Water, Sanitation, and Drainage (WSD) and TALENT (Teaching and Leading the Next Generation of Timorese) projects. The WSD project navigated considerable challenges, particularly in land acquisition, yet made critical progress in its engineering and environmental assessments, positioning the initiative for impactful implementation. Similarly, the TALENT project secured foundational staffing and initiated essential partnerships. The proactive advancement of the PISA for schools initiative, including securing Ministerial Expression of Interest and establishing a Technical Working Group, laid the foundation for vital baseline data collection, setting the stage for meaningful educational reforms. Moreover, strategic partnerships with relevant government ministries such as Public Works, Justice, and Education as well as public institutes such as BTL, ANLA, and DNRAS were actively nurtured, proving essential for addressing cross-cutting issues like land acquisition and regulatory development. The proactive initiation of the M&E Plan work plan and participation in the MCC M&E College further underscored MCA-TL’s commitment to rigorous performance tracking and evidence-based management from the outset.

Despite the encountered challenges—ranging from complex land negotiations to dependencies on external financial frameworks, MCA-TL demonstrated resilience and adaptability. The entity’s

proactive risk management and dynamic stakeholder coordination underscore its capacity to manage complexity and deliver substantial results. The accomplishments and learnings from 2024 provide a solid platform upon which future MCA initiatives can flourish.

Looking ahead, MCA-TL remains committed to ensuring the successful realization of the Compact's transformative vision. Emphasizing the importance of continued collaboration with the Government of Timor-Leste, MCC, international development partners, local communities, and civil society remains embedded in MCA-TL's communications and engagement. Continued transparent communication, and adaptive management will be paramount in overcoming remaining obstacles and realizing the Compact's profound potential for human capital development, improve water and sanitation, enhance education quality, and ultimately drive sustainable economic growth and poverty reduction for the people of Timor-Leste.

See Main Report for Details
