

EVALUATION OF WORLD BANK GROUP PROGRAM

# Timor-Leste Country Program Evaluation, 2000–2010





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# Timor-Leste Country Program Evaluation, 2000-2010

Evaluation of the World Bank Group Program



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## Abbreviations and Acronyms

AAA	Analytic and Advisory Activities	MAFF	Ministry of Agriculture, Forestry, and Fisheries
ADB	Asian Development Bank	MDG	Millennium Development Goals
ANZ	Australia and New Zealand Banking Group Limited	MDTF	Multi-Donor Trust Fund
AusAID	Australian Agency for International Development	MOH	Ministry of Health
BBI	Better Business Initiative	MoPF	Ministry of Planning and Finance
BDC	Business Development Centers	MSS	Ministry of Social Solidarity
BPA	Banking and Payments Authority	NDP	National Development Plan
CAS	Country Assistance Strategy	NORAD	Norwegian Agency for Development Cooperation
CEM	Country Economic Memorandum	NGO	Non-government Organizations
CHC	Community Health Center	NYP	National Youth Policy
CPE	Country Program Evaluation	PAD	Project Appraisal Document
CSP	Consolidation Support Program	PCF	Post-Conflict Fund
DGF	Development Grant Facility	PDO	Program Development Objective
DPO	Development Policy Operation	PEDF	Pacific Enterprise Development Facility
EAP	East Asia and Pacific	PER	Public Expenditure Review
EC	European Commission	PFM	Public Financial Management
EDTL	Electricidade de Timor-Leste	PFMCB	Public Financial Management Capacity Building
EICB	Economic Institutions Capacity Building Project	PFMCBP	Planning and Financial Management Capacity Building Project
EITI	Extractive Industries Transparency Initiative	PIU	Project Implementation Unit
EMIS	Education Management Information System	PPAR	Project Performance Audit Report
ESW	Economic and Sector Work	PSD	Private Sector Development
EU	European Union	PSPIP	Power Sector Priority Investment Project
FIAS	Foreign Investment Advisory Services	PTAP	Petroleum Technical Assistance projects
FRETILIN	Revolutionary Front for an Independent Timor-Leste	QAG	Quality Assurance Group
GDP	Gross Domestic Product	SME	Small and Medium Enterprises
GNI	Gross National Income	SSYS	State Secretariat for Youth and Sports
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit	TA	Technical Assistance
IBRD	International Bank for Reconstruction and Development	TFET	Trust Fund for East Timor
ICR	Implementation Completion Report	TSO	Timor Sea Office
IDA	International Development Association	TSP	Transitional Support Program
IDF	Institutional Development Fund	TSS	Transitional Support Strategy
IEG	Independent Evaluation Group	TSTD	Timor Sea Tax Division
IFC	International Finance Corporation	UN	United Nations
IFU	Investment Infrastructure Unit	UNDP	United Nations Development Program
IMF	International Monetary Fund	UNTAET	UN Transitional Administration for East Timor
ISN	Interim Strategy Note	USAID	United States Agency for International Development
JAMR	Joint Assessment Mission Report	WBG	World Bank Group



# FOREWORD

This Country Program Evaluation assesses the outcomes of the World Bank Group (WBG) program in Timor-Leste during the review period (2000 to 2010). The World Bank Group's strategy during this period was to support the Government of the nascent country in three broad areas: (a) poverty alleviation and the provision of basic social services, including health and education; (b) development of state institutions, including creating good governance and building the capacity of state institutions; and (c) promoting sustainable non-petroleum growth, especially through the development of agriculture and the private sector. During the review period, the Bank was actively involved in the reconstruction and development of the economy, through 39 operations, financed through regular IDA (US\$24.6 million) and IBRD grants (US\$5 million), in addition to numerous grants from the Trust Fund for East Timor and other donor trust funds (US\$316.3 million in total). Over the same period, IFC had four advisory service (AS) activities.

While the WBG made some important contributions to Timor-Leste's development, the CPE rates the overall outcome of its support to the country over the review period as moderately unsatisfactory. The Bank Group strategy was broadly congruent with the country's own aspirations, but its relevance and effectiveness waned through the evaluation period. From its initial focus on immediate reconstruction needs, the restoration of key social services and alleviation of basic deprivation, the strategy became diffuse and all-inclusive, to the detriment of the most critical areas, such as agriculture and capacity-building of state institutions, and failed to respond to critical social challenges arising from youth unemployment and rising poverty. The outcome of the Bank Group's support was mixed. The outcome of assistance to Timor-Leste in securing its petroleum revenues and managing them transparently was highly satisfactory. The outcome of assistance in health and on veterans' issues was moderately satisfactory. The outcome of Bank Group support fell well short of objectives in the remaining areas, particularly so in promoting sustainable non-petroleum growth, notably through the development of agriculture and the private sector.

In spite of Timor-Leste's considerable progress thanks to its efforts, the country still faces considerable challenges in promoting faster and more sustainable growth, and in reducing poverty and unemployment, while furthering its achievements in institution building. To boost the WBG's role as an effective partner in Timor Leste's development, IEG recommends that the World Bank Group: (i) set its key objective as one of supporting vigorous and sustainable non oil growth, creating jobs and improving infrastructure; (ii) in consultation with development partners, sharply prioritize its program, being realistic about time frames; (iii) increase its focus on effective human resource development for institution-building and improved governance; (iv) follow more closely its own guidance on dealing with fragile states; (v) ensure more active management of its assistance program, strengthening its capacity to deliver timely high-quality policy and technical advice; (vi) be realistic with regard to the situation on the ground and what is needed to attain development objectives; (vii) make IFC's interventions of sufficient scale to address the objectives of its program; and (viii) bolster M&E by focusing on a few key results and improving statistical capacity to obtain reliable data of sufficient frequency.





# Contents

FOREWORD.....	I
PREFACE .....	VII
TIMOR-LESTE: SUMMARY OF WORLD BANK GROUP PROGRAM OUTCOME RATINGS.....	IX
EVALUATION SUMMARY .....	XIII
MANAGEMENT ACTION RECORD.....	XXV
CHAIRPERSON'S SUMMARY.....	XXIX
<b>1. CONTEXT.....</b>	<b>1</b>
Recent History and Political Developments .....	1
Very Difficult Initial Conditions .....	2
Significant Progress Since 1999.....	2
Poverty Increased between 2002 and 2007 .....	4
Current Economic Structure .....	4
Strong International Donor Presence .....	6
Road Map of the CPE.....	7
<b>2. WORLD BANK GROUP STRATEGY AND PROGRAM.....</b>	<b>9</b>
World Bank Group Strategy .....	9
Strengths .....	12
Shortcomings.....	13
World Bank Program.....	15
Operations .....	15
Financial Support.....	16
The Transition Support Program (TSP) (2003-05) .....	19
Ways of Doing Business and Principles of Engagement .....	22
Program Quality.....	26
QAG's Quality Enhancement Review.....	27
<b>3. PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT .....</b>	<b>29</b>
The Health Sector .....	29
The Setting .....	29
The Bank's Program .....	29
Outcomes in the Health Sector.....	33
The Education Sector.....	34

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The Setting .....	34
The Bank's Program .....	34
Outcomes in the Education Sector .....	38
Poverty and Unemployment Alleviation .....	39
The Setting .....	39
The Bank's Program .....	39
Outcomes in Poverty and Unemployment Alleviation .....	42
Youth Unemployment and Disaffection .....	43
The Setting and the Bank's Strategy .....	43
The Bank's Program for Youth Issues .....	44
Outcomes on Alleviation of Youth Unemployment and Disaffection .....	45
Veterans' Programs .....	45
The Setting .....	45
The Bank's Program .....	45
Outcomes on Veterans' Policy .....	46

#### **4. PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS . 47**

Capacity of the State .....	47
The Setting .....	47
The Bank's Program .....	48
Outcomes for State Capacity-Building.....	57
Fiscal and Public Financial Management Systems .....	58
The Setting .....	58
The Bank's Program .....	58
Outcomes for Fiscal and Public Financial Management Systems .....	63
Basic Legislative Framework .....	64
The Setting .....	64
The Bank's Program .....	65
Outcomes for Legislative Framework .....	68

#### **5. PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH..... 71**

The Setting .....	71
Private Sector Development .....	72
WBG's Strategy and Objectives for Private Sector Development .....	72
The Bank's Program .....	74
IFC in Timor-Leste .....	78
Outcomes: Some Progress, But No Headway in Critical Areas .....	79
Agriculture.....	82
The Setting .....	82
Bank Strategy and Objectives in the Agriculture Sector.....	82
The Bank's Program .....	83
Outcomes: Little Progress in Increasing Agricultural Production and Yields, or in Diversification. ....	88
Energy .....	90
Bank Strategy and Objectives in the Energy Sector .....	90
The Bank's Program .....	92
The Hydrocarbon Sector .....	92

The Power Sector.....	94
Outcomes: Progress in Hydrocarbons, Few Achievements in Power .....	95

**6. DONOR COORDINATION: ALIGNMENT AND HARMONIZATION .....97**

**7. CONCLUSION..... 101**

The Evolving Role of the World Bank Group in Timor-Leste .....	101
Assessing the World Bank Group's Contribution.....	102
Relevance .....	102
Efficacy .....	103
Efficiency .....	104
Overall Assessment.....	105
Findings and Recommendations.....	105
Key Findings of the WBG Evaluation .....	105
Sector Findings .....	105
The First Pillar - Provision of Basic Social Services, Social Protection and Alleviation of Poverty And Unemployment.....	105
The Second Pillar - Governance and Development of State Institutions .....	106
The Third Pillar - Sustainable and Diversified Non-Petroleum Sector for Job Creation and Economic Growth .....	108
Broad Program Findings .....	110
General Lessons .....	112
Recommendations .....	114

**APPENDIX 1. GUIDE TO IEG'S COUNTRY PROGRAM EVALUATION  
METHODOLOGY..... 117**

**APPENDIX 2. THE PETROLEUM SECTOR..... 121**

**APPENDIX 3. TRUST FUNDS IN TIMOR-LESTE ..... 124**

**APPENDIX 4. NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY  
BUILDING EFFORTS IN TIMOR-LESTE ..... 136**

**APPENDIX 5. MONEY PATH – FROM BUDGET PREPARATION TO BUDGET  
EXECUTION ..... 148**

**APPENDIX 6. TIMOR-LESTE - LIST OF APPROVED PROJECTS, 2000-2010<sup>1/</sup> .. 157**

**APPENDIX 7. TIMOR-LESTE - ANALYTICAL AND ADVISORY WORK, FY00-FY10  
..... 159**

**APPENDIX 8. LIST OF PEOPLE MET..... 162**

**APPENDIX 9. STATISTICAL SUPPLEMENT..... 165**

**ATTACHMENT 1: COMMENTS FROM GOVERNMENT .....189**

**Boxes**

Box 1. Languages in Timor-Leste ..... 1

Box 2. Macroeconomic Data in Timor-Leste ..... 5

Box 3. Bank’s Approach to Capacity Building for PFM..... 55

Box 4. Information on Trust Funds ..... 98

Box 5. The Petroleum Fund .....140

**Tables**

Table 1. Timor-Leste: Summary of Findings and Recommendations .....xxiii

Table 2. Timor-Leste Average Growth Rates ..... 3

Table 3. Shrinking Role of Bank: Percentage Distribution of No. of Projects, Project Cost and IDA and TFET Funding During FY00-10..... 17

Table 4. Relative Importance of Agriculture Projects ..... 17

Table 5. Importance of the Three Pillars in New Lending Approvals, 2000-10..... 18

Table 6. Budget Support Operations FY03-06 ..... 19

Table 7. Simplicity in Projects, 2000-10. .... 24

Table 8. Timor-Leste: Speed of Project Preparation and Implementation:..... 25

Table 9. Project Outcome Ratings for Closed Projects, as a Percentage of Closed Projects whose Outcomes were Rated by IEG ..... 27

Table 10. Comparison of Project Outcome Ratings in Timor-Leste and Other Regions ..... 27

Table 11. Health Sector Projects FY00-10..... 30

Table 12. Bank-Administered Projects in the Education Sector, 2000-10..... 35

Table 13. Bank-Administered Programs and Projects for State Capacity Building, 2000-2010 ..... 50

Table 14. Bank-Administered Projects for Fiscal and Public Financial Management, 2000-2010 ..... 59

Table 15. Main Bank-Administered Projects for Legislative Framework, 2000-2010	65
Table 16 Timor-Leste - Legislation Adopted with World Bank Group Support	68
Table 17. Bank-Administered Projects in Support of PSD, 2000-10	74
Table 18. IFC Advisory Services in Timor-Leste, FY06-10	78
Table 19. Bank Administered Project in Support of Agriculture Sector, 2000-10	84
Table 20. List of Bank Administered Projects in the Energy Sector, 2000-10	92
Table 21: Investment Cost by Projects in Selected Sectors	136
Table 22: Bank Disbursement by Cost Category	137
Table 23: Comparison of Capacity Building Efforts	138
Table 24. Ratings by National Government Staff on Capacity/Skills Transfer of Bank Support	145

## Figures

Figure 1. Food Crop Production (tons), 1999-2009	89
Figure 2. Crop Yields (MT/ha) In Timor-Leste and Selected Countries in EAP Region	90



# Preface

This Country Program Evaluation examines the World Bank Group's assistance strategy to Timor-Leste during the period FY00-FY10. It analyzes the objectives and content of the assistance program during this period, the outcomes in terms of economic and social development, and it notes the contributions of the World Bank Group to these outcomes. Appendix 1 describes the methodological framework.

The evaluation team visited Timor-Leste in June and August 2010, and met with past and present senior officials of the Government of Timor-Leste, representatives of the private sector, civil society and external development partners, as well as staff from the World Bank Group. The June mission overlapped with the visit to the country of a team of the Asian Development Bank's Independent Evaluation Department. During that period the two missions shared some meetings with government officials and stakeholders, and met regularly to discuss information and findings. Prior to visiting Timor-Leste, the evaluation team met with most of the World Bank Group staff members that had worked or are working on the Timor-Leste country program. All cooperation and assistance received is appreciated with gratitude.

The CPE report is based on background papers covering the main areas of the World Bank Group's support to Timor-Leste, prepared on the basis of desk reviews and validated in the two evaluation missions as well as through interviews with World Bank Group staff. The background papers relied on reviews of project files, economic and sector reports, implementation completion reports, project performance assessment reports, other IEG evaluations, available Quality Assurance Group assessments including ratings of quality at entry and supervision for Timor-Leste projects and economic and sector reports. A list of persons interviewed during report preparation, including those in Timor-Leste during the 2010 missions, is provided in Appendix 8.

Comments from the Bank's Regional Management were received on March 24, along with the Regional response to the Management Action Record. These comments have, to the extent possible, been addressed in the report. A draft of the evaluation was shared with the Government of Timor-Leste on April 11. The comments received from the Government, dated May 26, 2011, are reproduced verbatim as Attachment 1. A discussion of the report by the CODE Subcommittee was held on May 23, 2011, and a summary of the discussion is included.

The report was prepared by Chandra Pant, under the direction of Jaime Jaramillo-Vallejo (Task Manager), with background papers and other substantive inputs from Nils Fostvedt, David Gairdner, Gita Gopal, Maria Ines Agudelo, Min Joo Kang, and Allan G. Dizioli. Nils Fostvedt prepared the annex on Trust Funds. With support from NORAD and as self-standing papers, Gita Gopal and Allan G. Dizioli prepared the annex on Public Financial

## **PREFACE**

Management Capacity Building Efforts, and Maria Ines Agudelo on Money Path – From Budget Preparation to Budget Execution. Roderick L. de Asis provided administrative support, and Barbara Balaj provided editorial support.

This evaluation benefited from the comments from peer reviewers Jose Braz (external) and Nalini B. Kumar (internal). Prem Garg also provided comments. The report also benefited from comments received within IEG's review process, especially from Daniela Gressani, Cheryl W. Gray, Hans Martin Boehmer, Ali M. Khadr, Mark Sundberg, Stoyan Tenev and Anis A. Dani.



# Timor-Leste: Summary of World Bank Group Program Outcome Ratings

IEG's Country Program Evaluations assess and rate the *outcomes* (the "results") of a given World Bank Group (WBG) country program relative to its objectives. This differs from rating the country outcomes of the Government of Timor-Leste or the WBG, as well as the performance of either of these. The central question underlying the table that follows is "to what extent did the WBG program achieve the outcomes that it set out to achieve?" Distinct ratings and sub-ratings are typically assigned to each "pillar" or set of strategic goals set out in the relevant WBG strategy documents. In the case of the pillar on growth and job creation, the evaluation gives greater weight to the areas of private sector development and agriculture, due to their high relevance for generating employment and reducing poverty. Appendix 1 of the evaluation elaborates on IEG's rating methodology.

WBG STRATEGIC AND OPERATIONAL GOALS	ACHIEVEMENT OF RESULTS ASSOCIATED WITH WBG GOALS	MAIN WBG INSTRUMENTS TO HELP RESULTS MATERIALIZE	WBG PROGRAM OUTCOME RATINGS
<b>PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT</b>			<b>Moderately Unsatisfactory</b>
WBG's objectives in the <b>health</b> sector were to improve access to and quality of basic health services in the country.	Many health centers built, mobile clinics made operational, hospitals rehabilitated and reconstructed. More immunizations and births supervised by health care professionals led to declining infant mortality rates. However, progress was less than expected. Moreover, strict enforcement of WBG rules delayed procurement of the equipment for four new hospitals for a full year.	The WBG's provided support through four projects that sought to improve access and quality through reconstruction of primary health care centers and hospitals, and adequate provision of essential medical equipment and medicines. Through four development policy operations (DPOs), the WBG provided technical assistance and training for enhancing the capacity of the Ministry of Health and health service providers. Sector AAA was completed in FY07.	Moderately Satisfactory
In the <b>education</b> sector, the primary objectives of the WBG's program were to increase access to education at primary and secondary levels and improve the quality of education.	Primary and secondary enrollment rates improved. However, little progress was made in improving the quality of education which remains poor. Progress on school infrastructure and textbooks was held back by the lack of adequate attention to the complex language situation for effective teaching. A full cohort of the population may be functionally illiterate.	The WBG's program provided support through six projects and four DPOs. The projects aimed at the reconstruction, rehabilitation and refurbishment of schools, and the production and distribution of textbooks and other learning material (which were for the most part in a language foreign to many teachers, pupils and parents). DPOs buttressed institutional capacity building in the Ministry of Education and educational institutions. An education sector study was completed in FY03.	Moderately Unsatisfactory
In the area of <b>poverty and unemployment alleviation</b> , WBG objectives included providing a short-term social safety net through labor-intensive jobs (urban and rural), and having a sustainable and effective social safety net for the most vulnerable.	Short-term jobs and income created with targeted Bank projects in the early years did well but, as expected, were not sustainable. In subsequent years, the WBG did poorly with unemployment and social assistance for the most vulnera-	In its initial interventions the WBG provided grants (three operations related to the second Pillar and five operations related to the third Pillar) to facilitate economic activity in rural and urban areas. Poverty and unemployment issues were also areas	Unsatisfactory

**SUMMARY OF WORLD BANK PROGRAM OUTCOME RATINGS**

<b>WBG STRATEGIC AND OPERATIONAL GOALS</b>	<b>ACHIEVEMENT OF RESULTS ASSOCIATED WITH WBG GOALS</b>	<b>MAIN WBG INSTRUMENTS TO HELP RESULTS MATERIALIZE</b>	<b>WBG PROGRAM OUTCOME RATINGS</b>
	ble. Poverty and unemployment rose significantly through most of the evaluation period and declined only after 2007, when the government, against Bank advice, increased its spending using petroleum resources including in the form of cash transfers.	in DPOs, but these interventions were at the policy level. The WBG did two poverty assessments (FY03 and FY09).	
To address <b>youth unemployment and disaffection</b> , the WBG goals included temporary employment creation, particularly in rural areas and engagement of alienated youth in productive community-based activities	There is no evidence that youth empowerment has increased or youth disaffection has lessened. Youth issues were a major factor behind the 2006 civil strife.	The Bank came late to a realization that youth unemployment was an issue and contribution to address youth issues has been modest. Two studies (FY08) helped inform the government's policy responses to the youth challenges and a project targeted to the youth, which was approved in FY09 but has barely disbursed.	Unsatisfactory
WBG's objective for <b>veterans</b> was to provide technical assistance and support to enable the Government of Timor-Leste to alleviate the veterans' concerns about recognition, appreciation and assistance.	By the end of 2005, more than 75 thousand veterans or their survivors had been registered. A Veterans Law was adopted by Parliament in March 2006, providing the legal basis for the recognition of veterans and their assistance. A Veterans' pension system was established and the first pension payments to 12 thousand beneficiaries were made in July 2008.	Veterans' issues were addressed in the Transitional Support Program (2003-05) and first steps were initiated. With Timorese government leadership, the 2006 Veterans Law was drafted and a veterans' data base was created to determine and administer benefits. In FY05 TA was provided on veterans' policy and its implementation.	Moderately Satisfactory
<b>GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS</b>			<b>Moderately Unsatisfactory</b>
WBG's objective was the reconstitution of the <b>capacity of the state</b> , including establishing and re-enforcing key economic ministries, procurement and audit agencies, customs, revenue agency, and developing and strengthening the state's capacity for policy, planning and service delivery.	Institutional capacity is uneven across ministries, and remains weak in many of them. Overall, the human skills base is still very low and the government remains dependent on foreign advisers even for routine line functions. Capacity building initiatives have not generally worked because of absence of strategy and of a needs-based assessment, in addition to barriers such as language.	Initial WBG efforts aimed at improving local governance through three projects. Health and education projects also bolstered capacity in the line ministries. A more frontal WBG effort came through an FY01 capacity-building project, which was supported by four DPOs. Later, a major capacity-building project became effective in FY06 and is still in place.	Moderately Unsatisfactory
Improved <b>fiscal and public financial management</b> , including revenues from petroleum, was an important part of the WBG's institution-building agenda.	Fiscal policy in general and expenditure policy in particular are now planned and with increasing focus on public service delivery. Better budget execution was achieved with a significant number of foreign advisors. Procurement system developed with the Bank's help is not delivering on expectations and is now being reformed and in need of a comprehensive refurbishing. The Petroleum Fund is an effective and transparent mechanism, but the	The WBG provided support, as noted above, through four DPOs, AAA, and the capacity building projects for the Ministry of Finance and the Petroleum Fund. Limited assistance was provided by the WBG to parliamentarians, focusing on the Petroleum Fund, but not on budget oversight.	Moderately Unsatisfactory

**SUMMARY OF WORLD BANK PROGRAM OUTCOME RATINGS**

<b>WBG STRATEGIC AND OPERATIONAL GOALS</b>	<b>ACHIEVEMENT OF RESULTS ASSOCIATED WITH WBG GOALS</b>	<b>MAIN WBG INSTRUMENTS TO HELP RESULTS MATERIALIZE</b>	<b>WBG PROGRAM OUTCOME RATINGS</b>
	savings rule does not factor in Timor-Leste's significant deficit of human and physical capital. While Parliament's oversight is now in place, its role in checks and balances is limited due to capacity constraints. The system of checks and balances is further weakened by the non-inclusion of donor-financed projects, including the Bank, in the overall budget.		
<p><b>Legislation.</b> Adoption of laws to improve governance and creation of institutions to strengthen governance and accountability were also part of the WBG's governance objectives.</p>	<p>New institutions for governance have been created and many laws have been adopted. However, their functioning remains constrained by shortages of trained and qualified staff, and the new laws' weak congruence with Timor-Leste's legal system and its reality. New institutions (the Ombudsman and the Inspector General) have been mostly ineffective. No significant effort seems to have been made to adapt the new legislation to the civil service capacity that was actually on the ground. Issuing the implementing regulations and working on the consistency of the new laws are tasks where further work is needed.</p>	<p>The WBG provided support, as noted above, through four DPOs and AAA.</p>	<p>Unsatisfactory</p>
<p><b>SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH</b></p>			<p>Unsatisfactory</p>
<p>The WBG's objective under this pillar was to create a vibrant <b>private sector</b> that would generate sustainable non-petroleum sector economic growth and productive jobs. Aside from the right legal environment, the objective included stimulating local investment through improved access to credit and infrastructure. This objective included increasing the efficiency and coverage of the power supply.</p>	<p>No significant improvement in non-oil foreign or domestic private investment. Infrastructure and finance, key binding constraints on private sector growth, remain to be addressed properly, including by the WBG. Limited progress in improving regulatory framework for PSD, which is too complex and has yet to regulate contract enforcement and use of collaterals in loans.</p>	<p>The WBG had two small enterprise projects until FY02. Subsequent WBG support was largely centered on the adoption of laws and the establishment of institutions to facilitate private sector activity, with support through the three DPOs. IFC focused mostly on advisory services including a hotel e-booking system, public-private dialogue, and business registration and licensing reform.</p>	<p>Unsatisfactory</p>
<p>In the <b>agriculture sector</b>, the WBG's objectives were to increase agricultural production and productivity, improve food security, enhance business-oriented production of agriculture products, and promote sustainable resource management in forestry and fisheries.</p>	<p>No increase in food production or agricultural productivity for most of the evaluation period. Food insecurity remains a serious concern. Very limited business-oriented production of agriculture products; the sector dominated by subsistence farming, and production hampered by poor roads and high transportation costs to markets. Some improvements in developing sector policy, but low WBG involvement. Rehabilitated irrigation only reached ten percent of</p>	<p>The WBG promoted this agenda through three agricultural rehabilitation projects approved during 2000-04, as well as DPOs during 2003-06.</p>	<p>Unsatisfactory</p>

**SUMMARY OF WORLD BANK PROGRAM OUTCOME RATINGS**

<b>WBG STRATEGIC AND OPERATIONAL GOALS</b>	<b>ACHIEVEMENT OF RESULTS ASSOCIATED WITH WBG GOALS</b>	<b>MAIN WBG INSTRUMENTS TO HELP RESULTS MATERIALIZE</b>	<b>WBG PROGRAM OUTCOME RATINGS</b>
	rice-production land.		
In the <b>Hydrocarbon Sector</b> , the WBG's objective was to bring transparency and probity in managing petroleum revenues, in order to effectively manage oil and gas revenues and savings to benefit present and future generations.	A petroleum regime that is internationally competitive in its terms and in line with international best practice was established. In many respects, the regime has set new standards for developing countries in regard to transparency and accountability in the management of petroleum revenues. It has limited the scope for arbitrary use of revenues, even if the savings rule is not adapted to Timor-Leste's circumstances. Evidence of this achievement is the recent declaration of Timor-Leste as EITI compatible, only the third member country to reach this stage.	The WBG had two projects which aimed to provide technical assistance in this sector. PTAP I provided support to the Government of Timor-Leste on negotiations with neighboring countries and oil companies in the petroleum sector. PTAP II contributed to the oversight of the petroleum sector in the areas of investment and project development, sector policy and administration, and revenue collection and management.	Highly Satisfactory
In the <b>Power Sector</b> , the WBG's objectives included improved efficiency of power supply and collection efficiency in national capital to allow greater spending on district power services; and enhanced availability of reliable, affordable power in the districts to support social and economic development.	Lack of access to reliable power supply is still a bottleneck for private sector development and there is limited evidence of a strong policy impetus for this sector.	The Bank's interventions include one completed project addressing Dili's power supply and two ongoing, which have been troubled by cost overruns and delays. The projects aimed to improve the generation capacity and distribution efficiency and to provide technical assistance and training to support project implementation and strengthening of the institutional capacity.	Moderately Unsatisfactory
<b>Overall Assistance</b>			<b>Moderately Unsatisfactory</b>

# Evaluation Summary

## Timor-Leste Country Program Evaluation, 2000-2010

### The Evolving Role of the WBG in Timor-Leste

From a new state under UN protection in 2000, entirely dependent on the international community, Timor-Leste has transformed itself into a state that stands on its own and has progressed considerably in developing its basic institutions and economy. The country is still challenged by potential instability, limited institutional and human capacity, and limited economic opportunity, but now has the benefit of substantial petroleum resources. Timor-Leste's institutional layout appears better able than before to manage political competition and tensions, and the expectations of citizens have matured in recent years. The Timorese leadership brought the country out of civil unrest in 2006-07 and its aftermath, and has become increasingly assertive in defining its development vision and priorities.

The World Bank Group (WBG) strategy in Timor-Leste during 2000-10 was articulated in a series of documents. The Joint Assessment Mission Report (JAMR), produced in December 1999 by the Timorese in collaboration with the Bank and other donors, formed the basis of the Bank's initial interventions. In November 2000, the Bank's Executive Board discussed a Transitional Support Strategy (TSS), which covered the period until Timor-Leste became eligible to apply for membership of IBRD/IDA, expected to occur after full independence (May 2002). A first full CAS was prepared in June 2005, outlining the strategy for the period FY06-08. That strategy was derailed by the outbreak of civil strife in 2006-07, and a new Interim Strategy Note (ISN) that was discussed by the Bank's Board in August 2009 defined the strategy of the WBG for the period FY10-11. Throughout these strategy documents, the WBG planned to support Timor-Leste in three broad areas: (a) poverty alleviation and the provision of basic social services, including health and education; (b) development of state institutions, including creating good governance and building the capacity of state institutions; and (c) promoting sustainable non-petroleum growth, especially through the development of agriculture and the private sector.

The relevance of the WBG strategy waned through the evaluation period, despite being broadly congruent with the country's own aspirations. During the first three years, the WBG strategy was relevant, focusing on immediate reconstruction needs, the restoration of key social services and alleviation of basic deprivation. At that time the Bank was the trustee and co-manager of the Trust Fund for East Timor (TFET), which brought together resources from different donors and funded investments through grants. As years went by, this immediate focus dissipated. The strategy became more diffuse and all-inclusive, covering a very broad front to the detriment of

## EVALUATION SUMMARY

the most critical areas such as agriculture and capacity-building of state institutions. WBG support increasingly took the form of development policy operations and extensive analytical and advisory services. The WBG failed to respond to critical social challenges arising from youth unemployment and rising poverty, as the initial emphasis on delivering early tangible benefits to the population lost momentum.

The efficacy of the program varied over time and by sector. The Bank performed relatively well in the early reconstruction period, when conditions were most challenging. As a result, access to basic health and education services improved and dire human deprivation was mitigated. Thereafter, measured against the objectives set by the WBG for itself, the results of its interventions with respect to long-term development challenges became much more uneven. Overall, moderately satisfactory outcomes in health and veterans' issues and highly satisfactory outcomes in the petroleum sector were offset by weak outcomes in other areas covered by the WBG program. Despite the priority accorded throughout the succession of WBG strategy documents to agriculture, private sector development and employment generation, very little was achieved after the initial period of reconstruction and stabilization. Progress in improving governance and building state institutions, another priority area for the WBG, was good in some respects, but in others opportunities for greater impact were missed. Overall, the outcome of the WBG's program was *Moderately Unsatisfactory* when rated against the goals that it set for itself.

### Country Context

In 1999, after some 24 years of armed conflict against the Indonesian occupation and a referendum for independence, Timor-Leste was beset by unprecedented violence and destruction. Under the mandate of the UN Security Council, peace and security were restored and the country was governed directly by the UN, until in 2001-02 free elections led to the establishment of a representative government. The country became independent in May 2002.

Since then **Timor-Leste has made much progress in building the institutions of the state and restoring basic services** to the people. The architecture and institutions of government foreseen in the Constitution have been established and are functioning, albeit at varying levels of effectiveness. The government is managing a significantly bigger budget and providing basic social services to an increasing share of its citizens. Other institutions outside of the executive branch—such as the Parliament and the Judiciary—have also been established, and civil society is also more empowered and engaged.

The **violence following the 1999 referendum was devastating for the people and the economy** of Timor-Leste. More than a thousand people died, hundreds of thousands were displaced and the country's infrastructure was de-

stroyed. The agriculture sector suffered a major blow with the destruction of livestock and machinery. The modern sector was most affected by the destruction of vital physical infrastructure, as well as the exodus of the non-Timorese population that had provided much of the public administration and technical expertise. Basic social services were hit hard. There was a total breakdown in the health care system and the education system also ground to a halt. Valuable records and files, including land and property titles and the civil registry were destroyed. There were no government institutions left. The economy was devastated, and real GDP fell by 33 percent from already low levels.

Since the difficult beginning, **the economy has gone through several periods of vigorous economic growth**, although with significant annual variations. Under the impetus of the reconstruction activities initiated with the support of donors following the restoration of peace and stability, economic activity picked up considerably in 2000-01. The sharp draw-down of international presence following the withdrawal of UN peacekeeping operations after independence in 2002 and the civil unrest of 2006-7 led to a slowdown of economic activity, and poverty and unemployment increased during 2002-07. Once again, international presence restored order, and following fresh presidential and parliamentary elections, a new

coalition government took office in August 2007, which took urgent steps to address the grievances of disaffected soldiers, unemployed and poor, and other sections of society.

The improved security environment, the recovery of the agriculture sector from drought in 2007, and significantly increased levels of public spending (including capital expenditures) resulted in strong economic growth, averaging around 9 percent annually between 2007 and 2010. However, unemployment remains high, especially among the youth. The country continues to face a serious shortage of qualified and trained professionals in most spheres. Institutional capacity is still very weak in many areas of government and outside, contributing to inefficiencies and leakages in government programs.

**The international community has had a significant presence since 1999**, when the UN moved quickly to restore peace and security and prepare the foundations for independence in 2002. Apart from purely humanitarian aspects, development assistance supported reconstruction of damaged facilities including schools and hospitals, rehabilitation of infrastructure such as roads and ports, restoration of electric power and water supply and sanitation, support for agriculture and the private sector, and, most importantly, developing the capacity of state institutions at all levels.

Support has been provided in the form of financial grants, technical assistance and analytical and policy advice. Since 1999, Timor-Leste has received about US\$ 3.6 billion of foreign assistance from roughly 28 bilateral donors (most prominently Australia, Portugal, the European Union, Japan, and USA) and multilateral organizations (UN agencies, WBG, Asian Development Bank and IMF.) Few other post-conflict countries have received higher levels of financial support on a per capita basis. Yet, poverty increased from 2001 to 2007—the period of the largest aid inflow—and almost half of the population was poor in 2007.

The role and influence of donors, including the WBG, has declined since 2007. Though the country still requires substantial international technical support, increased hydrocarbon revenues make it less dependent on foreign financial assistance. The government shows growing frustration with what it sees as complex, heavy donor mechanisms. It also appears more skeptical about the advice received from the WBG and other donors. The de-

clining influence of the traditional donors including the WBG is taking place in the context of an apparent larger realignment of Timor-Leste's development policy and international alliances, with particular expansion towards countries in Asia and in the Lusophone community.

## Program Overview

### The First Pillar – Human Development

The stated objectives of the Bank's program in the **health** sector were to improve access to and quality of basic health services in the country. Bank projects sought to improve access and quality through reconstruction of primary health care centers and hospitals, adequate provision of essential medical equipment and medicines, and technical assistance and training to enhance the capacity of the Ministry of Health and health service providers.

Progress was made in improving the population's access to basic health services. A large number of health centers were built, mobile clinics were made operational, hospitals were rehabilitated and reconstructed and the supply of medical equipment and drugs was improved. Basic health services were restored. These interventions had a positive impact on the delivery of health care, despite delays in the equipment of hospitals caused by strict enforcement of Bank procurement rules. Immunization coverage for children 12-23 months rose; an increasing number of births were supervised by health care professionals; and infant mortality rates fell. However, progress was slower than expected, child malnutrition worsened and the health of the population in many respects (life expectancy at birth, maternal mortality, malnutrition among children) still remains well below the average in the region and is closer to the average for low-income countries.

In the **education** sector, the primary objectives of the Bank's program were to increase access to education at primary and secondary levels and improve the quality of education. The Bank's program included the reconstruction, rehabilitation and refurbishment of schools, the production and distribution of textbooks and other learning material and institutional capacity building in the Ministry of Education and educational institutions.

These interventions succeeded in bringing children back to school quickly and contributed to an

## EVALUATION SUMMARY

overall improvement in enrollment rates at the primary and secondary levels, though progress was much slower than expected after the initial years. As late as 2007, 40 percent of population aged 6 and above had never attended school. Also, very little was achieved in improving the quality of education which remains poor. Moreover, the implications of the complex language situation for effective teaching were not given adequate attention by the Bank, so that learning materials were for the most part unintelligible to many teachers, pupils and parents.

**Poverty and unemployment** alleviation were also important objectives of the Bank under the first pillar. In its initial interventions the Bank provided grants and loans to facilitate economic activity in rural and urban areas. These interventions succeeded in providing much needed cash among the poor in remote areas and, to some extent, in creating short-term jobs and employment, as was often the key intention. But many of these jobs were not sustainable and many of the new businesses did not survive the significant UN departures in 2002-03.

A major shortcoming of the WBG program was its inability to help develop a significant and sustainable program for alleviating unemployment, especially of **the youth**, which remains a potent threat to social and political stability. The Bank also missed an opportunity to have impact by not providing hands-on assistance in designing and implementing a program of social assistance in the aftermath of the 2006 civil strife. Through most of the evaluation period, poverty and unemployment rose significantly and the youth issues were not addressed.

The Bank played a useful role in supporting the government in developing and implementing a sensible policy to alleviate legitimate concerns of **veterans** for recognition, appreciation and assistance, although earlier results would have abated tensions. The Bank's program of policy advice and technical assistance helped establish the government's policy as well as the institutional framework and the administrative systems to implement the policy.

Overall, the outcome of WBG support for the first pillar is rated *Moderately Unsatisfactory*.

## The Second Pillar – Governance

Taken from the starting point of 1999, the state's **capacity** to govern and deliver public goods has increased significantly. The architecture and institutions of government foreseen in the Constitution have been established and are functioning. The Government of Timor-Leste is managing a significantly expanded budget, driven by growth in petroleum revenues. Ministries and agencies of the state are better able to plan and manage their activities and resources. On its side, the legislative branch of government has produced a significant body of legislation and is making efforts to carry out its oversight functions. A cadre of well-trained and knowledgeable Timorese is at the heart of these considerable developments.

Macroeconomic management was prudent throughout most of the period, although the fiscal stance was too tight until the civil unrest. This stance was consistent, however, with the saving rule of the Petroleum Fund, which did not take into account the sizable deficit of human and physical capital faced by Timor-Leste, nor the urgent need to provide social services and relieve deep poverty.

Timor-Leste, however, still faces major governance challenges. Institutional capacity is uneven across ministries, and remains weak in many of them. There has been almost no strengthening at the district and local levels. The Judiciary remains a challenge. Overall, the human skills base is still very low and the government remains highly dependent on advisors, many of them foreign, with only limited success in transferring knowledge and skills between the advisors and national staff.

The Bank had state capacity building as a key priority from the start. However, the contribution to capacity development has been limited, as noted in the WBG's Interim Strategy Note (ISN). For most of the evaluation period the Bank did not have a clear needs assessment, a strategic vision, or a realistic and monitorable strategy that could have guided its actions to bolster capacity in Timor-Leste in a more effective way. Moreover, WBG technical assistance has been hindered by problems with the mentoring model, in addition to factors such as language and poor education.

Timor-Leste has also made very significant progress in setting up **a system of fiscal and public financial management**. The stable ma-



macroeconomic environment and the improved budget execution in recent years are evidence of this progress. The basic institutions for fiscal and public financial management have been set up and are functioning. Fiscal policy in general and expenditure policy in particular, are now planned and with increasing focus on public service delivery. These policies are better grounded, using more reliable estimates of the macroeconomic aggregates and the needs of the population. The utilization of petroleum revenues is governed by a prudent and transparent framework widely regarded as best practice. Institutions of the state outside of the executive, such as Parliament, are also in better condition to discharge their functions on the petroleum fund.

Nevertheless, use of the financial management systems needs to be spread evenly across all government agencies and all levels of government, including the local. Parliament, the Judiciary and the other oversight institutions need to be strengthened so that they can fulfill their function as checks and balances. The part of the budget that is financed with donor funds must be brought into the overall budget, and the investment budget must catch up with the current budget in execution rates.

The Bank's efforts in this area were late to bear fruit, and have faced significant adaptation challenges. Had the system of fiscal and financial management been in place when the flow of petroleum revenues started, the government would have been in a better position to tackle the unemployment and the deficiencies that helped brew the civil strife of 2006. Moreover, some of components of the system suggested by the Bank, e.g. procurement, turned out to be ill-adapted to Timor-Leste. The successes with the Petroleum Fund and the recent project on public financial management need to be weighed against these shortcomings.

On the creation of a **legal framework**, Timor-Leste has also made very significant progress. It now has laws that govern taxation and customs, as and the exploitation and use of its petroleum wealth. It also has a public financial management law better adapted to its reality. Procurement legislation has taken several rounds, but also seems to be better adapted now. However, Timor-Leste still needs to harmonize the different the pieces of legislation stemming from separate legal traditions, so that they are congruent and adapted to the uses

and mores of the country. An additional challenge is to develop the implementing regulations that are needed to bring these laws to life. Yet another one is to fill in the blanks that were left behind in the haste that seems to have dominated the legislative process until now.

The WBG has supported the development of the legislative framework in a wide set of areas. Perhaps the coverage has been too wide for Timor-Leste's capacity constraints—too many draft laws for a new Parliament and for a few lawyers capable of adjusting the drafts to the Timor-Leste's nascent legal system—which are even greater if the capacity to implement the new laws is factored in. While the urgency was pressing, the need for a structured and strategic vision was all the more relevant in light of the limited resources and capacity. So were the need for a better understanding of the challenges of setting up a new legal system under a civil law tradition, and an acknowledgement of the limitations faced by Timor-Leste.

Overall, the outcome for WBG support for the second pillar is rated as *Moderately Unsatisfactory*.

### The Third Pillar – Growth

The WBG's objective under this pillar was to create a vibrant **private sector** that would generate sustainable economic growth and productive jobs. Timor-Leste's non-petroleum economy is dominated by the public sector, which contributed roughly 45 percent of non-petroleum GDP in 2007, the last year for which data on the sectoral composition of GDP is available, and private non-petroleum investment was estimated by the IMF at US\$12 million in 2007, about 3 percent of non-petroleum GDP.

The private sector development agenda supported by the WBG was largely centered on the adoption of laws and the establishment of institutions to facilitate private sector activity. Left aside were the more pressing binding constraints posed by bad infrastructure and the difficulty of accessing credit. Much of its agenda was implemented through the development policy operations of 2003-06.

A number of laws meant to facilitate private investment were adopted during this period, including those on commercial entities, investment, insurance, bankruptcy, cooperatives, and leasing of government property. A land law addressing publicly owned real estate was also passed in 2003.

## EVALUATION SUMMARY

However, a clear sense of priorities or legislative strategy has been missing. As was the case with governance, congruence among the various sets of legal advice received by Timor-Leste is uncertain and critical laws, such as on contract enforcement and securitizing land for collateral, are still pending. Moreover, while a lot of attention was paid to developing laws, less attention was paid to the more difficult issues of developing enabling regulations and enforcement, including the judicial system's ability to resolve disputes within the existing legal framework.

At a different level, IFC helped create the Better Business Initiative, a forum to improve the dialogue between the government and the private sector. This forum was largely responsible for the recent creation of the Chamber of Commerce and Industry. IFC also helped develop an e-booking system to help international travelers and the tourism sector, and has made some efforts in easing microcredit using resources from another donor. In total, there were four advisory services since IFC launched its operations in 2006. No IFC investment was approved during this period.

Under a reasonable division of labor agreed at the start with ADB (but one that could have been revisited at some point), the WBG's program did not address two critical constraints to private sector development: poor infrastructure (except for some relatively modest power projects) and lack of access to credit. Progress in both these areas has been quite limited, and they remain the key binding constraints on private sector development. Shortages of electricity and poor roads and other infrastructure are increasing private sector costs, while banks remain reluctant to lend in the absence of debtor discipline and a credible framework for contract enforcement. Overall, as noted in the ISN (p15), "there has been a serious and damaging failure to create conditions conducive to the emergence of a vibrant private sector".

In the **agriculture sector**, the WBG's objectives were to promote sustainable resource management (in forestry and fisheries), increase agricultural production and productivity and improve food security. This agenda was promoted through a series of agricultural rehabilitation projects approved during 2000-04 as well as the development policy programs approved during 2003-06.

As a result of the Bank's interventions, almost 4,000 hectares of land were rehabilitated in 46

community-based irrigation schemes, covering 2.4 percent of arable land. An extensive program of vaccination of livestock was undertaken through early Bank projects, which reduced mortality rates. In addition, a sector policy framework was developed, as well as a forestry and watershed management policy and strategy. A fisheries decree law and supporting legislation were also approved.

However, the overall impact of Bank interventions on production and yields was limited because other complementary inputs such as fertilizers and high yielding seed varieties were not used. Many of the production activities supported by Bank projects in upland and coastal communities did not have a significant impact because they were hampered by poor roads and high transportation costs to markets. The pilot agricultural service centers established by Bank projects to provide services to farmers were not viable as farmers were unwilling (or unable) to pay for the services on offer.

Considering the entire period 2000-10, the outcomes in the sector have been disappointing. After the early recovery that followed the 1999 collapse, there was no generalized increase in production (but significant annual variations) of the three main food crops (maize, cassava and rice) between 2000 and 2008. However, there was a significant increase in the output of all three in 2009. Nevertheless, agricultural productivity has not increased and remains very low, both for food-crops and livestock. The sector is still dominated by subsistence farming, which suffers from poor quality of inputs (seeds, fertilizers, pesticides, irrigation) and lack of knowledge regarding new technologies and best practices.

Food security remains a serious concern, especially in rural areas. Despite large imports of rice, the 2007 Survey of Living Standards found that rural households did not have sufficient rice or maize to eat for about four months each year. As acknowledged in the ISN ("...support for this sector since independence has not been adequate to tackle underlying factors."

The **energy** agenda of the WBG included the hydrocarbon sector and power. Timor-Leste has made considerable progress in dealing with the petroleum wealth stemming from the find in the Timor Sea. There is a negotiated treaty with Australia, a set of rules governing taxes and royalties, and a Petroleum Fund to guide revenue use. Evi-

dence of the progress is the recent declaration of Timor-Leste as EITI compatible, only the third member country to reach this stage. The Bank gave significant support to Timor-Leste in its negotiations with Australia, and in setting up the system of taxes and revenues. In collaboration with the IMF and NORAD, the Bank helped create the Petroleum Fund by helping gather wide support for its approval. The negotiations and the system of taxes and revenues for hydrocarbons are the highlights of the Bank's program in Timor-Leste.

In the power sector Timor-Leste has made only modest overall progress, and lack of access to reliable power is still a bottleneck for private sector development. In the early years, ADB was the lead agency. The Bank also engaged in the sector early on. Progress in the areas supported by the Bank, namely improving the availability and efficiency of the power supply and collections from users, has also been modest.

Overall, the outcome of WBG support for the third pillar is rated as *Unsatisfactory* despite highly satisfactory rating for hydrocarbon.

### Findings on the World Bank Group Program

On the positive side, the evaluation finds noteworthy the **Bank's assistance to Timor-Leste in negotiating with Australia its rights in the hydrocarbons find in the Timor Sea, as well as the establishment of a petroleum regime that is internationally competitive in its terms and in line with international best practice.** In many respects, the regime has set new standards for developing countries in regard to transparency and accountability in the management of petroleum revenues, and in limiting their arbitrary use. This example could be followed in other countries, being mindful, however, of their deficits in human and physical capital when setting the savings rule.

The evaluation also finds several weaknesses in the design and implementation of the WBG's program in Timor-Leste that negatively affected outcomes. Grouped by areas, these are:

The **program** in Timor-Leste:

- After the first couple of years, **the WBG's program over-emphasized long-term institutional objectives, placing too little emphasis on short-term interventions**

**that would yield immediate benefits to the population.** The disconnect between increasing poverty and unemployment during these years and the large volumes of foreign assistance (which focused mostly on long-term policy and institutional development) contributed to a perception in the country that external support did not serve the country's population—the heavy dependence on foreign advisers helped to reinforce this perception. The high emphasis on the long-term translated itself into a push to adopt laws and develop frameworks and strategy documents, particularly in the development policy operations. While laws and frameworks are important, they were probably not the most important binding constraints on development at the time. Instead, the emphasis could usefully have been on concrete actions that had a more direct and immediate link to the objectives of policy. For example, with respect to private sector development, instead of laws that have apparently made little difference, the focus could have been on concrete measures to improve electricity supply, roads, and access to credit.

- **Over time, the WBG's program increasingly lacked a clear focus. The program also did not appear sufficiently based on the specific characteristics of Timor-Leste. The sense of priorities that characterized the Bank's early operations was missing.** In particular, agriculture did not receive the support it deserved, given its importance in the economy and the preponderance of poverty in the rural areas. This lack of focus was evident in the development policy operations, which sought to cover as broad a front as possible without a clear sense of priorities or apparent awareness of institutional capacity constraints. Even within a given area, focus was lacking in some cases and the program was spread thin, as was the case with capacity building. It would have been preferable to focus on a couple of key areas such as strengthening of public financial management (to improve budget execution, which was hampering delivery of basic services) and the key ministries involved with it.

## EVALUATION SUMMARY

- **Institution building did not pay sufficient attention to human resource development and training**, creating a major lacuna in the WBG's operations. Several new institutions were created (e.g. Ombudsman, Inspector General), but were unable to fulfill their mandates, partly because the mandates and ownership were not clear and partly because they lacked qualified people. The justice system was similarly hamstrung by a severe shortage of trained prosecutors and judges. Foreign advisers, which were to train the Timorese staff and help the new state function, did much better in the latter than in the former function. They have been very useful in enabling the government to perform its routine functions. However, they have largely been unsuccessful in transferring their knowledge and skills to the Timorese staff, and a better system is required to ensure skills are transferred, so that institution building can be sustainable.

The WBG's role and instruments:

- **In spite of the emphasis placed by WBG strategy documents on simplicity of project design and the need to align projects with the weak institutional capacity in the country, this principle was breached in many cases, especially after the first few years.** Evaluations frequently found projects too complicated in design, sometimes involving multiple implementing agencies. Interventions tended to seek to achieve multiple objectives, rather than focus on a well-defined objective. The implementation schedules were often unrealistically optimistic. In spite of some procedural simplifications that were introduced to expedite project preparation and implementation, there was widespread dissatisfaction with the complexity of Bank rules and procedures, especially for procurement. The WBG's incentive system did not help to bring on board the best possible skills and know-how. The WBG did not follow (closely enough) its principles on how to deal with fragile states. Overall outcome ratings for evaluated projects that closed in FY00-FY10 are below those of other fragile states.
- **Within the program itself, the WBG did not adequately integrate lessons of experience into subsequent projects and programs.** Mistakes kept repeating themselves, like complex project design, over-optimistic and unrealistic assessment of the ground realities, focus on the long-term largely ignoring the short-term, and monitoring outputs instead of outcomes. Stronger management oversight would be desirable to ensure that lessons are learnt from earlier operations, and, more importantly, to maintain the focus on what is really needed to strengthen Timor-Leste's state.
- **The Bank's early efforts at building a structure of local governance by supporting the creation of democratically-elected village development councils were largely unsuccessful.** The Bank did not have an adequate understanding of the political dynamics in the country, nor did it have the mandate or experience for this difficult endeavor. Mainstreaming of gender and youth issues in the Bank's program was not effective. While some measures to this end were included in some Bank projects, there was no serious follow up. These measures slowed project preparation and progress, and there was no evidence that they had any meaningful impact on gender or youth issues.
- Compared to the ambitious agenda that it set for itself, **IFC's actual program was very limited in scope.** Partly because of the difficult and uncertain business environment, it did not approve any of the intended investments. Nor did it provide any of the planned support for public-private infrastructure partnerships, or piloting of SME loan products and risk sharing facilities to increase the private sector's access to finance. Instead, its activities were largely confined to four TA initiatives funded by PEDF Trust Funds. These activities, the most important of which were the hotel e-booking site and the creation of the Better Business Initiative (which in turn led to the establishment of the Chamber of Commerce and Industry) had some positive impact. Overall, however, IFC's interventions have been too small to address the challenge of creating a private sector, especially domestic, and addressing its real constraints.

- **The WBG’s program rightly emphasized the importance of monitoring actual results of its interventions on the ground. In practice, while a lot of effort was spent in developing indicators to assess progress measuring inputs and outputs, insufficient attention was devoted to acquiring accurate data to make the indicators a reliable guide for monitoring results.** In addition, seldom did indicators measure outcomes or impacts on the ground. Moreover, some of the Bank’s programs had an over-load of information and monitoring requirements on inputs and outputs that may have diverted scarce government capacity away from implementation of programs. It would perhaps have been better to focus efforts on a few key outcome indicators underpinned by accurate data.

## Recommendations

The above findings lead to the conclusion that the significance of the WBG’s role for Timor-Leste’s economic development has been declining over time, and thus also its relevance for the Government of Timor-Leste. The WBG will regain its relevance if it is able to show Timor-Leste that it can be a knowledgeable, responsive and creative development partner, focused on helping the poor through sustainable development. To this end, the WBG may want to consider ways to strengthen its engagement, while providing additional resources to the work program. Innovative program or project packages could conceivably help mobilize additional donor resources and could also be combined with the government’s own resources. If needed, judicious use of some IBRD lending could be considered as and when the country is found eligible for such lending.

Timor-Leste is in several ways in a unique situation – a new country with new and still developing institutions, a severe lack of capacity both inside and outside of the government, monumental development challenges, and rapidly growing revenues from its hydrocarbon resources. Poverty remains rampant in the rural sector.

At this stage, the challenge for Timor-Leste is to use its petroleum regime to make the most of its hydrocarbon wealth in a sustainable way, and to spend effectively and efficiently these resources, with a clear goal of addressing the critical development constraints of the country in order to fos-

ter sustainable growth and reduce poverty. Key among these constraints are low capacity within the government; poor quality in education; inadequate infrastructure; unemployment, in particular among the youth; and the backwardness of agriculture.

The WBG has the potential capacity to become a key development partner for Timor-Leste in addressing its challenges, in collaboration with other donors. However in order to be an effective and creative partner, the WBG will need to change important aspects of its strategy and ways of operating in the country, thinking more in terms of teaming up with the country and moving beyond the traditional client-WBG paradigm.

On this basis and based on the analysis and findings of the Country Program Evaluation (CPE), IEG makes the following recommendations, which are summarized, together with the findings, in Table 1:

On the **WBG program** in Timor-Leste:

- **The WBG set as its key objective going forward to help the government in its current efforts to promote vigorous and sustainable growth of Timor-Leste’s non-petroleum sector, as a means of reducing poverty and unemployment.** With widespread poverty and unemployment, especially among the youth, poor physical infrastructure, and the petroleum revenues, a sustainable public works program to create jobs and build critical infrastructure such as roads, water supply and sanitation infrastructure and rural infrastructure could usefully be a priority area for WBG organizational and financial support. This program would be supported by rural development projects that could help Timor-Leste move from subsistence farming into a surplus-producing sector capable of absorbing the underemployed rural poor.
- Whatever the choice of direction Timor-Leste makes, **the WBG prioritize clearly, after renewed consultations with other development partners, the key goals of its work program and all its interventions, and be realistic with regard to the time-frames required to achieve the institutional and social development objectives.** The situation on the ground needs to be factored in as well, as noted

## EVALUATION SUMMARY

below. Such priority setting will likely entail a stronger focus on a smaller number of key poverty-focused interventions that would address top country priorities and permit substantial input of experienced staff resources. It would also need to be based on a revamped and clear understanding with other external development partners on the roles and responsibilities that each one would play.

- Within the program agreed with the government for institutional development, **the WBG increase its focus on effective human resource development for institution-building and improved governance, within a clear overall strategy for capacity-building that fosters the transmission of skills and knowledge from foreign advisers to local staff.** The WBG's past emphasis on the supply of skills should give way to a much greater focus on transfer of skills. Examples like what NORAD did with the Petroleum Fund or the IMF did with the Banking and Payments Authority (BPA) are good models to follow.

On the **WBG's role and instruments** in Timor-Leste:

- **The WBG follow more closely its own principles and guidelines on how to deal with fragile states in its program in Timor-Leste.** Projects need to be simple and mindful of the weak institutional capacity of the country. Multiple objectives or implementing agencies ought to be avoided in WBG interventions in Timor-Leste. WBG rules need to be applied with the flexibility called for in fragile states. The WBG incentive system could be brought to bear in order to mobilize the best knowledge and organizational skills to Timor-Leste.
- **The WBG strengthen, to this end, its capacity to provide timely, high-quality policy and technical advice together with enhanced use of its organizing skills and know-how.** The timeliness, creativity and quality of its advice and organizing skills, based on unparalleled international experience that acknowledges the realities and constraints of Timor-Leste, together with the WBG's financial contribution, will determine the role it will play in Timor-Leste in the future. High

quality of staff will be important to this end, together with more active management of the assistance program, including closer oversight of operations.

- **The WBG be realistic with regard to the situation on the ground and what is needed to achieve the institutional and social development objectives in Timor-Leste.** To this end, the WBG needs to have a better understanding of the political dynamics in the country and only intervene when the government asks it to do so. The WBG also needs to find an effective way of mainstreaming of gender and youth in its interventions, without slowing them.
- **IFC's interventions should be sufficient and proportional to address the objectives of its program and help Timor-Leste face the challenge of creating a viable private sector, especially the domestic one.** In doing so, IFC needs to factor in the real constraints to private sector development in Timor-Leste—energy, infrastructure and access to credit, and focus on the rural sector and the small and micro enterprises. These interventions will maximize the impact of the program on employment generation and poverty reduction.
- **The WBG shift its monitoring and evaluation of the program toward a few key results and the improvement of the statistical capacity** to obtain reliable and accurate data on outcomes. The monitoring and evaluation frameworks need to factor in the limited institutional capacity on the ground, and leave aside the emphasis on following inputs and outputs.

As a final thought, **the WBG may want to consider ways of providing additional resources to the work program.** Project lending from the very small IDA allocation alone may be insufficient to have the desired impact, even when combined with the current level of donor resources, which is substantial. Innovative program or project packages, perhaps in labor-intensive infrastructure (such as trunk roads, feeder and rural roads), could conceivably help mobilize some additional donor resources and also be combined with the government's own resources. If needed, judicious use of some IBRD lending could be considered as and when the country is found eligible for such lending.

Table 1. Timor-Leste: Summary of Findings and Recommendations

FINDINGS	RECOMMENDATIONS
<b>WBG Program in Timor-Leste</b>	
<p>After the first couple of years, the WBG's program over-emphasized long-term institutional objectives, placing too little emphasis on short-term interventions that would yield immediate benefits to the population. This translated itself into a push to adopt laws and develop frameworks and strategy documents, which were probably not the most important binding constraints on development.</p>	<p>The WBG set as its key objective going forward to help the Government's efforts to promote vigorous and sustainable growth of Timor-Leste's non-petroleum sector as a means of reducing poverty and unemployment. A sustainable public works program to create jobs and build critical infrastructure could be a priority area for WBG support. This program would include rural development projects to absorb the underemployed rural poor.</p>
<p>Over time, the WBG's program increasingly lacked a clear focus, and did not appear sufficiently based on the specific characteristics of Timor-Leste. The sense of priorities that characterized early operations was missing.</p>	<p>Within the direction taken by the country, the WBG prioritize clearly, after renewed consultations with other development partners, the key goals of its work program and all its interventions, and be realistic with regard to the time-frames required to achieve the institutional and social development objectives.</p>
<p>Institution building did not pay sufficient attention to human resource development and training. Many new institutions were unable to fulfill their mandates, partly because they lacked qualified people. Foreign advisers were largely unsuccessful in transferring their knowledge and skills to local staff.</p>	<p>As agreed with the Government, the WBG increase its focus on effective human resource development for institution-building and improved governance, within a clear overall strategy for capacity-building that fosters the transmission of skills and knowledge from foreign advisers to local staff.</p>
<b>WBG Role and Instruments in Timor-Leste</b>	
<p>The principles of simplicity of project design and the need to align projects with the weak institutional capacity in the country were left aside, especially after the first few years. Interventions tended to be complicated, with multiple objectives and implementing agencies. Implementation schedules were often unrealistic. Bank rules were complex and applied too rigidly. The WBG incentive system could have brought better resources on board.</p>	<p>The WBG follow more closely its own principles and guidelines on how to deal with fragile states in its program in Timor-Leste. Projects need to be simple, mindful of the weak institutional capacity, with simple objectives and one implementing agency. WBG rules should be applied with the flexibility needed for fragile states. The WBG incentive system should be brought to bear in order to mobilize the best knowledge and organizational skills.</p>
<p>Within the program itself, the WBG did not adequately integrate lessons of experience into subsequent projects and programs. Mistakes kept repeating themselves. Stronger management oversight could have made a significant difference.</p>	<p>The WBG strengthen its capacity to provide timely, high-quality policy and technical advice, together with enhanced use of its organizing skills and know-how. High quality of staff will be important to this end, together with more active management of the assistance program, including closer oversight of operations.</p>
<p>The Bank's early efforts at building a structure of local governance by supporting the creation of democratically elected village development councils were largely unsuccessful. The Bank did not have an adequate understanding of the political dynamics in the country, nor did it have the experience for this difficult endeavor. Mainstreaming of gender and youth issues was not effective.</p>	<p>The WBG be realistic with regard to the situation on the ground and what is needed to achieve the institutional and social development objectives in Timor-Leste. The WBG needs to have a better understanding of the political dynamics in the country and only intervene when the Government asks it to do so. The WBG also needs to find an effective way of mainstreaming gender and youth without slowing its interventions.</p>
<p>Compared to the ambitious agenda that it set for itself, IFC's actual program was very limited in scope, especially for the challenge at hand. It did not approve any of the intended investments, nor did it provide any of the planned support for public-private infrastructure partnerships, or piloting of SME loan products and risk sharing facilities to increase the private sector's access to finance. Activities were confined to four TA initiatives funded by PEDF Trust Funds.</p>	<p>IFC's interventions should be sufficient and proportional to address the objectives of its program and help Timor-Leste face the challenge of creating a viable private sector. In doing so, IFC needs to factor in the real constraints to private sector development in Timor-Leste, and focus on the rural sector and the small and micro enterprises. These are the interventions that will maximize the impact of the program on employment generation and poverty reduction.</p>
<p>The WBG's emphasized the importance of monitoring actual results of its interventions, but, insufficient attention was devoted to acquiring accurate data to make the indicators a reliable guide for monitoring results. Often, indicators monitored inputs and not the outcomes or impacts on the ground. Moreover, some programs had an over-load of information and monitoring requirements.</p>	<p>The WBG shift its monitoring and evaluation of the program toward a few key results and the improvement of the statistical capacity to obtain reliable and accurate data on outcomes. The monitoring and evaluation frameworks need to factor in the limited institutional capacity on the ground, and leave aside the emphasis on following inputs and outputs.</p>





# Management Action Record

<b>Major Monitorable IEG Recommendation Requiring a Response</b>	<b>Management Response</b>
<ul style="list-style-type: none"> <li>The WBG set as its key objective going forward to help the Government's efforts to promote vigorous and sustainable growth of Timor-Leste's non-petroleum sector as a means of reducing poverty and unemployment. A sustainable public works program to create jobs and build critical infrastructure could be a priority area for WBG support. This program would include rural development projects to absorb the underemployed rural poor.</li> </ul>	<p><b>Management agrees on the need to continue to support broad based growth in the non-oil economy, to find creative ways to develop the nascent private sector, and to address unemployment – particularly amongst youth.</b> These objectives are central tenets of the current ISN and, in consultation with the government and other stakeholders, expected to underpin the medium-term program outlined in the forthcoming WBG CAS. The identification of infrastructure development as an imperative in the Government's <i>Strategic Development Plan</i> provides an opportunity to explore large-scale public works programs that provide interim employment opportunities for (particularly) unemployed youth in rural areas.</p>
<ul style="list-style-type: none"> <li>Within the direction taken by the country, the WBG prioritize clearly, after renewed consultations with other development partners, the key goals of its work program and all its interventions, and be realistic with regard to the time-frames required to achieve the institutional and social development objectives.</li> </ul>	<p><b>Management agrees that WBG engagement should reflect the important and credible steps the government has taken to restore stability.</b> A focused and realistic WBG program should seek to blend pragmatic interventions calibrated to Timor-Leste's growing capacity and priorities with less conventional operations and analysis that can help consolidate and secure the country's transition. Such a program can only emerge through wide-ranging consultations with government and other stakeholders.</p>
<ul style="list-style-type: none"> <li>As agreed with the Government, the WBG increase its focus on effective human resource development for institution-building and improved governance, within a clear overall strategy for capacity-building that fosters the transmission of skills and knowledge from foreign advisers to local staff.</li> </ul>	<p><b>Management reiterates its commitment to bring to bear international expertise to help Timor-Leste to help develop capacity in both the public and private sectors.</b> Capacity building and institutional development are long-term propositions. Notwithstanding the extraordinary progress that Timor-Leste has made since independence, the deficit in capacity emerges as a critical constraint to the country's efforts to pursue its development vision. A successful capacity-building strategy in such a dynamic and unconventional context must provide a framework that can guide multiple interventions over time – both opportunistic and planned – rather than hope to achieve this through more rigid and conventional approaches.</p> <p><b>Management is pleased to note that the role of foreign advisers continues to evolve from a transitional mode of support to a more rational and sustainable approach to addressing critical capacity deficits.</b> A limited role remains for a reduced complement of Technical Advisers where there is demonstrated government support for them, and provided they take full advantage of a growing pool of national specialists who capable of providing these services.</p>
<ul style="list-style-type: none"> <li>The WBG follow more closely its own principles and guidelines on how to deal with fragile states in its program in Timor-Leste. Projects need to be simple, mindful of the weak institutional capacity, with simple objectives and one implementing agency. WBG rules should be applied with the flexibility needed for fragile states.</li> </ul>	<p><b>Management notes that many of the WBG's "fundamental principles" of engagement in fragile states were tested – or developed – as a direct result of the World Bank's experience in Timor-Leste.</b> Management nonetheless acknowledges that greater attention on simplicity in project design and more realistic consideration of the nature and extent</p>

## MANAGEMENT ACTION RECORD

<b>Major Monitorable IEG Recommendation Requiring a Response</b>	<b>Management Response</b>
<p>The WBG incentive system should be brought to bear in order to mobilize the best knowledge and organizational skills.</p>	<p>of the support needed by fledgling institutions would have helped increase the impact of the WBG program.</p> <p><b>Management accepts the need for flexibility in the application of WBG processes.</b> Recent initiatives to: reform IL instruments; the development of the P4R mechanism; thoughtful guidance on the effective use of DPOs in fragile and conflict-affected states; and, consideration of how procurement and financial management requirements can be better calibrated to the needs and capacity of countries such as Timor-Leste, provides staff with tools and approaches that were previously unavailable and which have the potential to enhance the quality of future WBG engagement.</p>
<ul style="list-style-type: none"> <li>▪ The WBG strengthen its capacity to provide timely, high-quality policy and technical advice, together with enhanced use of its organizing skills and know-how. High quality of staff will be important to this end, together with more active management of the assistance program, including closer oversight of operations.</li> </ul>	<p><b>Management concurs that the value of WBG engagement in Timor-Leste stems from the capacity to provide high-quality, objective advice on policies and issues of national importance, and its ability to convene stakeholders around activities with potential national impact.</b> The WBG will continue to play this role – one acknowledged and valued by both government and development partners – recognizing that continued relevance depends on the ability to attract and retain global expertise and to provide requisite implementation support.</p>
<ul style="list-style-type: none"> <li>▪ The WBG be realistic with regard to the situation on the ground and what is needed to achieve the institutional and social development objectives in Timor-Leste. The WBG needs to have a better understanding of the political dynamics in the country and only intervene when the Government asks it to do so. The WBG also needs to find an effective way of mainstreaming gender and youth without slowing its interventions.</li> </ul>	<p><b>Management recognizes that a deep appreciation of the political economy is critical to understanding the country context and to informing WBG interventions that respond directly to national priorities.</b> Timor-Leste’s development over the last decade has been anything but conventional. Sustained WBG efforts to deepen understanding of the political economy have helped the institution remain relevant and responsive. Greater understanding may not always have been translated into appropriate, flexible, interventions specifically calibrated to the needs and capacity of Timor-Leste.</p> <p><b>Management recognizes a greater focus on gender and youth concerns is essential to institutional and social development objectives.</b> WBG has made efforts to address the issue of unemployed youth in an operation that represents the forerunner of similar interventions underway or planned in the Pacific. Implementation challenges are intensified in this area and management expects to refine and adjust its approach to youth issues as it garners greater experience in this area. Management – with the support of EAP more broadly – is also actively engaged in identifying systematic opportunities to integrate gender considerations into all its operations.</p>
<ul style="list-style-type: none"> <li>▪ IFC’s interventions should be sufficient and proportional to address the objectives of its program and help Timor-Leste face the challenge of creating a viable private sector. In doing so, IFC needs to factor in the real constraints to private sector development in Timor-Leste, and focus on the rural sector and the small and micro enterprises. These are the interventions that will maximize the impact of the program on employment generation and poverty reduction.</li> </ul>	<p><b>Management would appreciate clarification of what would represent a “sufficient and proportional” role for the IFC in the context of a new, fragile, post-conflict country.</b> In a few short years following independence, the country has had to manage the blessings – and curses – that accompany large oil and gas discoveries even as the country reestablishes the basic functions of state. This underscores the need for a measured private sector development program – one whose pace and progress is determined by the country’s capacity and not imposed by partners. It is important to note that IFC is now, by virtue of a fundamental reassessment of its role in the Pacific, now far better placed to offer more comprehensive program of advisory and investment services.</p>

<b>Major Monitorable IEG Recommendation Requiring a Response</b>	<b>Management Response</b>
<ul style="list-style-type: none"> <li data-bbox="240 264 808 447">▪ The WBG shift its monitoring and evaluation of the program toward a few key results and the improvement of the statistical capacity to obtain reliable and accurate data on outcomes. The monitoring and evaluation frameworks need to factor in the limited institutional capacity on the ground, and leave aside the emphasis on following inputs and outputs.</li> </ul>	<p data-bbox="847 264 1432 499"><b>Management accepts that the development of statistical capacity is a critical dimension of the broader capacity-building challenge confronting the WBG and development partners in Timor-Leste.</b> This effort will need to be sustained over the medium- to long-term and the challenge should not be underestimated – as illustrated by the IMF’s difficulties in developing accurate macroeconomic projects in a country whose development trajectory has been anything but conventional.</p> <p data-bbox="847 537 1432 827"><b>Management also agrees on the need for selectivity and expects to exercise this discipline in the latest generation of interventions.</b> Management also notes the difficulty of reconciling the CPE’s call for selectivity with the exhortations to play a more active role in, for example: agricultural development, employment generation, gender, youth, social safety nets and microenterprises. Similarly agreeing “<i>only [to] intervene when the Government asks it to do so</i>” may prove neither feasible nor desirable. Resolving dilemmas of this kind may determine the extent to which WBG is able to learn and adopt the many important lessons contained in this report.</p>



# CHAIRPERSON'S SUMMARY

## COMMITTEE ON DEVELOPMENT EFFECTIVENESS

INFORMAL SUBCOMMITTEE REPORT: TIMOR-LESTE COUNTRY PROGRAM EVALUATION (CPE), 2000-2010:  
EVALUATION OF WORLD BANK GROUP PROGRAM  
(MEETING OF MAY 23, 2011)

1. On May 23, 2011, the Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group (IEG) report entitled *Timor-Leste Country Program Evaluation 2000-2010: Evaluation of the World Bank Group Program* (CODE2011-0027).
2. In its opening remarks IEG informed members that the Timor-Leste CPE evaluates the outcome of the World Bank Group (WBG) assistance program against the objectives it set for itself. It noted the country context in 1999 after independence: infrastructure destroyed, inexistent political institutions, and a rudimentary economy based on self-subsistence agriculture. The main findings were that after an initial success the WBG's program focus and sense of priorities were gradually lost with over-emphasis on long-term institutional objectives and less attention to immediate needs. It added that institution building could have paid more attention to human resource development as projects and programs were complex. Going forward, IEG recommended that the WBG and donors help Timor-Leste use well its petroleum resources, target job creation, address critical infrastructure and re-prioritize assistance strategy.
3. Management remarked that an effort to contextualize Bank engagement in Timor-Leste and appreciation of the uncertainty of fragile and post-conflict situations were needed in order to identify lessons learned and contribute to the debate on engaging in such volatile environments. It noted that the evaluation could have better distinguished the political periods in which the Bank operated under distinct strategies and could have benefited from greater consultation with Timorese civil society, media, project beneficiaries and Bank counterparts. Management questioned the assertion that the Bank should have predicted the social unrest of 2006. It added that since independence, Timor-Leste institutions have begun to show capacity to discharge state functions effectively, while also managing natural resource revenues efficiently. In that sense, it remarked that the total rebuilding of the state from the ground up is a commendable achievement of the Timorese Government.
4. Members appreciated the informative document and thanked both IEG and Management for the answers to the questions raised. Members noted that IEG findings were pertinent not only to Timor-Leste but also to WBG engagement in fragile and post-conflict countries given the recent 2011 World Development Report (WDR) on Conflict, Security and Development. They remarked that advances were notable given the difficult country context and recognized that results were impacted by situations on the ground, which were out of WBG control. In that sense, they asked that the report pick up on lessons learned including on coordination and division of labor among development partners. They commented that monitoring and evaluation are crucial to engagements in fragile scenarios as well as the need for flexibility to provide mid-course corrections. With regard to communication and dissemination a majority of members and speakers asked that the report properly frames the country context.



# 1. CONTEXT

## Recent History and Political Developments

1.1 Timor-Leste has a population of slightly more than a million people on an area of just under 15,000 square kilometers. In spite of its small size a large number of languages are spoken on its territory - sources typically mention more than 30, of which only Tetum (or Tetun) can be considered a written language (see Box 1). The complex language situation has implications for education and administration.

### Box 1. Languages in Timor-Leste

- The official languages of Timor-Leste are Tetum (or Tetun) and Portuguese while Indonesian and English are designated as working languages.
- A large number of languages are spoken on the territory of Timor-Leste - sources typically mention more than 30, of which only Tetum can be considered a written language, although in a rudimentary way. The dialect of Tetum spoken around Dili, which has incorporated many Portuguese words, is the version now more widely used, and is now taught in schools, but other dialects are widely used in the country.
- Before 1975 Portuguese was the language of education and administration. Under Indonesian rule, the use of Portuguese was banned, and Bahasa Indonesia was the official language and used in the education system. Portuguese was however used by the clandestine resistance, especially in communicating with the outside world, and gained importance as a symbol of resistance.
- Upon independence the government therefore adopted Portuguese as one of the two official languages (with Tetum), and as a link to nations in other parts of the world. Portuguese and Tetum are used as educational languages.
- Given the country's complex linguistic situation and history, and in a world where English has become the lingua franca (including for much development assistance), any choice of languages would clearly have created problems for administration and education. However, the Lusophone world has extended considerable assistance for Portuguese training and educational material.

1.2 Timor-Leste was ruled by Portugal for several hundred years until 1975, when Portugal surrendered its colonies. In that year the Indonesian army occupied the country, which was from then on ruled as part of an Indonesian province. After some 24 years of armed conflict against the occupation, and a vote for independence in a referendum in 1999, Timor-Leste was racked by unprecedented violence and destruction by the departing forces during the Indonesian withdrawal. Under the mandate of the UN Security Council, peace and security were restored and the country was governed directly by the UN. In 2001-02 free elections led to the establishment of a representative government and the country became independent in May 2002.

1.3 Since then much progress has been made in building the institutions of the state and restoring basic services to the people. However, poverty and unemployment increased dur-

## **CHAPTER 1**

### **CONTEXT**

ing 2002-07, and progress has also been interrupted by periodic episodes of civil unrest, most markedly in 2006 when fighting broke out between the army and police following the dismissal of over a third of the army's soldiers. More violence erupted at that time with the involvement of disaffected youth gangs in and around the capital Dili. Once again, international presence restored order. Following fresh presidential and parliamentary elections, a new coalition government took office in August 2007, which took urgent steps to address the grievances of the disaffected soldiers, the unemployed and poor and other sections of society. Though street violence and political instability have abated, the high level of unemployment (especially among the youth) remains a serious threat for social and political stability.

#### **VERY DIFFICULT INITIAL CONDITIONS**

1.4 The violence following the 1999 referendum was devastating for the people and the economy of Timor-Leste. More than a thousand people died, hundreds of thousands were displaced and the country's infrastructure destroyed, including buildings, roads, bridges, and telecommunications network. Valuable records and files, including land and property titles, civil registry, education and banking records were destroyed. There were no government institutions left.

1.5 The economy was devastated, and real GDP fell by 33 percent from already low levels. The agriculture sector suffered a major blow with the destruction of livestock and machinery and the looting of food stock, seeds and agricultural inputs. The displacement of people caused serious manpower shortages during cropping. The modern sector was most affected by the destruction of vital physical infrastructure including roads and electricity supply, as well as the exodus of the non-Timorese population that had provided much of the public administration and technical expertise. Basic social services were hit hard. There was a total breakdown in the health care system following extensive destruction of hospitals and medical equipment and loss of medicines. The education system also ground to a halt, with 75-80 percent of primary and secondary schools partially or completely destroyed and virtually all textbooks and school materials stolen or destroyed. The collapse of the health care and education systems caused a serious erosion in health and educational services respectively, from already low levels prevailing at the time.

1.6 Moreover, the exodus of Indonesians from the country following the violence meant that the bulk of those employed by government agencies and providing many services left the country – at the time the country was reported to be left with only two power engineers, 20 percent of its secondary school teachers, 23 medical doctors including one surgeon, and not a single qualified pharmacist.

#### **SIGNIFICANT PROGRESS SINCE 1999**

1.7 Table 2 shows that since the difficult beginning, the economy has gone through several periods of vigorous economic growth, although with significant annual variations. Under the impetus of the reconstruction activities initiated with the support of bilateral and multilateral donors following the restoration of peace and stability, economic activity picked up considerably in 2000-01 and real GDP rose by an estimated 18.9 percent. But the sharp draw-down of international presence following the withdrawal of UN peacekeeping opera-



tions after independence in 2002 resulted in economic slowdown: real GDP then grew by 2.4 percent in 2002 and 0.1 percent in 2003.

1.8 Real GDP grew at an average of 5.2 percent per year in 2004 and 2005, driven mostly by a rebound of agriculture from drought in 2004 and some expansion of private activity in construction and services. Economic recovery was halted by the civil unrest that started in April 2006 and continued through the year and early 2007. Real non-oil GDP declined by about 6 percent in 2006. Thereafter, GDP growth averaged around 9 percent annually (2007 to 2010).<sup>1</sup> Several factors contributed to this swing, including the improved security environment, the re-induction of donor spending, and the recovery of the agriculture sector from drought in 2007. The most important one, however, was a hefty increase in total public spending (including capital expenditures), which doubled between FY06-07 and calendar 2008 – additional expenditures amounted to three and a half times the increase in donor spending between 2006 and 2008.

**Table 2. Timor-Leste Average Growth Rates**

Series Name	Timor-Leste			
	2001-03	2004-06	2007-10	2001-10
<b>Growth and inflation</b>				
Real Non-Oil GDP growth (annual %) <sup>1</sup>	6.1	1.4	9.7	6.1
Real GDP growth (annual %, including oil) <sup>2</sup>	7.3	1.5	9.9	6.5
Real GDP per capita growth (annual %, including oil)	3.5	-2.6	6.4	2.8
Inflation (CPI, percentage change, period average) <sup>1</sup>	5.1	3.1	5.1	4.5

Source: IMF 2005, 2008, 2009 and 2010 Article IV Consultation. 2009 and 2010 data are estimates from the IMF staff. World Bank estimates of population growth based on 2010 analysis using survey-to-survey imputation method.

1/ International Monetary Fund, Article IV Consultation, March 2011

2/ Fiscal Accounts for years 2004-2008 are from IMF Timor-Leste 2009 Article IV Consultation-Staff Report.

1.9 The choice of the US dollar as currency, coupled with a restrictive fiscal policy, helped keep inflation low until 2006. However, prices increased rapidly from 2006 to mid-2008, with inflation peaking at 8.9 percent a year, pushed in part by higher international commodity and food prices. As international commodity prices subsided, inflation also came down to 0.1 percent in 2009. It rose again to an estimated 4.0 percent in 2010.<sup>2</sup>

1.10 Timor-Leste has over this period made solid progress in several areas since its very difficult beginnings as an independent country. The security environment is much improved. The political system and institutions are more mature and are better able to address serious social and political unrest without collapsing into anarchy. The architecture and institutions of government foreseen in the Constitution have been established and are functioning, albeit at varying levels of effectiveness. The Government of Timor-Leste is managing a significantly bigger budget and providing basic social services, such as primary health and education to an increasing share of its citizens. Other institutions outside of the execu-

<sup>1</sup> IMF staff estimates for 2009 and 2010.

<sup>2</sup> IMF staff estimate for 2009.

## CHAPTER 1 CONTEXT

tive branch (such as the Parliament and the Judiciary) have also been established and their capacity is being strengthened. Civil society is also more empowered and engaged.

### POVERTY INCREASED BETWEEN 2002 AND 2007

1.11 Timor-Leste remains the least developed economy in the region and poverty actually increased between 2002 and 2007. The slow rate of growth of real non-petroleum GDP between 2002 and 2006 (6.9 percent cumulatively over the period from the very depressed level left by the independence quest), combined with the rapid population growth rate (averaging over 4 percent per year, 18.3 percent cumulative over the period) meant that nearly half of the population lived below the poverty line in 2007, up from 36 percent in 2001. The rapid growth of real non-petroleum GDP since 2007 should have reduced poverty in recent years, though there are no updated poverty estimates. Progress in achieving the Millennium Development Goals (MDG) has been limited and Timor-Leste still ranks as low as 158 out of 179 countries in the UN's Human Development Report.

1.12 Unemployment also remains high, especially among the youth. The country continues to face a serious shortage of qualified and trained professionals in most spheres. Institutional capacity is still very weak in many areas of government and outside, contributing to inefficiencies and leakages in government programs. And with increasing government revenues from petroleum wealth, there are growing concerns about corruption.

### CURRENT ECONOMIC STRUCTURE<sup>3</sup>

1.13 National Income (GNI) per capita was estimated at US\$1,623 in 2007, largely on account of the income from hydrocarbons. With the launching of production in 2004-05, the petroleum sector has come to represent the most significant segment of the national economy. In 2008, petroleum revenues were estimated at 48.4 percent of non-petroleum GDP. Timor-Leste's non-petroleum economy is dominated by the public sector (which contributed roughly 45 percent of non-petroleum GDP in 2007), followed by industry and services (28 percent) and agriculture (27 percent). The formal private sector (outside of agriculture) is very small, employing only 40,000 people. Coffee is the country's main non-petroleum export.<sup>4</sup> Despite its hydrocarbon wealth, almost 50 percent of the population was poor in 2007, up from 36 percent in 2001.<sup>5</sup>

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<sup>3</sup> Some macroeconomic data are not official and are based on estimates made either by the government or by the IMF. Box 2 provides information about the reliability of Timor-Leste's macroeconomic data.

<sup>4</sup> Prior to independence, Timor-Leste was primarily an agricultural economy, with almost 90 percent of its population living in rural areas. Coffee was its only significant export. Its economy was heavily dependent on external transfers, with almost 85 percent of its current and capital expenditures coming from Indonesia. The territory was one of the poorest in south-east Asia.

<sup>5</sup> The poverty line was defined as US\$0.88 per capita per day.

**Box 2. Macroeconomic Data in Timor-Leste**

- No official national accounts data have been produced since 2004. The data provided are estimates made by the Government of Timor-Leste and the IMF. The government is now reported to be compiling official national account statistics.
- The inflation data are considered among the strongest data for Timor-Leste. They are recorded by the Ministry of Finance's statistical office.
- The sector decomposition of the GDP is estimated by the IMF.
- The merchandise trades by land are not recorded.
- Official fiscal accounts data have been produced since 2006. From that date onwards, these data are reliable, according to IMF.

1.14 Shortly after independence, Timor-Leste signed the Timor Sea Treaty with Australia, which governs the sharing of revenue from the petroleum fields between the two countries. The country's economic prospects improved significantly when its hydrocarbon resources started to be tapped in 2004-05.<sup>6</sup> However, Timor-Leste did not have the institutions and capacity in place to make good use of the revenues from these resources. Moreover, lack of established procedures and fear of corruption led to excessive centralized control on government spending, which kept their level low and prevented its programs from reaching the poor. This contributed to the civil unrest of 2006.<sup>7</sup> The key development challenge is to ensure that petroleum revenues are used efficiently to reduce poverty and lay the foundations for sustainable economic growth.

1.15 The country's population is growing rapidly, with an annual net population growth rate of over 3 percent and female fertility rate exceeding 7 – these figures seem to have moderated according to the preliminary results of the 2010 census, which estimate the population growth rate at 2.41 percent.<sup>8</sup> It has a significant youth bulge, with 34 percent of the population in the 12-29 age group. Moreover, there has been significant migration to urban areas, with urban population growth exceeding five percent per year. Dili's population grew by 39 percent during 2001-05. However, almost 74 percent of the population of the country still lives in rural areas.

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<sup>6</sup>At present there is only one oil producing field, Bayu-Undan. Official projections suggest production levels from this field will taper off by 2023. Remaining revenue to Timor-Leste is estimated at US\$11 billion in net present value. Potential oil production from the Greater Sunrise project could add revenues, but significant revenues from this source are not likely to materialize for almost a decade. [Annex 2](#) gives more information about the petroleum sector.

<sup>7</sup> The low levels of employment and high levels of poverty associated with the stringent fiscal policy worked together with political factors in bringing about the civil unrest of 2006.

<sup>8</sup> Source: "Population and Housing Census 2010, Preliminary Results", Ministry of Finance, Timor-Leste.

**STRONG INTERNATIONAL DONOR PRESENCE**

1.16 The international community has had a significant presence since 1999, when the UN moved quickly to restore peace and security and prepare the foundations for independence in 2002. International development assistance focused on a variety of areas. Apart from purely humanitarian aspects, development assistance supported reconstruction of damaged facilities including schools and hospitals, rehabilitation of infrastructure such as roads and ports, restoration of electric power and water supply and sanitation, support for agriculture and the private sector, and, most importantly, developing the capacity of state institutions at all levels. Support has been provided in the form of financial grants, technical assistance and analytical and policy advice. Since 1999, Timor-Leste has received about US\$ 3.6 billion of foreign assistance<sup>9</sup> from roughly 28 bilateral donors (most prominently Australia, Portugal, the European Union, Japan, and USA) and multilateral organizations (UN agencies, WBG, Asian Development Bank and IMF).<sup>10</sup> Few other post-conflict countries have received higher levels of financial support on a per capita basis.<sup>11</sup>

1.17 While the aid has no doubt been useful in many ways, particularly in strengthening the central government, it has failed to improve the lives of the poor. As already mentioned, almost half the population was poor in 2007 and poverty actually increased between 2001 and 2007, which was also the period of the largest aid inflow. This fact is often behind the frequently expressed opinion in the country that most of the aid did not benefit the recipient country but rather the donors themselves.<sup>12</sup>

1.18 The role and influence of donors, including the WBG, has declined since 2007.<sup>13</sup> Though the country still requires substantial international technical support, increased hydrocarbon revenues make it less dependent on foreign financial assistance. The Government of Timor-Leste shows growing frustration with what is seen as complex, heavy donor mechanisms that at times are perceived as delivering modest tangible benefits relative to investment and effort. It also appears more skeptical about the advice received from the WBG (and other donors). The declining influence of the traditional donors and the WBG is taking place in the context of an apparent larger realignment of Timor-Leste's development policy

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<sup>9</sup> Source: Registry of External Assistance (REA) Report, 6<sup>th</sup> release, MOF 2008 and NDAE internal database.

<sup>10</sup> The rest is the assessed and voluntary contributions from UN member states for the various UN missions active in the country since 1999 including military peacekeeping and civilian police.

<sup>11</sup> On a per capita basis Timor-Leste received US\$188 per year between 1999 and 2009. This compares with annual averages of US\$379 in Solomon Islands, US\$240 in West Bank and Gaza, US\$138 in Afghanistan, US\$125 in Republic of Congo, and US\$85 in Liberia (computed after the cessation of hostilities). The information on Kosovo is US\$237 for 2009, the only year for which OECD data is available.

<sup>12</sup> One estimate suggests that almost 90 percent of foreign aid (including on security) went towards payments of international salaries, foreign soldiers, overseas procurement, imported supplies, consultants, overseas administration, etc. that did not directly benefit the local economy. Source: *La'o Hamutuk* (2009): *How Much Money Have International Donors Spent In And On Timor-Leste?*

<sup>13</sup> Not taking into account security presence, and despite having a high per capita aid allocations compared to other post-conflict countries.

and international alliances, with particular expansion towards some countries in Asia and in the Lusophone community.

#### ROAD MAP OF THE CPE

1.19 This CPE focuses on the WBG's assistance program for FY00-10. It asks the following questions: (i) Did the WBG correctly assess the problems faced by Timor-Leste? (ii) Was the WBG's strategy appropriate for meeting the country's development needs? (iii) How effective was the WBG in implementing its strategy? (iv) What were the outcomes of the assistance relative to plan? (v) To what extent did the WBG contribute to the country outcomes?

1.20 The CPE is structured as follows: the next chapter outlines and evaluates the WBG's overall strategy (and changes therein) as formulated in the key strategy documents, and the assistance activities to implement that strategy. In that context, it discusses, in particular, the series of multi-sectoral budget support operations during FY00-06 that formed the core of the WBG's assistance program during those years. Chapters 3-5 cover thematic aspects: the social sectors (education and health) and programs for alleviation of poverty and unemployment (the first pillar of the WBG's strategy) (Chapter 3); governance and capacity-building of state institutions, (the second pillar) (Chapter 4); and sustainable non-petroleum growth including private sector development and agriculture (the third pillar) (Chapter 5). That chapter gives special attention to the role of IFC in fostering private sector development in Timor-Leste. In each area, the chapters evaluate the achievements and failures of the WBG's program and draw out the lessons from experience thus far.

1.21 In view of the large donor presence in the country, chapter 6 discusses the WBG's role in donor coordination and issues relating to alignment and harmonization. Chapter 7 brings together the assessments of the previous chapters and develops a combined assessment of the WBG's contribution to Timor-Leste's development during FY00-10. It also contains a summary of findings and recommendations.



## 2. WORLD BANK GROUP STRATEGY AND PROGRAM

### World Bank Group Strategy

2.1 The WBG strategy in Timor-Leste during 2000-10 was articulated in a series of documents. The Joint Assessment Mission Report (JAMR), produced in December 1999 by the Timorese in collaboration with the Bank and other donors, formed the basis of the Bank's initial interventions. A formal strategy document called the Transitional Support Strategy (TSS) was approved by the Bank's Board in November 2000. That report set out the rationale and operational program of the Bank until such time as Timor-Leste would become eligible to apply for membership of the IBRD/IDA, which was expected to occur after full independence (Timor-Leste became independent in May 2002). The finalization of a CAS in 2003 was postponed at the request of the government, pending the completion of its own sector investment program. A first full CAS was therefore prepared only in June 2005, outlining the WBG's strategy and work program for the period FY06-08. However, the outbreak of violence and civil strife in 2006-07 invalidated many of the assumptions underlying this strategy and made it difficult to implement the programs. In May 2007, the WBG began processing new operations under Operational Policy 8.00, Rapid Response to Crises and Emergencies. A new Interim Strategy Note (ISN) discussed by the Executive Board in August 2009, defined the strategy of the WBG during FY10-11.

2.2 The WBG's Strategy and its Evolution. In mid-end 1999, when the JAMR was finalized, the country was in ruins. The focus of the JAMR was therefore on identifying immediate reconstruction needs so that basic social needs could be met and a semblance of economic activity restored. Two areas were seen as especially important. These were agriculture and capacity-building of state institutions. Agricultural recovery was rightly seen as critical for sustainable poverty alleviation, in the short and long run, and strengthening of state institutions was vital not just for sustaining short-term reconstruction programs but also for sustainable development in the medium term. The JAMR, which was prepared with the participation of the Timorese and several of the major donors, also helped allocate the support areas to the different donors.

2.3 The TSS identified five key objectives that defined the framework for the Bank's assistance program during FY2000-02. There were two objectives in *the selection of activities*:

- i. The focus of the Bank's program in the short-term would be on the basics: protection of the poor, private sector recovery, health and education; and to
- ii. Provide research and capacity-building in key policy areas to assist the government and civil society prepare for independence.

There were also three objectives in *how the Bank would be working*:

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

- iii. Build maximum local ownership for the development program to ensure quality of program design and the durability of post-conflict reconstruction programs and policy decisions;
- iv. Maximize the effectiveness of donor resources by facilitating coordination of aid flows, to avoid duplication and sub-optimal allocation of resources; and
- v. Sequence programs and policy interventions to match existing political realities and institutional context and capacity.

2.4 The CAS for FY06-08 (an IDA-only strategy) was labeled as a comprehensive framework for shifting the focus from post-conflict assistance to sustainable growth and poverty reduction, in the form of a multi-donor strategy among development partners for coordinated support to the government's development priorities. Consistent with the Government of Timor-Leste's Stability Program (SP), the CAS had three strategic pillars listed below, with cross-sectoral issues of youth and gender to be mainstreamed across these pillars:

- Delivering sustainable services, focusing on improving coverage and quality in priority sectors such as education, health, and basic infrastructure;
- Creating productive employment, focusing on targeted efforts in private sector development and agriculture;
- Building state institutions and strengthening governance, including prudent and transparent management of public resources, development of safeguards against corruption; and civil service reform.

2.5 The CAS also defined four 'principles of engagement' which were to be applied in the selection, design and implementation of activities across the pillars. These were:

- Building institutional capacity;
- Deepening the results orientation;
- Strengthening transparency and communication; and
- Consolidating and extending the partnership with other development partners.

2.6 The ISN was prepared jointly by IDA and IFC in the aftermath of the eruption of violence in 2006 (which lasted well into 2007) and a new government taking office in 2008. The ISN defined an interim strategy for the WBG for the fiscal years 2010 and 2011.<sup>14</sup> It was seen as interim for two reasons. First, though peace had been restored, the risk of instability had not been completely eliminated and a shorter time horizon was seen as appropriate. Second, the government was still in the process of developing its own medium-term development program, which would provide a better framework for the Bank's medium-term strategy.

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<sup>14</sup> As a consequence of the preparation of the ISN, the progress report for the CAS (CASPR) was not finalized. A draft was reviewed by the Bank's Regional Operations Committee in April 2008. The CPE team did not have access to this draft, despite repeated requests.



2.7 The objective of the interim strategy in the ISN was to support the government's efforts to use its petroleum wealth to both address immediate post-conflict stabilization imperatives and lay a sound basis for sustained growth in the non-petroleum sectors. WBG interventions were aimed at strengthening government effectiveness in three strategic areas:<sup>15</sup>

- Development of capacity for the formulation and implementation of a national development strategy;
- Design and implementation of short-term stabilization measures, including programs for tackling youth unemployment and alienation;
- Steps to secure longer-term economic growth and development, including support for enhanced rural productivity and for improving the enabling environment for private sector.

2.8 Despite semantic differences and some variations of nuance, all the strategy documents had similar areas of focus. Essentially there were three broad areas (in this report labeled Pillars 1 through 3) that were supported by the Bank programs to varying degrees throughout the period:

- Pillar 1: Poverty alleviation and the provision of basic social services, including health and education.
- Pillar 2: Developing state institutions, creating good governance and building the capacity of state institutions.
- Pillar 3: The promotion of sustainable non-petroleum growth including the development of agriculture and the private sector.

2.9 In the first period, 2000-02, the main focus of the strategy was on the first pillar, that is, to improve access to basic social services and help address acute poverty and unemployment. In the second period 2003-07, greater emphasis was placed on the second pillar (the development of state institutions, capacity-building and improved governance); and in the third phase 2008-10, the immediate concern reverted to Pillar 1 - the re-establishment of social stability through delivery of social assistance and services (together with the creation of sustainable employment).

2.10 Except for a few interventions in the energy sector, the Bank did not have any program for infrastructure development, including water supply and sanitation. The financial sector was also not touched by the Bank. These two important areas were left to other donors, including ADB. Such a division of labor was appropriate given the need for the Bank to focus its limited resources on a limited number of interventions, but could perhaps have been revisited at some point.

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<sup>15</sup> The ISN mentioned four strategic areas. The capacity to *formulate* a national development strategy and the capacity to *implement* this strategy were treated as two distinct areas. In this CPE these two areas have been merged into one.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

2.11 The Bank's strategy addressed many of the core development issues for Timor-Leste. However, it would have benefited from elaboration within a more conscious longer-term vision for Timor-Leste with its central question: what should be the appropriate development path for a small new country rich in some natural resources (petroleum), but with widespread poverty (half its population living below the poverty line), limited institutional capacity and dramatic skills gap, and no obvious areas of comparative advantage? The Bank's strategy documents did not provide such a long-term vision, nor did they assist significantly the government in developing its own vision for the country's development prospects.<sup>16</sup> It was only recently (in mid-2010) that Timor-Leste developed its medium- and long-term vision, with support mostly from *Bappenas* – Indonesia's National Development Planning Agency.

### STRENGTHS

2.12 The Bank's strategy, especially in the early years, had several positive features. The Bank made the right call to focus initially on physical rehabilitation and reconstruction together with the restoration of basic social services and economic activity. Schools and hospitals were rebuilt and basic infrastructure was repaired. The Bank was also right to emphasize selectivity and to recognize the prime importance of the agriculture sector and the need to build the capacity of the state. Unfortunately, this focus got lost in later years.

2.13 The Bank's strategy correctly recognized the importance of balancing the need for short-term measures (the so-called low hanging fruits or quick wins) and longer-term institutional and structural reforms. However, over time this balance got tilted too far in favor of long-term institutional development at the expense of immediate needs. Learning from the experience in other post-conflict countries, the strategy correctly underscored the importance of aligning its interventions with the political realities and the institutional and capacity constraints in the country. The 'principles of engagement' were unexceptionable, including focusing on results on the ground, the importance of country ownership of the development program, the need for effective partnership with other donors, and the efficacy of good communication.

2.14 At the level of the relationship with the nascent state, there were several dimensions in which the WBG was perceived by the Timorese interviewees as having gotten it "right." The WBG was perceived as speaking with one voice throughout the evaluation period and interviewees contrasted this with other development partners that were perceived as delivering seemingly inconsistent messages through different channels. Besides clarity, the approach taken by the WBG gave a sense of comfort and direction to many who were relatively new to the world of policy-making and public administration.

2.15 Another positive feature of the relationship in the initial years of the evaluation period was the WBG's willingness to cut through the "red tape" and get things going fast. Efforts were made by WBG staff to find creative solutions and fast track processes, allowing things to move at the quick pace being demanded by the rapid first steps of the nascent state. There were several examples of staff "thinking out of the box" and finding creative ways of dealing with seemingly insurmountable challenges, be it in designing interventions

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<sup>16</sup> Strictly understood, the 2006 ISN was supposed to address mostly the short-term issues.

that allowed aid to start flowing, in facilitating the importation of buffaloes to replace destroyed livestock, or in channeling funds to remote corners without any banking system in place.

2.16 More recently, the WBG was also perceived by local counterparts as acting helpfully through the efforts made by the staff in the field to understand better the political environment, and to navigate in the most effective way through it. According to interviewees, WBG staff have been seen, for the most part, as better acquainted than other development partners with the constraints that political issues imposed on development efforts. This helped the WBG play a leadership role within the community of development partners, with full support from both the Timorese and the development partners. However, like other development partners, the WBG failed to read correctly political and social developments at some critical junctures.

### SHORTCOMINGS

2.17 Though the broad objectives and areas of focus were appropriate, there were some serious shortcomings in the WBG's strategy.

2.18 First, the strategy was at times based on an inaccurate reading of the ground realities. The Bank (like most other donor partners) did not show a good understanding of the evolving political situation, the divisiveness within society, and the latent discontent and disaffection among sections of the population (including the youth).<sup>17</sup> Until 2005, the Bank saw no signs of disaffection and believed that internal cohesion prevailed and was an asset for the development process. The Transition Support Program (TSP) that is discussed in paragraph 2.35 was heavily focused on long-term institutional development measures, with very little in terms of delivering immediate benefits to the population. It was only in 2005 that the dangers of internal strife were noted, but even then the threat was not taken seriously enough.<sup>18</sup> The CAS and the FY06 Consolidated Support Program (the latter prepared together with other donors) reflected a 'business as usual' approach with an accent on longer-term structural issues to the neglect of short-term poverty and unemployment alleviation programs - at a time when poverty and unemployment, and social discontent were rising.

2.19 Second, the WBG's assistance strategy gradually came to encompass a wide range of areas of emphasis. As a result, the strategy lost focus, identified critical areas such as agriculture did not get enough attention, and by choosing to 'cover the waterfront' the strategy seemed to become generic and less flavored by specific Timor-Leste circumstances. The three pillars were so broad that they could be used to describe the WBG's standard approach across many countries - promoting private sector development, improving the effi-

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<sup>17</sup> This was despite early signs of conflict, starting from December 2002 when riots broke out in Dili over the killing of two demonstrating students. Stability was tested once again during a three week demonstration organized by church leaders in April/May 2005.

<sup>18</sup> Paragraph 84 of the CAS mentions as one of the risks that "the population may become increasingly dissatisfied with the government resulting in civil unrest and a relapse to conflict." The same paragraph mentions as mitigating measures a greater focus on job creation and improving productivity and market orientation in rural areas. In the event, the interventions associated with mitigation were not undertaken before the civil unrest started.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

ciency of the state and the public sector, and providing a viable and effective social safety net for the poor. Consequently, the strategy did not do full justice to the unique circumstances and challenges faced by Timor-Leste.

2.20 One example is the heavy reliance in the strategy on the development of the (virtually non-existent outside of agriculture) private sector for generating growth and creating jobs.<sup>19</sup> This neglected somewhat the rural sector which was, and continues to be, an important source of employment and income. Also, for Timor-Leste much of the impetus for growth will need to come from public sector spending and investments. Although developing a strong urban private sector may well be feasible over the longer run, the strategy should therefore have given relatively more emphasis to the importance of (and requirements for) increased efficient public spending to create a basic infrastructure for services and private commerce also outside of Dili, thus spurring growth and employment. Stronger early attention could then also have been given to developing a strong and reliable public financial management system, including budget execution and the quality of public spending. The importance of public spending to generate employment was only recognized much later.<sup>20</sup> Moreover, the lack of focus and the 'waterfront' approach also placed a heavy burden on the already weak capacity of government agencies.

2.21 Third, the WBG's strategy was not adapted to the underdeveloped situation of Timor-Leste and was not sufficiently responsive when the availability of substantial oil and gas revenues, starting in 2004-05, allowed for a more expansive public spending policy. Moreover, in the face of a dramatic and favorable change in the initial conditions, there does not seem to have been any significant re-thinking of Bank strategy or priorities.

2.22 Fourth, the WBG's strategy was based on an unrealistic and overly optimistic assessment about Timor-Leste's capacity to comply fully with the fiduciary requirements of the Bank. Enforcing full compliance with the Bank's fiduciary requirements caused serious delays in the implementation of Bank projects, including projects that were meant to provide immediate short-term benefits to the poor and where speedy implementation was essential.<sup>21</sup> These delays also negated the other efforts of the Bank to respond to crisis situations by accelerating project preparation and approvals. Complaints to the CPE mission regarding the Bank's implementation of its procurement policies and procedures were a constant refrain from within the government but also from other donors and WBG staff.

2.23 Fifth, there appears to be a disconnect between the WBG's ambitious objectives and the meager financial resources it had at its disposal – as illustrated by the heavy reliance on

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<sup>19</sup> For example, private initiative was considered the main source of future employment, which was seen as a welcome turnaround from the Indonesian occupation when the public sector constituted the main source of employment. (See CAS, p 15).

<sup>20</sup> The interim strategy for FY10-11 had as its centerpiece a National Workfare Program in support of public works program for creating sustainable jobs and infrastructure. Unfortunately, at the request of the government, this project was subsequently dropped from the program.

<sup>21</sup> In one case, four hospitals built with trust fund resources from the European Union ended up idle for about one year while procurement of the needed equipment was cleared by the Bank's procurement specialist.

co-financings through multi-donor trust funds, and reliance on Bank-executed trust funds to fund some of the project staff in the Dili office. The implicit assumption that it could deliver its objectives by using other donors' resources may have been optimistic, and in recent years the WBG's role has also been somewhat marginalized as its dwindling resources have been increasingly dwarfed by the significantly increased resources of the government.<sup>22</sup>

2.24 While the strategy was thus flawed in some respects, the bigger failure of the WBG was in the implementation of the strategy. This is discussed below.

## World Bank Program

### OPERATIONS

2.25 The Bank has been actively involved in the reconstruction and development of the economy since late 1999, by providing regular IDA grants in addition to numerous grants financed from the Trust Fund for East Timor (TFET), which is discussed in paragraph 2.26 below. The Bank has also managed co-financing by multi-donor trust funds for a number of its projects, and has undertaken various other activities with trust fund financing. In addition to projects, the Bank has provided analytical and advisory services and also played a key catalytic role in mobilizing and helping to coordinate international assistance to Timor-Leste. Thus far, there has been no lending to Timor-Leste, reflecting the authorities' policy of avoiding external borrowing, including concessional loans.<sup>23</sup> **Appendix 6** lists the projects undertaken by the Bank during FY00-10.

2.26 In the period 2000-03, the Bank's involvement centered around its role as trustee and co-manager (along with ADB) of the Trust Fund for East Timor (TFET), which was established in December 1999 as a vehicle to provide grant assistance for investment operations for reconstruction activities and economic development in Timor-Leste.<sup>24</sup> The Bank contributed \$10 million from its surplus to the Fund. Altogether, TFET has financed eighteen Bank-administered projects (for community development, economic capacity-building, education, agriculture, energy, health, the petroleum sector, and small enterprise development) and six ADB-administered projects (for water, roads, port development and micro-finance) totaling just over \$170 million disbursed between FY00-10, with most projects approved be-

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<sup>22</sup> Timor-Leste's IDA allocation is necessarily modest given the small size of the country. However, as a post-conflict country it has received an extra allocation that has been phased out for some years - FY11 is the last year of any such extra allocation.

<sup>23</sup> The country's Budget and Financial Management Law was revised only towards the end of 2009. Until that time the country could not borrow - not even for IDA credits. As a result, Timor-Leste was treated as a special case and this was reflected in footnotes in both the IDA14 and IDA15 replenishment documents. The IDA allocation was converted to grants at about 60 percent of what they would have received if IDA credits - so if in a year illustratively the country received US\$6 million in the way of IDA grants they could have received US\$10 million in the form of credits. Under either scenario the Bank would have been a small player in terms of financial flows, dependent on trust funds, but it could probably be argued that if the country had received credits the Bank's footprint could have been somewhat larger.

<sup>24</sup> The TFET also funded two TA projects in the petroleum sector.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

fore end FY02. TFET financed projects also attracted significant co-financing from bilateral donors. A fuller discussion of TFET and other multi-donor Trust Funds in Timor-Leste is contained in [Appendix 3](#).

2.27 Following the TFET-funded projects, the Bank played a major role in mobilizing donor funding for budgetary assistance for the post-independence period (FY03-06) through annual multi-donor budget support operations. The Transition Support Program (TSP) from FY03 to FY05 (para 2.35) brought about US\$90 million in budget support funding with about US\$9 million financed by IDA (and another US\$5 million by DGF), and the balance financed by eight bilateral partners through multi-donor trust funds administered by the Bank, and parallel cofinancing by other bilateral and multilateral donors (including Portugal, Japan and ADB). The subsequent Consolidation Support Program (CSP) during FY06-07 brought US\$12 million in budget support funding, with about US\$0.5 million provided by IDA. These operations, discussed in greater detail below, addressed all three pillars of the WBG's strategy and were together the main vehicle for comprehensive policy dialogue between the Government of Timor-Leste and its development partners during that period.

2.28 Limited IDA grant funds were also leveraged to attract substantial co-financing from other donors for sector investment programs (particularly in health, education, and financial management and planning capacity-building). IDA also implemented projects in education and health sectors that were wholly funded either by bilateral donors (the European Commission (EC) in the case of health) or by other multi-donor trust funds (the Catalytic Fund of the Fast Track Initiative in education). In addition, and especially during FY00-05, the Bank implemented several TA projects funded through IDF and other grants in areas like public expenditure management, poverty monitoring and analysis, procurement, veterans' policy implementation, and institution building for the office of the Inspector General and Ombudsman. A large array of analytical studies, ranging from short policy notes on issues of immediate interest to sector studies and CEM were also completed during the period. These, which are listed in [Appendix 7](#), included a PER in FY04 and a Poverty Assessment in FY09. The annex also shows that only half of the tasks programmed in the CAS were delivered, and that the vast majority of the delivered tasks were not programmed in the CAS.

### FINANCIAL SUPPORT

2.29 The WBG's financing role (TFET and IDA grants) has been shrinking over the years. During FY00-02, sixteen Bank-administered projects were approved, with commitments amounting to US\$130.8 million. During FY03-05, the number had fallen to 12 and during FY08-10 only 4 new projects were approved for US\$32.3 million (Table 3). This decline in the Bank's role partly reflects a changing role for donors after the immediate reconstruction period. The increased resources available to the government in recent years from petroleum revenues have also reduced its dependence on foreign aid. In addition, there seems to have been an increasing impatience with traditional donors (including the WBG) and what is seen as the limited impact on poverty from their support. The Bank's ability to ramp up its financial assistance was precluded by the Government of Timor-Leste's policy against incurring foreign debt (as mentioned earlier).

2.30 The direct financial contribution from resources under the Bank's operational control to Bank-administered projects also declined. The share of TFET and IDA (including IDF and

DGF grants) in funding Bank administered projects declined from almost 81 percent in FY00-02 to 25 percent by FY08-10. This decline was offset by increased co-financing from bilateral donors often through multi-donor trust funds. Their share increased from about 17 percent of total project cost in FY00-02 to 60 percent by FY08-10.<sup>25</sup>

**Table 3. Shrinking Role of Bank: Percentage Distribution of No. of Projects, Project Cost and IDA and TFET Funding During FY00-10**

<i>Fiscal Year</i>	<i>No. of Projects</i>	<i>Total Project Cost</i>	<i>TFET</i>	<i>IDA+</i>	<i>TFET+ IDA+</i>	<i>Share of (TFET+IDA+) funding in project costs (%)</i>
FY00-02	41	36	93.7	1.7	69.5	80.9
FY03-05	31	30	5.5	38.1	14.1	19.8
FY06-07	18	25	0.8	40.0	11.1	18.9
FY08-10	10	9	0.0	20.2	5.3	25.1
<b>TOTAL PERIOD</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>42.3</b>

\* IDA+ included IDF and DGF grants

2.31 In terms of priorities, there was only a modest allocation of Bank resources to the agriculture sector (Table 4). Throughout the period, only three agricultural projects were approved and implemented by the Bank, the last in FY04, accounting for 8.1 percent of total cost of Bank-administered projects. Funding for agriculture absorbed 11.7 percent of total IDA and TFET project financing.<sup>26</sup> This is less than the funding for education and for health from IDA and TFET.<sup>27</sup> While agriculture projects were a small part of the Bank's project portfolio in Timor-Leste, it had a somewhat larger presence in the portfolio of some other donors.<sup>28</sup> Overall, however, agriculture has not been addressed sufficiently by the WBG or by the donor community as a whole.

**Table 4. Relative Importance of Agriculture Projects**

	<i>Percent of Total Number of projects</i>	<i>Percent of total project cost</i>	<i>Percent of IDA+ funding for all projects</i>	<i>Percent of TFET+IDA+ funding on all projects</i>
Agriculture	7.7	8.1	0.0	11.7
Education	15.4	18.9	27.5	29.8
Health	10.3	19.4	2.5	17.3

\*IDA+ includes IDA, DGF and IDF funds

<sup>25</sup> The balance is the share of financing by government and other trust funds such as the Fast Track Initiative's Catalytic Fund.

<sup>26</sup> No IDA funding at all went to agriculture. The Bank's financial contribution to the sector came through its share in TFET resources.

<sup>27</sup> Education sector projects accounted for almost 19 percent of all projects (in terms of costs), 30 percent of all IDA and TFET funding, and 28 percent of IDA funding during the period. Health sector projects made up almost 20 percent of all projects, received about 17 percent of IDA and TFET funding and absorbed about 2.5 percent of IDA funds.

<sup>28</sup> Agriculture projects accounted for 15.5 percent of total donor project funding during 2000-07.

**CHAPTER 2**  
**WORLD BANK GROUP STRATEGY AND PROGRAM**

2.32 The focus of Bank strategy on delivering basic social services and poverty alleviation was implemented as planned. Projects under the first pillar (delivery of essential social services and poverty and unemployment alleviation) accounted for 54 percent of the resources allocated in all Bank projects during FY00-10 (Table 5).<sup>29</sup> They also absorbed 64 percent of IDA (plus IDF and DGF) and TFET funding, mainly on account of projects in education and health. This dominance of the first pillar was especially marked following the various crisis years, viz. FY00-02 and FY08-10.

**Table 5. Importance of the Three Pillars in New Lending Approvals, 2000-10**

<i>By Approval year</i>	<i>FY00-02</i>	<i>FY03-05</i>	<i>FY06-07</i>	<i>FY08-10</i>	<i>FY00-10</i>
<i>% of project costs</i>					
Human Development	77	29	36	100	54
Governance	1	28	54	0	22
Growth	22	43	10	0	23
<i>% of TFET plus IDA+funds</i>					
Human Development	73	24	37	100	64
Governance	1	25	42	0	9
Growth	26	51	21	0	27
<i>% of IDA+ funds</i>					
Human Development	0	34	39	100	49
Governance	100	35	45	0	33
Growth	0	31	16	0	18

*\*IDA+ includes IDA, DGF and IDF funds*

2.33 The two other pillars roughly absorbed the same amount each of a little over a fifth of the total. Most of the governance projects were approved during FY03-07. These projects accounted for about 9 percent of IDA and TFET funds and were largely funded from bilateral co-financing. However, the actual importance of this pillar in the WBG's portfolio is much larger than these figures suggest because several projects that belonged to Pillar 1 and Pillar 3 had institutional and capacity-building components.<sup>30</sup> The third pillar, promotion of sustainable non-petroleum growth, reached a peak in FY03-05. IDA and TFET funds accounted for about 27 percent of the cost of these projects. About 45 percent of these funds were absorbed by projects in agriculture.

2.34 The evolution of the WBG's program also mirrors changing government priorities. In the early years, the focus was clearly on alleviating poverty and restoration of basic social services. This is reflected in the WBG's funding for projects under the first pillar. As the

<sup>29</sup> In assessing the importance of the three pillars in Table 3, the cost and funding of the four budget support operations that addressed all the three pillars have been divided equally among the three pillars.

<sup>30</sup> For example, health sector projects often had funds earmarked for building capacity in the ministry of health or in health sector institutions (such as laboratories or clinics). The same was true in education sector projects which included capacity building in the ministry.



economy revived in FY00-02 and an independent government took office, its priorities shifted towards strengthening the institutions of the state. This is also reflected in the rising share of Bank funding for governance and institution building between FY03-07. The outbreak of violence in 2006-07 put the emphasis back on maintenance of social stability and this is seen in the higher share of Bank funding for the social sectors during FY08-10.

#### THE TRANSITION SUPPORT PROGRAM (TSP) (2003-05)

2.35 The TSP (and the follow-up Consolidation Support Program (CSP) of 2006) was the main instrument used by the donors and the Government of Timor-Leste to engage on a broad policy front in the critical years following independence. The TSP comprised a series of three annual budget support operations during 2003-05 in support of the country's economic program based on the Government of Timor-Leste's National Development Plan (NDP). The main objective of these operations was to provide fast-disbursing funds to the government to finance its budget and external account until sufficient revenues from oil and gas came on-stream. These additional funds were meant to enable the government to implement critical programs and sustain levels of imports and public expenditures that would not otherwise be possible.

**Table 6. Budget Support Operations FY03-06**

<i>Name of Project</i>	<i>Year approved</i>	<i>Disbursed Project Amount (US\$ mill)</i>	<i>IDA funding* (US\$ mill)</i>	<i>IEG Outcome Rating**</i>
Transitional Support Program (TSP1)	FY03	56.8	5.0	MU
TSP2	FY04	4.2	4.2	MU
TSP3	FY05	29.2	5.0	MU
Consolidation Support Program (CSP)	FY06	12.0	0.5	MU

\* IDA includes IDF and DGF grants as well;

\*\* MU=Moderately Unsatisfactory.

2.36 TSP1 (2003) was funded by a post-conflict grant from the Development Grant Facility (DGF) of about US\$5 million. TSP2 (2004) and TSP3 (2005) were funded by IDA grants which averaged around US\$4.6 million. IDA/DGF funding was part of an overall grant financing package for the TSP program as a whole of about US\$90 million by bilateral donors and IDA. Co-financing by eight bilateral donors (Australia, Canada, Finland, Ireland, New Zealand, Norway, UK, and USA) was channeled through Bank-administered trust funds, and additional bilateral and multilateral funding was provided directly (Portugal, Japan, and ADB).

2.37 The DGF and IDA grants were disbursed in single tranches at effectiveness, following the completion of specific prior actions agreed with the government. A separate Action Matrix of policy measures and actions was also agreed with the government for each operation. The implementation of these policies was periodically monitored by the government and the donors though it did not condition disbursements.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

2.38 The economic policy objectives of the three operations were in essence identical. They were to facilitate the transition of a post-conflict country towards sustainable growth and poverty reduction. The broad design of the operations was also similar,<sup>31</sup> and they had three thematic components:

- Service Delivery for Poverty Reduction, including increased access to and improved quality of basic health and education;
- Good Governance, including improvements in public sector management, public expenditure management, oversight institutions, local government, poverty reduction planning;
- Job Creation, mainly through private sector development (understood in most documents and in this CPE to be exclusive of agriculture) and agriculture.

2.39 Specific measures in each of these areas, and a timetable for implementation, was agreed with the government and included in Action Matrices for each operation. The program was intensively supervised by the Bank and other donors.

2.40 The record of implementation under the respective thematic areas (which coincide with the three pillars of the WBG's strategy) is discussed in greater detail in chapters 3-5. This section reviews the overall program and its achievements and shortcomings. It draws heavily on the IEG's PPAR for TSP (June 2008) with which the CPE team largely concurs.

2.41 The PPAR saw the main achievement of the TSP to be the funding it made available to the government to augment its budget during the critical years soon after independence. Without this funding, economic growth during this period would have been even lower than it turned out to be, and poverty and unemployment higher, posing a threat to social stability.<sup>32</sup> The Bank played a vital role in mobilizing donor support for this program and helped the government manage the process.

2.42 While this argument has validity, it is not equally relevant for the TSP period in its entirety. First, throughout this TSP period, but particularly after 2003, the main constraint on government expenditures was not so much the resources available but its inability to spend, especially in rural areas and on capital projects. Budget execution on a cash basis averaged only 75 percent during FY03-05, and it was significantly lower for capital expenditures (9 percent in 2004 and 17 percent in 2005).<sup>33</sup> Second, the onset of revenues from petroleum production in 2004 resulted in the emergence of a large fiscal surplus, and accumulation of international reserves equivalent to about 15 months of imports by the end of 2004.<sup>34</sup> Under these circumstances the rationale for budget support funding after 2004 is

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<sup>31</sup> There were some differences. TSP1 included the power sector. This was dropped in subsequent operations which included agriculture instead.

<sup>32</sup> The PPAR estimated that grant financing for the TSP was close to half the annual level of consolidated expenditures of the budget during 2003-05.

<sup>33</sup> Source: PAD of Planning and Financial Management Capacity Building Project (Feb 2006); p 3.

<sup>34</sup> Source: IMF Country Report, July 2005; p 4.

questionable. Had more efforts been made to improve budget execution (as was done in 2007) and improve the quality of spending, the need for additional budget support funding would not have arisen.

2.43 A second positive achievement according to the PPAR was the TSP process itself, which provided the Government of Timor-Leste a framework for planning, implementing and monitoring a whole range of development activities and budgetary outlays. The Action Matrices summarized these activities in a convenient way. The TSP framework also provided a vehicle for coordination among donors and facilitated interaction between the government and the donors.

2.44 While the Action Matrices provided a broad and comprehensive framework for monitoring government initiatives, it is debatable whether the 'cover the waterfront' approach underlying the long and unwieldy matrices was appropriate under the circumstances.<sup>35</sup> By trying to be comprehensive, the TSP lost focus and included too many issues that were not of immediate importance and had weak ownership (such as establishing the Office of Ombudsman or passing a bankruptcy law). Consequently, project design became too complex and overwhelmed the capacity of the government. It would have been preferable to maintain a comprehensive matrix for general planning and monitoring within the government but to have a selective and tightly focused matrix of key policies guiding the implementation of the TSP.<sup>36</sup>

2.45 The TSP (and the follow-up CSP) also illustrates the difficulty the Bank can have in adjusting its interventions to evolving realities. Experience with TSP1 already suggested that the program was too ambitious and that a number of measures were either not met or were met with considerable delay due to capacity constraints. Yet, subsequent operations did not narrow the scope of the program. In fact, the programs grew in size: from 50 actions listed in the Action Matrix of TSP1, the list had expanded to more than 120 actions in TSP3.

2.46 In terms of substance, most of the actions included in the matrices were primarily formal/procedural and related to planning, budgeting, regulations, laws, licensing, reporting and monitoring, with only a few concrete results related to service provision in the health and education sectors. The emphasis was on developing the institutional, policy, and regulatory environment on a broad front, rather than on delivering quick wins and some tangible benefits for the people that was the need of the hour.

2.47 With respect to the implementation of policies and programs listed in the Action Matrices, the record was very mixed. There were some areas where reasonable progress was made (Petroleum Fund, Health sector, Veterans' policy), but by and large the record was modest, and particularly disappointing with respect to the goal of job creation through private sector development and agriculture. Overall, the impact of the TSP series on creating

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<sup>35</sup> For example, the Action Matrix for TSP 1 listed 50 actions.

<sup>36</sup> There were internal debates within the Bank regarding the pros and cons of a broad versus a narrowly focused program. There was also pressure from the government and some other donors in favor of a broad approach. Whatever the reasons, the Bank ultimately supported a wide-ranging and diffuse program.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

conditions for sustainable growth and poverty reduction, the main objective of the Government of Timor-Leste's NDP and the TSP, was insignificant. IEG rated outcomes under the three projects as Moderately Unsatisfactory.

2.48 The Consolidation Support Program (CSP 2006) was a follow-up of the TSP. It was originally seen as the first in a series of three operations spread over FY06-08. However, only the first project was implemented; the others were shelved because of changing circumstances, including higher-than-expected petroleum revenues and lapses in the implementation of key actions under CSP1. As in the TSP, the main objective of the program was to provide fast-disbursing funds to the government to augment its budget resources. The main policy objectives and the thematic areas were also identical with the TSP, except for the inclusion of infrastructure under the service delivery component. The CSP was funded by an IDA grant of US\$0.5 million and additional cofinancing amounting to US\$11.5 million from other donors. The IDA grant was disbursed in a single tranche upon effectiveness in March 2006, barely a month before the country was engulfed in violence and social unrest.

2.49 In terms of outcomes, while progress under the CSP was made in some areas (health, veterans' policy, some aspects of governance), overall the results were disappointing. The most disappointing performance was in job creation, which was the single most important issue at the time. IEG rated outcomes as *Moderately Unsatisfactory*.

2.50 In spite of previous experience, the Bank continued under the CSP with its overly optimistic assessment of the local conditions. Its starting premise was that the transition phase was successfully completed under TSP with a new phase of consolidation being ushered in by the CSP, focusing on long-term issues. Yet, within a few months of effectiveness the country erupted in violence, underscoring the continued fragility of the political and economic situation. Clearly, the Bank misread and did not draw the appropriate conclusions from the ground realities at the time. The need of the hour was a program to deliver some quick results on the ground (in terms of jobs and income) and not one that focused largely on longer term institutional development. The CSP also continued with the TSP model of many actions spread over a wide front, without a clear sense of priorities. The Action Matrix was 20 pages long and covered a wide range of policy, institutional, regulatory and legislative areas. Simplicity and focus were ignored once again.

### WAYS OF DOING BUSINESS AND PRINCIPLES OF ENGAGEMENT

2.51 Standard Approach to Unique Circumstances. In spite of the unique and very difficult environment in Timor-Leste, the WBG adopted with a few exceptions a 'standard' approach.<sup>37</sup> Even when the strategy recognized the special circumstances prevailing in the

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<sup>37</sup> Certainly some simplification was made in the Bank's standard procedures to accelerate project preparation and approval in the case of emergency operations. Under the TFET, project preparation and appraisal were combined, and projects were approved at the vice presidential level rather than by the Board. As a result, the average time between appraisal and approval of projects was about 3 months, considerably less than the Bank-wide average of 9 months. However, accelerations in project preparation could be nullified by long delays in implementing these projects. For example, the Emergency Youth Development Project (FY09) which was the Bank's response to youth disaffection that contributed to the civil unrest, was approved within one month of appraisal but then took almost 8

country and the need to develop new approaches and guidelines, standard Bank-wide rules and procedures came into play during implementation. Procurement procedures were a specific case in point, and one of the most frequently cited reasons for delays in project implementation.

2.52 Mainstreaming of Gender and Youth. Though it was only in the CAS (among the key planning documents) that mainstreaming of gender and youth was highlighted, gender issues were reflected in Bank projects from the start, in varying degrees. The most common form in which this occurred was that some of the project outcome targets included specific targets relating to women (for example share of jobs going to women; percent of trainees who were women; enrollment rates for girls; etc.). In only one case were funds directed specifically to women or programs designed largely for women. The early Community Empowerment Projects were more ambitious with regard to gender. They sought to empower women by explicitly mandating *equal* representation in the newly elected village councils, and proposed specific measures to increase the capacity of women representatives on the village councils. In the case of youth, very little was done. A few projects listed youth-related targets (such as percent of employment created for youth) but without much impact. The mainstreaming of youth issues called for by the CAS only served to neglect the issue altogether, as pointed out by the ISN.

2.53 By and large, projects reported success in meeting their gender targets. But no assessment has been made as to whether these quantitative targets signified any real progress for women. What was the quality of training imparted and did it make any difference to the women who received training? Were the jobs created sustainable? In the case of the village councils, the Implementation Completion Report (ICR) reported that though more women were elected as mandated by the UN Traditional Administration for East Timor (UNTAET), in some cases they merely acted as proxies for their spouses. Moreover, it was not clear how many of these women continued to participate in the village councils after the project closed: the ICR of the first Community Empowerment Project reported that participation of women had fallen sharply and that existing power structures continued to dominate. In their meetings with the CPE team, some senior government officials believed that the Bank's efforts were merely symbolic and had no lasting impact on women's role and or status in society. The Bank's efforts may be better spent in raising public awareness and convincing the government about the importance of gender issues for social and economic development.

2.54 Complexity in Project Design. The Bank's strategy documents correctly emphasized the need to keep projects simple and ensure that project design was well-aligned with the institutional and human resource capacities in the country.<sup>38</sup> Unfortunately, this guideline was not followed in a majority of projects, especially in later years when projects became

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months to become effective. Only a small share of funding has actually been disbursed so far, four years after the onset of the crisis.

<sup>38</sup> For example, the TSS says the Bank will seek to "avoid launching complex projects with policy implications until institutions are in place" (p.15). The ISN also reflected the same sentiment when it stated that 'the ISN emphasizes selectivity and will reflect the lessons learned under the previous CAS by ensuring simplicity of project design and ...'. (p.18)

more ambitious and broad-ranging in scope. Action matrices were large and unfocused and did not take account of the institutional capacity constraints of the government. For those closed projects where such assessments were made, 62 percent were found to have been too complex and/or had unrealistic timetables based on over-optimistic assessments of institutional capacities on the ground (Table 7). Complex design has plagued many still-active projects as well.<sup>39</sup>

**Table 7. Simplicity in Projects, 2000-10.**  
**Percent of All Closed Projects Noted for Simplicity or Complexity of Design by IEG Assessments**

<i>Year of Approval</i>	<i>% of Projects noted for complexity of design</i>	<i>% of Projects noted for simplicity of design</i>
FY00-02	62	38
FY03-05	57	43
FY06-07	100	0
FY08-10	NA	NA
<b>TOTAL PERIOD</b>	<b>62</b>	<b>38</b>

*Source: \*Based on IEG's ICR reviews and PPARs. This table only includes those projects where IEG's project reviews commented on complexity or simplicity of design, and the total numbers are therefore modest.*

2.55 This finding was confirmed by interviews with Bank staff and stakeholders. The 2008 QAG review of Pacific Islands (that also included Timor-Leste) also highlighted the same concern.<sup>40</sup> Complexity of design and unrealistic and overoptimistic assessment of capacity constraints contributed to delays in implementation and cost over-runs. On average, projects closed more than a year behind schedule (see Table 8 below). The average delay in project closings from original estimates has been about 20 months when single tranche budget support operations and small TA projects are excluded. In some sectors (e.g., health) the delays were significantly longer.<sup>41</sup>

2.56 Results Framework. Throughout, but certainly after 2002, the WBG emphasized the importance of a 'results orientation' to make sure that program implementation would be monitored and guided by actual results on the ground. This was appropriate as it would discipline the government and the WBG to focus on actual results and final outcomes at the sector level (for example improvement in infant mortality) rather than only on actions un-

<sup>39</sup> For example the flagship (Public Financial Management Capacity Building (PFMCB) (2006) project didn't get off the ground until late 2007 partly because it was not focused and selective. It was subsequently restructured. The Youth Development project is also stuck, partly because of its complex design involving multiple implementing agencies.

<sup>40</sup> To quote the QAG report: "The principal lesson from years of evaluation by IEG, QAG and others is the necessity of matching capacity and complexity. ...And yet, routinely the Bank funds overly-complicated projects due to a combination of incentives (size matters) and opportunity (you only get one chance, so put in everything)". In Timor-Leste, the pressure to make things complex may also have come from other donors who were significant co-financiers.

<sup>41</sup> According to an internal Bank Database, this average is longer than the Bank average of 1 year and 25 days. Projects in fragile states closed about 13 months behind schedule for the same period.

dertaken and policies implemented (such as number of new schools established or textbooks distributed; improvement in health facilities). Consequently almost every Bank-administered project had a 'results matrix' which listed input and output indicators for each component of the project.

**Table 8. Timor-Leste: Speed of Project Preparation and Implementation: Time Interval (in months)**

	<i>Between Appraisal and Approval</i>	<i>Between Approval and Effectiveness</i>	<i>Gap between planned closing date and actual</i>
FY00-02	2.8	3.1	21.4
FY03-05	3.1	3.3	7.1
FY06-07	2.8	3.3	5.3
FY08-10	3	5.7	Na
<b>FY00-10</b>	<b>3.1</b>	<b>3.4</b>	<b>13.4</b>
Edu. Projects	2.3	3.4	17.7
Health Projects	2.3	3.2	36.7
Agr. Projects	2.6	2.3	11

*Source: ICRs and ICR Reviews*

2.57 However, often not enough attention was devoted to collect accurate data to track progress in key areas (see discussion on health and education in chapter 3). As a result of data deficiencies, progress reports have not always been consistent and measurement of progress in key areas remains problematic (for example, the quality of education). A focus on a limited number of important indicators and a greater attention to developing a strong data base would have been more useful. This would also have reduced the burden on the government and allowed its limited capacity to focus on implementing the program rather than on monitoring and reporting on a large number of often quite useless indicators.

2.58 Building Institutional Capacity. The need to build institutional capacity was recognized early on by the Bank, and it was one of the two most important priorities identified by the Joint Assessment Mission.<sup>42</sup> Since then capacity-building has rightly formed an integral part of Bank operations, both in the context of projects and budget support operations. Institutions such as ministries have been established and their capacity and quality of operations have improved (with significant variations between institutions), but often because of foreign advisors doing much of the policy and administrative work. However, with a few notable exceptions (such as the Petroleum Fund), there has been much slower progress in building sustained domestic capacity.

2.59 As discussed in more detail in Appendix 4, there are a number of inter-related reasons for this slow progress. These regularly include a lack of clear prioritization, inadequate practical recognition of the severe constraints imposed by often very low levels of existing competence, language barriers, and reliance on standardized approaches not tailored sufficiently to the conditions of Timor-Leste. Perhaps more importantly, much capacity building was supposed to be carried out by foreign advisors who were unable to provide effective

<sup>42</sup> As explained earlier, this was the early Bank-led mission to assess reconstruction and development requirements.

## CHAPTER 2 WORLD BANK GROUP STRATEGY AND PROGRAM

training and transfer of knowledge to local counterparts because performance of day-to-day line functions absorbed the larger part of their time, and also because of language constraints and lack of skill sets necessary to provide effective training.

2.60 Consolidating and Extending Partnerships. The Bank gave considerable attention from the beginning to developing strong partnerships with other donors and with country stakeholders. The Joint Assessment Mission comprised equal numbers of Timorese leaders and representatives from five bilateral donor countries, the EC, UN agencies, the ADB and the Bank.<sup>43</sup> Since that time, Bank administered projects have attracted a large amount of funding from other donor partners provided through multi-donor trust funds. Donor coordination has been generally satisfactory and partnerships have remained strong.<sup>44</sup>

2.61 With respect to partnership with country stakeholders, the WBG worked closely with the Government of Timor-Leste in defining its strategy and in aligning its objectives with those of the government. The Results Matrix developed under the TSP was much appreciated by the government for reflecting its priorities and providing a unified framework for monitoring the government's program in different areas. However, until 2007, the Government of Timor-Leste's capacity to engage substantively with the WBG was limited. It is only recently that the Government of Timor-Leste has shown an ability and willingness to articulate an independent policy, in some aspects at odds with the WBG's views. The Bank has also engaged with Parliament, especially its Committee on Economy and Finance and Anti-Corruption, but less actively than what the parliamentarians reportedly would like to see. Regular consultations have also been arranged with non-governmental organizations (NGOs) and civil society.

### PROGRAM QUALITY

#### *Portfolio Performance*

2.62 Over the period FY00-10, 30 projects were closed. Of these, the IEG has evaluated 20 projects through its project reviews.<sup>45</sup> Satisfactory outcomes were reported in only 15 percent of cases, 25 percent of projects had moderately satisfactory outcomes, 45 percent had moderately unsatisfactory outcomes and 15 percent of projects had unsatisfactory outcomes (Table 9). These outcome ratings compare unfavorably with ratings Bank-wide and region-wide. They are also inferior to the performance in other fragile states (Table 10). IEG evaluations often found projects to be too complex, and not sufficiently mindful of the serious institutional capacity constraints in the country.

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<sup>43</sup> The IMF fielded a mission that partially overlapped with the JAM. Both missions worked as one team.

<sup>44</sup> There have been serious problems as well. In the context of the Community Empowerment Projects the Bank and the UN administration had serious disagreements that were resolved only after interventions at the highest level in both institutions. In recent times, there has been some serious donor dissatisfaction with the Bank's performance and vice-versa in the context of sector operations.

<sup>45</sup> This includes TSP1, which was covered under the PPAR for the entire TSP program.



**Table 9. Project Outcome Ratings for Closed Projects, as a Percentage of Closed Projects whose Outcomes were Rated by IEG**

<i>Year of Approval</i>	<i>Satisfactory</i>	<i>Moderately Satisfactory</i>	<i>Moderately Unsatisfactory</i>	<i>Unsatisfactory</i>	<i>Total Number of Closed Projects rated by IEG</i>
FY00-02	8	33	33	25	16
FY03-05	29	14	57	0	12
FY06-07	0	0	100	0	7
FY08-10	Na	Na	Na	Na	0
<b>TOTAL PERIOD</b>	<b>15</b>	<b>25</b>	<b>45</b>	<b>15</b>	<b>35</b>

*Source: ICR reviews and PPARs*

2.63 As of January 2011, 9 projects are active in the portfolio. Despite a difficult operating environment and repeated implementation delays, relatively few projects have undergone formal restructuring thus far. The first project to be restructured was the 2006 Public Financial Management Capacity Building (PFMCB) Project. After months of little progress, the project was simplified and restructured in 2010 at the initiative of the government and in line with earlier QAG recommendations. A comprehensive portfolio analysis was completed in July 2010. Two projects (Youth Development and Energy Services Delivery) were downgraded to problem projects.<sup>46</sup> The Health Sector Strategic Plan Support project remains in problem status.

**Table 10. Comparison of Project Outcome Ratings in Timor-Leste and Other Regions as a Percentage of Closed Projects that Received Satisfactory or Moderately Satisfactory Ratings from IEG**

<i>Region</i>	<i>Percent of Closed Projects with Outcomes Rated Satisfactory or Moderately Satisfactory</i>
Timor-Leste	40
Other Fragile States	69
EAP Region	76
Bank-Wide Average	79

*Source: World Bank internal database*

#### **QAG'S QUALITY ENHANCEMENT REVIEW**

2.64 QAG completed in June 2008 a quality enhancement review for the Pacific Islands, including Timor-Leste. It found that assistance strategies had been conventional when circumstances were not, and that many of the Bank's business practices and procedures were not well adapted to the hyper-fragility of the countries in the region, including Timor-Leste. The Bank's analytical work in Timor-Leste had had very limited impact on policies and programs, and there was an absence of a clear economic development strategy understood and shared by the government and the donors. The review also found that in many cases in Timor-Leste there had been a lack of realism in the assessment of challenges faced, and that the targets set for individual projects did not take country context adequately into account. Projects were also often too complex and ambitious. All these points are consistent with the IEG findings reported in this chapter. The QAG report recommended focusing strategy on a

<sup>46</sup> One was downgraded after a supervision mission in April 2010, and the other one after the portfolio analysis.

**CHAPTER 2**  
**WORLD BANK GROUP STRATEGY AND PROGRAM**

few key areas (in their view this would have to include youth unemployment and capacity-building) and keeping projects simple and aligned with the implementation capacity on the ground. The Review supported the Bank's role in aid coordination and helping convene donors around a common agenda.

# 3. PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

## The Health Sector

### THE SETTING

3.1 Even before the violence and destruction of 1999, the health situation in East Timor was poor. Life expectancy was 55-58 years, infant mortality rate was 85/1000 and the under-five mortality rate was 124/1000. Malaria and tuberculosis were widespread and were the main causes of morbidity and mortality. This situation got worse after the quest for independence in 1999, which resulted in a total breakdown of the health care system.

### THE BANK'S PROGRAM

#### *Bank Strategy and Objectives in the Health Sector*

3.2 In the broadest terms, the stated objectives in the sector were to improve access to, and quality of, basic health care services in the country. The immediate objective after peace was restored in 1999 was to prevent a health catastrophe. International humanitarian interventions focused on providing food and non-food assistance to returning refugees and at-risk populations. Hospitals were reopened and mobile health clinics were operated. Piped and well water systems were repaired. As the emphasis shifted from relief to reconstruction and development, starting in 2000 the objectives of the WBG (and the donor community in general) became wider, combining addressing immediate basic health care needs with long-term improvements in health indicators (MDGs) and institutional development.

3.3 Operationally as articulated in the 1999 JAMR, and subsequently in various strategy and project documents, the objectives were:

- Restoration and improvement of primary health care services at sub-district levels, including physical rehabilitation, restocking of medicines and equipment, and provision for transport for outreach, referral and mobile medical services;
- Reestablishment and enhancement of inpatient care, including the rehabilitation of hospitals in Dili and in the districts; and
- Establishment of a central laboratory and supply system for essential medicines.

3.4 The objectives also emphasized institution building, including:

- Re-establishment of a public health management capacity;

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

- Developing in-house capacity for developing health policy and financing options; and
- Training and capacity-building program for health workers.

3.5 These broad objectives remained consistent throughout the period, though the emphasis shifted from physical reconstruction in the early projects to institutional capacity-building in later interventions. The general thrust of the WBG's strategy was appropriate and relevant, though the programs were too complex and ambitious for the conditions prevailing at the time (see below).

#### **Bank-Administered Projects**

3.6 There were four Bank-administered projects in the health sector during FY00-10 in support of the above objectives. Health sector policies and institution building were also promoted through the TSP and CSP. Health sector projects absorbed about 17 percent of all TFET and IDA funding for Bank-administered projects in Timor-Leste during 2000-10 (Table 11). Broadly, projects in the health sector sought to:

- Improve the population's access to and quality of basic health care;
- Improve the capacity of health service providers to provide better quality care; and
- Improve the government's capacity to formulate, implement and monitor all aspects of health policy.

3.7 Projects financed reconstruction of primary health centers and hospitals, the adequate provision of essential medical equipment and drugs, establishment of a central medical store (SAMES) and technical assistance and training for various functions (policy formulation, budget execution, procurement, financial management, training of health care providers and health system managers, monitoring and evaluation, etc.) at different levels of government.

**Table 11. Health Sector Projects FY00-10**

<i>Name of Project</i>	<i>Year Approved</i>	<i>Project Amount** (US\$ millions)</i>	<i>TFET+IDA Funding (US\$ millions)</i>	<i>IEG Outcome Rating*</i>
Health Rehab 1	FY00	13.0	12.7	S
Health Rehab 2	FY01	34.1	12.6	MS
EC Health Sector Support Program	FY06	4.4	0.0	NA
Health Sector Strategic Plan Support	FY08	20.3	1.0	Active

\*S=Satisfactory; MS=Moderately satisfactory

\*\* Disbursed amounts for completed projects. Approved amounts for active projects

3.8 The TSP (2003-05) continued the initiatives undertaken under Rehab 1 and Rehab 2 projects. Improving access and quality of primary health care services was also one of the objectives of the CSP (2006). Specific performance improvement indicators (such as the extent of vaccination coverage) consistent with those outlined in the Rehab projects were monitored under the budget support operations.

3.9 Progress was made in improving the population's access to basic health services. A large number of health centers were built and health posts rehabilitated. Mobile clinics were operationalized to service remote areas of the country. At least four district hospitals and the central referral hospital in Dili were rehabilitated and reconstructed. However, the strict application of the Bank's procurement rules delayed the equipping of those hospitals for over a year after their construction was over. The supply of medical equipment and drugs was enhanced. These interventions had a positive impact on the delivery of health care. An increasing number of people visited health centers and hospitals as reflected in the near doubling of number of outpatient visits per person between 2001 and 2007. An increasing proportion of births (37.3 percent by end 2007) took place under the care of skilled medical attenders. Vaccination coverage for children for immunization against diphtheria pertussis tetanus (DPT3) and measles increased during this period. While these were important achievements, they were significantly smaller (and took longer to materialize) than had been envisaged under the projects.<sup>47</sup>

3.10 Progress was also made in strengthening health sector institutions. The Ministry of Health (MOH) has made progress in establishing systems for planning, monitoring, and evaluation. It has enhanced its capacity to develop medium term strategic plans for the sector. While health facilities collect and report information, quality remains uneven and data is not sufficiently used for planning and monitoring service delivery. The health sector has been among the best-performing ministries in terms of outputs and budget execution. With the rehabilitation and reconstruction of hospitals and health care facilities, they are in much better shape now than they were at independence. The rehabilitation of the Central Laboratory is expected to strengthen laboratory services, while the establishment of an autonomous medical supply entity expected over time to improve the system of procurement, storage and distribution of essential pharmaceuticals.

3.11 However, while Bank projects financed significant capacity-building and some training activities, they did not pay sufficient attention to mitigating the shortage of qualified medical personnel that was a constraint, especially in the rural areas.<sup>48</sup>

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<sup>47</sup> For example, the proportion of births with skilled attenders was to have increased to 35 percent as early as June 2003. This target was actually achieved only in 2007. Similarly the number of outpatient visits per person was to have increased from less than 1 in 2001 to 2.5 by June 2003. Instead it increased to 1.9 by end 2007. Though vaccination coverage increased over the period, the quality of data does not permit to assess by how much (see more on data below).

<sup>48</sup> The influx of over 300 Cuban doctors at the initiative of the government helped reduce shortages of medical personnel, and vastly improved the availability of medical personnel compared to the situation at independence. Under the same program, over 600 Timorese have been sent to Cuba for medical training. The Bank, with support from Austria and the EU, helped 300 students graduate in support areas, including midwifery, radiology technicians and pharmacists.

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

3.12 The very limited implementing capacity in the country was not adequately taken into account in the design of projects and the timetables of project implementation. Both the health rehabilitation projects closed more than four years behind schedule.<sup>49</sup> These delays were largely attributable to unrealistic and over-optimistic timetables, especially in terms of construction activities. Delays in procurement were also an important factor as was the complexity of project design in some cases.<sup>50</sup> Partly as a result of these delays, project costs escalated (by almost 29 percent in the case of Rehab 1 and by 60 percent in Rehab 2).

3.13 Not enough attention was paid to getting accurate and reliable data to monitor progress in critical areas. Targets were specified for vaccination coverage, etc., without an adequate appreciation of the lack of accurate and meaningful data. (This was true in other areas as well.)<sup>51</sup> This became quite evident in the ICR of Rehab 1 (June 27, 2005, five years after health sector projects were starting to operate) which noted that "...it is difficult, given the current state of the data, to draw strong conclusions regarding the performance of any health service delivery program at this time". The data situation was no better in 2007 and is probably only marginally improved now. The point is not that quantification and results orientation is not desirable, but that greater effort would have been desirable to identify and collect a *minimal* set of key *reliable* data necessary to track progress. IEG project evaluations rated outcomes under the first Rehab project as *Satisfactory*, and those under the second Rehab project as *Moderately Satisfactory*.

#### **Analytical Work**

3.14 A background paper was prepared for the health and education sectors for the Joint Assessment Mission. This paper laid the basis for health sector interventions under the initial projects. The 2002 CEM also addressed issues in the health sector. Subsequently a health sector review was completed in FY07. While findings from this report informed the finalization of the government's health sector strategy and the health sector support sector-wide approach (SWAp) operation (see above), a QAG panel was critical of the analytical quality of the report and the excessive time taken to complete it (it took four years to complete, instead of one as planned). A health sector financing policy note is currently under preparation.

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<sup>49</sup> The first project was expected to close by February 2002 and the second by March 2004, two years before the violence of 2006. As the projects dragged on, they were of course affected by the 2006 unrest which further delayed completion. A third project closed one year behind schedule. The average delay in health projects was three years, more than in other sectors.

<sup>50</sup> This was noted in the ICR review of the second Rehab project.

<sup>51</sup> There are many examples where the data have not been reliable. For example, the ICR Review of the first Rehab project quotes the number of outpatient visits as reaching 2.1 in 2004. But by 2007 the number was down to 1.9 even though the project claimed success in restoring the public's faith in the health care system. According to the second Rehab project, the *target* for immunization coverage for DPT3 and measles for June 2003 was 50 percent. However, *baseline* data for 2003 quoted in the PAD of the sector strategic plan support (Table on Arrangements for Results monitoring, pp 35) showed these to be 56 percent and 47 percent respectively (DHS data). There is little confidence in vaccination coverage data: the latest country brief of April 2010 still continues to quote an estimate of the immunization rate from 2003!

**OUTCOMES IN THE HEALTH SECTOR**

3.15 Since 1999, Timor-Leste has made progress both in increasing access to, and improving the quality of basic health care services. As a result, the overall health of the population has improved in many dimensions. Immunization coverage for children 12-23 months has increased significantly between 2003 and 2009-10 from 35 percent to 53.2 percent. More and more births are supervised by health care professionals; the proportion of babies delivered by a health care professional increased from 18 percent in 2003 to about 30 percent in 2009-10. Infant mortality rates have fallen from 68 percent in the 5-9 year period preceding the recent survey to 44 percent during the most recent 5 year period 2004/05 - 2008/09. Fertility rates have declined though they are still high.<sup>52</sup> Though the numbers should be interpreted with some caution, and the quality of some of the numbers may be open to question, the trend towards improved health outcomes in many respects is unambiguous.

3.16 While progress has clearly been made in some areas, there was deterioration in child nutrition standards in 2003-07, consistent with increasing poverty during this period. Moreover, the health of the population remains poor in some respects, especially in comparison to other countries in the region, and health standards are still closer to the averages for low-income countries. Life expectancy at birth increased from 56 to 61 years between 2000 and 2008, but is still much lower than the average 72 years for the East Asia and Pacific (EAP) region. The gap is more marked in female life expectancy. While the infant and child mortality rates have come down, the average infant mortality rate in the EAP region is less than half of what has been achieved in Timor-Leste. Maternal mortality is also relatively high. Malnutrition among children is widely prevalent: nearly half of children under 5 years of age were underweight and almost 39 percent of children (0-5 years) are anemic.<sup>53</sup> This situation is not necessarily because of ineffective health sector policies. It is also the result of a difficult starting position, the modest overall economic performance over much of the period, and the failure of policies in other sectors such as the provision of safe drinking water and sanitation.<sup>54</sup>

3.17 The Bank's program in Timor-Leste gave very considerable attention to the health sector, through both projects and analytical work. This support was important in particular for the rehabilitation and improvement of the physical infrastructure and for the strengthening of health sector institutions, and it contributed to the improvement in access and quality of health services throughout the country. On this basis, IEG rates the overall outcome in the Health Sector as *Moderately Satisfactory*.

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<sup>52</sup> Source: Timor-Leste Demographic and Health Survey 2009-10, Preliminary Report by National Statistics Directorate, Ministry of Finance, Timor-Leste.

<sup>53</sup> Source: same as above.

<sup>54</sup> Only 63 percent of the population had access to safe drinking water in 2007 and the situation was much worse in rural areas where most of the population lives.

## The Education Sector

### THE SETTING

3.18 Under Indonesian rule, almost 85 percent of education was supplied by state institutions. Even though primary schooling was extensive, net enrolment was only about 70 percent. Literacy was very low (41 percent in 1998), with lower rates for women than for men. Both educational infrastructure and personnel were hard hit by the 1999 quest for independence. As a result of widespread destruction, the school system collapsed, exacerbating the already low educational outcomes.

### THE BANK'S PROGRAM

#### *Bank Strategy and Objectives in the Education sector*

3.19 The immediate objective for the Bank and the donor community was to get children back into schools and to keep them there. Over the medium term the primary objective was to continue to improve access to primary and secondary education by improving school facilities and learning and teaching materials, and to improve the *quality* of learning through improved teacher training, curriculum development and social mobilization and communications. Another important medium term objective was to enhance institutional capacity at various levels of government to deliver improved educational services and to develop, implement and monitor sector policies and programs. These objectives remained broadly unchanged throughout the period, and were fully supported by the UNTAET in the transition period and later by the elected governments. The strategy was appropriate though in practice the focus on improving quality of education got lost.

#### *Bank-Administered Projects*

3.20 The Bank has financed and/or administered six projects in the education sector between 2000 and 2010. Education sector projects absorbed almost 30 percent of all TFET and IDA funding (including DGF and IDF grants) during this period (Table 12). This makes the sector one of the largest recipients of Bank-administered projects in the country. The initial projects focused on repairing and reconstructing existing school buildings and classrooms and providing basic furniture and learning materials so that children could return to school as quickly as possible. Later projects sought to improve the quality of schools through better facilities. At the same time, there was an effort to improve institutional capacity in the sector at all levels to enable the education system to improve the quality of education services. Bank projects provided funding for TA and training for the Ministry of Education (MoE) and its agencies to improve its capacity to develop sector strategy, plan and implement its budget and reform curriculum.

3.21 In addition to sector projects, education sector policies and capacity-building were included in the TSP and the CSP. In TSP, programmed actions and outputs focused on the development of an education policy framework, improvements in quality of education through curriculum development, strengthening of financial management functions and piloting of mechanisms to transfer resources directly to schools. To achieve the objectives of improved access to basic education and better quality of education, the focus in the CSP was on developing a strategy for universal primary education, strengthening the capacity of the



MoE, and improving budget execution in the sector by at least 15 percent over the previous year.

**Table 12. Bank-Administered Projects in the Education Sector, 2000-10**

<i>Name of Project</i>	<i>Year Approved</i>	<i>Project Amount** (US\$ millions)</i>	<i>TFET +IDA Funding (US\$ millions)</i>	<i>IEG Outcome Rating*</i>
Emerg. School Readiness Project	FY00	13.9	13.9	MS
Fundamental School Quality Project	FY02	20.6	20.4	MU
Primary Edu Support Project+	FY06	8.5	0.0	NA
Edu Sector Support Project	FY07	14.9	6.0	Active
FTI Program 2009+	FY09	4.9	0.0	Active
Edu Sector Support Adn'l Financing	FY10	5.0	5.0	Active

\*MS=Moderately satisfactory; MU=Moderately unsatisfactory; +=fully funded by FTI Catalytic Fund.

\*\*Disbursed amount for closed projects; approved amounts for active projects

3.22 The focus of Bank-administered projects in the education sector was appropriate. The immediate priorities were obvious: to repair and rehabilitate the school buildings and class-rooms and provide students and teachers with reading and teaching materials so that children could return to schools. It was also recognized that the physical reconstruction of schools should be accompanied by institutional strengthening and capacity-building at all levels so that the quality of educational services would be improved, consistent with the educational policies of the government.

3.23 Bank projects made a positive contribution, especially in the early years. Responding to the emergency needs, a large number of existing schools and classrooms were rehabilitated and refurbished with new furniture, and were provided basic teaching and learning materials.<sup>55</sup> Subsequently, new and better schools were built. Schools were provided with better furniture for students and teachers and improved amenities including water supply and toilets. Bank-administered projects also financed a large number of Portuguese language texts and teachers' guides. Unfortunately, while the complex language situation was known to Bank staff, its implications for effective teaching were not given adequate attention by, for example, introducing textbooks in Tetum concurrently, as the United States Agency for International Development (USAID) did.<sup>56</sup>

<sup>55</sup> Under the Bank's first education project, almost 2780 classrooms in 535 schools were rehabilitated within 14 months of effectiveness of the project. Under the second project, the fundamental school quality project, an additional 102 schools were built.

<sup>56</sup> USAID funded a children's publication in Tetum called "Lafaek" ("Crocodile," a national symbol), which was widely used by teachers and students. After USAID redirected its funds, the Bank provided some funding. Despite this effort, a full cohort of the youth population is functionally illiterate.

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

3.24 Bank-administered projects also contributed to institutional strengthening and capacity-building in the education system. Partly as a result of these initiatives, the MoE's capacity for strategic planning was strengthened as shown in the preparation of a comprehensive draft strategic plan for the education sector. The Ministry's budget planning and execution capacities have also been enhanced, and budget execution rates are now close to 74 percent, which makes the MoE one of the better performing ministries in the government in this regard. Improvements in financial planning and procurement are other areas where Bank-administered projects have made a positive contribution.

3.25 Support from Bank-administered projects was also instrumental in developing the School Grants Program that was introduced by the Government of Timor-Leste in 2006 as part of its commitment to abolishing school fees, improving the management and administration of schools and improving the quality of education. Bank-implemented projects supported the creation of the Investment Infrastructure Unit (IFU) in 2003, which has established a good record in identifying, designing and managing the school construction program of the MoE. Finally, Bank projects helped set up an Education Management Information System (EMIS) in 2003 to gather relevant data to monitor results and help in the design of policy interventions in the sector. However, it is only recently that the system has been able to provide reliable information in a timely manner.

3.26 But the Bank's program singularly failed in one crucial dimension: improving the quality of learning. Improving the quality of education was an explicit objective of Bank interventions in the sector under the FY02 Fundamental School Quality Project. Yet very little was attempted by way of actually measuring quality, let alone doing something about it - a major omission.<sup>57</sup>

3.27 It was known as early as 1999 that Portuguese would be the language of instruction in schools if the major political formation *Conselho Nacional de Reconstrução do Timor, CNRT*, came to power (which it did in 2002). It was also well known at the time that a very small proportion of the population actually spoke or understood the language. Yet, not much analysis was done about the implications for learning, at least in the short-term, of the shift from Bahasa to Portuguese as a language of instruction in schools. Nor does it appear that given the implications it would most likely have for the learning outcomes in the short-term, there was a serious discussion within the Bank how the introduction of Portuguese ought to affect the composition of the Bank's interventions in the education sector,<sup>58</sup> such as whether it made sense for the Bank to finance the distribution of textbooks in Portuguese to teachers and children who didn't understand the language.

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<sup>57</sup> As mentioned earlier, it was only in 2009 that an analysis of early grade reading acquisition (EGRA) was completed by the MoE, where the reading skills of over 900 children in grades 1, 2 and 3 from 40 randomly selected primary schools was measured. The results were very discouraging.

<sup>58</sup> The appraisal report of the FY02 Fundamental School Quality Project had very little discussion of the language question and the risks it might pose to the quality of learning, which was an explicit objective of the project. The PAD seemed more concerned about avoiding unnecessary political controversy if research revealed that teachers had difficulty teaching Portuguese to children, or that children's learning difficulties were traceable to the new language of instruction.

3.28 Education sector projects also (as for health) tended towards an overly optimistic assessment of local capacity, particularly with respect to procurement and construction activities. Unrealistic timetables combined with ambitious project goals usually resulted in long delays in project completion and expensive cost over-runs.<sup>59</sup> Such long delays in projects that were planned as immediate responses to emergency situations were not productive.

3.29 Delays in project implementation were also caused by complicated Bank procedures and ways of doing business, which precluded a quick and efficient response to the emergency conditions prevailing at the time.<sup>60</sup> While projects were prepared and approved relatively quickly and made effective without too much delay,<sup>61</sup> unrealistic timetables and lack of familiarity with Bank processes, especially procurement caused serious delays in implementation.

3.30 Also in the education sector not enough effort was devoted to ensuring that the primary data (from which come the indicators of progress) is reliable and of good quality. This is especially important with respect to the main development objectives in the sector, which were to improve access to education and to enhance the quality of learning. Until recently no attempt seems to have been made to develop indicators on quality of learning. And as

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<sup>59</sup> On an average, education sector projects closed one and a half years later than planned. For the Emergency School Readiness project FY00, the ICR noted that the rehabilitation of classrooms was completed after a delay of one year, and the pilot schools after a delay of one and a half years. It also noted that these delays were due more to the unrealistic schedule prepared at appraisal than to inefficiency in implementation. The Fundamental School Quality Project closed three years later than expected at time of appraisal. The ICR for this project noted that "... the project design was based on an unrealistic two year implementation cycle. This period seems far too short particularly as project component A (the main cost of the project) features a large amount of site acquisition, facilities design, site preparation, construction, rehabilitation and procurement for schools in rural areas. This belief is supported by the fact that the project actually took some 57 months to complete". The ICR Review for the same project notes "the Bank appraised a project to meet ambitious quality objectives and to deliver many and difficult inputs in just a two year period which not surprisingly had to be stretched to five years". The CPE team concurs with these assessments.

<sup>60</sup> As the ICR of the Emergency School Readiness Project noted, "the project was given the difficult mandate that all children should be in rehabilitated classrooms by the beginning of the new school year (October 2000) - barely four months from Bank management approval of the project. Unfortunately, the implementation arrangements prescribed for the project were more or less those for financing a regular (i.e., non-emergency) investment project, usually requiring detailed procurement assessments and planning, document preparation and Bank reviews and approval, timely advertising, clearances of detailed evaluation reports, formal contracting, documented payments processing, and technical and financial reporting. Going through those conventional processes, it was unrealistic to expect that classrooms would be rehabilitated within the tight deadlines of the mandate and in uncertain post-conflict conditions (in fact, project completion was delayed by one year) ..." The ICR went on to suggest that the Bank could have provided for special procurement and disbursement procedures for accelerating the implementation of this emergency project in a post-conflict situation.

<sup>61</sup> In the education sector, on average, it took two months after appraisal to get the project approved by the Board and another 3 months to make it effective. This is better than the average time lag for all projects in Timor-Leste.

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

mentioned earlier, the data on enrollment rates for primary and secondary levels have undergone many changes and are not entirely convincing. It would have been preferable to focus on these two indicators of access and quality of education, rather than spend effort in collecting and reporting a whole slew of data of dubious quality and usefulness.<sup>62</sup>

3.31 IEG project evaluations rated outcomes under the Emergency School Readiness project as moderately satisfactory, and moderately unsatisfactory under the Fundamental School Quality project.

#### **Analytical Work**

3.32 A background paper on the education sector was prepared in the context of the Joint Assessment Mission in 1999. This paper laid down the immediate priorities for donor interventions as well as sketched out the medium term needs of the sector and was an important component in the design of Bank and donor assistance in the sector. The 2002 CEM also addressed issues in the education sector. A comprehensive education sector study was completed in FY03, though it is not clear what impact it had on policy development or project design.

#### **OUTCOMES IN THE EDUCATION SECTOR**

3.33 Compared to the situation in 1999-2000, access to primary education had improved considerably by 2003-04. This is not saying much though: in 1999 the education system had collapsed and enrolment was close to zero. The most recent data from the Ministry of Education suggests that there has been a further improvement in school enrollment in recent years: the gross enrollment rate for primary education rose from 93 percent to 114 percent between 2004-05 and 2008-09, and the net enrollment rate rose from 76 percent to 81-83 percent in the same period.<sup>63</sup>

3.34 With respect to the *quality* of learning, the presumption must be that the quality of learning has improved since the near devastation in 1999. However, there is very little hard evidence. No attempt was made until very recently to measure learning skills in a structured way. In 2009 the MoE assessed the reading skills of over 900 children in grades 1, 2 and 3 from 40 randomly selected primary schools.<sup>64</sup> This assessment – which was conducted in Portuguese and Tetum – showed very poor outcomes. More than 70 percent of students at the end of grade 1 could not read a single word of the simple text passage they were asked to read. Forty percent of children were not able to read a single word at the end of

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<sup>62</sup> The FY07 Education Sector Support Project listed a large number of indicators for results monitoring, for most of which even the base year numbers were still to be determined.

<sup>63</sup> The new data set was significantly different from previous data (difference in net enrollment rates exceeded 10 percentage points in some years) and showed a completely different trend from previously reported data, including data from the 2007 Survey of Living Standards. Up until May 2008, the Bank was quoting data that showed that national net enrollment rates had been declining steadily since 2003. The ICR for the CSP, prepared in June 2008, reported that no progress had been made in primary education enrollment (pp. 10). The new data set showed that enrollment had actually been rising steadily even during the civil strife of 2006-07, which may perhaps be somewhat questionable.

<sup>64</sup> An Analysis of Early Grade Reading Acquisition, World Bank (2009).

grade 2. Only about a third of the students in grade 3 could read 60 words per minute and respond correctly to simple comprehension question. This is a dismal record after 10 years of efforts at improving the quality of learning. Moreover, a full cohort of the population may be functionally illiterate.

3.35 In the early years, 1999 to 2003-04, the Bank was instrumental in fostering a considerable rehabilitation of the education infrastructure, and access to primary education improved considerably. A further improvement in enrolment has taken place in recent years. There has also been an improvement in institutional strengthening and capacity-building in the education system with the Bank's support. However, there has been insufficient attention to the quality of education, and the available measures of such quality are depressingly low. Little attention was given to Timor-Leste's complex language situation, and the Bank failed in giving attention to the quality of learning. On this basis IEG rates the overall outcome in the sector as *moderately unsatisfactory*.

## Poverty and Unemployment Alleviation

### THE SETTING

3.36 Even prior to the independence quest in 1999, the territory of East Timor was one of the poorest areas in south East Asia. In 1996, 30 percent of households – or double the average for Indonesia – lived below the poverty line. The violence and destruction of 1999 hit the economy very badly and both the public sector and the private sector suffered almost total collapse, while poverty is estimated to have increased significantly – even by 2001, after strong growth in 2000, it was close to 40 percent.

### THE BANK'S PROGRAM

#### ***Bank Strategy and Objectives for Poverty and Unemployment Alleviation***

3.37 Given these conditions, poverty alleviation was from inception a central theme for the WBG and the donor community. In the immediate aftermath of the violence the focus was on providing humanitarian assistance to restore basic human necessities of food, water, health and shelter. Thereafter, the objective of poverty and unemployment alleviation was sought to be addressed through restoration of basic social services (such as education, health, water supply and sanitation) and by creating job opportunities in rural and urban areas. Over the medium term the strategy was to stimulate diversified non-petroleum growth, including in the private sector and in agriculture, by creating a business friendly environment and by improving infrastructure. The strategy was broadly appropriate, though it may have underestimated the importance of public spending, and overstated the importance of the private sector, in driving growth and employment in the short to medium term.

#### ***Bank-Administered Projects***

3.38 The Bank undertook a number of initiatives (in partnership with other donors) to alleviate poverty and unemployment and to improve living standards, especially of the poor. The restoration and improvement of basic health and educational standards was an

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

important dimension of the Bank's work in the country. A second strand of its anti-poverty activities was the development of the private sector and the agriculture sector, which were expected to be the sources of growth and employment in the medium term. These interventions are discussed in chapter 5. However, some of these interventions (such as the two small enterprise projects, and the three agriculture Rehab projects) were specifically designed to create jobs and incomes and alleviate poverty and these are discussed below. Also included are the three community development projects (Community Empowerment and Local Governance Projects, CEPs), discussed in greater detail under the governance pillar in chapter 4, to the extent these sought to have an impact on rural incomes and poverty.

3.39 Taken together these initiatives covered both rural and urban areas, and included agricultural as well as non-agricultural activities. Economic activity was facilitated either through outright grants to deserving activities, as in the case of the community development projects, or through commercial loans to entrepreneurs for small businesses (as in the small enterprise projects). In the agriculture sector, economic activity was stimulated by providing assets such as livestock or agricultural tools to beneficiary farmers, or by financing vaccines for livestock to reduce mortality and reduce the farmer's economic vulnerability. Other interventions in agriculture sought to improve productivity of certain crops and hence farmer incomes. The community development projects had a special window for vulnerable groups, including the elderly and widows.

3.40 These projects, which were mostly initiated during FY00-02, were partially successful in creating jobs and incomes, though the viability of the activities and the sustainability of the jobs that were created are doubtful. The ICR for the small enterprise project reported that about 1200 new jobs were created through the project, though it estimated that only half of the new jobs were sustainable. The first agriculture Rehab project alone helped create 120,000 person-days of labor, providing a much needed infusion of cash into rural communities. The vaccination program for livestock under the Rehab projects reduced livestock mortality and contributed to improving food security. The community development projects created temporary jobs and also considerable community infrastructure. Given the precarious situation existing at the time, these achievements were small, but important, palliatives, even if they were not sustainable over the medium term.

3.41 The first and most important weakness in the Bank's program was the apparent neglect of social protection and safety net issues in the Bank's work on Timor-Leste. Despite the high incidence of poverty revealed in the Bank's 2001 Poverty Assessment, and the Bank's stated emphasis on poverty alleviation and social safety nets, it was inactive, until very recently, in the area of social protection and design of safety nets for the vulnerable. While the Bank was not opposed in principle to targeted social assistance programs, it did not see these as priorities. Supply side constraints (mainly unavailability of suitable staff) also played a part in the Bank's inaction in this area.<sup>65</sup>

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<sup>65</sup> Recently, as the Bank has given more weight to the need to support social assistance, it has assigned staff specialists in social protection to engage in a small operation and non-lending technical assistance to the Ministry of Social Solidarity.

3.42 As a result, not much preparatory work was done in defining or costing a program of targeted assistance to the most vulnerable sections of the population. Such preparatory work would have been helpful when, faced with widespread disaffection, the Government of Timor-Leste launched a large program of social transfers in 2008.<sup>66</sup> Instead, the Bank's insistence on further analysis at a time when quick results on the ground were needed effectively sidelined the Bank on this issue. In the event, the Government of Timor-Leste went ahead on its own, the transfers were implemented (albeit imperfectly) and they proved to be critical in restoring social stability and peace. In hindsight, it was clearly an error of judgment on the part of the Bank and a missed opportunity not to have helped the government to address critical emergency needs of the population.<sup>67</sup> It is only in recent months that the Bank has initiated useful work in this area, and is providing TA for improving the implementation of the transfer programs.

3.43 A second weakness of Bank projects to alleviate poverty and unemployment was that these interventions may have had a positive short-term impact, they were not sustainable. Many of the activities and the jobs that were created through these projects were not viable over the medium term, especially those activities that catered to the demands of the large international presence in Timor-Leste at the time. Even within one and a half years of the businesses being created under the small enterprises project, the ICR reported that only about half the jobs that were created were sustainable.<sup>68</sup>

3.44 Third, in some cases the design of the projects benefited the relatively better off sections of the population compared to the poor. For example, as reported in the PPAR of the CEPs and Agriculture Rehab projects, cattle owners who had lost their livestock during the violence were among the richest in the villages and it was these individuals that received livestock in the Rehab project. Similarly it could be argued that the agricultural projects should have targeted the food security of the poorer sections by focusing more on improving the productivity and production of the main staple crops maize and cassava (rather than rice) that are largely grown in the poorer hinterland of the country. One potentially pro-

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<sup>66</sup> Some of the program components were intended to be short-term and are already being phased out, but the majority are intended as long-term safety net for specific population categories. Based on budgetary classifications, total transfer spending is projected to be 13 percent of non-oil GDP in 2010. Such spending levels place Timor-Leste in an almost unique position among low-income countries in terms of the share of public expenditure devoted to social protection cash transfers. Source: World Bank Social Protection Concept Note, April 2010.

<sup>67</sup> This error of judgment was acknowledged by senior Bank management in interviews with the CPE team.

<sup>68</sup> It is not clear what is meant by viability and whether there was any serious analysis made at the time when loans were sanctioned to assess viability. The ICR claims that at the close of the project, 83 percent of the activities were still operating. Does this signal viability, even when most businesses had defaulted on their loan payments?

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

poor feature of the community empowerment projects, the financing window for most vulnerable groups, never took off.<sup>69</sup>

3.45 Finally, in common with findings in other sectors, projects were often too ambitious given the weak capacity of the government and its agencies.<sup>70</sup> To partly overcome this problem, projects had to rely very much on foreign advisors even for routine functions. A large part of project financing (sometimes as much as 40 percent) went for hiring foreign expertise.

#### *Analytical and Advisory Work*

3.46 The Bank completed two poverty assessments, one in 2003 and the other in 2009. These studies provided estimates of poverty in 2001 and 2007 which are widely quoted by the government and others in their work. An economic and sector work (ESW) on Social Protection (2005) focused on issues relating to the labor market and the minimum wage. Its recommendation helped delay the introduction of an overly high minimum wage and postpone the introduction of civil service pensions. The Bank also provided TA to the government to enhance its capacity for poverty analysis, monitoring and strategy formulation. However, until recently, little analytical work or TA was undertaken on developing a sustainable social safety net for the poor. This is now being corrected with the TA activity now underway.

#### OUTCOMES IN POVERTY AND UNEMPLOYMENT ALLEVIATION

3.47 Between 2001 and 2007, for which comparable poverty data is available, there was an increase in poverty from about 36 percent to about 50 percent.<sup>71</sup> This increase in poverty is a reflection of weak economic growth through most of the period 2002-07, and a high rate of population growth exceeding 4 percent per year. The strong economic growth in 2008 and 2009 is likely to have improved the situation since then, as recent estimates of poverty suggest.<sup>72</sup>

3.48 Unemployment has also been rising in recent years and remains high, especially among the youth. In 2009 unemployment was estimated at 8.5 percent nation-wide and 23 percent in urban areas. Youth unemployment was as high as 43 percent. The IMF has estimated that given the demographics of the country (high population growth rate and a

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<sup>69</sup> The TSS explicitly mentioned support to vulnerable groups in the community empowerment projects as an example of the emphasis of early Bank interventions on poverty alleviation. It also mentioned support for private sector recovery in those sectors that benefit the poorest.

<sup>70</sup> For example, the PPAR noted that the first agriculture Rehab project was “overly ambitious and put a substantial burden on the ministry staff to undertake and oversee a large range of activities”.

<sup>71</sup> The poverty line is defined as US\$0.88 per day.

<sup>72</sup> A recent interpolation exercise done by the Bank estimates that the poverty rate may have declined from 49.9 percent in 2007 to 41 percent in 2009 (Source: World Bank “A 2009 Update of Poverty Incidence in Timor-Leste using the Survey-to-Survey Imputation Method”, 2010). With an annual net population growth rate exceeding 4 percent (and urban population growing by almost 5 percent per year), IMF estimates that non-oil GDP will have to grow by at least 7-8 percent per year to prevent poverty from deepening further.



young population, with 46 percent below the age of 15), about 15,000 to 16,000 young people enter the labor market each year. As against this, despite the increase in public spending and economic growth that occurred in 2008 and 2009, only about 9500 jobs are estimated to have been created in these two years.

3.49 The Bank's analytical work made useful contributions to the government's policy formulations, and early Bank projects played a small but important role in helping to create short term employment and incomes. However, the WBG's interventions and policy advice has not had much of an impact for longer-term sustainable job creation, and it missed the boat completely regarding the important social protection and safety net issues. On this basis, IEG rates the outcome of the WBG program for poverty and unemployment alleviation as *Unsatisfactory*.

## Youth Unemployment and Disaffection

### THE SETTING AND THE BANK'S STRATEGY

3.50 The Bank was slow to understand the discontent among the youth and was ineffective in helping the Government of Timor-Leste address these issues. Issues of youth represent an important subset of the general employment issues. It was only in the 2005 CAS that concerns were raised about political instability stemming from popular discontent at the slow pace of development. Rapidly expanding youth cohorts with high unemployment and little education were seen as a rising threat to peace and stability. But having recognized this threat in 2005, the Bank's strategy did not do much about it. Except for a planned ESW on Youth, the CAS included no projects to address specific concerns of the youth or to address the flaws in education (especially language) that had weakened this cohort and remained a challenge. Instead, youth and gender issues were expected to be mainstreamed in all the WBG's other activities planned over the period. As noted in the ISN, this meant, in effect, that nothing was really done.

3.51 Within a year of the adoption of the CAS, the country erupted in violence and civil strife. The involvement of the youth in the 2006 crisis forced the new coalition government to address their concerns. Within three months of the government's formation, a National Youth Policy (NYP) was adopted which sought to address a wide range of social, economic and political issues affecting youth. A National Youth Fund (NYF) was created by the government to finance initiatives of youth groups and associations, and the State Secretariat for Youth and Sports (SSYS) was given the responsibility for implementing the government's policies and programs in this area. Despite the slow funding of NYF, there has been no further outbreak of violence and some observers are optimistic about the prospects for continued social peace. However, the continuing high rates of unemployment, especially among the youth, remain a threat to social stability and peace.

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

#### THE BANK'S PROGRAM FOR YOUTH ISSUES

3.52 The Bank's immediate response to the youth crisis came late within the evaluation period and was limited to a series of studies.<sup>73</sup> The findings of these studies served to adjust the Government of Timor-Leste's National Youth Policy and influenced the government's response to the challenges.

3.53 The Bank's first (and so far, only) youth centered project was the Youth Development Project approved by the Board in July 2008, a full three years after the Bank first articulated its concerns about youth disaffection in the CAS. The objective of this US\$2.1 million IDA grant is to promote youth empowerment and inclusion in development by expanding the capacities of and opportunities for youth groups to initiate and participate in community and local development initiatives. The project has two components:

- Operationalizing the National Youth Policy, specially the NYF by focusing its support for youth initiatives and youth capacity-building mostly in urban areas; and
- Youth for Local Development, which will help facilitate the participation of rural youth in community development activities and local development processes.

3.54 Under the first component funds are to be allocated to strengthen institutional capacity of the SSYS to implement its mandate, including establishing a unit to run the NYF. Under the second component, funds are to be allocated to the Ministry of State Administration and Territorial Management (MSATM) to establish a mechanism to distribute small grants to youth in rural areas. Part of the funds are to be used to provide earmarked funds for rural youth to identify, prioritize, and implement sub-projects – such as livelihood activities, rehabilitating youth centers, social events, construction of small infrastructure etc. – within their village. The other part of the second component is to be used for training youth to enable them to implement the component's activities at the village level.

3.55 Unfortunately, two years into implementation, there is very little to show.<sup>74</sup> Although a lot of preparatory work has been done, and more than 170 sub-projects are reportedly ready for implementation, there has been very little disbursement thus far, and no appreciable impact. The net result is a sorry story: four years following the emergency, the Bank has still not been able to provide much funding to support youth empowerment.<sup>75</sup>

3.56 Part of the problem was a complex project design involving multiple government agencies. Despite past experience, and reservations expressed by some staff at the project preparation stage (and reflected in the risks section of the PAD) the project chose complexity over simplicity. This risk was expected to be mitigated by providing guidelines on the rela-

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<sup>73</sup> The first was a situational analysis to understand the challenges faced by youth and the factors that led to their involvement in the crisis. This was followed by another study on the challenges youth confront in the labor market. Both were completed in late 2007.

<sup>74</sup> The project became effective almost 8 months after approval, in March 2009.

<sup>75</sup> This project was treated as an emergency operation for accelerated processing and implementation under OP/BP 8.0. The closing date is December 31, 2011. Yet it took more than two years after the crisis to become effective and another two years have gone by without substantial disbursements.

tionship between the two agencies, and by aligning project design with their respective implementing capacities. Clearly this was optimistic thinking. Lack of cooperation between the agencies combined with their lack of familiarity with Bank procedures (including financial planning and procurement) continues to delay project implementation.

#### **OUTCOMES ON ALLEVIATION OF YOUTH UNEMPLOYMENT AND DISAFFECTION**

3.57 There is no evidence that youth empowerment has increased or youth disaffection has lessened. The strong economic growth in the last two years, led by high public spending, may have lessened poverty and created some jobs, but the impact on youth unemployment is unlikely to have been significant given the capital-intensive nature of a majority of the large infrastructure projects funded through the budget.

3.58 The Bank came late to a realization that youth unemployment was an issue in Timor-Leste. Moreover, little was done before the outbreak of civil strife in 2006. Since then, the Bank's contribution to addressing youth issues has been modest – basically some studies (after the outbreak of youth violence) that helped inform the government's policy responses to the youth challenges. The Bank approved one project to foster youth empowerment and inclusion, which was slow in coming and has so far – after very considerable time – still had no appreciable impact. On this basis, IEG rates the outcome of the WBG program on youth unemployment as *Unsatisfactory*.

## **Veterans' Programs**

### **THE SETTING**

3.59 Disaffection among veterans of the armed and civilian resistance to Indonesian occupation has been an important source of political instability through the initial years of Timor-Leste. Tension was high with various groups claiming veterans' status and demanding recognition and assistance from the government. The slow pace of demobilization and integration under the UNTAET had exacerbated these frustrations.

### **THE BANK'S PROGRAM**

#### ***Bank Objectives and Strategy***

3.60 The main objective of the Government of Timor-Leste was to alleviate the veterans' legitimate concerns about recognition, appreciation and assistance. It was clear that unless these concerns were addressed, veterans' dissatisfaction would endanger the country's political stability. The Bank's objective was to provide technical assistance and support to enable the government to achieve its objectives and address legitimate grievances of the Veterans.

#### ***The Bank's Program for Veterans' Issues***

3.61 Veterans' issues were first addressed by the Bank through two Post Conflict Fund grants to three of the commissions established by the Government of Timor-Leste to register veterans. Subsequently, in the TSP (2003-05) the first steps were initiated supporting the government's efforts drafting the 2006 Veterans Law and that led to the creation of a veter-

## CHAPTER 3

### PILLAR I. PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

ans data base. The fragile political situation, and the potentially destabilizing effect of disillusionment among veterans was mentioned in the CAS, which also defined a program of analytic and advisory activities (AAA) and technical assistance to support the registration of veterans and the development of a policy towards them.<sup>76</sup> The 2005 IDF-funded TA project contributed to establishing the government's Veterans' policy and institutional frameworks and the administrative systems. The Bank's activities in this area were clearly just complementary to the government's own initiatives and activities.

#### OUTCOMES ON VETERANS' POLICY

3.62 Starting in 2002, under Timorese leadership and with some donor support including from the Bank, a number of commissions were established to register veterans and suggest policy. By the end of 2005, more than 75, 000 veterans or their survivors had been registered.<sup>77</sup> A Veterans Law, to which the Bank only gave some guidance on, was adopted by Parliament in March 2006, providing the legal basis for the recognition of veterans and their assistance. Following a long process of registration, a veterans' pension system was established. The first pension payments to 12, 538 beneficiaries were made in July 2008, six years after the beginning of the process and nine after the cessation of hostilities with Indonesia, and the list of beneficiaries was expected to grow as claims were investigated and confirmed. This policy process was successful in channeling veterans' grievances into an institutional mechanism, and helped in managing the threat of political instability from disaffected veterans.

3.63 The Bank played a useful role in supporting the government in developing a sensible policy towards Veterans and in its implementation, but earlier progress would have been desirable to help diffuse tensions. Overall, the outcomes of the WBG program in this area were *Moderately Satisfactory*.

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<sup>76</sup> The Bank's AAA/TA work in this area included a May 2005 IDF-financed TA for Institution Building for Veterans Policy Implementation, an April 2006 Clandestino Survey, and a February 2008 ESW report "Defining a Policy for Veterans of the Resistance".

<sup>77</sup> Other donors included USAID, AusAID, Irish Aid, and UNDP.

## 4. Pillar II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS

4.1 Immediately prior to Independence, Timor-Leste was part of an Indonesian province, under the authority of Jakarta and administered within the Indonesian system. This was a violent period and the Indonesian system had many efficiency flaws, but it provided a measure of predictable authority and security, transferred wealth into rural areas and ensured a basic level of service delivery.

4.2 The collapse of Indonesian rule in 1999, following a referendum and many years of a violent quest for independence, left a governance vacuum. While Timorese political authorities began to emerge through the independence quest, they lacked experience in government, and were not supported by state institutions. To fill the vacuum, UNTAET was established by a Security Council resolution (UNSC Res 1272/1999) to administer East Timor until the election of a constitutional Timorese Government. In consultation with the Timorese leadership, UNTAET had the mandate to administer the territory of East Timor, exercise legislative and executive authority during the transition period and support capacity-building for self-government. The mandate included all essential governance functions during the transition to independence, and building the very basic structures and capacity of the state to assume sovereign authority.

4.3 Starting from this vacuum, the tasks at hand included efforts along three directions. The first one was to develop the capacity in the civil service to exercise the functions of government, especially regarding the new country's resources. The second one was to devise a set of systems of fiscal and public financial management that would allow those civil servants to carry out their functions in an effective and transparent way. The third one was to set up a legal framework that would define and give structure to the system, and that would guide civil servants in their acts. Each one of these aspects is analyzed below.

### Capacity of the State

#### THE SETTING

4.4 Building on the initial legislative framework set by UNTAET, the most immediate priority was to provide the new leaders of the independent state with critical institutional support. The support included a wide range of activities, going from performing the very basic state functions assigned to the leaders, all the way up to giving guidance on the policy options open to the new authorities. An intermediate but essential element of the support was the development of a cadre of Timorese staff that could grow in numbers, strength and capacity as the country transited this difficult initial stage. The challenges faced by the new authorities included ordinary functions, such as the establishment of a working budget, as

**CHAPTER 4**  
**PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS**

well as arcane and challenging ones, such as the negotiation of Timor-Leste's rights in the petroleum finds of the Timor Sea.

**THE BANK'S PROGRAM**

***Objectives and Bank Strategy for State Capacity-Building***

4.5 As early as the Joint Assessment Mission in October 1999, the international community in conjunction with notable Timorese from within and from the diaspora identified the development of the capacity of the state, along with agriculture, as the two urgent priorities in Timor-Leste. This general orientation was picked up and maintained by the Bank in the TSS (FY00-02, effective until FY05), for the period up to formal independence and the initial years of the nascent nation. Rapid progress in capacity-building of public administration was seen as urgent on taxation, budget execution, service delivery, local governance and dispute resolution mechanisms. It was also a key prerequisite to the sustainability of development initiatives in the longer term.

4.6 Immediate priorities supported by the Bank's program included establishing and re-enforcing key economic institutions (ministries of finance and planning, procurement and audit agencies, revenue agency, statistical agency and customs office), and developing and strengthening the state's capacity for policy and planning in areas such as health and education, financial supervisory services, tax policy and collection systems, budgeting, procurement and accounting systems and techniques. Other key initiatives recommended included establishing:

- A public administration system, and the creation of a "lean but capable" civil service;
- A functioning system of law and order, including re-constituting the judiciary and public security services (police, prisons, customs services and other security institutions);
- In the early years, the Bank also sought to build a structure of local governance by supporting the creation of democratically elected village development councils, in the hopes of having a reformed system of governance and a more efficient public administration at the village and local level.

4.7 The CAS for FY06-08 included as one of its three pillars building state institutions and strengthening governance, including prudent and transparent management of public resources, development of safeguards against corruption; and civil service reform. Although progress in developing an effective governance system had been very slow until then, the CAS broadened the areas supported by IDA, noting the urgent need to strengthen checks and balances envisioned in the Constitution and to tackle emerging corruption. The CAS targeted eight key governance outcomes. These were:

- Safeguards against corruption and abuse of power in place, with increased awareness of citizens' rights.
- Improved access to justice, with enhanced quality and efficiency.

- Transparency and probity in managing petroleum revenues.
- Enhanced motivation and responsibility among civil servants, resulting in higher standards of probity and service delivery.
- Sound policy and legislative process across government.
- Strengthened capacity to manage for and monitor results on the ground, with particular attention to women and youth.
- Improved implementation of the budget in a transparent manner, in line with savings policy and sustainable growth and poverty reduction.
- Enhanced revenue performance through streamlined procedures and mechanisms.

4.8 Following the civil strife of 2006, the stated unifying theme of the ISN (FY10-11) was to help the Government of Timor-Leste convert its petroleum wealth into policies and programs that preserve immediate post-independence stability, while laying the basis for higher rates of growth in the non-petroleum sectors. The WBG's aim was to help strengthen the legitimacy of the Timorese governance process by strengthening government effectiveness in three strategic areas: (i) formulation of a national development strategy and development of capacity to implement the strategy; (ii) design and implementation of short-term stabilization activities; and (iii) measures to secure long-term economic development. Much of the strategy was built around the continued implementation of on-going activities, particularly on capacity building. No new initiatives were planned.

### ***Bank-Administered Operations***

4.9 Governance capacity-building issues were addressed in some form or other in most Bank-administered projects. Projects in the health and education sectors sought to improve capacities of line ministries (health and education respectively) and supporting institutions (such as hospitals, schools, training of doctors and teachers etc.). These have been discussed in chapter 3. Insofar as political institution building through capacity development at the local level was an important objective of the Community Empowerment and Local Governance projects (listed in Table 12), this aspect is discussed below. Their poverty alleviation component is discussed in Chapter 5. The capacity building components of the budget support operations (listed in Table 4) are also addressed here. In addition to these operations, there were other projects (including TA projects) that sought to strengthen capacity and develop state institutions and governance in specific areas. These projects, also listed in Table 12, are discussed below.

### ***The Community Empowerment and Local Governance Program (CEP1, CEP2, CEP3)***

4.10 The stated development objectives of the CEP were to strengthen local level social capital and to build institutions to reduce poverty and support inclusive patterns of growth. The projects, therefore, combined economic recovery, service delivery, social protection to vulnerable groups and governance objectives. This section reviews the governance objectives of the projects.

Table 13. Bank-Administered Programs and Projects for State Capacity Building, 2000-2010

Name of Program/Project	Year approved	Project Amount (US\$ millions)***	TFET and IDA funding* (US\$ millions)	IEG Outcome Rating**
Community Empowerment and Local Governance Project (CEP1)	FY00	8.55	7.0	U
CEP2	FY01	8.5	8.5	U
CEP3	FY02	1.5	1.5	U
Econ Institutions Capacity-building Project	FY01	0.92	0.92	MS
Strengthening Public Expenditure Management (IDF)	FY02	0.35	0.35	[MU]
Transition Support Program Series (TSP1, TSP2, TSP3)	FY03-04-05	99.4	90.3	MU,MU,MU
Public Expenditure Management and Procurement (IDF)	FY03	0.31	0.31	[MU]
Institutional Development of Ombudsman (Provedor) (IDF)	FY04	0.22	0.22	[S]
Institutional Development of Inspector General's Office (IDF)	FY04	0.13	0.13	[MU]
Institution Building for Veterans' Policy Implementation (IDF)	FY05	0.15	0.15	[S]
Consolidation Support Program (CSP)	FY05	10.0	9.5	MU
Public Financial Management Capacity-building Project (PFMCB)	FY06	44.5	7.0	Active

\* IDA includes IDF and DGF grants as well;

\*\* U=Unsatisfactory, MU=Moderately Unsatisfactory, MS=Moderately Satisfactory; [ ]=Internal Reviewing Document Rating;\*\*\* disbursements for closed projects; commitments for active projects.

4.11 The defining characteristic of the CEP was its efforts to create democratic local governance structures to fill the governance vacuum at the village level perceived by outsiders. Under CEP1, participating communities elected sub-district and village development councils according to prescribed criteria and, through them, carried out local infrastructure reconstruction, promoted productive local economic activity, and supported cultural heritage and social reconciliation. The Bank's assessment was that the traditional and resistance authority that emerged through the independence quest was "undemocratic" and was not an acceptable basis for local governance.<sup>78</sup> The elected development councils were to be more representative, and therefore supposedly more likely to serve the interests of the local people. The councils were to promote democratic values and gender equality, and were expected to be sustained after the CEP to become permanent governance structures at the local level.

4.12 This effort failed. The village councils that were established under the first project were often seen as foreign implants for delivery of foreign aid, and not as real local governance bodies. They did not survive after formal independence. As noted in the PPAR, traditional governance simply continued, with *de facto* authority in the traditional chiefs, while the councils were either co-opted under the chief's authority or marginalized.

4.13 This failure had many reasons. Most importantly, the assumption that the collapse of Indonesian governance institutions created a political vacuum at the local level was wrong. Traditional and resistance authorities became visible immediately after the Indonesians to play a role in the villages. They had a high degree of legitimacy with local populations, even

<sup>78</sup> For example, traditional village chiefs were excluded from participation in the new councils. To promote gender parity, fifty percent of seats were reserved for women.



if they were viewed as undemocratic by some in the international community. Instead of working with the existing structures and seeking to reform them over time, the CEP established a new governance structure that was effectively parallel to, and at times in opposition to, what already existed in communities.

4.14 In addition, this effort at creating democratic local governance structures was opposed by the UNTAET, the de-facto government at the time, which viewed this attempt by the Bank as infringing on its mandate to govern during the transition. While it ultimately went along with the program, it did not make any serious institutional commitment to it. Finally, the Bank's efforts at influencing the political landscape at the local level were opposed by *Frente Revolucionária de Timor-Leste Independente*, FRETILIN, a key political grouping with a strong local presence that won the 2002 elections. This lack of support from the dominant political party during transition undermined sustainability.

4.15 Thus, through its approach, the Bank either failed to integrate or marginalized key stakeholders at the country level (community leaders, UNTAET, FRETILIN). Without the support of key stakeholders such as these, it is not surprising that the Bank's initiative could not be sustained. The program appeared to leave no lasting 'democratic' structures or values.

4.16 IEG's PPAR (2007) assessed the CEP's governance agenda as "premature", being implemented before the election of a constitutional Timorese Government, the adoption of enabling legislation or a decentralization strategy. These were political decisions that belonged with the government, including establishing policy and the enabling legislation and institutional architecture. The PPAR also concluded that the over-arching program objective of 'strengthening local social capital to build institutions that reduce poverty and support inclusive patterns of growth' was not achieved.

#### ***Economic Institutions Capacity-Building Project (EICB)***

4.17 The EICB, which became effective in FY01, sought to strengthen domestic capacity to enable the government to assume core financial management and planning responsibilities after formal independence. In the Bank's assessment, the country faced a severe shortage of qualified professionals with the requisite skills for evaluating economic options and for designing and implementing economic policies. The project attempted to address this shortage by supporting a program of training for local staff in basic and advanced tools of applied economic analysis, including for budget planning and implementation, and for the analysis of main the macroeconomic aggregates. The project also envisaged on the job training in central agencies. It was expected that this training would result in greater local participation in budget preparation and execution, starting with the FY01-02 budget.

4.18 While the project correctly identified a need for training of local staff, it failed in meeting its objective of strengthening capacity and preparedness for independence. By the time of independence, only about 30 percent of project funds had been disbursed. The bulk of the training took place after independence, and the project closed four years later than scheduled, in June 2006. This delay was partly because the Bank seriously over-estimated the level of knowledge and skill among Timorese officials, and designed a training program that was too advanced and not suited to the local staff. The program had to be adjusted, re-

**CHAPTER 4**  
**PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS**

sulting in lost time and opportunity prior to independence. The project also suffered because it operated in a fluid environment where the structures of government were still being formed. No one had a clear idea of where functional responsibilities would lie. In the absence of a clear institutional architecture, it was difficult to develop an overall framework for training and capacity-building. An additional problem was the high turnover on the government side, which resulted in a failure to establish counterparts and stronger ownership, as all such personnel were expatriates.

4.19 IEG's project evaluation rated EICB outcomes as Moderately Satisfactory, acknowledging for the most part the efforts to establish a system of government accounts and compile macroeconomic data. Yet, as regards to capacity building, the quality at entry was low and there was little evidence of outcomes on the ground. Challenging conditions notwithstanding, problems related to *quality at entry* included the inaccurate assessment of existing capacity and needs that resulted in a training package targeted above what the participants could manage and what the country needed. Delivery was also late, reducing its relevance, and at a level not commensurate with the capacity of the targeted audience. While some training did indeed take place, much of it four years later than planned, the CPE team could not find evidence on how this training had actually been used or had improved outcomes (in terms of quality of budget submissions, etc.).

***The Transition Support Program (TSP)***

4.20 The governance agenda in the TSP series was wide and expanded through time. TSP1 included establishing an independent, competent judiciary; implementing an annual legislative program; creating an efficient and transparent civil service; decentralizing government; and implementing an improved public expenditure policy and management. Under TSP2 the good governance agenda included strengthening oversight institutions; local government; public sector management; public expenditure management; and the judiciary. The TSP3 agenda was similar, and supported strengthening oversight institutions; improving public sector management, including developing a legal and regulatory framework for the civil service; establishing institutional arrangements for a transparent policy and legislative process and a regulatory framework to address risks of corruption and nepotism; strengthening the capacity of the justice system by developing oversight framework for the judiciary; and improving planning and public expenditure management.

4.21 In its review of the TSP series, IEG's PPAR reported partial progress in achieving the governance objectives, with state capacity building being one of the areas of least progress. The highlights noted in the PPAR were the Petroleum Fund and the Veterans Law, both of which had little to do with capacity development and both of which became truly effective after the TSP series closed. The only aspect of the Petroleum Law that had to do with capacity building was a briefing to Parliament on how the Petroleum Fund would work. That briefing did not cover the broader topic of how to go about parliamentary oversight of the government in general, and the budget in particular.

4.22 In state capacity building progress was very limited. Efforts made in establishing two institutions, the Ombudsman and the Inspector General, were basically fruitless and are discussed below in more detail.

4.23 The program placed much emphasis on improving financial planning and management in general and budget execution in particular at the central level, leaving aside local governments. Yet, until 2008-09, very little improvement in budget execution actually occurred. This was attributable to severe capacity constraints, poor procurement processes, the reluctance of the Ministry of Finance and Planning to delegate spending authority to line ministries in order to avoid corruption, and the call by some donors for fiscal restraint.<sup>79</sup>

4.24 As pointed out by the PPAR, if capacity was indeed a binding constraint, more attention should have been devoted to enhancing implementation capacities. Efforts under the TSP to improve domestic capacity in the government to implement the procurement system and processes have had a negligible impact, except possibly in the Ministry of Finance. Procurement capacity remains weak in the line ministries where a large part of procurement is expected to occur after the recent decentralization of procurement authority. The procurement training provided by the Bank focused primarily on Bank procurement guidelines and PIU staff, and is not very relevant for government staff for implementing government procurement procedures.<sup>80</sup>

4.25 Very little progress was achieved in the development of capacity in the justice sector. As pointed out by the PPAR, "... progress in the development of the judicial sector has been very limited and disappointing, with the number of competent magistrates still very limited, the backlog of adjudicated cases rising, and the suspicion that this sector itself is handicapped by corruption."

#### ***Consolidation Support Program (CSP)***

4.26 The governance agenda under CSP1 was a continuation of the work program initiated under TSP and included many actions that were rolled over from TSP3. It included strengthening the administrative structures of the state (i.e. oversight institutions, core government functions, public sector management, and public finance management), as well as the justice system (including the national police). In the particular area of capacity building, the CSP supported the areas of service delivery, procurement, governance and job creation, leaving public financial management to a subsequent operation (PFMCBP, reviewed below). The CSP was complemented with grants to support capacity building, which are also reviewed in detail below.

4.27 Overall, progress was disappointing in capacity building. Aside from the efforts through the accompanying grants, there is no record of any particular activities that could have resulted in capacity building under CSP.

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<sup>79</sup> Budget execution improved dramatically since 2008, when the new Government of Timor-Leste decided to spend in order to bring growth and abate poverty, putting aside the advice from the Bank and other donors on fiscal restraint. In 2007 actual expenditures were 45 percent lower than the original budget; in 2009 the percentage was down to 11. The Government of Timor-Leste achieved this increase by decentralizing spending authority and increasing the use of advisors to assist in accelerating budget spending.

<sup>80</sup> For more details, see [Annex 4](#) from which this discussion on procurement is extracted.

***Planning and Financial Management Capacity-Building Project (PFMCBP)***<sup>81</sup>

4.28 Initial discussions on a proposed project began in 2004 in response to growing concerns at the continuing low budget execution rates and the inability of the government to deliver results to the population despite increasing budget revenues. The original intention was to implement the PFMCBP in tandem with the CSP and to coincide with an increase in state budget anticipated for 2005. Stakeholders saw a need to expand the government's financial management capacity, building on TSP results and tied to CSP implementation.

4.29 The PFMCBP was designed as a US\$7 million IDA investment grant supported by a multi-donor trust fund. The project became effective in May 2006 with project closing planned for 2011. The development objective of the project was *to sustainably strengthen planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture and transparency*. The project was originally divided into six components: Public Expenditure Management; Revenue Administration and Macroeconomic Management; Program-wide Activities; Support to Improved Governance and Management and Program Implementation. The PAD also noted the Government of Timor-Leste's expressed objective of moving beyond "the traditional substitution of international for local expertise" and focus on building national capacity.

4.30 PFMCBP effectiveness coincided with the 2006 civil strife, resulting in a virtual stand-still in implementation in the initial years. The program started-up again after the elections in 2007, with a new and more assertive Timorese Government with a strong determination to accelerate budget spending to restore and maintain social stability. The PFMCB project was used by the government to bring in a large number of advisors to assist in budget execution, many of them international, a move that has led to significant improvements in budget execution since 2007. At the request of the Government of Timor-Leste, and at the suggestion of a 2008 QAG review, the project was restructured in early 2010 to bring it more in line with the new government's priorities. These changes included:

- Remapping of the program's components, to align it with the Ministry of Finance's (MoF) new organizational structure.
- Reduction of the scope and complexity of the program to focus on the MoF and priority public finance management (PFM) functions.
- Revision of the results matrix and the program development objectives (PDO), to ensure they would be realistic and consistent with recent developments.
- Refocusing of capacity-building efforts to implement civil service reform measures in the MoF and enhance Timorese capacity.

4.31 The project has delivered substantial benefits in recent years. The 2009 budget was developed using PFMCBP TA, with significant improvements in the performance of line ministries. There was also a satisfactory improvement in recurrent and capital budget execu-

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<sup>81</sup> The broader lessons regarding PFM capacity-building are discussed in [Annex 4](#).

tion, albeit with some variation across ministries. The MoF's approach of using the project's advisors to develop local capacity seems to be bearing fruit. Timorese advisors, fluent in Tetum and English and with solid technical training, have created a middle layer to bridge gap between the English-speaking foreign advisors and the local staff. Despite this progress, however, the project is being less successful in achieving the broader government objective of building national capacity for public financial management (see Box 3 below and Appendix 4 for an evaluation of the Bank's interventions to strengthen human resources to manage PFM systems).

4.32 It should also be noted that the accomplishments after 2008 were achieved three years after effectiveness and five years after the initial 2004 discussions with donors. Possible synergies with the TSP and the CSP were missed, as was the opportunity to develop a fiscal and public financial management system that would have served the country well when the petroleum resources started flowing. Different sources point at the lack of support to the project within the Bank as the main reason for its slow progress and the opportunities missed.

4.33 The original design of the PFM CBP was clearly overly complex, and is now more appropriate after the project restructuring. Also, the Bank's own analytical conclusions about deteriorating conditions did not seem to affect the design or pace of work. However, the Bank showed flexibility in responding to the 2008 QAG recommendations and the changing requirements of the government.

### **Box 3. Bank's Approach to Capacity Building for PFM**

The Bank sought to build domestic capacity through:

- Use of project implementation units (PIUs)
- Appointment of international advisors
- Training of individuals

However, there was neither a strategic vision nor a needs assessment nor an action plan for strengthening PFM systems and capacity for the first six years of the evaluation, when the efforts at capacity building remained fragmented, *ad-hoc* at the project level, and supply driven. Moreover, none of these approaches, as implemented, was effective in building local capacity:

- The PIUs were helpful in ring-fencing projects, but did not strengthen government capacity to manage public resources. Most PIUs hired international staff; when local staff was hired, typically they sought higher paying jobs outside the government once the project was completed.
- International advisors were for the most part unsuccessful in transferring skills to local staff. Typically, these advisors were required to perform routine line functions which did not give them sufficient time to train local staff. Language barriers between international advisors (who often were English speaking) and local staff (who were more fluent in Portuguese, Bahasa or Tetum) were another factor. Twinning of international staff with local counterparts was also difficult because of the paucity of reasonably skilled local staff. Transfer of skills to local staff was also not part of the performance monitoring and evaluation system for foreign advisors in most cases.
- Training of individuals did not generate sustainable results because it was fragmented, project specific and not followed up. Training components were sometimes unrealistic in relation to existing capacity of local staff. Language barriers were a further impediment to the absorption of training.

Source: Appendix 4

**Technical Assistance Projects**

4.34 The Bank provided several small grants to strengthen the government's capacity to undertake specific tasks and functions (Table 12). These included:

- A Public Expenditure Management and Procurement IDF grant to assist the government in strengthening budget execution in the line ministries and improving the outcomes from public expenditure;
- An IDF grant to back up with operational support the Bank's assistance for the creation of the Ombudsman's Office, in charge of protection of human rights, oversight of rule of law and anti-corruption;
- An IDF grant to provide operational support to the Bank's assistance in strengthening the Office of the Inspector General for carrying out financial inspections and audits of government agencies; and
- An IDF grant for strengthening government's capacity for implementing Veterans' policies including developing a national policy on veterans and a strategy for its implementation.

4.35 The results of these grants were mixed. Despite a delay from 2005 to 2008 in implementing the project, the grant for **veterans' policy implementation** made an important contribution to establishing the government's veterans' policy and institutional frameworks and to establishing administration systems. Together with the Bank-administered TSP, AAA and downstream support from the PFMCBP, the project responded to a high priority area of the Government of Timor-Leste, even if the software recommended by the Bank was not used by the government. Establishing the veterans' pension system has since been an important part of the government's efforts to stabilize the country since the civil strife of the late 2000s. An internal document rated development outcome as satisfactory.

4.36 The other grants were not as successful. An internal reviewing document objective rating for the **public expenditure management and procurement** project was moderately unsatisfactory. The grant was not fully implemented, with its core objectives being integrated into other projects, among them the PFMCBP. As noted above, the Office of the *Provedor* (**Ombudsman Office**) was established in 2006, three years after the grant for establishing the Office became effective. However, its accomplishments have been modest thus far and its anti-corruption mandate has been transferred to a newly established Anti-Corruption Commission. The internal reviewing document outcome rating of satisfactory appears to be generous, and the priority accorded to this office is also questionable. The grant for strengthening the **Inspector General's Office** was also not successful. The internal reviewing document assessed overall efficiency and effectiveness as poor and outcome moderately unsatisfactory. The Office showed only modest progress towards consolidating its capacity to carry out financial inspections and audits of government agencies. Important factors affecting performance have been a chronic shortage of skilled personnel, underfunding and an unclear definition of how it fits within the general Portuguese-based legal system. The Inspector General's Office also appears to lack the political support needed for clarity of mandate and consolidation.

**OUTCOMES FOR STATE CAPACITY-BUILDING**

4.37 Compared to the vacuum of 1999, there has been gradual and important progress in building Timor-Leste's capacity as a state. The executive branch of the government is now able to plan and manage its resources and deliver public services across the country, albeit with some shortcomings. On its side, the legislative branch of government has produced a significant body of legislation and is making efforts to carry out its oversight functions. A cadre of well-trained and knowledgeable Timorese is at the heart of these considerable developments.

4.38 Despite the significant leap forward, Timor-Leste still faces major governance challenges. Institutional capacity is uneven across ministries, and remains weak in many of them. There has been almost no strengthening at the district and local levels. The human skills base is still very low and the government remains highly dependent on advisors, many of them foreign, with only limited success in transferring knowledge and skills between the advisors and national staff.

4.39 The heavy dependence is a cause of concern. Critical capacities, such as for project planning, appraisal and evaluation, procurement, financial planning and auditing are in very short supply. The shortage of local capacity is also a bottleneck for the non-executive branches of government. The judiciary is hamstrung by the scarcity of qualified lawyers, prosecutors and judges. Parliament still feels that their oversight role could be bolstered and made more effective if capacity of parliamentarians could be strengthened. For these reasons, the quality of governance may be pivotal for Timor-Leste's future development prospects, and the challenge of developing a cadre of well-trained Timorese to run all functions of the state with excellence is still a momentous one.

4.40 The Bank had state capacity building as a key priority from the start. However, for the most part of the evaluation period the Bank did not have a clear needs assessment, a strategic vision, or a realistic and monitorable strategy that could have guided its actions to bolster capacity in Timor-Leste in a more effective way.<sup>82</sup> Bank-administered operations covered too broad a front, included less pressing areas, were not proportional to the needs, and failed to create the critical capacity that was needed for Timor-Leste to use its petroleum revenues effectively for growth and poverty reduction. The three early Community Empowerment and Local Governance projects over-reached by trying to establish more representative and gender-balanced local governance structures that went against traditional and resistance authorities. Other operations supported the building of structures and capacity at the central level – successfully in the case of petroleum, whereas in other areas of governance the progress has been very limited. The judiciary and Parliament were left aside. The most important effort has been the still ongoing Planning and Financial Management Capacity-Building Project (PFMCBP), which has delivered substantial benefits in recent years through the financing of a substantial number of foreign advisors in support of budget planning and execution. However, the operation took a very long time to become fully operational and needed simplification of its original, complex structure, and the building of domestic capacity has progressed very slowly. More importantly, it was the strong hand of the new Government of Timor-Leste that introduced a staged system to use those advisors

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<sup>82</sup> For a detailed discussion of this assessment, see Annex 4.

effectively, and transfer capacity from foreign advisors to the local staff without the command of English. Overall, there was modest progress in creating the capacity to run the state, and the overall outcome of in this area is rated *Moderately Unsatisfactory*.

## Fiscal and Public Financial Management Systems

### THE SETTING

4.41 UNTAET's mandate on developing Timor-Leste's system of fiscal and public financial management faced a natural limit in the United Nations' own system of financial management. Aside from the resources provided by the donor community through the TFET and co-administered by ADB and the Bank, there were no "revenues" accruing to Timor-Leste that could be managed and budgeted by UNTAET. The operations expenses of UNTAET, on the other hand, were covered by the special budget allocated by the United Nations, and were spent using the UN's own public financial management system.

4.42 The expectation at the time of the withdrawal of the Indonesian army was that Timor-Leste would benefit from the petroleum find in the Timor Sea, that those resources were likely to be ample, especially on a per-capita basis, and that the inflow could be expected to start around 2005. With the starting and the petroleum milestone points defined, all actors, including the Bank, knew that there was great urgency in setting up a system of fiscal and public financial management that would allow Timor-Leste to use its petroleum wealth wisely, transparently and efficiently for the benefit of its people, especially the poor.<sup>83</sup>

### THE BANK'S PROGRAM

#### ***Objectives and Bank Strategy for Fiscal and Public Financial Management Systems***

4.43 The call by the Joint Assessment Mission (October 1999) for developing the state was fleshed out more properly by the Bank in the TSS (FY00-02, effective until FY05). Aiming to match existing political realities and institutional context and capacity, the TSS understood the urgency of developing a system of fiscal and public financial management able to deal with Timor-Leste's potential petroleum wealth. The system itself was to be structured within a legislative framework, and brought to life by trained civil servants. High in the agenda were the establishment of tax collection, budgeting, procurement and accounting systems and techniques. The initial priority of Bank support was to establish the key economic institutions where the system would work, including the ministries of finance and planning, procurement and audit agencies, revenue agency (taxes and custom), statistical agency and financial supervisory services, as well as the systems to run these institutions. The expectation was that these efforts would be buttressed by progress in conflict resolution (judiciary) and law enforcement.

4.44 The CAS for FY06-08 stressed once again IDA's commitment to support the building of state institutions, including prudent and transparent management of public resources,

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<sup>83</sup> While the International Monetary Fund was and is the lead agency in macroeconomic policies, the Bank is the lead agency on fiscal management.



and the development of safeguards against corruption. As regards to fiscal and public financial management systems, the CAS highlighted as targeted outcomes the development of safeguards against corruption, a transparent system for managing petroleum revenues, a more motivated and responsible civil service, a sound policy processes, a monitoring and evaluation framework focused on results, and a set of streamlined procedures and mechanisms to enhance revenue performance. .

4.45 The ISN (FY10-11), focused on continuing the capacity building activities, without bringing in additional objectives or planning new activities.

#### **Bank-Administered Operations**

4.46 The development of public financial management institutions and systems was addressed in many Bank-administered projects, especially in health and education – these have been discussed in detail in Chapter 3. There were a number of programs and projects that had a central focus on the development of fiscal and public financial management. These are listed in Table 13 and discussed below.

**Table 14. Bank-Administered Projects for Fiscal and Public Financial Management, 2000-2010**

<i>Name of Program/Project</i>	<i>Year approved</i>	<i>Project Amount (US\$ millions)***</i>	<i>TFET and IDA funding* (US\$ millions)</i>	<i>IEG Outcome Rating**</i>
Econ Institutions Capacity-building Project	FY01	0.92	0.92	MS
Strengthening Capacity for Poverty Analysis (IDF)	FY02	0.23	0.20	[S]
Transition Support Program Series (TSP1, TSP2, TSP3)	FY03-04-05	99.4	90.3	MU,MU,MU
Consolidation Support Program (CSP)	FY05	10.0	9.5	MU
Enhanced Poverty Monitoring and Analysis (IDF)	FY06	0.30	0.30	[HS]
Public Financial Management Capacity-building Project (PFMCB)	FY06	44.5	7.0	Active

\* IDA includes IDF and DGF grants as well;

\*\* U=Unsatisfactory, MU=Moderately Unsatisfactory, MS=Moderately Satisfactory; [ ] =Internal Reviewing Document Rating;\*\*\* disbursements for closed projects; commitments for active projects.

#### **Economic Institutions Capacity-Building Project (EICB)**

4.47 The EICB, which became effective in FY01, included among its components one that sought to develop the government accounting system and another one that supported the compilation of the main macroeconomic aggregates for 1999 and 2000. Defining the accounting system was the first building block for having a workable budget. Data on where macroeconomic aggregates stood at independence was necessary to guide future macroeconomic projections and policies.

4.48 As noted before, this project faced a number of delays, some associated with the capacity building components, and other with the two relevant components for this section. The difficulties in formulating and implementing the government accounting system stemmed for the most part from the inherent challenge of defining accounts for a government structure that is fluid and in the process of being defined. In addition, expanding the

scope and quality of the macroeconomic aggregates led to delays in the compilation of the aggregates and in project execution.

4.49 IEG's project evaluation rated EICB outcomes as Moderately Satisfactory, acknowledging for the most part the efforts on strengthening fiscal and public financial management. Albeit with delays, the charter of accounts was developed and the compilation of the macroeconomic aggregates took place. The charter provided a necessary stepping stone and started to be used in 2001 in some government offices – extended use took longer than expected. Meanwhile, the compilation of macroeconomic data was only completed in 2005, and required additional resources.

#### ***The Transition Support Program (TSP)***

4.50 As noted above, the TSP series placed much emphasis on improving financial planning and management in general and budget execution in particular. Key elements were the establishment of a petroleum fund, a civil service reform, including an effective human resource management system, and local governance, including communities and villages. The public expenditure management aspects covered the formulation of the budget, improved delivery at the line ministry level, and the development of a strategy for financial management functions.

4.51 IEG's PPAR reviewing the series highlights the Petroleum Fund as the most noticeable outcome of the series, even though the adoption and implementation of the law took place under the follow-up program, the CSP. The Petroleum Fund was shaped with advice from the IMF, NORAD and the Bank, following the Norwegian model, and in line with the Extractive Industries Transparency Initiative (EITI). The Bank's role covered two areas. One was to provide advice regarding the savings rule of the fund.<sup>84</sup> The other was to support a wide consultative process to help get the law approved with as ample political support as possible, which indeed happened.

4.52 Beyond the Petroleum Fund and until 2008-09, very little improvement in budget execution actually occurred and progress in other fronts was not very successful. The procurement system turned out to hamper instead of fostering timely and appropriate expenditures. Among flaws, tender documents were too complex, and most bidding documents were in English, making it difficult for government staff or contractors to understand or use them. The procurement processes are also regarded by many as not transparent. These difficulties have led to a second revision of the procurement law, originally put in place with support from the Bank in 2001.

#### ***Consolidation Support Program (CSP)***

4.53 The CSP supported strengthening the framework of the administrative structures of the state (i.e. oversight institutions, core government functions, public sector management,

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<sup>84</sup> As noted elsewhere, the savings rule recommended by the Bank follows the Norwegian rule, without factoring in Timor-Leste's significant deficit of human and physical capital. A life-cycle savings approach would have been better adapted to those circumstances.

and public finance management), as well as the development of capacity in service delivery, procurement, and governance (excluding public financial management).

4.54 Progress was weak in these areas. The *Provedor* (Ombudsman) became “operational,” though it is not clear what that meant in terms of actual results on the ground in fighting corruption. The Inspector General’s Office met its commitment under the project by publishing some investigative reports, and appointments were made to the Consultative Council, but the relevance of these actions for addressing civil service corruption is questionable. Limited progress was made in defining a revised pay and grading structure for the civil service as part of a human resource management system. What effect this had on civil service motivation and performance is not evident. Overall budget execution remained low (62 percent in FY06 and 49 percent in FY07, on a cash basis), and did not achieve the intermediate target of 70 percent that had been set for 2006.<sup>85</sup> On the other hand there was continuing progress in the functioning of the Petroleum Fund, where an Investment Advisory Board was appointed to enhance transparency in use of petroleum revenues

4.55 In the area of conflict resolution and law enforcement, progress in staffing the judiciary was also poor, despite continuing efforts at international recruitment and training of nationals for the position of judges, prosecutors and defenders. Indeed, the backlog of court cases was not significantly reduced and access to justice remained severely constrained especially in rural areas. The language challenge may have been a major factor in slowing progress.<sup>86</sup> The ICR did not report on commitments and outcomes with respect to strengthening the national police.

#### ***Planning and Financial Management Capacity-Building Project (PFMCBP)***<sup>87</sup>

4.56 Aside from the capacity building components mentioned above, the PFMCBP included support to improve systems and processes in fiscal and public financial management. The support sought to improve the workflows and interactions between the different dependencies of the MoF, as well as between the MoF and the line ministries. In addition, there was a component that supported improvements in the information technology of the MoF, to make it more transparent, relevant, streamlined and efficient.

4.57 The civil strife of 2006 and the change in government had a major impact on the PFMCBP. For one thing, the newly elected Government of Timor-Leste had a very different approach to public spending, wanting to foster economic activity after years of an overly tight fiscal policy – generating employment and helping the poor were seen as key to restoring social stability and dealing with the issues that had led to the civil strife. For another, the government felt that the accompanying CSP was not that central, and that a major effort

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<sup>85</sup> Performance in the execution of capital spending was even worse. In FY06 capital budget execution was only 35 percent and in FY07 it was 16 percent. Source: ICR, p. 7. This poor performance was despite the expectation that financial planning and budget execution would improve with the TA provided to the Ministry of Finance and line ministries through the PFMCB project.

<sup>86</sup> With all laws drafted and approved in Portuguese, only those candidates to the judiciary that are fluent in that language stand a chance of performing up to the desired standard.

<sup>87</sup> The broader lessons regarding PFM capacity-building are discussed in [Annex 4](#).

**CHAPTER 4**  
**PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS**

was needed to create an effective fiscal and public financial management system, starting with the MoF. The government took a much more active stance and control over the resources of the project, and implemented it to satisfy its new priorities. While PFMCBP may have evolved in a way different from how it was originally designed, the presence of its different components in the MoF was instrumental in speeding up budget execution rates and getting the money flowing into the economy.

4.58 The restructuring of the project in early 2010 brought the PFMCBP more in line with the government's priorities and addressed some of the issues raised by a 2008 QAG review, a key one being its high complexity. These changes included a better alignment with the new structures of the MoF, a simplification of the program, and a revision of the development objectives to make them more realistic.

4.59 The project has delivered substantial benefits in recent years. The 2009 budget was developed using PFMCBP TA, with significant improvements in the performance of line ministries. There was also a satisfactory improvement in recurrent and capital budget execution, albeit with some variation across ministries. Advisors hired through the project formed a critical mass of capacity within MoF management and line functions.<sup>88</sup> They provided much of the technical capacity behind expansion and improved execution of the budget. This was particularly important as the government undertook a major public works program in 2008-09 to stimulate the economy. The tenfold increase in the size of the government's budget since 2005 would not have been implementable without the support of the PFMCBP. In this regard and despite the Bank's advice against the fiscal expansion, the project also played a role in helping government stabilize the country after the 2006-08 crisis. A critical factor has been strong government ownership of the program since 2007, which was a marked change from the uneven ownership prior to 2006.

4.60 While PFMCBP can be credited with these positive outcomes, it is also the case that slow Bank action resulted in missed opportunities to align the PFMCBP with the TSP and CSP in 2005, and to strengthen capacity and budget execution when it was really needed.<sup>89</sup> A key factor undermining timeliness was a lack of attention and support provided to the project within the Bank. At some points there were reportedly discussions within several donor systems about withdrawing from the program over performance concerns. The Bank's reporting also cited insufficient support and supervision as a factor behind the slow start-up in 2007, more than a year after effectiveness.

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<sup>88</sup> Advisors hired within the program fall into one of two groups. One group is composed of foreign advisors, who are responsible for designing new policies and structures. The other group is Timorese, with good command of English and Tetum and with solid technical training. This group is responsible for interacting with the foreign advisors and subsequently transferring that knowledge to the Timorese staff that is fluent only in Tetum or other local languages.

<sup>89</sup> If public financial management and budget execution had been up to par when the petroleum revenues started to flow in 2005, the country would have been in a different position to have a looser fiscal stance and, to some extent, avert or palliate the 2006 civil strife.

**Technical Assistance Projects**

4.61 Aside from the grants mentioned above related mostly to capacity building, the Bank provided two small grants to strengthen the government's poverty monitoring and analysis. These were:

- An IDF grant labelled Strengthening Capacity for Poverty Analysis, Monitoring and Strategy Formulation to help the government with the initial steps with basic training in data management and analysis, including the dissemination of the outcome of the poverty assessment done a year before;
- An IDF grant called Enhanced Poverty Monitoring and Analysis to back the Directorate of National Statistics in their planning and implementation of the second national survey of living standards

4.62 Measured against their original objectives, the results of these grants were limited. The first grant was approved in 2002 and was closed in 2005 without being fully disbursed. The label of the grant was more ambitious than the activities themselves, and aside from scant capacity building on surveys, the bulk of the grant was used in disseminating the results of the 2001 survey. The second grant also had unrealistic aims. In the event, the grant, which was approved in the second half of 2005, was instrumental in helping the Government carry out the second survey. That survey was concluded in early 2008, using resources from the PFMCBP because those from the grant could only cover the work leading up to the launch of the survey. These two surveys, one done by donors in 2001 and one supported by the Bank in 2008 are the only two sets of comprehensive information on poverty in Timor-Leste.<sup>90</sup>

**OUTCOMES FOR FISCAL AND PUBLIC FINANCIAL MANAGEMENT SYSTEMS**

4.63 Compared to 1999, Timor-Leste has made very significant progress in setting up a system of fiscal and public financial management. The stable macroeconomic environment and the growth in the budget in recent years speak loudly about this progress. The basic institutions for fiscal and public financial management have been set up and are functioning. Fiscal policy in general and expenditure policy in particular, are now planned and with increasing focus on public service delivery. These policies are better grounded, using more reliable estimates of the macroeconomic aggregates and the needs of the population. The utilization of petroleum revenues is governed by a prudent and transparent framework widely regarded as best practice.<sup>91</sup> The improvement in budget execution has taken place in the MoF, as well as in some line ministries. Institutions of the state outside of the executive, such as Parliament, are also in better condition to discharge their functions.

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<sup>90</sup> Additional partial information on poverty can be found in the census carried out by the government recently. IEG understands that additional efforts to measure poverty were undertaken by the Bank in FY11.

<sup>91</sup> A 2007 Peterson Institute survey of 32 sovereign wealth funds ranked Timor-Leste's Petroleum Fund as third best in terms of governance arrangements and management performance; a 2008 follow-up ranked it the fifth of 34 funds. Source: ISN, p5, footnote 16.

## CHAPTER 4

### PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS

4.64 Notwithstanding these improvements, Timor-Leste still has much to do to fully develop its fiscal and public financial management. Use of the systems needs to be spread evenly across all government agencies and all levels of government, including the local. The new procurement system needs to be tested, to see if the two amendments have made it better adapted to the needs and circumstances of Timor-Leste. Parliament, the judiciary and the other oversight institutions need to be strengthened so that they can fulfill their function as checks and balances appropriately. More importantly, the part of the budget that is financed with donor funds must be brought into the overall budget and be discussed and aired as is the rest of the budget – for the time being, donor funded projects remain non-transparent. Furthermore, the investment budget still lags the current budget in execution rates, suggesting that there still is much room for improvement of the budget system.

4.65 The Bank's efforts to help Timor-Leste develop the needed fiscal and public financial management systems were late to bear fruit, and have faced significant adaptation challenges. Had the system been in place when the flow of petroleum revenues started, the Government of Timor-Leste would have been in a better position to tackle the unemployment and the deficiencies that triggered the discontent that preceded the civil strife of 2006. Moreover, some of the systems suggested by the Bank turned out to be ill-adapted to Timor-Leste, as was the case with the procurement system of 2000 and as amended in 2005. Bank support, together with the IMF and NORAD, helped establish the Petroleum Fund, and the consultation process led to wide acceptance from all sectors. The PFMCBP was implemented with a flexibility that allowed the government to move swiftly when it needed, playing a critical role in the improvements in budget execution and the expansion of public spending. These successes are weighed against the poor outcomes of the Bank's program until 2008, including the setting up of systems, like the one for procurement, that were not appropriate for the country's needs. On this basis the overall outcome of the Bank's assistance for fiscal and public financial management is rated *Moderately Unsatisfactory*.

## Basic Legislative Framework

### THE SETTING

4.66 The new state institutions needed a legal framework to define them and to guide their functions and operations. While the Timorese leadership had a clear idea that they wanted to move towards a modern legal system developed on the basis of Portuguese Law, they also wanted to break from the Indonesian Law that had ruled them through the occupation period. The change in the legal system implied bringing back to Timor-Leste legal institutions and courts that had been absent during decades, as well as starting from scratch in terms of conflict resolution and contract enforcement. Indeed, there were very few Timorese that had been trained within the Portuguese legal system. Nor were there many with legal training that were fluent in Portuguese. In terms of priorities, their talents and time would serve the new nation best by helping bring together a legal system that was consistent and coherent, as well as adapted to the customs and mores of Timor-Leste.

## THE BANK'S PROGRAM

### *Objectives and Bank Strategy for Creating a Legislative Framework*

4.67 The FY00-02 TSS, which remained in place until 2005, explicitly set as one of the key areas of Bank support the development of the institutional, legal and regulatory systems of state, including the fiscal and public financial management systems. This support was the natural complement to the efforts that were being considered of creating the systems and developing the capacity for the new institutions and systems to work. Attention was paid at the time of the strategy to both the general legal framework, and the implementing regulations needed to help the legal changes to work on the ground. These implementing regulations, which are not essential in some legal systems, are critical in a civil law system like the Portuguese.

4.68 At the time of the CAS, which covered FY06-08, the governance pillar called for supporting the legislative framework, increasing the scope of the support quite significantly. The challenge of putting to work the system of checks and balances of the Constitution was faced head on in the legislative agenda. In addition, the eight targeted areas of the CAS included some where developing a legislative framework was of the essence, and which were not part of the agenda until then – the Ombudsman and the Inspector General are examples of this. Interestingly, Timor-Leste had already adopted a legal system based on the Portuguese at the time of the CAS.

4.69 As noted above, the ISN (FY10-11), focused on continuing the capacity building activities, to firm up the progress in governance, particularly regarding fiscal and public financial management. No additional legislative objectives were included in the ISN.

### *Bank-Administered Operations*

4.70 The main vehicle of Bank support to the development of a legislative framework came through the development policy operations. These operations reflected the priorities of the strategy documents, giving life to many of the broad initiatives included in them. In addition, the PFMCBP ended up paying a role in supporting the legislative framework, even if at its inception that was not one of its development objectives. The programs used by the Bank to support Timor-Leste are listed in Table 15, and discussed below.

**Table 15. Main Bank-Administered Projects for Legislative Framework, 2000-2010**

<i>Name of Program/Project</i>	<i>Year approved</i>	<i>Project Amount (US\$ millions)***</i>	<i>TFET and IDA funding* (US\$ millions)</i>	<i>IEG Outcome Rating**</i>
Transition Support Program Series (TSP1, TSP2, TSP3)	FY03-04-05	99.4	90.3	MU,MU,MU
Consolidation Support Program (CSP)	FY05	10.0	9.5	MU
Public Financial Management Capacity-building Project (PFMCB)	FY06	44.5	7.0	Active

\* IDA includes IDF and DGF grants as well;

\*\* U=Unsatisfactory, MU=Moderately Unsatisfactory, MS=Moderately Satisfactory; [ ]=Internal Reviewing Document Rating;\*\*\* disbursements for closed projects; commitments for active projects.

*The Transition Support Program (TSP)*

4.71 The support for the legislative agenda in the TSP series covered many areas. Beginning with design of an annual legislative program, the TSP included legislation on the establishment of the Ombudsman (*Provedor*), the Inspector General, the Petroleum Fund, legislation on local governments, a legislative and regulatory framework for civil service reform, a Budget and Financial Management Law, a Public Procurement Decree (revising the existing system), a Superior Council of the Judiciary Law, a Public Registrations Law, a Public Prosecutors Organic Law, a Public Defenders Office Organic Law, a law on domestic violence and a law on veterans.<sup>92</sup> These were in addition to other laws on education, private sector development and other areas that were part of the matrix.

4.72 The outcome of all these efforts was mixed. The Bank's support was central in creating the consensus and bringing about the Petroleum Fund Law, which was adopted as a prior action to the follow-up program CSP. The Bank also provided some guidance on the Veterans Law, which was also approved after the TSP series closed.

4.73 On two other cases (Ombudsman and Inspector General) the laws were approved, but the institutional development that was expected from them did not turn out as expected, despite the Bank's grants to support the implementation at an operational level. These two institutions were alien to the legal system that was developing based on Portuguese Law, and did not seem to respond to widely acknowledged issues that needed redress. These institutions come across as free wheels within the overall legal system of Timor-Leste.

4.74 In the majority of cases, draft laws were presented and even approved, but their institutional development outcome is unknown or unclear. The overload that this ambitious agenda had on the government and the Parliament was quite significant. More challenging was the impact on the team that was working in keeping the new legislation congruent with the rest of Timor-Leste Portuguese-based legal system, and in line with the uses and mores of the country. As noted before, there were just a few lawyers with legal training on the Portuguese legal system. Issues with the congruence and adaptation of the new legislation to the conditions and circumstances of Timor-Leste may have been a major force behind the delays in approval and the lack of implementation of the proposed legislation. Moreover, it seemed in practice often overlooked that most of these legislative pieces required of a set of implementing regulations to be able to come to life, a further challenge to the already overburdened government officials and the group of Portuguese Law trained lawyers.

4.75 The revision of the procurement law is a special case that illustrates the issues of transplanting legislation without adapting it. The reform, expected to be approved in 2005, was meant to reform the system that the Bank had helped put in place in 2000.<sup>93</sup> The 2005

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<sup>92</sup> The staff acknowledges that the Bank only provided informal guidance to those in the government drafting the legislation on veterans. Under these circumstances, it is unclear why the veterans law was included in the TSP series

<sup>93</sup> Timor-Leste's initial regulation on procurement was the *Regulation 2000/10 on Public Procurement for Civil Administration in East Timor*, issued by the UNTAET, which remained in force after independence. This regulation was based to a large extent on a draft prepared with technical assistance funded by the World Bank and reflects in a compact manner many basic principles and procedures



reform has been reformed once more in 2010. Both the government and major stakeholders had pointed out the flaws that made the 2005 so difficult to implement.<sup>94</sup> The 2005 version was perceived as too complex, generic, and ill adapted to the conditions and legal system of Timor-Leste, as was the initial one adopted by UNTAET. It became a challenge both for the Ministry of Finance and the line ministries. In particular, the law severely constrained the government's ability to spend, and led to patches that were perceived as non-transparent by some.

### ***Consolidation Support Program (CSP)***

4.76 The CSP aimed at consolidating efforts in the legislative framework, which had been initiated within the TSP series and were still either in the legislative process or in the implementation process. These included the directive on the policy and legislative process, the Budget and Financial Management Law, the Public Procurement Decree Law, the Petroleum Fund Law, the disciplinary regulations for the civil service, and the Medium-Term Expenditure Framework Budget.

4.77 Eventually, some of these efforts did translate into legislative action, in spite of the difficulties with the CSP. The Petroleum Fund Law and the Public Procurement Decree Law were adopted in 2005, and the Budget and Financial Management draft, significantly watered down to reflect mostly institutional changes, became law in 2009. The directive on the legislative process and the civil service disciplinary regulations were left pending.

### ***Planning and Financial Management Capacity-Building Project (PFMCBP)***<sup>95</sup>

4.78 The PFMCBP was conceived as a complement to the TSP series and the CSP, and hence left the legislative agenda to them. However, as the TSP and the CSP evolved and faded, the PFMCBP gained stage to help with two important pieces of legislation related to fiscal and public financial management—the new revision of the Procurement Law and the Budget and Financial Management Law. With advice from the EU and other donors, as well as support from the Bank, the government revised once more the Procurement Law in early 2010.

4.79 In 2009 the Government of Timor-Leste adopted the Budget and Financial Management Law, which had started the rounds with the TSP series. The Law, as adopted, included adaptations to the institutional changes that had taken place since the UNTAET times, and a new provision for borrowing. This new law replaced the one that was in place since 2001, UNTAET Regulation 2001/13. The old system was sound, but had many flaws that should have been addressed much earlier, especially before 2005. A key one was that, in the view of the authorities, it was not appropriate to deal with a budget of the size and the complexity of the one that came with the flows from the Petroleum Fund. A second one was that it had expenditure management systems that were rudimentary and biased to-

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set forth in the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Procurement.

<sup>94</sup> The European Union raised several issues with IEG, and played a role in the most recent reform.

<sup>95</sup> The broader lessons regarding PFM capacity-building are discussed in [Annex 4](#).

**CHAPTER 4**  
**PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS**

wards very strict controls that effectively slowed budget execution and, thus, spending. A third one was that it had no clear arrangements for external audits of the budget by Parliament.

**OUTCOMES FOR LEGISLATIVE FRAMEWORK**

4.80 Timor-Leste has made much progress in developing the legislative framework needed for its governance. It now has laws that govern taxation and customs, as well as the exploitation and use of its petroleum wealth. It also has a public financial management law that is better adapted to its reality, and that has allowed the increase in spending, something central for restoring social stability. Procurement legislation has taken several rounds. Although it seems to be making progress towards better adaptation, challenges still remain. Rudimentary systems of checks and balances are now in place.

4.81 Timor-Leste, however, still has a long road ahead in the development of the legislative framework. A central challenge is to harmonize the different pieces of legislation that come from separate legal traditions, so that they are congruent and adapted to the uses and mores of the country. An additional one is to develop the implementing regulations that are needed to bring these laws to life. Yet another one is to fill in the blanks that have been left behind in the haste that seems to have dominated the legislative process until now. How all the pieces of legislation come together to create a wholesome and comprehensive legal system is a pressing question that needs to be addressed.

4.82 The WBG has supported the development of the legislative framework in a wide set of areas (Table 16). Perhaps the coverage has been too wide for Timor-Leste’s capacity – too many draft laws for a new Parliament and for a few lawyers capable of adjusting the drafts to the Timor-Leste’s nascent legal system. The capacity challenge is even greater if the capacity to implement the new laws is factored in – no significant effort seems to have been made to adapt the new legislation to the civil service capacity that was actually on the ground. While the urgency is pressing, the need for a structured and strategic vision was all the more relevant in light of the limited resources and capacity. Just as with the efforts in capacity building, there was and still is an urgent need for a needs assessment, for a strategic vision, and for a workable plan of that strategy that can be monitored. In these regards, the WBG fell short by not bringing in a strategy, a thorough understanding of the challenges of setting up a new legal system under a civil law tradition, and an acknowledgement of the limitations faced by Timor-Leste. Taking these facts into consideration, the outcome of assistance in this area is rated *Unsatisfactory*.

**Table 16 Timor-Leste - Legislation Adopted with World Bank Group Support**

<b>2000</b>
Procurement Law - UTAET Reg. 2000/10 - Revised in 2005
<b>2002</b>
Organic Law for the Ministry of Health
Statutes of the Judicial Magistrates, 2002/8, 2004/11
<b>2003</b>
Aviation Law 2003/1
Establishing the Communications Regulatory Authority and Approving the Statutes
Part I of the Land Law

## PILLAR II. GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS

Petroleum Development of Timor Sea (Tax Stability)
Taxation of Bayu-Undan Contractors
Telecommunications Regulation Law and Public Broadcast Corporation Regulation
<b>2004</b>
Civil Identification Law 2004/2
Decree law on Community Authorities 2004/2
Commercial Companies Law
Customs Code
Education Law- Organic Law for MoEC 2006/21
Legal System of Notaries 2004/3, amended in 2009
On General Bases of the Legal Regime for Fisheries and Aquaculture Management and Regulation 2004/6
National Defense Law 2004/7
Organic Law for Office of the Inspector General (OIG) 2003/7
Organic Law of Ombudsman 2004/7
Health Act 2004/10
Pharmaceutical Activities 2004/12
<b>2005</b>
Domestic Investment Law - 2005/4 Under Revision
Foreign Investment Law - 2005/5 Under Revision
Institute of Entrepreneurship Development Support (IADE) - Under Revision
Leasing between private parties
Petroleum Fund Law
Procurement Law - 2005/10 Amended in 2010
Regime for the Licensing, oversight and regulation of Insurance companies and insurance intermediaries
Trade Invest Timor-Leste - Under Revision
Law on Petroleum Activities
Water Service 2005/14
<b>2006</b>
Organic Laws for Public Prosecutors and Public Defenders 2005/14
Business Registry Code - 2006/1 Revised and Under Revision
Organic Law of the Superior Council for Defense and Security 2006/16
Education Law- Organic Law for MoEC 2006/21
Tariff Regulation for Power Supply 2006/22
Veteran's Legislation 2006/3
<b>2008</b>
Law on the Council of State 2008/7
Tax law 2008/8
Veteran's Legislation - additional. 2009/9
Education Law 2008/14
<b>2009</b>
Legal System on Supply to the Autonomous Department for Drugs and Health Equipment
Budget and Financial Management Law 2009/13
<b>2010</b>
Procurement Law 2010/2
Law on Domestic Violence 2010/7



# 5. Pillar III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

## The Setting

5.1 Timor-Leste was primarily an agricultural economy, and remains as such if petroleum income is excluded. Prior to 1999, about three quarters of its people derived their primary means of livelihood from land. About a third of GDP derived from agriculture. Activities in the modern industrial sectors including manufacturing, utilities, banking and finance accounted for less than 8 percent of GDP. Economic activity, including private sector activity was governed by the legal and regulatory framework of Indonesia.

5.2 The 1999 violence virtually destroyed the economy, including the private sector. Critical infrastructure (such as electric power, roads, telecommunication, the banking system) were laid waste. The small modern sector, including manufacturing and services, was hardest hit by the exodus of the non-Timorese. The links to the legal and regulatory framework (and institutions) of Indonesia that governed and regulated economic activity were severed and no new laws or local institutions existed to take their place.

5.3 As laid out in the JAMR and the TSS, the immediate priority of the WBG (and the international donor community) in the aftermath of the 1999 destruction was to restore law and order, establish macro-economic stability, provide basic social services and help re-start business activity so as to create incomes and reduce unemployment.

5.4 The expectation at that point was that the off-shore oil and gas fields shared with Australia would start to bring revenues in the middle of the decade, and that several steps were needed to help Timor-Leste move into a sustainable development path. For one thing, the country needed assistance in negotiating with Australia and in putting into place a mechanism to deal with the impact of petroleum revenues. For another, balanced and sustainable growth with high employment levels called for the development of a vibrant non-petroleum sector in the economy. That non-petroleum sector would have to be rooted in the agricultural sector, and would have to rely heavily on small business development. Although petroleum production may over time result in some down-stream industries and opportunities for growth in the service sector, such activities are unlikely to be a significant source of employment as these industries are largely capital-intensive. The main challenge was therefore to use the petroleum wealth prudently to stimulate sustainable non-oil growth and reduce poverty.

5.5 The WBG's initial diagnostic about the need to develop a strong private sector based on agricultural development and small businesses remains valid to this date. IEG's consulta-

tions with different stakeholders, including domestic and private investors, point at these two elements as central to any strategy to develop a non-petroleum sector. Those same consultations rank as the most urgent constraints to private development the absence of an adequate infrastructure that allows goods to flow from rural areas to the domestic and export markets, the lack of a reliable supply of energy, the low levels of agricultural productivity, and, lastly, the governance aspects, including the regulatory environment and the judicial system.

## **Private Sector Development<sup>96</sup>**

### **WBG'S STRATEGY AND OBJECTIVES FOR PRIVATE SECTOR DEVELOPMENT**

5.6 Starting in 2002 the WBG's program to generate a vibrant non-petroleum sector focused on creating an enabling environment for private sector development (PSD), including the legal and regulatory framework, and the development of key physical infrastructure such as electric power.<sup>97</sup> The basic thrust of the WBG's strategy did not change after the production of oil and gas added significantly to the government's revenues.

5.7 The CAS saw private sector development (along with agriculture) as central to sustainable growth and job creation. In support of PSD, the CAS envisaged measures to create an enabling environment which included:

- Development of the legal framework to make it business friendly, through the enactment of new laws (such as on investment, leasing, credit and collateral, and land and property rights) as well as the simplification of business regulations (such as registration and licensing) inherited from Indonesia;
- Training for civil servants to improve their interactions with business;
- Awareness and capacity-building programs for prospective entrepreneurs;
- Creation of an Investment and Export Promotion Agency to promote foreign direct investment in sectors such as eco-tourism, niche markets for traditional products and agribusiness;
- The development of a credit and collateral registry;

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<sup>96</sup> This section focuses on non-agricultural private sector development; the agriculture sector is discussed separately. However, in the initial strategy documents the Bank understood the importance of the agriculture sector as a key element in the development of a local private sector, and placed a high emphasis on fostering it as a means to private sector development (JAMR and TSS). The initial strategy included a Rural Recovery Program based on a dozen different projects designed to move the agricultural sector from barter to trade (JAMR).

<sup>97</sup> Good governance, and in particular policies and programs to prevent corruption and strengthen the judiciary, were also an important part of the Bank's strategy and these programs were expected to improve the business environment as well.

**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

- Training and support programs for microfinance institutions; and
- Supporting the expansion of the three existing commercial banks to rural areas.

5.8 The CAS supported planned initiatives to create a structured dialogue between the private sector and the government so that key problems areas could be identified and addressed effectively. On financial sector matters, the WBG followed the lead of the IMF.

5.9 The CAS envisaged the IFC establishing and implementing a five year technical assistance program through the Pacific Enterprise Development Facility (PEDF). This program's objective was to build upon the work undertaken by the Bank through TFET to improve the business environment for small and medium enterprises, focusing on access to finance, tourism, agribusiness, and entrepreneurship development. All programs were to be designed to:

- Facilitate investment in the priority sectors;
- Complement and work in partnership with other donors;
- Tackle obstacles in the business environment;
- Integrate considerations of sustainability, including environment, gender, and governance; and
- Identify clear metrics for effective monitoring and evaluation.

5.10 The Foreign Investment Advisory Service (FIAS) was expected to complement work undertaken in these areas.

5.11 In the immediate aftermath of the 2006 unrest, the ISN (prepared jointly with IFC) was largely focused on short-term measures to restore social stability, while at the same time laying the foundations for higher rates of growth in the non-oil sector. The ISN envisaged continued IFC support to the government and the private sector to improve the investment climate and help enable business development through business registration and licensing reform, improved access to financial services, and targeted legislative support and assistance to the tourism sector. IFC was expected to continue to serve as the Secretariat to the Better Business Initiative (BBI), which sought to provide a platform for effective and result oriented dialogue between the business community and the government on specific investment climate reform priorities. Other possible initiatives that the WBG could support for private sector development included:

- Creation of a credit bureau;
- Support to public private infrastructure partnerships;
- Piloting of SME loan products and risk sharing facilities to connect local entrepreneurs to markets and increase the private sector's access to finance.

5.12 IFC was also expected to consider catalytic investments intended to accelerate medium term growth in areas such as tourism, agribusiness, natural resources, infrastructure and micro-finance.

5.13 While the WBG recognized that in the short-term the public sector had a larger role to play in generating growth and creating jobs, it saw the private sector as the engine for growth and employment in the longer term.<sup>98</sup> This assumption, which is reasonable for many economies, should have called for going beyond the standard Doing Business approach and identifying and addressing what was really needed to have a flourishing private sector in a country like Timor-Leste. Given the absence of entrepreneurial tradition and skills, the lack of any obvious areas of comparative advantage, the small agriculture-based subsistence economy, and the total destruction of all non-agricultural production facilities in 1999, a lot more than a “right” legal environment was needed to have the meager private sector become the engine of growth. Moreover, it was not clear from the WBG’s documents wherefrom private sector growth was going to come or how fast it could come; nor how important non-petroleum private sector activity could realistically ever be relative to the public sector that over some time would benefit from huge revenues from the petroleum sector. The strategy might have been more realistic and more credible if it had addressed such questions up-front and focused on identifying and removing binding constraints in specific areas where the private sector could have a future (such as agri-business and tourism).

5.14 Nevertheless, the strategy correctly recognized what was generally needed to stimulate the private sector (a stable macroeconomic environment, better infrastructure, particularly roads, ports, electric power and telecommunications, improved access to credit, and a stable and business friendly regulatory regime. In three of these areas (macroeconomic policy, infrastructure and the financial system) the WBG had a secondary program, as these areas were led by other donors, most notably the ADB and the IMF.

#### THE BANK’S PROGRAM

5.15 The Bank administered two investment projects during 2000-02 in support of private sector development. These projects are listed below in Table 17. PSD was also an important component of the TSP and CSP, the development policy operations, during 2003-06 (listed in Table 4). IFC operations (after 2006) are discussed separately.

**Table 17. Bank-Administered Projects in Support of PSD, 2000-10**

<i>Name of Project</i>	<i>Year Approved</i>	<i>Project Amount (US\$ millions)</i>	<i>TFET+IDA Funding (US\$ millions)</i>	<i>IEG Outcome Rating*</i>
Small Enterprise Project 1	FY00	4.85	4.85	MU
Small Enterprise Project 2	FY02	7.42	7.42	MU

\*MU=Moderately Unsatisfactory.

<sup>98</sup> For example, the Program Document for TSP2 states “Job creation, especially for the youth and ex-combatants, is critical to stability. The government recognizes that private investment will have to take the lead and the importance of an appropriate regulatory and enabling legal framework. At the same time, the government intends to use public spending and external financing as a tool for job creation”. p 14.



***Investment Projects***

5.16 The main objective of the small enterprise projects was to help re-start viable business activities in the private sector and generate sustainable income and employment. To achieve this end, the focus of the first project was to provide credit on commercial terms to viable small and medium enterprises through an intermediating financial institution. The project also supported capacity-building, including:

- The restoration of essential elements of a land and property administration system;
- Rehabilitation of buildings for establishing four Business Development Centers (BDC) that would provide technical services to clients; and
- Implementation of business skills training programs.

5.17 The second project was a follow-up of the first project and also focused on providing lines of credit on commercial terms to small and medium enterprises. It also sought to rehabilitate marketplace infrastructure. However, one and a half years into implementation, the credit component of the project was cancelled because of lack of demand as well as high levels of payment defaults under the first project. The funds were reallocated for capacity-building in the private sector including:

- Business development services (BDS);
- Training for civil servants in “PSD theory and practice”;
- Development of an enabling business regulatory environment;
- Promotion of Government-Business dialogue;
- Provision of services to private microfinance providers and borrowers under other credit projects; and
- Establishing an investment and export promotion agency (TradeInvest-TITL).

5.18 The first project was partially successful in helping re-start viable business activities. According to the ICR, about 341 small businesses were established in 13 districts, and about 1200 new jobs were created. Most of the sub-loans financed transportation (trucks, buses, and taxis), shops, restaurants and personal services. 83 percent of these businesses were still operating when the project closed, though it is not apparent how many survived the economic downturn following the withdrawal of the UN in 2002-03. This downturn was also partly responsible for the poor repayment performance of the loans. According to the ICR, three-quarters of the loans were in default by early 2003, a major factor behind the cancellation of the credit component of the follow-up project.

5.19 The capacity-building and training activities were largely unsuccessful. Reports on the land and property system added little value to policy-makers, and the training programs came too late in the project cycle to be of much use to the intended beneficiaries. The BDCs

got their buildings but they were yet to provide the full range of services at the time the ICR review was undertaken, more than three years after the project became effective. IEG rated the outcome of the project as *Moderately Unsatisfactory*.

5.20 The second project was even more problematic. With the cancellation of the credit component, the project did not directly create new businesses or new jobs. Nor was there any impact on SME competitiveness. Perhaps the main achievement was the improvement in marketplace infrastructure brought about by the rehabilitation of 69 markets accounting for about 50 percent of the total number of markets rehabilitated and built at the time in Timor-Leste. While the ICR claimed that significant progress had been made in improving the business regulatory environment and registration and other processes had been simplified to make it easier to start a business, this was clearly insufficient as the WBG continues to find to this day that the process is too complex and remains a constraint to private activity.

5.21 Business development services were provided through the project but their impact is uncertain. The Government-Business dialogue process was initiated through several meetings, and while the government may have become better acquainted with the issues and concerns of the private sector, it is not clear if any concrete actions were undertaken as a result. An autonomous Investment and Export Promotion Agency (TITL) was established under the project, though the weak growth in non-petroleum foreign investment does attest to its failure in promoting and facilitating foreign direct investment. The project closed three and a half years behind schedule and IEG rated its outcomes as *Moderately Unsatisfactory*.

### ***The Development Policy Operations***

5.22 Private sector development was included in the strategic pillars of two development policy programs, TSP (2003-05) and CSP (2006). The private sector development agenda in these operations was largely centered on the framing and adoption of laws to regulate private sector activity. Two other areas that were seen as inhibiting private sector activity, corruption in government and a weak legal system, were targeted through the governance components. The adoption and implementation of a legal framework for ensuring that petroleum revenues are used prudently and transparently so as not to endanger macro-economic stability (and hence private sector development) was also a key element. Very little was attempted through these projects to improve critical physical infrastructure, or the private sector's access to finance.

5.23 A number of laws meant to facilitate private investment were adopted during this period. These included laws on commercial entities, investment, insurance, bankruptcy, co-operatives, and leasing of government property. A land law addressing publicly owned real estate was also passed in 2003. However, a clear sense of priorities or legislative strategy was missing. Some laws that were not so important at the time (such as the bankruptcy law) were adopted, while other laws that were perhaps more critical are still pending (such as the law allowing the use of land and property as collateral). In other cases, the adopted law did not address the core issue. For example, the land law which was adopted by Parliament in 2003 clearly did not solve the problem of insecure land ownership rights, because it ignored the centuries-old system of communal property in Timor-Leste. Seven years after, efforts are still under way to find an appropriate solution to land-ownership rights.

## PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

5.24 The other problem was that the focus was too much on adopting various laws, doing little on bringing about compliance with those laws, their enforcement, and their eventual use in the resolution of conflicts. Moreover, the congruence of legal advice based on legal principles different from those of Portuguese law that constitute the backbone of Timor-Leste's legal system remains an issue. Consequently, many important implementing regulations were not addressed, while other rules and regulations turned out to be too complex or even foreign for Timor-Leste, making it more difficult and costly to start and operate new businesses. The regulations for registration and licensing of businesses are particularly problematic, and recent Bank efforts, including of IFC, have been geared towards their adaptation and simplification.<sup>99</sup>

5.25 The introduction of laws to facilitate private sector development was also not matched by a strengthened judicial system to enforce the laws. In the justice sector, more progress appears to have been made in establishing a legislative and regulatory framework for the judiciary and oversight institutions, and much less in building the capacity of the system to dispense justice quickly and efficiently. In addition, the issuance of laws in Portuguese brought a challenge for a judiciary that was not fluent in the new national language. Despite some training activities for judges, public prosecutors and public defenders, and international recruitment of judges supported by the programs, there remains a severe shortage of trained lawyers and judges; this has contributed to the increasing backlog of court cases, and undermined the confidence of the private sector in the court system.<sup>100</sup> Clearly, in hindsight more should have been done to address the human resources deficit.

5.26 The efforts to promote good governance and avoid corruption in government were also flawed. There was too much emphasis on creating the hardware of laws and institutions, without adequate attention to the quality, skills and training of people that were to run these institutions. Some of the institutions that were created (such as the Offices of the Ombudsman and the Inspector General) could be seen as transplants from other countries and contexts that were less applicable for the realities of Timor-Leste at the time and lacked ownership. Without sufficient trained manpower to implement their mandates, with a weak judicial system, and without being able to find their place in the overall governance framework, these institutions have proved to be of marginal significance in promoting good governance.<sup>101</sup>

### ***Analytical and Advisory Services***

5.27 The Bank produced a comprehensive CEM in 2002 which identified the problems facing the sector and the path ahead. This work provided the basis for some of the legal and

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<sup>99</sup> After supporting the formulation and adoption of laws to regulate PSD through 2000-05, the Bank apparently first raised in the context of the FY06 CSP the need for simplification of regulations, especially for registration of businesses. Four years later IFC is still identifying the elements for reform of business registration and licensing.

<sup>100</sup> As noted in the ICR for TSP3 (p.6), by the end of the three-year TSP period, Timor-Leste still did not have one qualified national judge.

<sup>101</sup> Indeed, as pointed out in the ICR review of TSP3, the "Governance Matters" rating for control of corruption declined in 2005 and 2006.

regulatory reforms undertaken under the budget support operations. Periodic Doing Business Surveys were also undertaken starting in 2006. These have been extensively quoted in assessing progress in the business environment, and used to identify key changes in the regulatory regime. The Bank also prepared a private and financial sector assessment report.

5.28 Two TA activities to help establish a credit registry were also completed by the Bank but these were not followed through to their logical conclusion. There were differences with IFC on the nature of the credit registry (public as desired by the government or private as desired by IFC), and its location (within country as desired by the Government or within the Pacific Islands Region as desired by IFC). Eventually the Government of Timor-Leste disengaged from the WBG on this topic and is developing a simple credit registry at the Banking and Payments Authority (BPA), with cooperation from the existing three commercial banks.

### IFC IN TIMOR-LESTE

5.29 IFC launched its operations in Timor-Leste in August 2006, a few months after the eruption of violence. Compared to the ambitious agenda laid out in the CAS and the subsequent ISN, IFC's actual program was very limited in scope and it has been unable to implement most of the ideas expressed in the CAS and later in the ISN. Thus IFC has not approved any investments, nor provided any support for public private infrastructure partnerships, or piloted any SME loan products or risk sharing facilities. The main focus of IFC activities was on technical assistance and advisory services, which are discussed below.

### Advisory Services

**Table 18. IFC Advisory Services in Timor-Leste, FY06-10**

<i>Approval FY</i>	<i>Project Name</i>	<i>Status as of July 2010</i>	<i>Total Funding, US\$</i>
2006	Access to Finance Workshop in Timor-Leste	Closed	15,079
2008	Timor-Leste e-booking implementation	Active	50,000
2008	Timor-Leste Public-Private Dialogue	Active	858,000
2009	Timor-Leste Business Registration and Licensing Reform Project	Active	750,000

*Source: IFC database*

5.30 The Workshop on Access to Finance was a one-day workshop to identify barriers to finance in Timor-Leste. However, there was no follow-up action. The 2008 E-booking project supported the setting up (apparently successfully) of a dedicated web-site and on-line booking engine for facilitating domestic lodging and hotel bookings from international travelers. The Public and Private Dialogue project created the Better Business Initiative, a forum for enabling effective and result-oriented dialogue between the government and the private sector. Finally, the Business Registration and Licensing Reform project was initiated at the request of the government, which has identified business registration reform as a priority. An

**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

MOU was signed between the Ministry of Justice and IFC, a diagnostics report has been completed and the project is expected to be completed by end FY12.<sup>102</sup>

**Other IFC Activities**

5.31 The IFC has provided other ad-hoc services. It convenes and facilitates donor coordination on PSD through a regular 'PSD Donor Roundtable'. At the government's request IFC commented on a draft private investment law and draft decree law on the restructured investment promotion agency. The IFC also developed a proposal on how to assist the government to develop its capacity to assess large infrastructure projects in terms of the most appropriate procurement modalities and oversee the government's procurement. IFC is also considering launching a new program with AusAID to promote innovative ventures to broaden access to finance to the largely excluded rural segments of the population, and collaboration with AusAID, as part of a program for the Pacific Islands, it undertook a study on gender-based barriers to private sector development in Timor-Leste.

**OUTCOMES: SOME PROGRESS, BUT NO HEADWAY IN CRITICAL AREAS**

5.32 In comparison to 1999, Timor-Leste has made progress in creating an enabling environment for the private sector. Apart from the security environment, which has remained stable though fragile since 2006-07, the macro-economic environment is better. The (BPA), established in 2001 to perform the key functions of a monetary authority, has functioned satisfactorily. Inflation has been kept in check through most of the period, helped by the decision in 2000 to use the US dollar as the local currency, and by a fiscal policy that has been restrictive for the most part.<sup>103</sup> Economic growth has resumed since 2008, fuelled largely by increased public spending (rather than being dependent, as it was in the first years, on spending by the large international presence in the country). By and large, revenues from oil resources have been managed prudently, thanks to the adoption of a state of the art legal framework for managing petroleum revenues (see more below). The tax regime is relatively simple and favorable for the private sector.<sup>104</sup> Progress was also made in modernizing the customs administration by enhancing the use of ASYCUDA (Automated System for Customs Data). The foreign trade regime is liberal, with no quantitative restrictions on imports and a low uniform import duty of 6 percent.

5.33 In other areas affecting the enabling environment for the private sector, there has been only modest progress. A large number of laws governing private sector activities have been adopted, but the business environment has not improved very much. Legislation critical to the private sector are still pending, such as the land law establishing ownership rights on land, and laws on contract enforcement, as are the enabling regulations of many of the

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<sup>102</sup> USAID is providing US\$250,000 for the project.

<sup>103</sup> The CPI (end of period) rose by an average of about 4.9 percent between 2004 and 2008. The IMF estimates that inflation for 2009 was 2.7 percent and projected inflation for 2010 is 4 percent.

<sup>104</sup> A new tax law introduced in 2008 reduced the profit tax rate from 30 percent to 10 percent. Even in 2007, the IMF estimated that 64 percent of large tax-payers, generating 70-80 percent of domestic tax revenue, pay only the minimum tax (which was 1 percent of turnover against which income tax is accredited). IMF, Selected Issues, Feb 2007, p 17.

legal reforms that have been adopted by Parliament. In addition, the existing regulations and procedures are too complicated and in need of adaptation to Timor-Leste's traditions and mores and to the adopted Portuguese backbone of its legal system. Furthermore, the judicial system remains too weak to enforce existing laws.

5.34 Access to credit also remains limited. The three existing commercial banks are hampered in their activities by the lack of a credit culture, of a working credit registry, and of an adequate legal framework for using collaterals.<sup>105</sup> Microcredit exists mostly in the curb market. Commercial banks have yet to test the judiciary by taking a case to the courts. Yet, lack of credit was a prominent complaint of businesses interviewed by the CPE team. (In addition, the government feels that the oligopolistic structure from having only three banks has driven lending interest rates to levels that set up borrowers for failure).

5.35 The infrastructure situation is also in need of significant improvement. According to a recent ADB road condition survey, almost the whole core road network has deteriorated to the point that the roads are no longer maintainable.<sup>106</sup> The major port, located at Dili, is small and has a limited capacity. Businesses are still constrained by severe power shortages and are therefore often forced to operate at low capacity.<sup>107</sup>

5.36 Finally, despite the establishment of various institutions to promote good governance and keep corruption at bay, this remains a concern for private businesses, adding to their cost and reducing competitiveness.<sup>108</sup> According to the Transparency International's Corruption Perception Index, Timor-Leste dropped in the rankings from 123<sup>rd</sup> to 146<sup>th</sup> out of 180 countries between 2007 and 2009.

5.37 Compared to the almost bare economy of the beginning of the evaluation period, Timor-Leste has a private sector now, at least in Dili. However, the stubbornly high level of unemployment, especially of the youth, in the face of high poverty levels suggests that the private sector's growth and composition have not been what was needed or expected by the country. More specifically for this evaluation's purposes, private sector development failed to meet what was expected in the WBG's strategy documents. In addition, there is scant data to track the evolution of the private sector. Some idea of its growth in recent years can be obtained from the data on business registration.<sup>109</sup> This shows that the number of registered businesses grew between 2005 and 2009 by 63 percent. However, 77 percent of this increase

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<sup>105</sup> Over the last five years, the volume of credit offered by commercial banks to SMEs and individuals has remained unchanged.

<sup>106</sup> Quoted in Annex V of IMF Article IV Report, 2009.

<sup>107</sup> Some businesses even around Dili reported electricity availability of only up to three hours every night. Businesses could only operate at 50 percent capacity because there was no electricity. The conditions are worse in the rural areas.

<sup>108</sup> Such payments amounted to roughly 15 percent of all costs, according to one interview.

<sup>109</sup> This data can only be a very rough proxy for private investment growth. First, the data records the intention to start a business. Some of these intentions may not have fructified. Second, the data does not show the volume of investment. The number of new businesses registered may thus have gone up while overall investment may have been shrinking.

**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

was accounted for by three activities: retail trade, wholesale trade and export-import activities. Tourism businesses accounted for just around 6 percent of the increase in registered businesses, and construction and manufacturing another 11 percent. Moreover, almost half of this increase occurred between 2007 and 2008, a likely reflection of increased UN presence (and hence transient) and higher government spending. Data on direct foreign investment also suggests that there has been no appreciable increase, except in the oil and gas sector. As recognized in the ISN (p.15), “there has been a serious and damaging failure to create conditions conducive to the emergence of a vibrant private sector”.

5.38 On the basis of this analysis, IEG rates overall outcomes of WBG support for private sector development as *Unsatisfactory*, and among the least satisfactory of the WBG programs.

***Bank Contribution to Outcomes for Private Sector Development***

5.39 PSD was one of the key components of the WBG’s strategy, as reflected in the TSP, the CAS and also in the ISN. There was an over-emphasis on the private sector in relation to the public sector, in light of the lack of a private sector tradition in Timor-Leste and the reality of growing petroleum revenues to the budget. The enabling environment for the private sector has improved in several ways since the 1999 starting point, but in other areas the degree of effective progress has been quite modest, and the non-agricultural, non-petroleum private sector remains small.

5.40 The Bank supported PSD through the two early small enterprise projects and through its budget support programs. The former, and primarily the first of the two projects, helped to restart viable business activities. The adoption of a number of laws supported through the budget support programs may be useful in the longer run, but the approach was ill adapted to Timor-Leste’s conditions and may have been given priority at the expense of efforts to improve efficiency and effectiveness of regulations and procedures, and the human resource deficit in the legal system. Overall, after the initial rehabilitation efforts, the WBG has not had much effective influence on PSD in Timor-Leste and has little in terms of outcomes to show for its interventions.

***IFC Contribution to Outcomes for Private Sector Development***

5.41 IFC has made some small positive contributions through its advisory services. Though the e-booking project was a small, low budget intervention, it played a useful role in starting up such system in Timor-Leste and generated considerable revenues for its domestic clients. The Public-Private Dialogue project created the Better Business Initiative (BBI) which has been helpful in enabling the private sector to articulate its concerns to the government and seek solutions. The Business Registration and Licensing Reform project, which seeks to simplify business registration and licensing regulations to make it easier to start and operate a business, flowed from these discussions. The BBI was also a key player in the establishment of the Chamber of Commerce and Industry in April 2010, providing another forum to the private sector for interacting with the government. To facilitate the availability of credit to rural traders, the BBI brokered an agreement between the German Society for Technical Cooperation (GTZ) and the Australia and New Zealand (ANZ) Bank,

whereby GTZ provided 100 percent guarantee on loans made by ANZ to rural traders.<sup>110</sup> Through the BBI, IFC also facilitated the inclusion of micro-credit providers in the credit information system of the Banking and Payments Authority.

5.42 The actual modest IFC activities have been very different from the ambitious expectations in the CAS and ISN. While the actual initiatives have been useful, they have not been able to address the central concerns of the private sector. As discussed above, there has not been any significant improvement in the regulatory framework for private business, nor have the main constraints to private sector development been addressed. Access to credit is limited, and the infrastructure situation is also challenging. Poor roads, limited port facilities and electricity shortages continue to hinder private sector development.

## **Agriculture**

### **THE SETTING**

5.43 Timor-Leste remains a predominantly subsistence agricultural economy in spite of unfavorable geographic characteristics (rugged erosion-prone terrain, poor soils and unpredictable rainfall). Prior to the 1999 referendum, agriculture and its support activities (agro-processing and agricultural input industries) employed more than 85 percent of the population and contributed 40 percent of GDP. Food crops accounted for around 61 percent of agricultural GDP, non-food crops 27 percent, and livestock another 8 percent. Coffee, some sandalwood and cattle were exported. About 40 percent of arable land was cultivated. Most of the cultivated land was (and still is) dominated by subsistence production of staples such as maize, cassava, rice and sweet potatoes. Agricultural productivity was (and still is) extremely low. Ninety percent of the poor live in rural areas.

5.44 As mentioned earlier, the violence and destruction in 1999 was a crippling blow to agriculture. Overall, agricultural GDP was estimated to have declined by 49 percent in 1999 relative to the previous year, with the food crops, livestock, and fisheries sub-sectors registering the most significant losses.<sup>111</sup>

### **BANK STRATEGY AND OBJECTIVES IN THE AGRICULTURE SECTOR**

5.45 The agriculture sector was accorded the highest priority in the report of the Joint Assessment Mission of October 1999. Agricultural recovery was an urgent necessity to alleviate immediate suffering from food shortages, but it was also necessary to prevent irreversible rural to urban migration and a culture of dependency amongst rural households. The benefits from a rapid restoration of seeds, farm implements and livestock were seen to go far beyond their immediate economic impact. The TSS focused on immediate means to increase agricultural production and promote food security.

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<sup>110</sup> Unfortunately this initiative didn't work out satisfactorily as the demand for loans was much less than expected partly because of unfamiliarity with loan processing in rural areas.

<sup>111</sup> Source: Second Agri Rehab Project PAD.



**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

5.46 With the accent shifting towards creating conditions for sustained economic growth, the 2005 CAS supported measures to ensure sustainable resource management (in fisheries and forestry) and increase food security. In this context the Bank supported the development of a legal and regulatory framework for forestry and fisheries, including the identification of protected areas, as well as the development and implementation of a fisheries licensing system with a rigorous system of monitoring and control. In support of enhancing food security, the CAS favored developing a food security strategy, establishing a system for testing and distributing traditional and non-traditional crops and production technologies, and enhancing agricultural extension services. Strengthening the capacity of the Ministry of Agriculture, Forestry, and Fisheries (MAFF) to act as an effective service provider was also a key priority for the Bank.

5.47 The focus of the ISN was on policies and programs to increase smallholder productivity. Towards this end, a series of notes on potential policy adjustments were to be prepared, based on which an investment operation in support of policy adjustments was contemplated.

5.48 The Bank was correct to identify agriculture as perhaps the most important productive sector in Timor-Leste because it offered great promise for improving yields and agricultural incomes in the future, and also because more than 80 percent of the poor lived in rural areas. Uplifting the rural economy would have an immediate and positive impact on poverty. The initial focus on providing farmers with inputs and tools and livestock to restore their livelihoods was appropriate and the strategy also correctly identified the numerous constraints faced by farmers and agri-businesses including insufficient access to high quality inputs, credit and appropriate technology. The Bank also noted the need to enhance the Ministry's capacity to formulate sector strategies and policies and deliver services to agricultural producers.

5.49 The broad strategy was appropriate, but it had two significant shortcomings and posed a major challenge for the Bank's strategy. Firstly, it had a very heavy emphasis on the paper side—laws, regulations and strategies, to the detriment of what was physically needed to bring about higher productivity. Secondly, the strategy may have underestimated the difficulty of changing the mind-set of farmers from a focus on subsistence to commercial cultivation. The major challenge stemmed from the fact that, for a sector that was of the highest importance for growth and poverty reduction, agriculture did not get the attention or the resources it needed from the Bank. And while the Bank (and other donors) did well to avert a major food crisis in the years following 1999, its interventions in later years were focused unduly on making frameworks and laws that did not necessarily translate into improvements in productivity or incomes in the rural sector, and less so in a leap out of subsistence farming.

**THE BANK'S PROGRAM**

5.50 In spite of the priority accorded to the agriculture sector in Bank strategy documents, the sector did not get attention or funding from the Bank commensurate with its impor-

tance.<sup>112</sup> During the evaluation period, the Bank administered three agriculture sector-specific projects (Agriculture Rehabilitation Projects 1, 2 and 3) which accounted for just about 12 percent of total IDA and TFET funding in Timor-Leste during the evaluation period (Table 15). No Bank-administered agriculture projects have been approved since 2004. Agriculture policy and institutional development issues were also addressed in three of the budget support operations (TSP2, TSP3 and CSP). The three early Community Empowerment Projects also allocated funds for the reconstruction and rehabilitation of rural infrastructure. Agricultural markets were rehabilitated under the second small enterprise project. Nevertheless, this does not alter the fact that attention to agriculture from the Bank was less than warranted by its importance in Timor-Leste's economy. This perception was shared by H.E. President Ramos Horta in his meeting with the CPE team. He believed that the international donor community had not paid sufficient attention to the rural sector, where most of the poor live. The neglect of the agriculture sector was acknowledged by the WBG.<sup>113</sup>

### **Bank-Administered Projects**

5.51 Bank administered agriculture projects are listed below in Table 19.

**Table 19. Bank Administered Project in Support of Agriculture Sector, 2000-10**

<i>Name of Project</i>	<i>Year Approved</i>	<i>Project Amount (US\$ millions)</i>	<i>TFET+IDA Funding (US\$ millions)</i>	<i>IEG Outcome Rating*</i>
Ag Rehab Project 1	FY00	7.5	6.8	MS
Ag Rehab Project 2	FY02	8.7	8.0	MU
Ag Rehab Project 3	FY04	13.0	3.0	MU

*Source: \*MS=Moderately satisfactory; MU=Moderately unsatisfactory.*

### **Investment Projects**

5.52 The broad development objectives of Agriculture Rehabilitation Program were to:

- Improve food security of selected poor households; and
- Increase agricultural production and promote rural growth in selected project areas.

5.53 The first Agriculture Rehabilitation Project (ARP1) was an emergency recovery operation. The two follow-up projects were designed to move beyond the emergency phase to deal with longer term development challenges in the sector. The three projects spanned a period of almost 9 years: the first ARP project started in FY00, and the third project closed in 2009. Under the projects, a total of US29 million were committed and disbursed, about 9 percent of the total commitments in Bank-administered projects during the period.

<sup>112</sup> The section on agriculture of the JAMR included twelve urgent investment projects to address the challenges of the sector. Only a handful of the elements of these projects were picked up in subsequent Bank interventions.

<sup>113</sup> Referring to the agriculture sector, the ISN stated, "...support for this sector since independence has not been adequate to tackle underlying factors". Page 8.

## PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

5.54 ARP1 focused primarily on the rapid restoration of agriculture assets, irrigation infrastructure and restoration of vaccination services. ARP2 continued several activities begun under ARP1 including irrigation rehabilitation, but also piloted a program of assistance to upland and coastal farmers, and expanded services to farmers in information dissemination, animal health and farmers associations. It also supported policy studies and capacity-building for MAFF staff. ARP3 focused on strengthening the capacity of the MAFF and its key development partners to assist rural communities in raising their production and income in a sustainable way.

5.55 ARP1 helped create some 120,000/person-days of employment, providing a much needed infusion of cash into rural communities. The distribution of tools and livestock to farm families improved incomes and food security in the short-term. Targets for vaccination of cattle and other livestock were also met, and to the extent the vaccination program helped prevent outbreak of disease, this too improved the security of farm families. Several community irrigation schemes and access roads were rehabilitated, though it is difficult to say whether it actually increased yields. Under the project three pilot agriculture service centers were established, but none was able to operate on business principles (as they were expected to) by the time the project closed. Given the difficult circumstances, and the emergency nature of the response, the project did reasonably well in supporting the recovery of the agriculture sector. The IEG project evaluation rated outcomes as *Moderately Satisfactory*.

5.56 The second project was less successful. On the positive side, the reduction in livestock mortality achieved through the vaccination program contributed to improving food security. The rehabilitation of 46 community-based irrigation schemes led to increased agricultural production in 3,908 hectares of land. However, the overall impact of the project on production and yields was limited because other complementary inputs were not used, such as fertilizers and high-yielding seed varieties, and because the coverage of irrigation was less than targeted in the project. Two important crops, maize and cassava, that are staple food crops and fundamental to improving food security, were not covered by the project. In the case of rice, policy inconsistencies prevented a larger increase in production: farmers were reluctant to increase the area under rice cultivation, or buy fertilizers and high yielding seeds, because they did not have adequate incentives and faced severe competition from imports.

5.57 Many of the production activities supported by the project in upland and coastal communities did not have a significant impact because they were hampered by poor roads and high transportation costs to markets. The pilot agricultural service centers continued to operate at a loss because farmers were unwilling (or unable) to pay for the services on offer.<sup>114</sup> For a project focusing on long-term issues in the sector, the design of components was piece-meal and did not adequately take account of the incentive structures and marketing constraints. Moreover, the design was too ambitious and did not reflect the very limited im-

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<sup>114</sup> Only one of these centers is still operating.

plementation capacity of the Ministry.<sup>115</sup> The IEG project evaluation rated outcomes as *Moderately Unsatisfactory*.

5.58 ARP3 was implemented under difficult conditions. The project was interrupted by the violence and political crisis in 2006 and the elections in 2007. Some progress was made in strengthening the institutional capacity of the Ministry, including through its training components. Procurement and financial management capacity was improved. However, most of the training was focused on headquarter staff and there was very little field training. MAFF still has significant technical and organizational capacity constraints that hinder its ability to deliver effective services to farmers.

5.59 The project had limited impact on production and incomes, except perhaps for the impact of animal health services component which reduced livestock mortality rates. Livelihood activities undertaken through the small grants included few technological interventions to improve productivity and gave insufficient priority to food security issues. While irrigation investments increased production, the total number of additional hectares irrigated due to the project was far below the target. Information services for improving farmers' activities apparently made little contribution to production and income. Overall, IEG project evaluation rated outcomes as *Moderately Unsatisfactory*.

#### ***Other Investment Projects***

5.60 Some other Bank projects – discussed elsewhere, also had some agriculture aspects. The three Community Empowerment Projects sought to address rural poverty. The projects successfully ensured that funds were quickly made available to rural communities and provided for reconstruction of community infrastructure. Additionally, the projects created temporary employment and built a large amount of community infrastructure. These were important achievements under extremely difficult operating conditions. However, the sustainability of these gains was doubtful because rural social structures were ignored and the resource flow was not sustainable. Rural development was also addressed under the Second Small Enterprise Project. Under the project, 69 rural markets were rehabilitated and constructed which is about 50 percent of the total number of markets built or rehabilitated in Timor-Leste. By and large, these markets are functional, though they are located outside the town centers, often do not have access to water, and access roads are poorly maintained. In a few cases, the newly built markets have not been used at all by the community.

#### ***Development Policy Operations***

5.61 Agriculture was included as part of the job creation pillar of TSP2. Programmed actions and outputs focused on the development of a policy framework for the sector and a regulatory framework and strategy for community based management of fisheries. The program also included implementation of pilot initiatives in the introduction of commercial crops, farm level processing of agricultural products and community watershed management.

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<sup>115</sup> To address implementation issues as they arose, over 40 percent of project costs had to be allocated to hiring a number of international advisors.

**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

5.62 In TSP3 the focus was on implementation of the policy framework (which was to be adopted under TSP2) and launch of operational plans, development of sustainable marine fisheries, and improvement in food production and food security. Specific actions included completion of sector policy and investment program, and preparation of two sub-sector action plans reflecting implementation of sector policy; implementation of off-shore fisheries licensing legislation and evaluation of first year performance; and assessment of irrigated rice economics and completion of irrigation water policy.

5.63 In CSP, programmed actions and outputs focused on finalizing the legislative framework for the sector and on enhancing food security and sustainable resource management. The forestry policy, strategy, laws and regulations were expected to be finalized over the program period. Food security was to be enhanced through the establishment of monitoring and evaluation system, including baseline yields for upland crops. Sustainable resource management was supported by reaching agreement on a monitoring, control and surveillance system for fisheries.

5.64 Several of the programmed actions were implemented, though with some delay. A sector policy framework was developed, as also a forestry and watershed management policy and strategy. A fisheries decree law and supporting legislation were also approved. A vessel licensing and reporting system was put in place for all commercial fishing activities. Progress was also made in testing and distributing improved food crop varieties.

5.65 While these were useful steps, they did very little to increase food production and improve food security. Neither agricultural production nor food security improved during the period of these operations, and severe shortages of rice did in fact emerge shortly after the approval of CSP1 and after three years of TSP. The emphasis in these programs was on creating policy frameworks, legal and regulatory regimes, and monitoring, surveillance and evaluation systems. The impact of these paper interventions on agricultural production, food security, and job creation would at best be in the medium to long-term. Yet the need of the moment was measures that had a more immediate impact on production and job creation. In this respect, these operations were not well-suited. Outcomes for the job creation pillar of the TSP, which included agriculture, were rated by IEG as among the worst of the whole program.

***Analytical and Advisory Services***

5.66 Not much analytical or policy work in the agriculture sector was undertaken by the Bank for a long time after the initial reports that included the 1999 Report of the Joint Assessment Mission and a comprehensive CEM: Policy Challenges for a New Nation in 2002. A very useful policy paper was however prepared recently: *Raising Agricultural Productivity* (2010). This paper documents the very low levels of productivity in agriculture for most crops and livestock, and discusses steps needed to raise productivity. It also sketches the outlines of a program of targeted assistance that could help in improving agricultural productivity. The Bank hopes that this work will eventually lead to a Bank-administered investment project in the sector, the first after 2004. Another important ESW activity currently under way is a report on Customary Systems of Land Management and Rural Development (2010).

**OUTCOMES: LITTLE PROGRESS IN INCREASING AGRICULTURAL PRODUCTION AND YIELDS, OR IN DIVERSIFICATION.**

5.67 Timor-Leste's most important achievement in the sector was that the threat of starvation and malnutrition following the collapse of production in 1999 was averted. Production levels for most of the major crops picked up by 2000-01, and some degree of food security was restored. The MAFF is now in place and its capacity to formulate sector policies and deliver services has increased over the years, which will have positive long-term benefits. A legal framework has been developed for forestry and fisheries which will allow these sectors to attract investment.

5.68 However, considering the entire period 2000-10, the outcomes in the sector have been disappointing. The sector is still dominated by subsistence farming, which suffers from poor quality of inputs (seeds, fertilizers, pesticides, irrigation) and lack of knowledge regarding new technologies and best practices. Rural infrastructure is still poor, especially rural roads that are in disrepair. Electricity is also in short supply.<sup>116</sup> The agricultural commercial sector suffers from lack of access to credit, while property rights, including communal, remain to be sorted out. The sector policy framework (for example, pricing policy) also needs to be propped up.

5.69 While agricultural production levels for most crops increased after the crash of 1999, growth has been disappointing since 2000 as shown in Figure 1. According to IMF estimates, between 2000 and 2007, agricultural GDP grew by only 2.9 percent. The food sector, which represents about 75 percent of the agricultural sector's GDP, did not register any real growth over the seven-year period.<sup>117</sup> Crop production data confirms that there was no secular increase in production of the three main food crops (maize, cassava and rice) between 2000 and 2008, though there was a significant increase in production of the main food crops in 2009.<sup>118</sup> Without agricultural growth of at least 5 percent per year over a sustained period, no appreciable dent on poverty is likely.

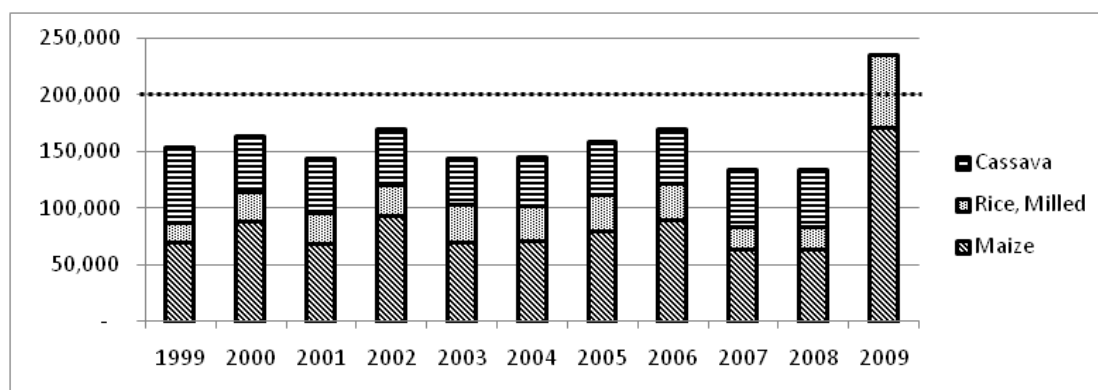
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<sup>116</sup> In 2007, only 5 percent of rural households had access to electricity.

<sup>117</sup> The modest growth in agricultural GDP was due mainly to an expansion of the commercial sector which grew from 17 percent to 27 percent of total agricultural GDP. Increasing exports of coffee and livestock were the main contributory factors.

<sup>118</sup> There were year to year fluctuations of course, depending largely on weather conditions. In 2009 food production increased by almost 20 percent due to good weather, and the use of better quality seeds and fertilizers. It is not clear though whether this increase is sustainable.

Figure 1. Food Crop Production (tons), 1999-2009



Source: FAO data, Rice, Milled: 50 percent of milling efficiency, No cassava data available in 2009.

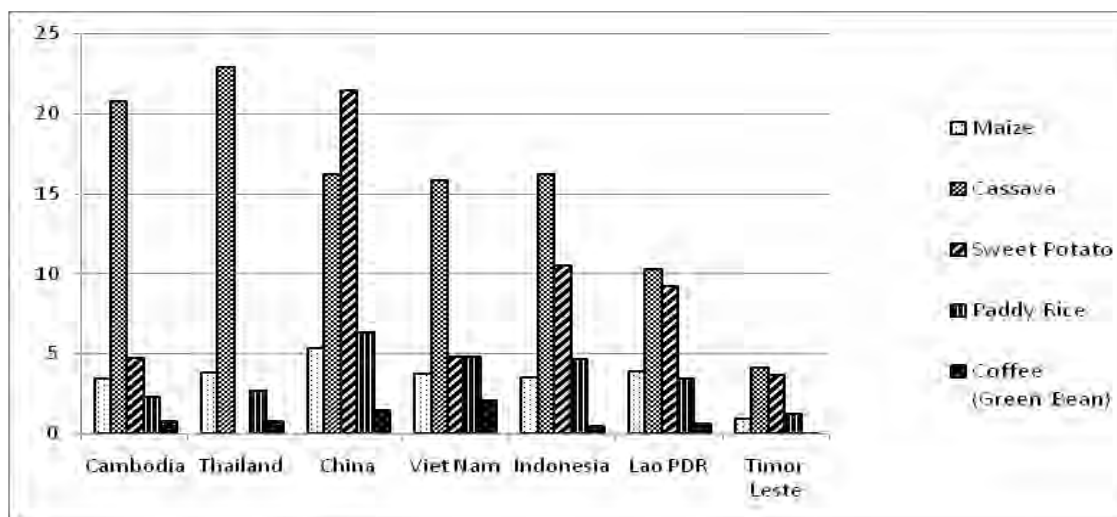
5.70 Food security remains problematic for much of the population, especially in rural areas. Despite large imports of rice, food shortages are a fact of life in rural Timor-Leste. According to the 2007 Survey of Living Standards, during the 12 month period prior to the survey, rural households did not have sufficient rice or maize to eat for about four months each year. In order to cope with these shortages households ate less food or switched from rice to corn (or to other foods, mainly tubers) or sold their livestock or other assets to purchase food. The increase in domestic food production in 2009, and increased imports of rice and other cereals may have improved food availability in the last year or so, but the impact may have been limited because of lack of rural income and poor distribution facilities, especially in remote areas. The fact remains that for most of the period, food insecurity was a serious concern, especially in rural areas.

5.71 Agricultural productivity remains very low, both for food-crops and livestock. The Crop yields (Mt/ha) are well below world and regional standards. Across all crops, yields in Timor-Leste are only between 20 to 35 percent of the yields achieved in Cambodia, Thailand, China, Viet Nam, Indonesia and Lao PDR.<sup>119</sup> As with crop productivity, the productivity of livestock in Timor-Leste is very low by comparable standards. For example beef production per head of cattle in Timor-Leste is about 6.4 kg compared with 24.3 kg in Viet Nam and 17.2 kg in Lao PDR. Beef production per rural person is 1.4 kg per person in Timor-Leste, compared with 3.6 kg in Indonesia and 5.5 kg in Cambodia.<sup>120</sup>

<sup>119</sup> Reasons for such low food crop productivity include: (i) an inherently poor natural resource base; (ii) a deteriorating rural environment due to inappropriate production practices; (iii) lack of product diversification (minimal crop rotation); (iv) very limited farmer knowledge of improved production practices; (v) lack of improved, high-yielding varieties; and (vi) minimal inputs (particularly fertilizer).

<sup>120</sup> Source: Raising Agricultural Productivity, World Bank Policy Note, January 2010.

Figure 2. Crop Yields (MT/ha) In Timor-Leste and Selected Countries in EAP Region



Source: Agriculture Productivity Policy Note, World Bank, 2010

5.72 In summary, the Bank rightly gave the agriculture sector high priority in its strategy documents, most prominently in the JAM and the TSS, but also in the CAS and ISN. Production levels picked up quickly after the 1999 nadir, and some sort of food security was restored. However, thereafter there was little progress, and the food sector did not register any real growth until a spurt in 2009, and with significant annual variations. Food security remains an issue for much of the population, and agricultural productivity is still very low.

5.73 The Bank supported the sector through three early projects for agriculture rehabilitation, but there has been no new approved investment project since FY04. The first of these projects was useful in helping to rehabilitate agricultural assets and in providing infusions of cash, tools and livestock into the rural economy. Vaccination programs for cattle and other livestock probably helped prevent outbreaks of diseases and thus helped improve the security of farm families. The second and the third of these projects were less successful and with modest impacts on the sector. Agriculture was also addressed in the TSP and CSP programs, with focus – with some progress – on creating policy frameworks and regulatory regimes. However, any results on the ground from these measures will probably only be noted in the medium term. The Bank's interventions were for the most part ineffective in addressing the pressing needs of the sector, failed to address key constraints, and were not aligned with the its overall objectives as set out in the strategies. On this basis IEG rates the overall outcomes of the WBG program in the agriculture sector as *unsatisfactory*.

## Energy

### BANK STRATEGY AND OBJECTIVES IN THE ENERGY SECTOR

5.74 The energy sector (with a partial exception for hydrocarbons) has not been given much attention in the Bank's work in Timor-Leste. Under the TFET, ADB was given the prime responsibility for the power sector (and other infrastructure). Even though there have been three Bank operations (two still ongoing), ADB has continued to play more of a leading



**PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH**

donor role in this sector while the Bank has been the lead donor (together with Norway and IMF) for support for hydrocarbon policies and management.

5.75 The JAMR and the TSS focused on immediate reconstruction requirements. There was very little sectoral discussion and no clear discussion of objectives. The TFET was already in operation at the time of the TSS and the agreed division of labor between the Bank and ADB was mentioned briefly but not discussed. It was however mentioned among a number of steps to help prepare for independence that the Bank would support data collection and policy analysis for the management of oil and gas revenues, and there was a mention among economic sustainability issues that distortions caused by oil and gas revenues would require careful management.

5.76 The results matrix for the CAS “covered the waterfront” with objectives and milestones across the board. These included:

- For power the outcomes – meaning contribution of the CAS to the national development results – were for (a) improved efficiency of power supply and collection efficiency in national capital to allow greater spending on district power services; and (b) enhanced availability of reliable, affordable power in the districts to support social and economic development.
- For hydrocarbons the targeted outcome was to bring transparency and probity in managing petroleum revenues, in order to effectively manage oil and gas revenues and savings to benefit present and future generations.

5.77 In the text discussion, the CAS commented that:

- Petroleum was Timor-Leste’s most prominent source of growth, and the country had appropriately focused on the legal framework for petroleum production and revenues.
- Timor-Leste’s electricity supply was among the most costly in the world, access to electricity in district capitals was at best limited to a few hours per night, while most of the rural population had no access to power at all.

5.78 The ISN reiterated that Timor-Leste depends on oil and gas as its main source of revenue, and observed that the country’s petroleum revenues were safely managed through one of the world’s best natural resource revenue management regimes, although “recent budget appropriations have been above the Petroleum Fund’s Estimated Sustainable Income....., which could result in depletion of the Fund’s reserves if not realigned”.

5.79 The ISN only defined objectives for hydrocarbons, leaving the power sector aside. The Bank was to remain supporting the continued transparency in the management of petroleum revenues. The expected outcome from the Bank’s intervention was the continued adherence to sound management of petroleum resources and increased transparency in line with EITI principles.

## CHAPTER 5

### PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

#### THE BANK'S PROGRAM

5.80 Bank-administered projects in the energy sector are listed in Table 20 below. These are discussed in the sections of the hydrocarbon and power sectors below.

**Table 20. List of Bank Administered Projects in the Energy Sector, 2000-10.**

<i>Name of Project</i>	<i>Year of Approval</i>	<i>Project Amount (US\$ millions)</i>	<i>TFET +IDA funding (US\$ millions)</i>	<i>IEG Outcome Rating</i>
First Petroleum TA Project	FY03	0.24	0.24	S
Second Petroleum TA Project	FY03	1.61	1.61	S
Power Sector Priority Investments	FY05	2.02	1.35	MS
Gas Seep Harvesting Project	FY07	1.85	0.85	Active
Energy Services Delivery	FY07	2.8	2.5	Active

\* S=Satisfactory; MS=Moderately Satisfactory

#### THE HYDROCARBON SECTOR<sup>121</sup>

5.81 Completed Projects: Petroleum Technical Assistance projects I and II (PTAP I and II). These projects were designed against a background where the Government of Timor-Leste faced tremendous challenges in managing its petroleum sector. It severely lacked capacity to participate successfully in negotiations with companies and governments over the development of offshore oil and gas fields shared with Australia. The lack of capacity also affected the government's ability to manage existing and future petroleum sector operations and associated revenues. Thus, Bank support to the government on the difficult, complex negotiations over shared petroleum resources and in the building of sector capacity was very important to laying the foundation for the country to realize revenues from the development of offshore finds.

5.82 The objective of the PTAP I was to provide, through the engagement of experienced industry consultants, just-in-time support to the government on a set of "critical, complex, and difficult" negotiations with neighboring countries and oil companies in the petroleum sector and on the parallel drafting of a legal framework for the sector. The overall outcome to which the project was expected to contribute included the successful completion of negotiations and legal drafting resulting in the commitment of major investments to the sector. Agreements and legal texts were to be consistent with international best practice.

5.83 Building on achievements under PTAP I, the objective of PTAP II was to provide support to two key government divisions involved in overseeing petroleum sector development: (i) the Timor Sea Office (TSO) in the Office of the Prime Minister; and (ii) the Ministry of Planning and Finance (MoPF), specifically, the Timor Sea Tax Division (TSTD) and, separately, a petroleum revenue management function. The intended outcome of the project was to contribute to successful and sustainable oversight of the petroleum sector in the areas of investment and project development, sector policy and administration, and revenue collection and management.

<sup>121</sup> A brief description of this sector is contained in Annex 2.

## PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

5.84 This second operation thus provided continued support for advisory/technical assistance while expanding in scope to include funding for collection of tax revenues from petroleum sector operations; training of local staff in relevant sector institutions; and critical operating costs and basic office equipment for key sector institutions (since petroleum revenues were not yet significant at the time of the project).

5.85 Through the process of project preparation, the Bank, together with the IMF and Norway, also took a leading role in donor coordination in the sector. The design of Norway's longer-term program of bilateral support benefited from the sector coordination introduced by the Bank. Norway's program (initially, two phases over six years) would focus on the provision and building of human resource capacity and technical expertise in the Oil and Gas Directorate and would be implemented through in-situ advisors who would provide on-the-job training to local staff, combined with longer-term formal education overseas training. United States Trade and Development Agency (USTDA) funding (originally, less than one year) for advisory assistance on the development of the petroleum sector institutional structure and preparation of new petroleum legislation was also in place, as was early funding from the Asian Development Bank for a limited number of expert advisors (though both sources of funding ran their course over the life of the projects).

5.86 PTAP I was active for one year (December 2002 - December 2003), and PTAP II for about three and a half years (July 2003 - December 2006). Both projects were implemented well and with good results. Given the overlapping nature of the two projects, IEG in its ICR Review rated them as if they were one combined project. On this basis, they were found to be highly relevant to Timor-Leste's priorities with a fully appropriate design. The development goals for both projects were fully achieved, and the outcome rating for both projects was therefore satisfactory. The ICR Review, however, did not address the issue of the appropriateness of the savings rule adopted for the oil fund. In particular, it did not question whether the appropriate savings rule should be the same for Timor-Leste as for a Norway, a country with a much higher per-capita income and with a very strong base of human and physical capital.

5.87 The overall outcome of the Bank's engagement with the hydrocarbon sector has been *highly satisfactory*: The establishment of a petroleum regime that is internationally competitive in its terms and in line with international best practice. In many respects, the regime has set new standards for developing countries in regard to transparency and accountability in the management of petroleum revenues, and the reduction of the scope for discretionary or arbitrary use of such revenues. Evidence of this is the recent declaration of Timor-Leste as EITI compatible, only the third member country to reach this stage. The regime should also be sustainable despite the flaw in the savings rule. The Government of Timor-Leste, aware of the flaw, now wishes to utilize more of the country's petroleum revenues for development purposes (which it can do with prior concurrence from Parliament). The government also wants to change somewhat the investment regime for its financial assets held abroad. The exact nature of any policy changes in this regard are not yet clear, but IEG hopes that any changes would be in line with the core principles underlying the country's current petroleum framework.

**THE POWER SECTOR**

5.88 The Bank's interventions include one completed project and two ongoing. The completed project is the Power Sector Priority Investment Project (PSPPI). This FY05 TFET project for a grant of US\$1.35 million suffered from significant cost overruns covered by the government. Its objective was to assist in the delivery of least-cost, high-quality electricity service with minimum dependence on the government's budget. This objective was to be achieved by improving the generation capacity and distribution efficiency of the national power company, Electricidade de Timor-Leste (EDTL), and through savings by reducing demand with the use of energy efficient lamps and light bulbs.

5.89 The project included three main components: replacement of an engine at the Comoro Power station - the only power supplier in the capital city Dili; distribution rehabilitation; and distribution of energy efficient lamps and light bulbs.

5.90 The project start-up was delayed due to protracted negotiations of the Grant Agreement and it took two extra years and three extensions to complete. The overall project objective was the delivery of least-cost, high-quality electricity service. IEG rated the project objective as highly relevant to country conditions and in line with the NDP. The design was "commendably simple and clearly focused on achieving "quick wins." Overall, the project outcome was rated moderately satisfactory.

5.91 The first of the two ongoing projects is the Energy Services Delivery Project (ESDP). This project (FY07, US\$2.8 million) has several similarities with the preceding PSPPI - it would help finance urgently needed investments for the emergency repair of the Comoro Power Station and rehabilitation and upgrading of the power distribution system in Dili, as well as distribution of energy efficient light bulbs. In addition, the project would also include technical assistance and training to support project implementation and strengthening of the institutional capacity. However, the latest internal reviewing document (June 2010) describes significant implementation delays across the board (except for the User Pay program) with an original disbursement lag of 49 percent. There has also been no progress on the institutional and capacity-building components, including on several government commitments (establishing a Utility Board, hiring a technical advisor and a financial/governance advisor).

5.92 The second ongoing project is the Gas Seep Harvesting Project: The key development objective of this project has been to demonstrate the technical and economic viability of harvesting seep gas from natural gas seeps to produce reliable and affordable power for isolated rural communities in the south eastern part of Timor-Leste. The expected related outcome of the project would be the successful completion of the demonstration project at the Aliambata gas seep site, and supply of relatively reliable and affordable electricity to rural communities near the project site. To this end there were three components: power generation plant, power distribution, and metering, with the Bank financing the first and third components and the government the second.

5.93 The government moved quickly on its own component, but project implementation has otherwise been delayed because of procurement issues, which, as per latest internal reviewing document (January 2010), have now been resolved. However, an extension of the

## PILLAR III. SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

closing date end CY09 to end CY11 would be required, and has apparently been granted. The metering component will now be dropped in order to provide sufficient funding for the generation component (much higher cost than estimated), including through additional financing from TFET out of the remaining resources – and the TFET closing date has apparently been delayed until end 2011. Summary PDO and IP ratings are both MS, which may be on the optimistic side for a project so far behind schedule (original disbursement lag of 83 percent). The planned power generation plant will be able to operate with both gas and heavy fuel oil, but the utilization of gas seeps for this purpose is a pilot with experimental features.

**OUTCOMES: PROGRESS IN HYDROCARBONS, FEW ACHIEVEMENTS IN POWER**

5.94 Timor-Leste has made very significant progress in structuring the management of its petroleum resources and of its petroleum revenues. It has established a petroleum regime that is internationally competitive in its terms and in line with international best practice. The Bank – together with the IMF and some bilateral donors, particularly Norway – provided timely and appropriate assistance through two successful technical assistance operations, followed up in the context of the budget support programs. The advice on the oil fund, however, did not question whether the appropriate savings rule should be the same for Timor-Leste as for a Norway, a country with a much higher per-capita income and with a very strong base of human and physical capital. This shortcoming notwithstanding, IEG rates the overall outcome of the WBG's engagement with the hydrocarbon sector as *highly satisfactory*.

5.95 In the power sector Timor-Leste has made only modest overall progress, and lack of access to reliable power supply is still a bottleneck for private sector development. In the early years ADB and not the Bank was the lead donor in the power sector. Since then, both entities have played complementary roles in the sector. Thus ADB has provided extensive capacity-building and analysis of the power sector, while the Bank produced a rural electrification master plan. The Bank's performance should be assessed against the stated objectives in the CAS: (a) improved efficiency of power supply and collection efficiency in national capital to allow greater spending on district power services; and (b) enhanced availability of reliable, affordable power in the districts to support social and economic development. Against these objectives progress has been very modest – many of the sector problems remain largely as in 2005 and there is not much evidence of a strong policy impetus for this sector. In addition, the Bank's modest investment projects have been troubled by cost overruns and delays. The results of the WBG's work should therefore be rated as *Moderately Unsatisfactory*.

5.96 The longer-term usefulness of active Bank engagement in the country's power sector is in any case now under some doubt, given that the government reportedly desires to go its own way in power investments through arrangements with external suppliers.



## 6. DONOR COORDINATION: ALIGNMENT AND HARMONIZATION

6.1 The Bank has played, from the very beginning, a central role within the donor community. This started with the Joint Assessment Mission (JAM) undertaken in October 1999 to identify priority reconstruction needs and estimate the financing requirements - coordinated by the Bank and including experts from five donor countries, four UN agencies, the EC and the ADB, as well as Timorese experts.

6.2 During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager (with ADB)<sup>122</sup> of the Trust Fund for East Timor (TFET) that was established in 1999. This was at that time a very large multi-donor trust fund for reconstruction purposes, especially in relation to the small population size of the country, and was a major initiative of the Bank and the donors. By funneling core reconstruction funds through a single channel, TFET minimized the number of bilateral funding relationships that needed to be managed at a time when the local capacity for such management was critically limited. It also made it possible for the Bank itself from the beginning to play a leading role in the coordination of development assistance to Timor-Leste.

6.3 Several outside assessments have shared the view that TFET was an efficient funding mechanism as it used uniform procedures for project processing and implementation.<sup>123</sup> Thus a 2004 evaluation for the EC concluded that although TFET only represented about half the financing available for Timor-Leste's reconstruction, its efficient and effective donor coordination and good technical project design and preparation seemed to have influenced the allocation of non-TFET resources toward meeting the reconstruction needs identified by the JAM, which had thus been fully funded. However, there was still a fragmentation of funding mechanisms as about half of the funds for aid were provided outside of the TFET framework by donors and aid agencies using their own policies and procedures. This under-utilized one of the mechanism's main advantages, rapid, simpler and more efficient project processing and implementation resulting from using consistent procedures for project preparation, procurement, disbursement and monitoring.

6.4 Under the TFET, donor alignment with government priorities was satisfactory, with the 1999 Joint Needs Assessment, the 2002 National Development Strategy and the 2003

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<sup>122</sup> The Bank focused on projects for the social sectors, agriculture, small enterprises, community development and governance, and capacity building, while ADB administered projects for water, roads, port development and micro-finance.

<sup>123</sup> For a fuller discussion of trust funds in Timor-Leste see Annex 3.

## CHAPTER 6 DONOR COORDINATION: ALIGNMENT AND HARMONIZATION

Roadmap serving as an effective planning framework.<sup>124</sup> The annual Development Partners Meeting and multi-donor modalities made a contribution in this regard, with the Bank playing a central convening and policy role.

6.5 Subsequently, the TSP and CSP were the principal means for policy dialogue between the government and its development partners over the period 2003-07. Through these instruments the WBG was able to play a central role in policy dialogue and aid harmonization. While TFET greatly contributed to donor coordination in Timor-Leste, TSP and CSP provided a good anchor for government-influenced and increasingly government-led aid coordination. Close government and donor discussions over the recurrent budget had greatly improved coordination, resulting in TSP becoming an important forum for informal dialogue and coordination between the Timorese Government and donors. (However, as discussed in Chapter 2, it is debatable whether the “cover the waterfront” approach and long and unwieldy matrices was appropriate under these conditions.)

6.6 Throughout, the Bank’s program in Timor-Leste has been heavily dependent on trust funds, first primarily with the TFET, and subsequently with its own operations, most of which were heavily co-financed mostly through trust funds. Overall, taking account of the US\$10 million initial contribution of the Bank to the TFET, Bank resources have accounted for only about 13 percent of the total size of Bank administered projects.<sup>125</sup> While no good overall numbers are readily available (see Box 4), it is clear that various Bank-executed TFs from participating donors have also been supporting to a significant extent the costs of operating the Bank’s program in Timor-Leste. The use of trust funds as co-financing mechanism meant that the government largely had to deal with only one formal counterpart, but the overall impact on mobilizing development funding has been less prominent, in view of the large sums of off-budget aid and the increasing incomes from hydrocarbons.

### Box 4. Information on Trust Funds

Within the Bank’s different reporting systems, information on projects financed through trust funds is difficult to find and, when found, may not be consistent. The diversity in the information posed a challenge for this evaluation, even if differences tend to be smaller for recent projects.

As one example, the First Transition Support Program does not show up in the Bank’s internal database. The Operations Portal shows total resources for US\$56.76 million, US\$5 million of which comes from an IBRD grant and the remainder from a trust fund. Client Connection shows total resources for US\$53.01 million, all from trust fund sources – US\$1.25 million more than in the Operations Portal. SAP and E-Trust both show US\$51.7 million, all from trust fund sources, an amount differing from the Operations Portal by only US\$60,000. The Implementation Completion Report (ICR), however, implicitly states that the total resources for this operation were US\$30 million, with US\$5 million coming from an IBRD grant and US\$25 million from trust fund sources. No explanation could be found for the lower amount reported in the ICR, which is at least US\$25 million less than all the other sources--the Operations Portal, Client Connection, SAP and E-Trust. The task team leader gave more credibility to the information in SAP.

<sup>124</sup> However, one outside evaluator has commented that the allocation of assistance was not wholly consistent with the initially established priorities, in that there were only small investments in the agriculture sector, rural development, youth and reconciliation, among others activities.

<sup>125</sup> The share of co-financing is much larger in some projects. A striking case is the on-going Health Sector Strategic Plan Support project where IDA’s contribution of US\$1 million is matched by US\$19 million through trust funds.



6.7 Donors' interest in co-financing with the WBG is a good indication of the WBG's central role in the donor community, and the use of trust funds as a co-financing vehicle has been advantageous to the Government of Timor-Leste since it could for these projects deal almost exclusively with the WBG both formally and administratively, and also for most purposes in the context of the policy dialogue.

6.8 Both the CAS and the ISN noted that the WBG has been only a small player in financial terms, and the documents have touched on donor fragmentation as one of the risks. In the absence of large financial resources, the influence of the WBG must therefore come from high-quality advice, its ability to play a catalytic role among development partners and convene government and donors around priority activities, and its ability to mobilize donor resources through trust funds or other vehicles.

6.9 Various external evaluations and also feedback to the CPE mission from donors in Dili confirmed the central role of the WBG in convening and coordinating the development partners, and facilitating policy dialogue with the government.<sup>126</sup> These sources have also identified the WBG as playing an influential role in defining the overall assistance program that would be implemented, given the centrality of its position between the different stakeholders and its convening authority. However, in some instances the WBG failed to exercise good leadership.<sup>127</sup> The TFET, TSP and CSP mechanisms have been seen positively for coordination and policy dialogue. Bank-managed multi-donor trust funds have been seen as having a spill-over effect by working with the government to clarify its policy agenda. However, their actual financial value has decreased as a portion of overall assistance with the scaling down of budget support.

6.10 At present, coordination between donors in Timor-Leste is often informal. The Bank chairs the biweekly donors' meetings and is seen by many other aid representatives as the key convener for coordination and information-sharing purposes, and its sectoral multi-donor trust funds (MDTFs) provide a vehicle for coordination with the participating donors. The Bank's effort for aid coordination and information sharing are therefore well worth the cost and bother for local staff. However, in recent years there are clear signs of aid fatigue on the part of the government and key policy documents of the government (such as the recent strategy paper of the Government of Timor-Leste) have been prepared without inputs from the traditional donors, including the WBG. With the government's growing professional strength and increasing revenues from hydrocarbons, and also access to some support from non-traditional donors, the role of aid and of donor coordination may well need to be readjusted going forward.

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<sup>126</sup> In recent years, China has emerged as an influential development partner in Timor-Leste. However, its engagement with the traditional donors, including the Bank, has been minimal thus far.

<sup>127</sup> One example of this was the Bank's inability or unwillingness to focus on key priorities in various budget support operations when different government agencies (and some donors) were keen on broadening the policy agenda well beyond the implementation capacity of the government. Another example is the inability of the Bank to ensure priority of donor funding for rural development and agriculture.



# 7. CONCLUSION

## The Evolving Role of the World Bank Group in Timor-Leste

7.1 Timor-Leste is undergoing a complex transition and, as a country, has made considerable progress in creating institutions where there were none and setting up an economic policy framework better than the one it had before becoming an independent country. When the Bank's Transitional Support Strategy was approved in 2000, East Timor was a new state under UN protection, entirely dependent on the international community for political, security and financial support. Indonesian governance and administration systems had collapsed, leaving an institutional vacuum. The Timorese began with strong political will, sense of identity and the commitment of support from the international community, but with little experience or capacity. Ten years later, in 2010, despite its progress and achievements, the country is still challenged by potential instability, limited capacity, mixed development results and limited economic opportunity. However, the state's institutional structure appears better able to manage political competition and tensions. There is a maturing in the attitudes of the political leadership and the expectations of citizens. The Timorese leadership has also been increasingly assertive in defining its development vision and priorities.

7.2 In this context, the relationship between government and donors has also undergone a transition. International support was essential to helping Timor-Leste achieve Independence, recover from post-referendum violence and build the architecture and institutions of state. Grants and technical assistance provided through Bank-managed trust funds, or bilaterally through the donors, were critical to the state for managing its financial resources. The Bank had high credibility and its opinions and policies were valued. However, the dynamics of Timor-Leste's dependence have shifted. While the country still requires significant international technical support, it is less dependent on security guarantees (in the form of the United Nations Integrated Mission in Timor-Leste [UNMIT]), and significantly less dependent on financial assistance. The shift has taken place in the context of rapidly growing revenues from hydrocarbons, and a larger realignment of Timor-Leste's development policy and international alliances, with particular expansion in Asia and the Lusophone community. One result is reduced dependence on the traditional donors.

7.3 The role and influence of the traditional donors, including the World Bank Group and United Nations, has declined since 2007. The government shows frustration with complex, heavy donor mechanisms that it perceives as delivering few tangible benefits relative to investment and effort. It also appears more skeptical towards the advice received from the WBG and donors, and the usefulness of the development models they promote. In particular, the current Government of Timor-Leste has been more focused on a limited set of recovery priorities for stabilizing Timor-Leste, rather than the "whole of government" approach applied under the TSP/CSP. Changes in the relationship are in part the direct result of the disappointing results of international assistance during the past ten years, character-

## CHAPTER 7 CONCLUSION

alized by rising poverty and unemployment until the civil strife of 2006-07.<sup>128</sup> The WBG needs to redefine its role and its ways of functioning to remain a useful contributor to Timor-Leste development.

### ASSESSING THE WORLD BANK GROUP'S CONTRIBUTION

7.4 This section brings together the assessments of the previous chapters and develops a combined assessment of the WBG's contribution by reviewing relevance, efficacy and efficiency of WBG assistance.

7.5 Most WBG assistance to Timor-Leste was delivered through Bank-administered Multi-Donor Trust Funds, in some cases together with IDA grants. Working through trust funds allowed the Bank to leverage its limited resources over a broad range of activities, as well as play a leading role in convening, coordinating and harmonizing stakeholders and providing substantive inputs and technical support. However, the Bank, albeit being the leader, was still only one of the stakeholders, and the government and other donors had major roles in determining outcomes. The WBG's contribution must be assessed in this context.

### RELEVANCE

7.6 Was the WBG pursuing the appropriate strategy and did it address the "right" issues? In the first two to three years following its engagement in Timor-Leste, the answer is yes. The strategy was clear and focused correctly on immediate reconstruction needs, the restoration of basic social services, and alleviation of basic deprivation. Schools and hospitals were rebuilt, and income and employment opportunities were sought to be created even in remote regions of the country. By and large there was a sense of urgency commensurate with the daunting challenges at the time.

7.7 This focus seems to have dissipated as years went by. The strategy became more diffused and all-inclusive, covering a very broad front, perhaps to the detriment of the most critical areas such as agriculture and capacity-building of state institutions. The strategy failed to appreciate critical social challenges arising from youth unemployment, unresolved veterans' claims and rising poverty. The emphasis on quick wins and delivery of tangible benefits to the population that had characterized the Bank's strategy in the initial years was absent. There was much attention devoted to the adoption of laws and creation of institutions, without commensurate attention to the building of human resources and domestic institutional capacities to implement the laws and make the institutions function efficiently.

7.8 **Coverage.** WBG strategies were comprehensive, including the large and unwieldy matrices in the budget support operations. But sometimes this comprehensiveness came at the cost of losing focus. Agriculture did not get the attention it needed, and capacity-building in state institutions was attempted so widely that some key areas such as public financial management did not get concentrated attention. In private sector development there was heavy reliance on the preparation of new laws, while critical constraints, such as lack of finance and poor infrastructure were not part of the WBG's program, but were to be addressed largely by other donors, most notably ADB.

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<sup>128</sup> One manifestation of this was that the WBG and other traditional donors did not play a significant role in defining the government's new national development strategy developed earlier in 2010.

7.9 **Alignment.** The WBG's program was aligned with the Government's priorities as reflected in the National Development Plans, the Stability Program, and the Sector Investment Plans. The pillars of the WBG strategy reflected the main focus areas of the government's plans. However, over much of the period, the government's capacity to develop its own independent plans and priorities was limited and it was highly dependent on the international donor community for articulating these plans and priorities. Advice provided by the World Bank in its role as administrator of successive trust funds, therefore, had an important influence on the overall strategic framework. It is only since 2007-08 that the Government of Timor-Leste has articulated an independent strategic vision without significant inputs from the traditional donors, including the WBG.

7.10 **Realism.** The WBG recognized the very difficult environment in which it was operating, particularly the weaknesses in state institutions, including the shortage of trained and skilled staff at all levels. While the strategy made an explicit commitment to tailoring WBG interventions in light of capacity constraints, this often did not happen in practice. In many instances the project designs were too complex, and well beyond the country's capacity to implement them within the envisaged time frames. The WBG was also not a good learner: despite ample evidence from earlier experience in Timor-Leste (and elsewhere), it continued to persist with complex and over-ambitious projects.

7.11 The WBG was also not sufficiently perceptive about the fragility of the socio-political environment and tended to maintain a sanguine and over-optimistic view of social and political developments.

#### EFFICACY

7.12 Efficacy measures the extent to which the WBG achieved its objectives. As the discussion in previous chapters has shown, at the broad level, progress in achieving objectives was uneven, better in some areas and less so in others. Quick interventions by the Bank and other donors helped restore a minimum standard of living after the catastrophic breakdown of the economic system in 1999. This was perhaps the biggest achievement.

7.13 In comparison to other areas of WBG intervention, outcomes were better in the social sectors, especially in health but, to a much lesser extent, in education as well. Medical services were restored and schools were rehabilitated and refurbished. Some health indicators have improved, though progress lags behind in others. In the education sector, more children are attending schools, but the quality of learning remains a major challenge.

7.14 Very little was achieved in improving the performance of the private sector, or increasing agricultural growth and productivity. The macro-economic environment was relatively stable, a number of laws were passed, and some market infrastructure in rural areas was created. But overall, the critical constraints to private sector development remain as acute as they were before. These include poor infrastructure, limited access to credit, and a non-congruent and complex regulatory environment. Aside from the petroleum sector, there has been very little private investment, especially until 2007, and the private sector (outside of agriculture) remains a small fraction of the economy. Agricultural productivity still remains one of the lowest in the region for most food crops and livestock.

## CHAPTER 7 CONCLUSION

7.15 There was mixed progress in state institution building and improving governance. New laws were adopted and many new institutions for a functioning state were created from scratch, but their performance remains weak. Perhaps the stand-out achievement was the state of the art institutional framework created for the management of petroleum resources. Institutional capacity of several ministries has also improved, for example in finance, health, and education. However, overall progress has been limited and key ministries are still too dependent on a large number of foreign advisers. In other areas of governance, such as the development of the public financial management system and the overall legislative framework for governance, progress has been disappointing. So has been the development of the checks and balances, through parliamentary oversight and the judiciary.

7.16 Progress (or lack thereof) in each of these areas cannot be attributed to the WBG's interventions alone. As described in the earlier chapters, the WBG was one of several donors (and a minor one at that in terms of its financial contribution) that provided assistance to the government in achieving its goals. In some areas the WBG was not the lead agent even though it made a positive contribution (for example, in the functioning of the BPA in which the IMF had the lead role; or the development of the framework for use of petroleum resources in which the Norwegian Government played an important role). Nevertheless, on balance, the contribution of the WBG's assistance program to the achievement of objectives may be rated as modest.

### EFFICIENCY

7.17 Resources from the Bank including IDA grants, its one-time contribution to the TFET, IDF and DGF grants on Bank-administered projects over FY2000-10 amounted to about US\$ 50 million, about US\$5 per capita per year.<sup>129</sup> In addition the Bank undertook a large number of analytical and advisory services which cost US\$6.9 million, partly financed by various trust funds. The total administrative budget for the country over this period was about US\$23 million<sup>130</sup> or about US\$2.3 per capita per year, significantly larger than for other fragile states.<sup>131</sup>

7.18 Yet in terms of performance, the Timor-Leste assistance program does not stand out.<sup>132</sup> Inefficiencies are also reflected in project delays and cost over-runs. While some projects were prepared quickly and efficiently, most of the projects were completed with

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<sup>129</sup> This compares with Bank funding of US\$3.73 to Papua New Guinea, US\$6.24 to Solomon Islands, and US\$4.85 to Kosovo over the same period. The average for fragile states as a whole was US\$2.9 per capita per year and the Bank wide average was US\$3.5 per capita per year.

<sup>130</sup> During the period 2000-10, the total Bank Executed Trust Funds (BETFs) recognized for Timor-Leste amounted to US\$44.1 million.

<sup>131</sup> This compares with US\$0.29 for Papua New Guinea, US\$0.94 for Comoros, US\$1.04 for Solomon Islands and US\$1.52 for Kosovo during the same period. The average administrative budget for fragile states was US\$0.186 per capita per year.

<sup>132</sup> During the period FY2000-10, on average about 28 percent of projects (in terms of numbers) in Timor-Leste were considered at risk per year. The corresponding percentage was 11 for Kosovo, 33 in Papua New Guinea, and 21 in Solomon Islands. For fragile states as a whole the corresponding percentage was about 26 percent and the Bank-wide average was 17 percent.

significant delays, sometimes up to or exceeding 2-3 years. These delays, which often reflected complex project designs and unrealistic expectations about implementation capacities, resulted in large cost over-runs and reduced efficiency. Overall, efficiency was modest.

### OVERALL ASSESSMENT

7.19 Given the ratings for the different pillars, an overall rating of *Moderately Unsatisfactory* is warranted for the WBG assistance program to Timor-Leste. The details of the ratings are given in the sector chapters. A summary appears in the ratings table at the front of the report.

## Findings and Recommendations

### KEY FINDINGS OF THE WBG EVALUATION

7.20 From its very beginning, Bank operations in Timor-Leste faced unprecedented challenges. The economy had collapsed and the population faced severe deprivation. Most physical infrastructure was destroyed, there were no state institutions in place, and there was a severe shortage of skilled and trained personnel. But the situation also presented opportunities. A new system could be created from scratch, embodying the best of international experience.

7.21 In these difficult circumstances the Bank moved quickly to address immediate needs of the population, especially the poor. These included the restoration on basic social services and provision of funds to create income and employment opportunities throughout the country. The speed of the Bank's response and the focus of its efforts helped to restore basic living standards among the population even in remote areas. This was an important achievement.

7.22 However, the WBG's interventions were less successful when it came to longer term development challenges, and their effectiveness waned through time. Despite the priority accorded in the strategy documents to agriculture and private sector development, very little was achieved. Progress in improving governance and building state institutions – another priority area for the Bank – was also mixed, with some achievements amidst several missed opportunities for greater impact.

## Sector Findings

### THE FIRST PILLAR - PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

7.23 Progress was made in improving the population's access to basic **health** services. A large number of health centers were built, mobile clinics were made operational, hospitals rehabilitated and reconstructed and the supply of medical equipment and drugs was improved. However, strict application of Bank procurement rules slowed considerably the purchase of hospital equipment in some cases. These interventions had a positive impact on the delivery of health care. Immunization coverage for children 12-23 months has increased; increasing numbers of births are supervised by health care professionals; and infant

## CHAPTER 7 CONCLUSION

mortality rates have fallen. However and notwithstanding progress in many health indicators, child malnutrition increased during most of the evaluation period and the health of the population in many respects (life expectancy at birth, maternal mortality, malnutrition among children) remains well below the average in the region and closer to the average for low-income countries.

7.24 In the **education** sector, a large number of existing schools and class rooms were rehabilitated and refurbished with new furniture, and were provided basic teaching and learning materials. Regrettably these materials were in a language in which few teachers, parents or students were fluent. Bank-administered projects also contributed to institutional strengthening and capacity-building in the education system. These interventions have contributed to an overall improvement in enrollment rates at the primary and secondary levels. However, the quality of education remains poor.

7.25 The first pillar also included interventions to alleviate **poverty and unemployment**. In its initial interventions the Bank provided grants and loans to facilitate economic activity in rural and urban areas. These interventions were partially successful in that they did create short-term jobs and employment, as was often the key intention. But many of these jobs were not sustainable and many of the new businesses did not survive the significant UN departures in 2002-03. A major failure of the WBG was not being able to develop a significant and sustainable program for alleviating unemployment, especially of the youth, which remains a potent threat to social and political stability. The Bank also missed an opportunity to make itself useful when it failed to provide hands-on assistance in designing and implementing a program of social assistance in the aftermath of the 2006 civil strife.

7.26 In **youth unemployment and disaffection**, little progress was made until the unrest that shook the country in 2006. The strong economic growth in the last two years, led by high public spending, may have created job opportunities for the youth, but their extent is uncertain given the high capital intensity of the public works. WBG support in this area also came late and has had no significant impact.

7.27 Timor-Leste has made progress with its **veterans' programs**. The government has been able to address the tensions stemming from the claims by different groups demanding recognition and assistance. Veterans have been registered since 2005, and their benefits have been defined and paid since 2008. Albeit late, the Bank provided assistance in developing the database and designing the policies for veterans.

7.28 Overall, the outcome of WBG support for the first pillar is rated *moderately unsatisfactory*.

### THE SECOND PILLAR - GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS

7.29 Taken from the starting point of 1999, the state's **capacity** to govern and deliver public goods has increased significantly. The architecture and institutions of government foreseen in the Constitution have been established and are functioning, albeit with uneven efficiency. The Government of Timor-Leste is managing a significantly expanded budget, driven by growth in petroleum revenues. Ministries and agencies of the state are better able to plan and manage their activities and resources. On its side, the legislative branch of gov-



ernment has produced a significant body of legislation and is making efforts to carry out its oversight functions.

7.30 Macroeconomic management was prudent throughout most of the period, although the fiscal stance was tight until the civil unrest. This stance was consistent, however, with the saving rule of the Petroleum Fund, which did not take into account the sizable deficit of human and physical capital faced by Timor-Leste, nor the urgent need to provide social services and relieve deep poverty.

7.31 Timor-Leste, however, still faces major governance challenges. Institutional capacity is uneven across ministries, and remains weak in many of them. There has been almost no strengthening at the district and local levels. The Judiciary remains a challenge. Overall, the human skills base is still very low and the government remains highly dependent on advisors, many of them foreign, with only limited success in transferring knowledge and skills between the advisors and national staff. The Bank had state capacity building as a key priority from the start. However, the contribution to capacity development has been limited, as noted in the WBG's ISN (2010, p. 14). For the most part of the evaluation period the Bank did not have a clear needs assessment, a strategic vision, or a realistic and monitorable strategy that could have guided its actions to bolster capacity in Timor-Leste in a more effective way. Moreover, efforts to transfer knowledge and skill have been hindered by problems with the mentoring model, in addition to factors such as language and poor education.

7.32 Timor-Leste has also made very significant progress in setting up **systems of fiscal and public financial management**. The stable macroeconomic environment and the improvement in budget execution in recent years are evidence of this progress. The basic institutions for fiscal and public financial management have been set up and are functioning. Fiscal policy in general and expenditure policy in particular, are now planned and with increasing focus on public service delivery. These policies are better grounded, using more reliable estimates of the macroeconomic aggregates and the needs of the population. The utilization of petroleum revenues is governed by a prudent and transparent framework widely regarded as best practice. Institutions of the state outside of the executive, such as Parliament, are also in better condition to discharge their functions. Nevertheless, use of the systems of public financial management needs to be spread evenly across all government agencies and all levels of government, including the local. Parliament, the Judiciary and the other oversight institutions need to be strengthened so that they can fulfill their function as checks and balances adequately. More importantly, the part of the budget that is financed with donor funds must be brought into the overall budget, and the investment budget must catch up with the current budget in execution rates. The Bank's efforts in this area were late to bear fruit, and have faced significant adaptation challenges. Had the systems for fiscal and public financial management been in place when the flow of petroleum revenues started, the government would have been in a better position to tackle the unemployment and the deficiencies that helped brew the civil strife of 2006. Moreover, some of the systems suggested by the Bank, e.g. procurement, turned out to be ill-adapted to Timor-Leste. The successes with the Petroleum Fund and the recent project on public financial management need to be weighed against these shortcomings.

## CHAPTER 7 CONCLUSION

7.33 On the third leg of governance, the creation of a **legal framework**, Timor-Leste has also made very significant progress. It now has laws that govern taxation and customs, as and the exploitation and use of its petroleum wealth. It also has a public financial management law better adapted to its reality. Procurement legislation has taken several rounds, but also seems to be better adapted now. Rudimentary systems of checks and balances are now in place. However, Timor-Leste still needs to harmonize the different pieces of legislation that come from separate legal traditions, so that they are congruent and adapted to the uses and mores of the country. An additional challenge is to develop the implementing regulations that are needed to bring these laws to life. Yet another one is to fill in the blanks that have been left behind in the haste that seems to have dominated the legislative process until now. The WBG has supported the development of the legislative framework in a wide set of areas. Perhaps the coverage has been too wide for Timor-Leste's capacity – too many draft laws for a new Parliament and for a few lawyers capable of adjusting the drafts to the Timor-Leste's nascent legal system. The capacity challenge is even greater if the capacity to implement the new laws is factored in – no significant effort seems to have been made to adapt the new legislation to the civil service capacity that was actually on the ground. While the urgency is pressing, the need for a structured and strategic vision was all the more relevant in light of the limited resources and capacity. So were the need for a better understanding of the challenges of setting up a new legal system under a civil law tradition, and an acknowledgement of the limitations faced by Timor-Leste.

7.34 Overall, the outcome for WBG support for the second pillar is rated as *Moderately Unsatisfactory*.

### THE THIRD PILLAR - SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

7.35 The **private sector development** agenda of the WBG was largely centered on the framing and adoption of laws to regulate private sector activity. Left aside were the more pressing binding constraints posed by bad infrastructure, and the difficulty of accessing credit. A number of laws meant to facilitate private investment were adopted during this period. These included laws on commercial entities, investment, insurance, bankruptcy, co-operatives, and leasing of government property. It is not clear, though, to what extent the advice received by Timor-Leste from different donors was congruent and adapted to the specific conditions of the country. A land law addressing publicly owned real estate was also passed in 2003. However, a clear sense of priorities or legislative strategy has been missing, and critical laws such as on contract enforcement and for the use of collateral in credits are still pending. Moreover, while a lot of attention was paid to developing laws, less attention was paid to implementation, including the implementing regulations and the compliance and enforcement of these laws. Moreover, there was insufficient focus on strengthening the judicial system, which had done little in resolving conflicts within the existing laws.

7.36 At a different level, IFC helped create the Better Business Initiative, a forum to improve the dialogue between the government and the private sector. This forum was largely responsible for the recent creation of the Chamber of Commerce and Industry. IFC also helped develop an e-booking system to help international travelers and the tourism sector, and has made some efforts in easing microcredit using resources from another donor.

7.37 The WBG's program deliberately did not address two critical constraints to private sector development, poor infrastructure and lack of access to credit where the lead in particular in the early years was to be taken by ADB. However, progress in both these areas has been limited; shortages of electricity allow businesses to operate at only a small fraction of their capacity, and poor roads and other infrastructure increase the cost of operations. Banks remain reluctant to lend in the absence of a credible framework for contract enforcement. The Bank's program also sought to create a framework for controlling corruption. Yet, corruption remains a concern for private business, adding to their costs. In the absence of any improvement in the overall business environment, and the continuing fragility of the socio-political environment, it is doubtful that the observable non-oil private sector growth may be sustainable. Some activity has picked up after the increase in government spending since 2007. However, data on direct foreign investment also suggests that, except in the oil and gas sector, there has been no appreciable increase.

7.38 In **agriculture**, almost 4000 hectares of land were rehabilitated in 46 community-based irrigation schemes covering 2.4 percent of arable land. An extensive program of vaccination of livestock was undertaken through Bank projects early on, which reduced mortality rates. In addition, a sector policy framework was developed, as well as a forestry and watershed management policy and strategy. A fisheries decree law and supporting legislation were also approved.

7.39 But the overall impact on production and yields was limited because other complementary inputs such as fertilizers and high yielding seed varieties were not used. Many of the production activities supported by Bank projects in upland and coastal communities did not have a significant impact because they were hampered by poor roads and high transportation costs to markets. The pilot agricultural service centers established by Bank projects to provide services to farmers were not viable as farmers were unwilling (or unable) to pay for the services on offer.

7.40 Considering the entire period 2000-10, the outcomes in the sector have been disappointing. There was no increase in production of the three main food crops (maize, cassava and rice) between 2000 and 2008 – although the production did jump in 2009. Agricultural productivity remains very low, both for food-crops and livestock. The crop yields per hectare are well below world and regional standards. Food security remains problematic for most of the population, especially in rural areas. Despite large imports of rice, the 2007 Survey of Living Standards found that rural households did not have sufficient rice or maize to eat for about four months each year. The sector is still dominated by subsistence farming, which suffers from poor quality of inputs (seeds, fertilizers, pesticides, irrigation) and lack of knowledge regarding new technologies and best practices.

7.41 The **energy** agenda of the WBG included the hydrocarbon sector and power. Timor-Leste has made considerable progress in dealing with the petroleum wealth stemming from the find in the Timor Sea. There is a negotiated treaty with Australia, a set of rules governing taxes and royalties, and a Petroleum Fund to guide revenue use. Evidence of the progress is the recent declaration of Timor-Leste as EITI compatible, only the third member country to reach this stage. The Bank gave significant support to Timor-Leste in its negotiations with Australia, and in setting up the system of taxes and revenues. In collaboration

## CHAPTER 7 CONCLUSION

with the IMF and NORAD, the Bank helped create the Petroleum Fund by helping gather wide support for its approval. The negotiations and the system of taxes and revenues for hydrocarbons are the highlights of the Bank's program in Timor-Leste.

7.42 In the power sector Timor-Leste has made only modest overall progress, and lack of access to reliable power is still a bottleneck for private sector development. In the early years, ADB was the lead agency, but the Bank engaged in the sector early on. Progress in the areas supported by the Bank, namely improving the availability and efficiency of the power supply and collections from users, has also been modest.

7.43 Overall, the outcome for WBG support for the third pillar is rated as *unsatisfactory*.

### Broad Program Findings

7.44 On the positive side, the evaluation finds noteworthy the **Bank's assistance to Timor-Leste in negotiating with Australia its rights in the hydrocarbons find in the Timor Sea, as well as the establishment of a petroleum regime that is internationally competitive** in its terms and in line with international best practice. In many respects, the regime has set new standards for developing countries in regard to transparency and accountability in the management of petroleum revenues, and in limiting their arbitrary use. This example could be followed in other countries, being mindful, however, of their deficits in human and physical capital when setting the savings rule.

7.45 The evaluation also finds several weaknesses in the design and implementation of the WBG's program in Timor-Leste that negatively affected outcomes. Grouped by areas, these are:

7.46 The **program** in Timor-Leste:

- After the first couple of years, the WBG's program **over-emphasized long-term institutional objectives, placing too little emphasis on short-term interventions that would yield immediate benefits to the population**. The disconnect between increasing poverty and unemployment during these years and the large volumes of foreign assistance (which focused mostly on long-term policy and institutional development) contributed to a perception in the country that external support did not serve the country's population – the heavy dependence on foreign advisers helped to reinforce this perception. The high emphasis on the long-term translated itself into a push to adopt laws and develop frameworks and strategy documents, particularly in the development policy operations. While laws and frameworks are important, they were probably not the most important binding constraints on development at the time. Instead, the emphasis could usefully have been on concrete actions that had a more direct and immediate link to the objectives of policy. For example, with respect to private sector development, instead of laws that have apparently made little difference, the focus could have been on concrete measures to improve electricity supply, roads, and access to credit.

- Over time, the WBG's program increasingly **lacked a clear focus**. The program also did **not appear sufficiently based on the specific characteristics of Timor-Leste**. The **sense of priorities** that characterized the Bank's early operations **was missing**. In particular, agriculture did not receive the support it deserved, given its importance in the economy and the preponderance of poverty in the rural areas. This lack of focus was evident in the development policy operations, which sought to cover as broad a front as possible without a clear sense of priorities or apparent awareness of institutional capacity constraints. Even within a given area, focus was lacking in some cases and the program was spread thin, as was the case with capacity building. It would have been preferable to focus on a couple of key areas such as strengthening of public financial management (to improve budget execution, which was hampering delivery of basic services) and the key ministries involved with it.
- Institution building **did not pay sufficient attention to human resource development and training**, creating a major lacuna in the WBG's operations. Several new institutions were created (e.g. Ombudsman, Inspector General), but were unable to fulfill their mandates, partly because the mandates and ownership were not clear and partly because they lacked qualified people. The justice system is similarly hamstrung by a severe shortage of trained prosecutors and judges. Foreign advisers, which were to train the Timorese staff and help the new state function, did much better in the latter than in the former function. They have been very useful in enabling the government to perform its routine functions. However, they have largely been unsuccessful in transferring their knowledge and skills to the Timorese staff, and a better system is required to ensure skills are transferred, so that institution building can be sustainable.

#### 7.47 The WBG's **role and instruments**:

- In spite of the emphasis placed by WBG strategy documents on **simplicity of project design and the need to align projects with the weak institutional capacity in the country**, this principle was breached in many cases, especially after the first few years. Evaluations frequently found projects too complicated in design, sometimes involving multiple implementing agencies. Interventions tended to seek to achieve multiple objectives, rather than focus on a well-defined objective. The implementation schedules were often unrealistically optimistic. In spite of some procedural simplifications that were introduced to expedite project preparation and implementation, there was widespread dissatisfaction with the complexity of Bank rules and procedures, especially for procurement. The WBG's incentive system did not help to bring on board the best possible skills and know-how. The WBG did not follow (closely enough) its principles on how to deal with fragile states.
- Within the program itself, the WBG **did not adequately integrate lessons of experience into subsequent projects and programs**. Mistakes kept repeating themselves, like complex project design, over-optimistic and unrealistic assessment of the ground realities, focus on the long-term largely ignoring the short-term, and monitoring outputs instead of outcomes. Stronger management oversight would be desir-

able to ensure that lessons are learnt from earlier operations, and, more importantly, to maintain the focus on what is really needed to strengthen Timor-Leste's state.

- The Bank's early **efforts at building a structure of local governance by supporting the creation of democratically elected village development councils were largely unsuccessful**. The Bank did not have an adequate understanding of the political dynamics in the country, nor did it have the mandate or experience for this difficult endeavor. Mainstreaming of **gender and youth issues** in the Bank's program was not effective. While some measures to this end were included in some Bank projects, there was no serious follow up. These measures slowed project preparation and progress, and there was no evidence that they had any meaningful impact on gender or youth issues.
- Compared to the ambitious agenda that it set for itself, **IFC's actual program was very limited in scope**. Partly because of the difficult and uncertain business environment, it did not approve any of the intended investments. Nor did it provide any of the planned support for public-private infrastructure partnerships, or piloting of SME loan products and risk sharing facilities to increase the private sector's access to finance. Instead, its activities were largely confined to four TA initiatives funded by PEDF Trust Funds. These activities, the most important of which were the hotel e-booking site and the creation of the Better Business Initiative (which in turn led to the establishment of the Chamber of Commerce and Industry) had some positive impact. Overall, however, IFC's interventions have been too small to address the challenge of creating a private sector, especially domestic, and addressing its real constraints.
- The WBG's program rightly emphasized the importance of **monitoring actual results** of its interventions on the ground. In practice, while a lot of effort was spent in developing indicators to assess progress measuring inputs and outputs, insufficient attention was devoted to acquiring accurate data to make the indicators a reliable guide for monitoring results. Seldom did indicators measure outcomes or impacts on the ground. Moreover, some of the Bank's programs had an over-load of information and monitoring requirements on inputs and outputs that may have diverted scarce government capacity away from implementation of programs. It would perhaps have been better to focus efforts on a few key outcome indicators underpinned by accurate data.

## General Lessons

7.48 A few general lessons emerge from the evaluation of WBG operations in Timor-Leste. Although some of them may seem self-evident, they are important to emphasize because they were insufficiently internalized in WBG operations in Timor-Leste and they have resonance beyond Timor-Leste, especially in other fragile states.

- The WBG should resist the temptation of attempting to do too much too fast, especially in fragile states. It is important for the WBG (and other donors) to be realistic

about the situation on the ground and the capacities (and time-frames) for change and development. Interventions that did not factor in these constraints appropriately were significantly less effective than those that did. Examples were the failures in capacity building or teaching materials, which contrast with, say, the assistance given to Timor-Leste in its negotiations on petroleum related issues with neighboring countries.

- It is important that the WBG provide timely and high quality policy and technical advice. In doing so, the WBG needs to find the right balance between interventions for long-term institutional development on the one hand and concrete measures to address short term needs on the other. Without tangible benefits for the population in the short-term, the long-term agenda cannot be pursued. For instance, the Bank's credibility was high in the initial years when it focused on immediate priorities such as the restoration of agricultural assets and the rebuilding of schools and hospital. The Bank lost credibility when its interventions during 2003-06 did not pay sufficient attention to alleviating rising poverty and unemployment which led to social instability.
- Any proposed changes in laws and frameworks should be based on and congruent with the existing legal system, taking into account the language issue. If implemented at all, legislation transplanted from foreign systems, as is the case with the procurement law, has faced major obstacles during implementation.
- It is important to keep interventions, projects and programs simple and focused on key objectives, keeping in mind the very weak institutional capacity and scarcity of skilled people in the country. The Bank's procedures and administrative requirements need to be kept simple. The attempt at strict adherence to Bank procurement rules led to a delay in equipping four hospitals, despite the Bank's call for a flexible application of those rules in fragile states like Timor-Leste. Project implementation arrangements should also be simple. The involvement of multiple governmental agencies, as was the case with the youth employment project, is often too challenging and time-consuming, especially when those agencies have limited capacity.
- Efforts to influence social change should be undertaken based on a good understanding of social and political conditions on the ground. For instance, the early community development projects left little behind aside from the initial cash hand-out, because the social structures of Timor-Leste were not factored in appropriately.
- Efforts to support domestic capacity-building need to be given high priority, and should be structured to take place within a realistic framework. Aside from the obvious issues detailed in Appendix 4 on public financial management, teacher training in Portuguese comes across as a good example where effectiveness could have been greater had this task been given the priority and attention that it deserved.
- The monitoring and evaluation of WBG interventions should not place an excessive burden on government agencies that have limited capacity and skilled staff. Scarce capacities in line ministries, such as Health, were stretched trying to generate the da-

ta to monitor Bank interventions. Instead of tracking a large number of indicators based on poor data, as was generally the case in Timor-Leste, a few key indicators of progress should be tracked, and a greater effort should be made on improving the *quality* of data on which the indicators are based.

- Stronger management oversight is necessary to ensure that lessons of past operations are integrated in a timely way into subsequent operations in concrete and demonstrable ways. On the whole, lessons learnt from earlier operations in Timor-Leste did not seem to be incorporated in subsequent operations, which contributed to a decline in the quality of WBG interventions and loss of credibility.
- The role of the field office in Dili, including strong operational capacities such as in procurement, is important for WBG effectiveness and the results of the WBG's program.<sup>133</sup>

## Recommendations

7.49 The above findings lead to the conclusion that the significance of the WBG's role for Timor-Leste's economic development has been declining over time, and thus also its relevance for the Government of Timor-Leste. The WBG will regain its relevance if it is able to show Timor-Leste that it can be a knowledgeable, responsive and creative development partner, focused on helping the poor through sustainable development.

7.50 Timor-Leste is in several ways in a unique situation – a new country with new and still developing institutions, a severe lack of capacity both inside and outside of the government, monumental development challenges, and rapidly growing revenues from its hydrocarbon resources. Poverty remains rampant in the rural sector.

7.51 At this stage, the challenge for Timor-Leste is to use its petroleum regime to make the most of its hydrocarbon wealth in a sustainable way, and to spend effectively and efficiently these resources, with a clear goal of addressing the critical development constraints of the country in order to foster sustainable growth and reduce poverty. Key among these constraints are low capacity within the government; poor quality in education; inadequate infrastructure; unemployment, in particular among the youth; and the backwardness of agriculture.

7.52 The WBG has the potential capacity to become a key development partner for Timor-Leste in addressing its challenges, in collaboration with other donors. However in order to be an effective and creative partner, the WBG will need to change important aspects of its strategy and ways of operating in the country, thinking more in terms of teaming up with the country and moving beyond the traditional client-WBG paradigm.

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<sup>133</sup> The posts of country manager and operations adviser in the Dili office stood vacant since July, although the former position has now been filled from early January. Regardless of the reasons, such a long hiatus sends the wrong message to all development partners.



7.53 On this basis and based on the analysis and findings of the CPE, IEG makes the following recommendations, which are summarized, together with the findings, in Table 1:

7.54 On the **WBG program** in Timor-Leste:

- **The WBG set as its key objective going forward to help the Government in its current efforts to promote vigorous and sustainable growth of Timor-Leste's non-petroleum sector, as a means of reducing poverty and unemployment.** With widespread poverty and unemployment, especially among the youth, poor physical infrastructure, and the petroleum revenues, a sustainable public works program to create jobs and build critical infrastructure such as roads, water supply and sanitation infrastructure and rural infrastructure could usefully be a priority area for WBG organizational and financial support. This program would be supported by rural development projects that could help Timor-Leste move from subsistence farming into a surplus-producing sector capable of absorbing the underemployed rural poor.
- **Whatever the choice of direction Timor-Leste makes, the WBG prioritize clearly, after renewed consultations with other development partners, the key goals of its work program and all its interventions, and be realistic with regard to the time-frames required to achieve the institutional and social development objectives.** The situation on the ground needs to be factored in as well, as noted below. Such priority setting will likely entail a stronger focus on a smaller number of key poverty-focused interventions that would address top country priorities and permit substantial input of experienced staff resources. It would also need to be based on a revamped and clear understanding with other external development partners on the roles and responsibilities that each one would play.
- **Within the program agreed with the Government for institutional development, the WBG increase its focus on effective human resource development for institution-building and improved governance, within a clear overall strategy for capacity-building that fosters the transmission of skills and knowledge from foreign advisers to local staff.** The WBG's past emphasis on the supply of skills should give way to a much greater focus on transfer of skills. Examples like what NORAD did with the Petroleum Fund or the IMF did with the Banking and Payments Authority (BPA) are good models to follow.

7.55 On the **WBG's role and instruments** in Timor-Leste:

- **The WBG follow more closely its own principles and guidelines on how to deal with fragile states in its program in Timor-Leste.** Projects need to be simple and mindful of the weak institutional capacity of the country. Multiple objectives or implementing agencies ought to be avoided in WBG interventions in Timor-Leste. WBG rules need to be applied with the flexibility called for in fragile states. The WBG incentive system could be brought to bear in order to mobilize the best knowledge and organizational skills to Timor-Leste.
- **The WBG strengthen, to this end, its capacity to provide timely, high-quality policy and technical advice together with enhanced use of its organizing skills and**

**know-how.** The timeliness, creativity and quality of its advice and organizing skills, based on unparalleled international experience that acknowledges the realities and constraints of Timor-Leste, together with the WBG's financial contribution, will determine the role it will play in Timor-Leste in the future. High quality of staff will be important to this end, together with more active management of the assistance program, including closer oversight of operations.

- **The WBG be realistic with regard to the situation on the ground and what is needed to achieve the institutional and social development objectives in Timor-Leste.** To this end, the WBG needs to have a better understanding of the political dynamics in the country and only intervene when the Government asks it to do so. The WBG also needs to find an effective way of mainstreaming of gender and youth in its interventions so that they do not entail costly delays in the preparation and implementation of projects and programs.
- **IFC's interventions should be sufficient and proportional** to address the objectives of its program and help Timor-Leste face the challenge of creating a viable private sector, especially the domestic one. In doing so, IFC needs to factor in the real constraints to private sector development in Timor-Leste—energy, infrastructure and access to credit, and focus on the rural sector and the small and micro enterprises. These interventions will maximize the impact of the program on employment generation and poverty reduction.
- **The WBG shift its monitoring and evaluation of the program toward a few key results and the improvement of the statistical capacity** to obtain reliable and accurate data on outcomes. The monitoring and evaluation frameworks need to factor in the limited institutional capacity on the ground, and leave aside the emphasis on following inputs and outputs.

7.56 As a final thought, **the WBG may want to consider ways of providing additional resources to the work program.** Project lending from the very small IDA allocation alone may be insufficient to have the desired impact, even when combined with the current level of donor resources, which is substantial. Innovative program or project packages, perhaps in labor-intensive infrastructure (such as trunk roads, feeder and rural roads), could conceivably help mobilize some additional donor resources and also be combined with the Government of Timor-Leste's own resources. If needed, judicious use of some IBRD lending could be considered as and when the country is found eligible for such lending.

# Appendix 1. Guide to IEG's Country Program Evaluation Methodology

1. This methodological note describes the key elements of IEG's Country Program evaluation (CPE) methodology.<sup>1</sup>

*CPEs rate the outcomes of WBG assistance programs, not the Clients' overall development progress*

2. A WBG assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the Client's development objectives. If a WBG assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most WBG assistance programs provide only a fraction of the total resources devoted to a Client's development by development partners, stakeholders, and the government itself. In CPEs, IEG rates only the outcome of the WBG's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CPEs confirms that WBG program outcomes sometimes diverge significantly from the Client's overall development progress. CPEs have identified WBG assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak WBG program; and,
- Satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

*Assessments of assistance program outcome and WBG performance are not the same*

4. By the same token, an unsatisfactory WBG assistance program outcome does not always mean that WBG performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the WBG's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the WBG; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the

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<sup>1</sup> In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

5. IEG measures WBG performance primarily on the basis of contributory actions the WBG directly controlled. Judgments regarding WBG performance typically consider the relevance and implementation of the strategy, the design and supervision of the WBG's lending and financial support interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities (AAA), the consistency of the WBG's lending and financial support with its non-lending work and with its safeguard policies, and the WBG's partnership activities.

### **Rating Assistance Program Outcome**

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the WBG do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the WBG's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the WBG's program achieved a particular WBG objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the WBG's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the WBG, other development partners, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and WBG corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

### **Ratings Scale**

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated at the project level as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;

**APPENDIX 1**  
**GUIDE TO IEGWB'S COUNTRY PROGRAM EVALUATION METHODOLOGY**

- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building capacity in nongovernmental organizations; and,
- The level of social and environmental capital.

11. IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

12. **Sustainability** can be rated at the project level as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

13. At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

14. **Risk to Development Outcome.** According to the 2006 harmonized guidelines, sustainability has been replaced with a “risk to development outcome,” defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) of a project or program will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable*.

## Appendix 2. The Petroleum Sector

1. Timor-Leste has considerable proven and possible hydrocarbon reserves. These are modest by international standards, but massive compared to the country's small and underdeveloped economy. Petroleum is by far Timor-Leste's largest source of income.
2. To date, commercial hydrocarbon extraction has been limited to the offshore Joint Petroleum Development Area (JDPA) with Australia, where revenues are split 90:10 between Timor-Leste and Australia. The largest field there and the only one currently in production is Bayu-Undan, which became operational in 2004. The next field to be developed is the smaller Kitan field. The Greater Sunrise field straddles the eastern boundary of the JDPA and is subject to a separate treaty with Australia with a 50:50 revenue split. A development plan has yet to be agreed, including location of the processing plant.
3. In Timor-Leste's exclusive jurisdiction, offshore exploration is ongoing. There is also potential for onshore discoveries although this still has to be explored.
4. Timor-Leste has adopted a state-of-the-art legal framework for the management of its petroleum assets, with its Petroleum Fund, established in mid-2005, as the center-piece. The Petroleum Fund Law was approved unanimously by Parliament in June 2005 after thorough public consultations.
5. The Fund is essentially a government account with the Banking and Payments Authority (BPA) to which the country's petroleum receipts are credited and from which debits can be made to finance the state budget. It operates according to the following principles that are in accordance with good international practice:
  - Management: The fund is to be managed prudently in accordance with the principle of good governance for the benefit of current and future generations. The government is responsible for the overall management and the BPA is responsible for the operational management.
  - Income: All Timor-Leste's revenue from petroleum operations is paid into the fund, which also retains all investment income (net of management expenses).
  - Investment: All assets are invested abroad in established financial markets, with for now at least 90 percent in U.S. dollar-denominated fixed income instruments.
  - Withdrawals: Transfers from the fund can only be made to the single state budget account. The amount transferred in any fiscal year can only take place after the publication of the budget law and cannot exceed the appropriation specified therein. Transfers are also contingent on the government providing Parliament with a report

## APPENDIX 2 THE PETROLEUM SECTOR

specifying the estimated sustainable income (ESI) and a certification of that amount by an independent auditor.

- Savings policy: To preserve the real value of the country's petroleum wealth, withdrawals from the fund are guided by the concept of sustainable income. For each year, ESI is calculated as 3 percent of the sum of the fund balance and the present value of expected future petroleum receipts – the same percentage used by Norway.<sup>1</sup> Withdrawing more than ESI requires the government to provide Parliament with a detailed explanation of why it is in the long-term interests of the country, and also a report certified by the independent auditor estimating the impact on future ESI.
- Reporting: The BPA publishes quarterly reports on the performance and activities of the fund. The government submits an annual report with an audited financial statement. Details on revenue and composition of the investment portfolio are fully disclosed.
- Oversight: An Investment Advisory Board advises the Minister of Finance on the overall investment strategy and management of the fund. An independent Consultative Council advises Parliament on the performance and operation of the fund and also on budget appropriations and whether these are being used effectively to the benefit of current and future generations.

6. Timor-Leste's policy until now has also been consistent with EITI, for which Timor-Leste has been a pilot country, having embraced transparency principles even before EITI existed. The country was accepted as an EITI Candidate Country on February 22, 2008, and the first EITI Report was issued on December 21 2009, covering financial data for 2008. Recently, Timor-Leste was declared "EITI-compliant" as the third participating country reaching this status.

7. Timor-Leste hopes to attract industry associated with petroleum production. Timor-Leste would in this regard like to see Greater Sunrise developed by routing a pipeline from the field to the southern coast of Timor-Leste, rather than to Australia's northern coast. This routing might result in the development of port facilities, a liquefied natural gas (LNG) processing plant, and power-generating infrastructure on Timorese soil, and could bring about additional tax benefits from these downstream activities. It is hoped in the country that such a development would also make Timor-Leste an attractive location for methanol and fertilizer production. The construction activities associated with this option could generate substantial short-term employment. Yet neither the petroleum exploitation nor any such associated chemical industry would be significant long-term sources of employment, as both are intensive in technology and capital rather than labor.

8. The government reportedly also wishes to utilize more of the country's petroleum revenues for development purposes, and to change somewhat the investment regime for its fi-

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<sup>1</sup> While the simplicity of the rule is commendable, the macroeconomic principles behind it are not. The rule ignores the significant deficit faced by Timor-Leste in terms of human and physical capital, as well as its lower level of income.



nancial assets held abroad. There is also talk of other changes such as the establishment of a national petroleum company. The exact nature of any policy changes in this regard is not yet clear.

# Appendix 3. Trust Funds in Timor-Leste<sup>1</sup>

## A. Overall Trust Fund Usage

1. **The Bank's program in Timor-Leste has been heavily dependent on trust funds.** Overall, trust fund contribution since inception of the Bank's program has totaled over US\$405 million, of which US\$361 million have been executed by the government (RETFs) and US\$44 million (11 percent) by the Bank (BETFs). This compares to total Bank approvals over the same period of US\$39.1 million (all IDA grants plus US\$5 million Development Grant Facility allocation for the Post-Conflict Fund). In addition, IBRD made an initial contribution of US\$10 million to the Trust Fund for East Timor (TFET). Taking this into account, Bank resources have accounted for about 12 percent of commitments on its projects (measured as Bank resources plus RETFs). An EAP review in early 2008 showed an active TF portfolio at that time (exclusive of TFET and Co-financing grants) of 23 grants for a total value of US\$13.7 million.<sup>2</sup>

2. Overall, the Bank has accessed trust funds through six vehicles:

- The major Trust Fund for East Timor (TFET);
- Co-financing trust funds for the TSP and CSP budget support operations;
- Co-financing trust funds for IDA investment projects;
- The Education for All- Fast Track Initiative (EFA-TFI) facility;
- Other trust funds in part executed by the Bank in support of a variety of activities – most prominently the grants from the Post-Conflict Fund and the related LICUS Fund;
- Some mostly smaller child trust funds drawn on for a variety of Bank activities in the country and including BETFs in support of the implementation of Bank co-financed operations. (This last set of trust funds does not raise any general issues apart from the lack of comprehensive data, and will not be discussed further in this annex.)

3. **Trust Funds have been important for the costs of the Bank's work.** Conversational evidence indicates that activities such as under the Post-Conflict Fund (PCF) and the Fast-Track Initiative (FTI) have provided reasonable funding of implementation and supervision expenditures, in part because of connections to work under Bank-funded activities or because task management was carried out from the Dili office. While no good overall numbers

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<sup>1</sup> This Annex is extracted from a country case study prepared for IEG's ongoing evaluation of Trust Funds in the World Bank's Support for Development.

<sup>2</sup> That review – based on a sample of ten grants – found that the trust fund portfolio appeared to be in “pretty good shape”. However, the Recipient's capacity was still quite low, which demanded a great deal of support from Bank staff.

are readily available, it is clear that BETFs have been supporting to a significant extent the costs of operating the Bank's program in Timor-Leste.

4. **During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager of the Trust Fund for East Timor (TFET).** This fund (discussed in some more detail later in this annex) was established in late 1999 as a vehicle to provide grant assistance for reconstruction activities and economic development in Timor-Leste. As of 2008, its total project commitments amounted to US\$177.5 million for Bank and ADB projects.

5. **Subsequently to the TFET, IDA mounted its own operations, most of which were heavily co-financed mostly through trust funds.** This is shown for the most important operations:

- The Transition Support Program (TSP) consisted of three budget support operations FY03-05. The TSP was the key aspect of the Bank's work with the government in that period. For the program as a whole IDA provided about US\$14.1 million including US\$5 million for the first operation as a grant from the Post-Conflict Fund funded by the Bank's Development Grant Facility. Other donors provided US\$76 million through Bank trust funds and another US\$9 million through parallel co-financing. For the whole program other donors thus financed about 85 percent.
- For the subsequent Consolidation Support Program (CSP) the Bank mobilized US\$9.5 million through trust funds, against US\$0.5 million from IDA.
- Subsequent Bank projects have also often been very highly leveraged through trust funds: Planning and Financial Management Capacity Building (ongoing): IDA US\$7 million and US\$27 million through trust funds. Education Sector Support (ongoing): IDA US\$6 million (original) and US\$5 million (additional financing) with US\$6 million through trust funds (there have also been two EFA-TFI operations discussed below). Health Sector Strategic Plan Support (ongoing): IDA US\$1 million and US\$19 million through trust funds.

## **B. The Trust Fund for East Timor (TFET)**

6. During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager of the Trust Fund for East Timor (TFET) which was established on December 9, 1999. US\$10 million from the Bank's net income was transferred to the TFET for use in East Timor. At the subsequent Tokyo conference on December 17, 1999 donors pledged US\$520 million over three years for East Timor, of which US\$148 million was initially earmarked for TFET, to serve as a vehicle to provide grant assistance for reconstruction activities and economic development. The TFET was at that time a very large multi-donor trust fund for reconstruction purposes, especially in relation to the small population size of the country, but a number of donors also proceeded with their own bilateral aid activities.

7. As of January 31, 2008, 28 grant agreements, including supplements, had been signed, with a value of US\$167 million for a total of 23 projects. Of the total of 23 projects the Bank

### APPENDIX 3 TRUST FUNDS IN TIMOR-LESTE

had undertaken 17 and ADB six. In accordance with the TFET resolution, six percent of total donor contribution funds committed either through cash or promissory notes had been provisioned for project preparation, supervision, and administrative costs, bringing total commitments to US\$177 million. In addition, commitments for grant agreements then under preparation totaled US\$0.12 million, bringing total project commitments for the current work program to US\$177.5 million, against a total accumulated commitment authority, including investment income, of US\$178.8 million as that time.

8. The TFET was a major initiative of the Bank and the donors. With their agreement, the Bank undertook the role as trustee for TFET. The management of the proceeds was shared between the Bank and ADB within an agreed division of labor. The Bank focused on projects for the social sectors, agriculture, small enterprises, community development and governance, and capacity-building, while ADB administered projects for water, roads, port development and micro-finance. One Bank project (Oil Seeps) is still ongoing. TFET remains active, with a single outstanding project grant (Timor-Leste Gas Seep Harvesting Project) scheduled to close on 12/31/2011.

9. The design of TFET projects was to be guided by three overarching principles: (i) maximize East Timorese leadership and participation; (ii) encourage effective donor coordination; and (iii) achieve a balance between short-term and longer term needs. TFET was seen as complementing the trust fund for UNTAET for recurrent expenditure, equipping the civil service and capacity-building. There was at the onset some expectation from UNTAET that UN entities would also be eligible for administering TFET projects, but neither the donors nor the two MDBs favored such an approach, both because UNTAET had very significant donor resources on its own, and to avoid complicating the relationship to UNTAET which until independence was the legal government authority in Timor-Leste.

10. TFET financing of Timor-Leste's reconstruction was guided by the findings of the earlier Joint Assessment Mission (JAM) undertaken in October 1999 to identify priority reconstruction needs and estimate the financing requirements. The JAM had been coordinated by the Bank and included experts from five donor countries, four UN agencies, the EC and the ADB, and also Timorese experts. The TFET portfolio was evenly distributed between social sectors, infrastructure reconstruction and economic activities, including rural development. The projects were relevant to the reconstruction of Timor-Leste. The sequencing and the intra-sectoral allocation of funds were adequate.

11. IEG has evaluated 16 of the 19 Bank projects under the TFET. The Outcome ratings are symmetrical around the middle: Satisfactory (3), Moderately Satisfactory (5), Moderately Unsatisfactory (5), and Unsatisfactory (3). All the last three projects - rated Unsatisfactory - were for Community Empowerment, where the Bank overstretched by trying to help create local authority structures that went against the long-established lines of authority in the communities, and therefore did not work. The other Outcome ratings indicate a quite respectable range of results, especially when taking into account the very difficult conditions and rapid preparation for many of the projects.

12. Overall, TFET projects were prepared expeditiously. In this regard, in 2007, the Norwegian consulting firm Scanteam carried out a review for the Bank and Norway of post-crisis

multi-donor trust funds (MDTFs).<sup>3</sup> As a follow-up, the consultants carried out further analysis on the speed with which projects financed by Bank-administered MDTFs were launched.<sup>4</sup> The analysis covered a selection of projects from seven Bank-administered MDTFs working across a diverse geographic scope, all but one of these post-crisis programs operating in a post-conflict setting. Within the limitations of the analysis, the work showed that the TFET was one of the MDTFs with the most timely project launch, with elapsed time for RETFs from concept review to first disbursement of 8.2 months.<sup>5</sup>

13. Earlier, an EC evaluation had also found the processing of Bank projects under TFET to be very fast by Bank standards, in particular for the first wave of projects (approvals in CY2000).

14. Disbursements rose at a somewhat slower pace than originally expected, and there was a significant “tail” for a number of projects. Cumulative disbursements had reached US\$83.7 million by June 2002 – less than three years after the decision to establish the TFET. Given that projects were to be implemented by government entities in a situation of very weak institutional capacity, the pace of implementation was quite respectable.

15. However, three questions could deserve more consideration:

- The subprojects followed the “Bank model” – being implemented by the government as recipient. That approach has in general several important advantages (such as helping to ensure ownership and to strengthen over time domestic administrative and project implementation capacity). However, in Timor-Leste the administrative capacity was very weak – in parts virtually non-existent. *It is therefore possible that in the interest of speed of implementation the Bank should have considered in the early stages more direct Bank-execution of subprojects.*
- Given the lack of administrative capacity, all of the subprojects needed their own project implementation units (PIUs), which created a need for consultants and subsequently issues of integrating the PIU members into the government apparatus. (The EC evaluation reported that PIU integration into the ministries (at that time with the exceptions of agriculture and health) was difficult as they were seen as being controlled by the implementing agencies.) *It is possible that alternative mechanisms*

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<sup>3</sup> Review of Post-Crisis Multi-Donor Trust Funds. Final Report, February 2007. The report was commissioned by the World Bank, Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (NORAD).

<sup>4</sup> Speed of Delivery: Analysis of Projects under Bank-Administered Multi-Donor Trust Funds (MDTFs). October 2007.

<sup>5</sup> The analysis also showed that the data on project milestones provided generally by the Bank information systems (SAP and the My Trust Fund portal) were often outdated or inconsistent with actual milestone information once verified from country teams. This was partially caused by legacy effects of two important changes in institutional data systems, and partially influenced by an inconsistent approach to coding and tracking MDTF projects. It was noted at the time that the Bank was investing in updating these systems so that they would in the future provide correct and directly comparable data.

### APPENDIX 3 TRUST FUNDS IN TIMOR-LESTE

*should have been considered – the EC evaluation has in this respect suggested that the Bank could have considered one central PIU to carry out project implementation activities across sectoral boundaries.*

- A very considerable portion of the TFET funds were used to finance consultants, mostly expatriates paid at much higher rates than could be available for any Timorese National. Significant use of consultants will always create some administrative issues, but was probably inevitable in the case of Timor-Leste given the lack of domestic capacity and perhaps the use of the “Bank model”. However, mission observations and conversational evidence indicate that *the institution-building impact of many consultants has been very small, and that domestic capacity therefore has increased only slowly in many areas.*

16. **Overall Assessment of the TFET:** The TFET was an appropriate tool at the time for channeling donor resources to reconstruction and development projects in Timor-Leste, it was carried out quickly and with considerable – even exemplary – individual efforts. The projects were implemented under appropriate fiduciary standards, although there were some issues from time to time. Thus, the Bank’s 2008 report to the donors<sup>6</sup> noted that the quality of procurement in the TFET portfolio had been downgraded for that reporting period from satisfactory to moderately unsatisfactory, as “all remaining projects experienced setbacks in terms of procurement”.

17. TFET also broke considerable new ground in several respects:

- By funneling core reconstruction funds through a single channel, TFET minimized the number of bilateral funding relationships that needed to be managed at a time when the local capacity for such management was critically limited.
- It also made it possible for the Bank itself from the beginning to play a leading role in the coordination of development assistance to Timor-Leste.
- TFET was innovative both with respect to its size, and for making possible the channeling of resources to both the Bank and ADB under one formal framework, without prejudice to the World Bank’s responsibility as the Trustee.

18. At the same time, it has taken a very considerable time to complete all of the TFET projects, the very heavy dependence on consultants has been worrisome, and the institution-building benefits have by all appearances been quite modest and slow in coming.

19. **A Supporting View:** These conclusions are supported by a 2004 evaluation of the TFET carried out in 2004 for the EC.<sup>7</sup> That evaluation found that the Bank had put into place special procedures to accelerate the processing of TFET projects, that the Bank and ADB supervised regularly their projects, and also satisfactorily fulfilled their fiduciary obligations. Al-

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<sup>6</sup> Trust Fund for East Timor (TFET); Report of the Trustee. August 2008.

<sup>7</sup> European Commission; Europe Aid co-operation office Asia Latin America: Evaluation Report. Timor-Leste; Interim Evaluation of the Trust fund for East Timor (TFET).

though TFET only represented about half the financing available for Timor-Leste's reconstruction, its efficient and effective donor coordination and good technical project design and preparation seemed to have influenced the allocation of non-TFET resources toward meeting the identified reconstruction needs. As per the evaluation, donors gave as the reasons for participating in TFET (i) better donor coordination; (ii) higher efficiency resulting from the use of uniform procedures (particularly in financial matters such as procurement and disbursement) and the elimination of the administrative burden to have a large ground capacity in Timor-Leste; and (iii) to have a voice in the mechanism in which most donors participate.

20. However, the evaluators considered the pace of reconstruction as only a relative success because the mechanism did not significantly improve the country's low institutional capacity and failed to develop Timorese ownership of the reconstruction program. The evaluators were also concerned about the sustainability of some of the reconstruction work. In spite of the weaknesses, the evaluators believed that TFET was superior to the other alternatives (UN, NGOs, bilateral donors).

### C. The Transition and Consolidation Support Programs

21. The TSP and CSP were conceived as multi-donor, medium-term programs of balance of payments and budgetary support, with the rationale to provide bridging finance that would allow the government to implement a priority development program in the years before substantial oil and gas revenues would come on stream. Balance of payments and budgetary support would address both external and fiscal gaps, allowing the country to sustain a level of imports and public expenditures that would not otherwise be possible.

22. The thrust of the programs was to establish solid economic structures, good governance and sound financial and budgetary systems and procedures to achieve macro-economic stability and growth, thus allowing the government to address poverty reduction. Central to the programs was the setting of an appropriate level of expenditure that could be used productively and was sustainable when taking into account future revenue streams. These budget support operations were the principal means for policy dialogue between the government and its development partners over the period 2003-07.

23. **Assessment:** The TSP/CSP framework was a useful device to bring together a large number of donors for providing valuable budget support to the government. This additional financing allowed the government to maintain its essential developmental expenditures in the critical early years after independence when petroleum revenues were not yet available. The framework with the associated action matrices was also the principal instrument for policy dialogue between the Government of Timor-Leste and its development partners. Through these instruments the Bank was able to play a central role in policy dialogue and aid harmonization. The use of trust funds as co-financing mechanism meant that the government largely had to deal with only one formal counterpart. The framework was also useful to the government in its own efforts at monitoring and implementing its policy agenda.

## D. Project Co-Financings

24. Following the CSP Bank projects have also often been very highly leveraged through trust funds. This is the case for three out of four ongoing operations – the Bank projects for Planning and Financial Management Capacity Building, Education Sector Support, and Health Sector Strategic Plan Support. Overall for these three projects IDA grants finance 21 percent of project costs (excluding any small government participations) while other donors finance 79 percent through multi-donor trust funds.

25. The three projects have all suffered from delays from original schedules, and donors have expressed concern at such delays. The delays are at least in part associated with issues of weak government implementing capacity, but there have also been delays at times on the Bank side, associated with busy and changing task managers located largely in Washington, tight supervision budgets, and an approach to procurement that seems at times to have been lacking in its ability to find solutions rather than enforcing the Bank's rules.<sup>8</sup>

26. Doing projects in a country like Timor-Leste is expensive – given the weak government implementing capacity and the long distances for staff working from e.g. Washington or Sydney. Donors by and large recognize this, and have been quite open to helping finance the cost of IDA's operations. In particular, young expatriate staff has been hired by the Bank under trust fund financing to be resident in Dili for the purpose of helping to manage the three co-financed operations on a day-to-day basis. Without such services it is likely that the pace and quality of implementation would have slowed down very significantly for most or all of the operations in question. However, such welcome staff resources will not be fully effective unless they will have access to experienced operational support preferably in the country office itself – since the expatriate staff (or promoted local staff) may in many cases not have the required Bank institutional knowledge to master the Bank's rules and procedures and to get things done appropriately and efficiently within the organization and thus also in support of the government's implementation.

## E. Some Other Trust Funds

27. **Post-Conflict Fund (PCF):** The Post-Conflict Fund (PCF) got engaged in Timor-Leste already in FY00, and through FY05 it extended a total of 11 grants for a total of US\$3.8 million. This was followed by a grant in FY07 out of the LICUS Fund for almost US\$1.1 million for a project for Communication and Leadership Capacity for National Renewal.<sup>9</sup>

28. The files provide some evaluations of the PCF activities in Timor-Leste. Thus, the PCF FY04 annual report<sup>10</sup> stated that an evaluation report “was undertaken by a representative of the World Bank's Development Grant Facility (DGF)”. The review had concluded that:

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<sup>8</sup> A local staff has recently qualified to be the local procurement officer. Over some time, this should help improve the procurement aspects of project implementation.

<sup>9</sup> The PCF and LICUS Fund have now been subsumed into the State and Peace-Building Fund.

<sup>10</sup> *The Post-Conflict Fund in Timor-Leste: Portfolio Performance and Review of Experience, June 2004*. It was not possible to find the report itself.



- Activities financed by the PCF ranged from needs assessment, capacity-building for leadership, demobilization, veterans' issues and opportunities for youth.
- PCF grants offered a "roadmap" for key and strategic interventions responding to longstanding needs as well as unforeseen issues.
- The PCF played a decisive role at a key juncture in Timor reconstruction by providing quick funding and allowing the Bank to engage rapidly in the country.
- However, the review also found that even if PCF grants catalyzed some co-financing, "they didn't mobilize the expected level of resources for longer-term reconstruction". This comment is a bit surprising. The PCF in the early years financed short-term tasks addressing immediate issues in a post-conflict environment (post-conflict reconstruction through an NGO, ex-combatants' reinsertion, social assessment of post-conflict rural communities), but such activities would not seem easy to scale up significantly even if donor co-financing would have been available, and any linkages to longer-term reconstruction should have been expected to have been tenuous.

29. There have also been some other evaluations by individual consultants. These have dealt with the programs supported by the PCF, and at best only very tangentially with the specific support extended by the PCF itself:

- 2004: On the two commissions dealing with the identification of former combatants and veterans: The two commissions had been largely successful in identifying former combatants and veterans, but with major shortcomings. Donors did not interfere "exceedingly" with the work of the commissions and essentially provided technical assistance in specific areas. Bank missions also provided support at critical times.
- 2006: On the Commission on Cadres of the Resistance (CAQR) – recipient of a US\$500,000 PCF grant: The evaluation found that the CAQR had been largely successful in achieving its goals, but that its effectiveness had been constrained by several factors including an unrealistic time frame and limited effectiveness in influencing the policy development process on the veterans issues. Despite these limiting factors, in comparison to many other nations the registration process in Timor-Leste had been "exemplary".

30. The FY07 grant – executed by the Bank – under the LICUS Fund provided sub-grants to local and international NGOs for work in the field of strengthening communication and leadership, and "transformative leadership and communication workshops for formal and non-formal leaders". The funding (reduced to about US\$800,000) ended June 30, 2008, although it was felt that "the success of this program can only be maximized if it continues for several years".<sup>11</sup> The program was therefore continued under bilateral funding.

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<sup>11</sup> *Final Report. Leadership and Communication Capacity for National Renewal Program (LCCNR) – Year One.*

### APPENDIX 3 TRUST FUNDS IN TIMOR-LESTE

31. Overall, the tasks under the PCF and LICUS Fund programs seem to have been timely and directed at important post-conflict issues. However, their identification and implementation may at times have diverted the attention of Bank staff, and it is not always easy to discern any systematic relationships between the PCF activities and the projects financed under the TFET and later under IDA grants.

32. **Education for All – Fast Track Initiative (EFA-FTI):** Over the past years, the Bank has supported education through two vehicles:

- The Education Sector Support Project (ESSP): A SIL for US\$6 million (FY07) with AusAID co-financing through a TF of US\$6 million plus an additional IDA financing of US\$5 million (FY10).
- EFA-FTI: The Primary Education Support Project (PESP), funded with US\$3 million for use in FY07 and US\$5.2 million in FY08 – for goods, consultant services, operating costs and training activities. These two tranches of the PESP were spent on consultant services (US\$4 million), goods (US\$2.6 million), civil works, training and operating costs. A third FTI tranche for FY09 – still being completed – for US\$2.8 million was meant to be “bridge financing” pending a longer term funding arrangement, but with a shifting focus from a focus on enrollment and retention to improving the quality of teaching and learning. All FTI tranches in the country have been in the form of “traditional investment project”.

33. The Bank has thus been a major support for education in Timor-Leste, and the various projects have been implemented by the same Bank education staff members, including now one staff member resident in Dili. It is however noticeable that documents for one of the two financing streams tend to give but modest attention to activities under the other. Thus, one document described as “Application [from the government] to the FTI-CF for a one-year Bridge Financing for 2009” is virtually silent on the role of the IDA-funded ESSP. The internal reviewing documents for the ESSP do not mention PESP. The recent project paper on the ESSP additional financing mentions the FTI funding in a few places, but there are no clear discussions of any complementarities or respective roles and responsibilities.<sup>12</sup> It is unlikely that readers of these documents would get a clear sense of the total Bank/FTI support for education in the country.

34. While the two funding streams appear difficult to separate in principle and have probably from the government been seen largely as one package of activities, there have been two important differences:

- Until now, FTI funding has been under annual allocations and largely document-free in comparison with Bank projects. In the words of one Bank staff member: “No PAD, no internal reviewing documents, no ICR”, although an ICR may possibly now be prepared for the third FTI tranche.

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<sup>12</sup> The paper also states that further funding from the FTI was not expected because Timor-Leste’s IDA category now disqualified it from further applications to the FTI Catalytic Fund. Since then, the country has apparently been reinstated as an island state.

- FTI has been more flexible in its origination. As one example, it was possible to initiate FTI funding at a time when Bank projects were difficult to prepare because of the domestic unrest. This made it possible to extend funding to the Ministry of Education at a difficult time and for the Bank thus to stay engaged.

35. It is difficult to assess the impact of the FTI financing. It is likely that it will have helped contribute to improved educational enrollments and to capacity-building in the sector. However, care should be taken to avoid overstating the impact. Thus in one relatively recent (undated) note disbursements from the Consolidated Fund (CF) FY07-09 are given as US\$8.2 million (as of the time of the note), with other donors providing US\$70.3 million. The CF thus provided by these numbers about 13 percent of total donor disbursements. Over this period the note shows significant improvement in gross and net enrollment rates, and on this basis it proceeds to state that "As can be seen from the indicators above, FTI-CF funding has had a measurable impact increasing participation and retention in basic education in Timor-Leste". A more appropriate statement could have been that FTI-CF had contributed a modest percentage of total donor funding and on this basis could be said to have been plausibly associated with a share of the enrollment growth.

36. **Extractive Industries Transparency Initiative (EITI):** The EITI is a free-standing initiative operating under Norwegian law and with a secretariat in Oslo. Timor-Leste has recently been declared "EITI compliant" – the third country reaching this stage. The Bank is one of several international organizations supporting this initiative. The EITI Multi-Donor Trust Fund is managed by the Bank in support of the EITI. A RETF grant (US\$230,000) for Timor-Leste out of this TF has been operating since February 2009. It was supposed to end October 2010 but an extension was possible. The grant finances activities within the EITI work plan – meaning issues related to financial transparency pertaining to the petroleum sector. Utilization has been satisfactory.

## F. Conclusions

37. The Bank's program in Timor-Leste has been heavily dependent on trust funds. Since inception, Bank resources have accounted for about 12 percent of commitments on its projects. Trust Funds have also been important to help cover the costs of the Bank's work. The availability of these funds is a strong indication of donors' interest in working with the Bank and their respect for the Bank's capacity in the areas of policy dialogue, project preparation and project implementation.

38. In summary regarding the very substantial co-financings through trust funds:

39. First, they have been advantageous to all parties:

- For the government, the trust fund vehicle has clearly been advantageous as it can deal just with the Bank formally and administratively, and largely also regarding sector policies.
- For the Bank, massive co-financings have been essential for it to have a "seat at the table" – to bring its capabilities to bear in a situation with very little IDA resources

### APPENDIX 3 TRUST FUNDS IN TIMOR-LESTE

available. Without these co-financings the Bank would have been able to engage in fewer sectors and with much less weight.

- For the participating donors, the co-financings through trust funds have permitted them to “piggy-back” on the Bank’s professional expertise and administrative capacity.
- For the donor community, the co-financings have been useful tools for donor coordination, even for donors not participating directly.

#### 40. Second, they have helped provide the Bank with additional administrative resources:

- Doing projects in a country like Timor-Leste is expensive. Donors by and large recognize this, and have been quite open to helping finance the cost of WBG operations.
- In particular, expatriate staff has been hired by the Bank under trust fund financing to be resident in Dili for the purpose of helping to manage these often complex operations on a day-to-day basis. Without such services it is likely that the pace and quality of implementation would have slowed down very significantly for most or all of the operations in question.
- However, such welcome staff resources can add to the need for operational support in the country office.

#### 41. Third, close donor relations are important but come at a cost:

- The heavy reliance on trust fund financing involves a need for the Bank to maintain donors closely informed and to engage them actively (should they wish to be so engaged) at key implementation points such as mid-term reviews. Such engagements can be time-consuming.
- More importantly, there will be times when donors will be in disagreement concerning important aspects of project progress; e.g. because of slow implementation and/or due to changing priorities on the part of donors.

#### 42. Fourth, there are potential risks for the Bank in being heavily dependent on trust fund financing, although for Timor-Leste these risks have not so far materialized to any major extent:

- One aspect of such risks is that the Bank could increasingly be seen by some donors as their contractor more than their development partner.<sup>13</sup>
- Slow project implementation has been a fact of life in the Bank’s Timor-Leste program. However, such delays may especially involve reputational risks when there are trust fund resources – given donors’ separate priorities and requirements.

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<sup>13</sup> It was in this regard noticeable with some donors in Dili how freely they volunteered views on the organization of the Bank’s Dili office and on the capacities and responsibilities of individual staff members.

43. Fifth, the trust funds need to be integrated more explicitly in the Bank's planning and reporting of its program in Timor-Leste:

- The information on past and present trust funded activities is scattered between files and individuals, and there is no overall and easily accessible record or systematic reporting. Institutional memory is less reliable than for Bank-funded activities.
- The country planning documents give inadequate attention to trust funded activities or to any issues and risks arising from heavy dependence on trust funds.

# Appendix 4. Note on Public Financial Management Capacity Building Efforts in Timor-Leste

1. While a sound and transparent Public Financial Management (PFM) system is fundamental in any country, it is of particular importance in Timor-Leste where institutions responsible for budget planning and execution are still not fully able to support efficient allocation and execution of public resources. The need for strengthening the still fragile PFM institutions is particularly critical given the high demands for increasing public expenditure and the increasing revenue from the petroleum sectors. A solid legal framework and good systems that ensure accountability and transparency are very important, but equally critical is the need for skilled human resources to manage the systems and processes and perform their responsibilities.

2. This note compares and assesses the different types of capacity building efforts in Timor-Leste between FY2000 and FY2010 to strengthen human resources to manage PFM systems. The key objective in this area was to strengthen capacity of Timorese national staff to undertake all PFM functions and reduce reliance on foreign advisors for these functions. This note is based on a desk review supplemented by a brief mission to Timor-Leste and interviews with Bank, government and other donor stakeholders. It focuses predominantly on Bank support provided jointly in collaboration with other donors, some of which is under the Trust Fund for East Timor (TFET).

## Nature of Support

3. The total staff in the Ministry of Planning and Finance was estimated at about 700 in 2006 (Public Financial Management and Capacity Building (PFMCB) PAD). While the amounts other donors spent on capacity building are unavailable, a rough calculation of spending in selected Bank-supported projects (based on procurement data available in Bank data base) suggests that consultant services in general were a big part of Bank support. The Bank spent at least 48 percent of its total project funding on consultant services, which covers costs of international advisors, training, as well as staff of Project Implementation Units (PIUs).

**Table 21: Investment Cost by Projects in Selected Sectors**

<i>Project</i>	<i>Total US\$ m</i>	<i>Consultant Services</i>	<i>Goods Works</i>	<i>CS as % of total costs</i>	<i>Rating for Project Outcome</i>	<i>Rating for Capacity Building component</i>
HSRDP I	12.7	3.7	6.8	29%	S	Not rated <sup>4</sup>
HSRDP II	12.6	7.5	42.4	59%	MS	Substantial <sup>3</sup>
Education Readiness	13.2	0.6	6.2	5%	MS	Not rated
TL Petroleum TA SF	0.2	0.2	0.0	100%	S	Not available
Second Petroleum TL	1.6	1.0	0.3	60%	S	S
Fundamental School Quality	13.9	3.7	12.9	26%	MU	Not available
Education Sector Support	14.9	6.5	0.0	43%	S <sup>1</sup>	MS
PFMCB	7.0	12.6	0.0	100%	MS <sup>2</sup>	See below
Economic Institutions CB	0.5	0.9	0.0	100%	MS	MS
<b>Total</b>	<b>76.6</b>	<b>36.6</b>	<b>68.5</b>	<b>48%</b>		

1. Project does not have an ICR. Internal reviewing document ratings for PDO and IP are S; 2. Project is still active. Internal reviewing document ratings for PDO and IP are MS; 3. IEG Rating; 4. IEG rating for component was Substantial. However, capacity building is a subcomponent and review states that: "Gains in capacity building and manpower planning for health were less than expected and development of a long-term human resources strategy has been deferred to be supported subsequently by AUSAID." 5. ICR Page 4 rates it as MS and while page 1 rates it as S; 6. IEG rating for objective-- Strengthening capacity of MAF and its key development partners to assist rural communities.

## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

4. Separately, information provided by the government also validates that a large portion of total Bank support were allocated for consulting services (see Table 22).

**Table 22: Bank Disbursement by Cost Category**

	<i>Consulting services*</i>	<i>Goods &amp; service</i>	<i>Minor capital</i>	<i>Capital dev.</i>	<i>Disbursement</i>
2009	12,219,600.71	1,569,618.28	1,839,497.54	1,418,000.00	17,046,716.53
Percentage	72%	9%	11%	8%	100%
2010 (first 6 months)	5,087,138.00	2,124,731.57	2,270,232.00	478,480.00	9,960,581.57
Percentage	51%	21%	23%	5%	100%
Total	17,306,738.71	3,694,349.85	4,109,729.54	1,896,480.00	27,007,298.10
Percentage Total	64%	14%	15%	7%	100%

Source: Aid Effectiveness Secretariat, Ministry of Finance.

\* Noted as Salaries and Wages in the government's statistics.

### Approaches to PFM Capacity Building in Timor-Leste

5. **Notwithstanding several diagnostic pieces by different donors, there was no single strategic vision or a comprehensive and well-defined plan of action for human resource capacity building for the first six years of the evaluation period, despite the urgent need to deliver basic services and the clear prospects of increased revenue.**<sup>148</sup>

6. In 2006, the PFMCB project provided an ambitious (and perhaps unrealistic and complex) vision within a results framework agreed with the Government of Timor-Leste and key development partners such as AUSAID and NORAD. The overall program framework, content, and sequencing were discussed and endorsed at the ministerial level. The 2006 conflict and the subsequent change of government in 2007 led to a lack of client ownership of this program. The project was restructured in 2009, revising the program consistent with the priorities of the current government. Implementation has just been bolstered. However, the restructured program narrows its focus to the Ministry of Finance, shifting attention from other line agencies. Not all donors view this narrowing of scope favorably; a key donor representative suggested that the sole focus on strengthening MOF capacity would create an imbalance among the key ministries.

<sup>148</sup> The diagnostic pieces include: UNDP, "Priority Human Resources Needs for the East Timorese Government at Independence (October 2001);" which was a ten-year program endorsed by the Cabinet for capacity development across the government; World Bank, "Country Economic Memorandum (2002)," which included an analysis of public expenditure management encompassing approaches to capacity development specifically on PFM; Government of Timor-Leste, "National Development Plan (May 2002)" that includes sections on capacity building, defining priorities; and World Bank "Public Expenditure Review (July 2004)" covering PFM capacity-related issues. AusAID was an active development partner in the area of PFM, with a program that started in 2004.

7. **Commonly used approaches for building capacity in Timor-Leste were through the use of PIUs, the appointment of international advisors to support PFM reform, and training of individuals.** Less frequent were the other forms of capacity building such as training of trainers or strengthening of organizational capacity and training institutes. Each method is discussed below, reviewing what worked and what did not (summarized in Table 23).

**Table 23: Comparison of Capacity Building Efforts**

<i>Type of CB</i>	<i>What Worked in Strengthening PFM?</i>	<i>What Did Not Work?</i>
Project Implementation Unit	Built capacity in the PIUs and for the country, particularly on project financial management (FM) and procurement (related to donor guidelines) Also built capacity of local advisors attached to the PIU.	Did not translate into capacity for the government
Appointment of Advisors	Helped to reform systems and processes	<b>Did not transfer skills to national staff to run the systems and processes</b>
<b>Individual Training</b>	<b>Where focused with a clear objective such as in the Petroleum Fund, appears to have worked</b>	Training was fragmented and was not followed up; incentives were not right for obtaining results; and did not develop the needed PFM capacity
Training of Trainers	Some capacity has been built in specific sectors	Language constraints and lack of any follow-up training has limited benefits
Organizational Capacity Building	Recent efforts in 2009	Appears to be focused on the Ministry of Finance and there will be need to ensure more broad-based strengthening including of training institutes such as the Civil Service Institute and other civil society organizations
Individual Scholarships	Builds private goods in terms of capacity of individuals	Takes time and no guarantee that beneficiaries will return to the country, or if they do, will work for the government

## PROJECT IMPLEMENTING UNITS

8. **PIUs were helpful in substituting weak local capacity, moving projects forward and in ring-fencing project finances, but were not successful in strengthening government capacity to manage public resources.** While PIUs managed by international consultants gave comfort to the donors that funds were being managed prudently, such capacity was also ring-fenced and not transferred to the finance units of their respective ministries.

9. Sector PIU staff, such as those in Bank-supported health and education projects, note that they focused on use of project funds, and were not charged with building FM or procurement skills of line ministry staff.<sup>150</sup> Most PIUs hired only international staff, resulting in little transfer of capacity to national staff. When international advisors in PIUs, such as the one for PFM CB, were twinned with competent local staff, the latter were invariably absorbed into management positions in the government, leaving little time for them to focus on capacity building dimensions under the project. When local staff were hired to PMUs,

<sup>150</sup> See ICR of *Health Sector and Development Project* (2005), Borrower's Comments, Pg. 14: "There were no counterparts posted in the PMU to transfer procurement skills in the entire life of Health I. Ministry of Health was not able to identify suitable person with English language skills to post in the PMU as Procurement Assistant. At present the Central Procurement handles entire procurement of government. Hence in the long term it will not affect the Ministry of Health."



## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

they received higher salaries than other government staff of equivalent ranks; the majority of such staff then sought higher paying jobs outside the government.<sup>151</sup>

## INTERNATIONAL ADVISORS

10. **A large number of international consultants were financed by donors to help the government reform and strengthen its PFM systems and processes, but such support did not help to transfer requisite capacity to local counterparts to manage the systems.** The PFMCB project in 2006 foresaw the need to hire 52 long-term consultants along with other short-term consultants.<sup>152</sup> Support provided by these consultants has been successful in helping to establish and strengthen policies, systems and processes in PFM (such as establishing the legal basis for reform, ensuring better accounting and reporting systems, and improving asset management) (see Appendix 5), but has so far been unsuccessful for the most part in transferring skills to local staff to independently manage these systems and processes.<sup>153</sup> In most cases, PFM systems continue to be operated predominantly by international advisors, in some cases, even after a decade of support for capacity building. A variety of reasons contributed to the ineffectiveness of this approach.

11. **The failure to clearly distinguish between the different kinds of capacity building needs in Timor-Leste meant that generally advisers were expected to perform three different types of functions (policy formulation, performance of line functions, and training).** Each function required distinct forms for expertise and implied distinct incentives. Often, consultants who were hired for policy support were also required to perform line functions, which did not always need the same levels of expertise. TORs did not make this distinction and required consultants to perform multiple functions where capacity-building often ended up the loser.

12. **Language further inhibited performance of advisors.** Most advisors did not speak Portuguese or Tetum (or Bahasa), thus making communication with their immediate counterparts challenging. Also, exacerbated by the weak capacity of their immediate counterparts, advisors often tended to perform critical line functions themselves. Since this ensured timely delivery of services, it was encouraged by high-level managers.

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<sup>151</sup> Only one local advisor was identified who preferred to join the government relinquishing his higher-paid position of a local advisor as well as job offers from the private sector.

<sup>152</sup> TIMOR LESTE: TP-Planning & Financial Management Capacity Building (P092484): Quality Assessment of the Lending Portfolio (QALP) - Final Report, Context Section A ii.

<sup>153</sup> While the number of foreign advisors paid by the Bank's project may have declined, the government and other donors have hired those advisors to satisfy the operating needs of the MoF. What has helped to bolster capacity has been the decision by the Minister of Finance to use a cadre of Timorese advisors to act as a buffer between the foreign (mostly) English-speaking advisors and the Tetum-speaking staff of the MoF.

**Box 5. The Petroleum Fund**

In the case of the Petroleum Fund, better capacity appears to have been built up than in other areas. This was a smaller organization with clearly defined responsibilities and roles, did not involve capacity-building at different levels, and there were clearly known techniques which were considered good practice and worthy of emulation. This said, the support was also well designed. A needs assessment was undertaken, an organizational strategy for capacity-building was developed, and a variety of approaches were supported (classroom-based training, appointment of advisors with clear path for when Timorese needed to take over, scholarships, as well as on-the job training abroad (support for staff to travel to Perth to conduct tax assessments and audits of petroleum companies)). Timorese staff were also trained in English and Portuguese. The project also supported training of parliamentarians to better appreciate the petroleum laws and regulations. The ICR of the Bank-supported Second Petroleum Project notes that local staff have apparently taken over the work of some of the international advisors. However, other international advisors remain and it has been difficult to find a local person to head the Fund.

**13. The presence of highly-paid consultants for long periods did not promote the right incentives for transfer of skills to local staff.** Although the consulting fees appear to have been aligned with international rates paid by the Bank for similar work,<sup>154</sup> the practice of highly-paid advisors coming from high-income countries (charged primarily for policy advice) performing line functions (that ought to be responsibilities of local, permanent staff) for long periods of time distorted incentives for efficient and effective capacity transfer. government staff and other local advisors, receiving a fraction of a foreign advisor's remuneration per month, observed that they felt they should "let the foreign advisor do the work, he gets paid more for it." Almost all Timorese staff interviewed questioned the incentive for the international advisor to build and transfer capacity to local counterparts, because successful transfer "would result in eliminating his or her position." While these are universal issues and not limited to Timor-Leste, the lack of clarity in functions, the lack of a clear exit strategy for international advisors, and lack of clear guidelines on fees resulted in distorted incentives.

**14. The twining of international project management unit (PMU) staff with Timorese counterparts turned out to be challenging to implement.** Inadequate numbers of reasonably skilled local staff to match the large numbers of international advisors constrained transfer of capacity by international consultants. Some Timorese also suggested that merit-based appointments in some ministries, namely the Ministry of Health, helped to augment local capacity, and these ministries benefitted more than others. Language difficulties inhibited effective communication, and delays in appointment and turnover of Timorese staff exacerbated the problem.<sup>155</sup>

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<sup>154</sup> Until late 2009, the Bank had no standard matrix to determine the remuneration paid to consultants hired by the government and funded by the Bank. Projects financed by AusAID had a matrix that limited the extent of fees that could be paid to consultants working for more than 3 months. Moreover, projects could have used more intensively advisors coming from Bahasa- or Portuguese-speaking countries, with less expensive labor markets.

<sup>155</sup> See also HSDP I ICR.

## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

**15. The accountability of international advisors was unclear, including for those funded by the Bank, due to existing practices.**<sup>156</sup> As is the long-standing practice in other countries, consultants are hired by the government, after the terms of reference (TOR) and process of selection are cleared by the Bank. The contractual agreement is between the government and the consultant, and therefore only the government can hire or fire a consultant. The Bank can recommend such an action to the government, but cannot enforce it. Yet at the same time, the Bank is also responsible under its Articles of Agreement for ensuring that its funds are spent for the purposes they were provided. This raises a challenge in that the Bank needs to ensure that a consultant performs his/her tasks as required by the TOR cleared with the Bank, but without a direct contractual relationship with the consultant. This can confuse the accountability of the consultant and the role of the Bank, particularly in contexts where the consultant is not appointed to work on a project but to directly provide advice to the government. The confusion is bound to exist whenever there are two different accountability lines, and would be similar if the Bank were the one hiring and the consultant would have to work for the government. These risks were perhaps higher in Timor-Leste, given the low capacity of the government as the counterpart to monitor the work of international consultants related to systems that were being introduced to the country. The risks were further heightened by the precarious development of Timor-Leste's supreme audit institutions. These two factors seem to have obfuscated more than usual the accountability of the consultants to perform according to their TORs.

**16. The absence of systematic performance monitoring further contributed to weak accountability on the part of international consultants.** The results focus was on whether the PFM systems were working. Although appropriate in normal cases, this indicator was inadequate on its own to assess whether skills had been transferred to national staff, as functioning systems and good PFM outcomes could merely reflect satisfactory maintenance of on-line functions by international advisors. A simple but effective (according to the Timorese interviewed) system of performance monitoring existed under the AusAID-supported project PFM that preceded PFMCB.<sup>157</sup> The system allowed grading advisors on their progress in transferring skills in specific functions on a four scale rating, assessing the local staff's ability to perform a task independently. A monitoring system was integrated into the PFMCB project, but was never implemented under the project.<sup>158</sup> Thus, accountability was diffused. As a result, for example, according to a senior Timorese manager, several consultants left behind sophisticated reports (that often remained unused because of a lack of understanding) but not user-friendly guidelines or checklists for local staff to perform their work. Or, it was possible for a procurement advisor, for example, to stay in a PIU for 8

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<sup>156</sup> See also: "Sending in the consultants: development agencies, the private sector and the reform of public finance in low-income countries", Sarah Fyson, Development Cooperation Directorate, OECD, 2009.

<sup>157</sup> This evaluation understands that AusAID-financed consultants are hired directly by AusAID. Using the feedback of the client is an appropriate way of gauging the effectiveness of the consultancy.

<sup>158</sup> This issue was noted in the PFMCB PAD (pg. 21): "Capacity building through the placement of qualified international advisers has to be carefully monitored. In Timor-Leste and other countries, international advisory assistance has not had much success with sustainable skills transfer. Under the PFMCBP, recruitment of advisers will be based on the "ideal adviser" standard, with advisers expected to have a strong track record in client capacity building as well as technical competencies. Emphasis on all three pillars will be part of advisers' terms of reference, and performance monitoring benchmarks for advisers will be developed against all three pillars."

## APPENDIX 4

### NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

years, performing line functions to keep the work going, but to leave with little capacity built in the ministry.

**17. The lack of a mechanism to coordinate the many advisors in the Ministry of Finance further reduced both efficiency and efficacy of their efforts.** Guidance provided for strengthening the PFM system by individual consultants was fragmented without a clearly articulated overall framework for PFM reform, because advice was provided in silos. Timorese staff also expressed the view that when consultants unfamiliar with the systems introduced in Timor-Leste were appointed, the first six months of a one-year assignment became a learning and familiarization period for the consultant. As soon as they had learned how the systems and process work and how to communicate with locals, their term was sometimes over. This also led to inconsistent advice. One senior official noted how he received advice on implementing a law related to health practitioners in a manner consistent with a common law approach, while the law itself was based on a civil law system. More recently in 2009, the PFMCB project was restructured under a revised results framework and regular meetings are now being held at the ministerial level to attempt to ensure some coordination and consistency between the work and guidance provided by different advisors.

**18. Until recently, Timorese counterparts were rarely surveyed about the quality or performance of the advisors, even though they were the ones most affected and knowledgeable about the latter's performance.** The absence of systematic feedback helped to reduce the accountability of the advisors to the counterparts. Some counterparts noted that the lack of accountability of advisors to their immediate counterparts whom they were supposed to train resulted in many advisors focusing on building direct reporting systems to the senior managers. More recently in February 2009, a system to assess the performance of all PFMCB-appointed advisors was initiated, but appears to have been discontinued. Instead, monthly progress reports by advisors (which are required by consultant TORs) are expected to feed into regular monitoring of outputs and outcomes against their individual TORs.

## TRAINING

**19. Training was a common approach, but generated little sustainable results because it was focused on individuals and was opportunistic, fragmented, project-specific, and not followed up.** The absence of a proper needs assessment, a strategic capacity building plan, and the failure to set up the planned training data base to monitor training outputs and outcomes appear to have reduced the effectiveness of training components.<sup>159</sup>

**20. Most training efforts focused on developing individual competencies, and not strengthening training institutions or organizational capacity to select, train, and sustain quality staff or in building linkages and partnerships between different actors.** Although there was some support for training of trainers, such support should have also simultaneously strengthened institutional linkages between the government ministries and other training agencies whether they be from the government (Civil Service Institute), from the non-government sectors (such as NGOs and civil society organizations), from other public sector organizations (such as universities and polytechnics) or from the private sector (such as accounting and auditing agencies, contractors, and business groups).

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<sup>159</sup> See PFMCB PAD (pg 68), which had proposed to create a training record database to support management and monitoring of training delivery and outcomes for MOF.

## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

21. **Little support was also provided to MOF or other line ministries for strategic human resource planning and training.** Recently with the appointment of a HR advisor under the PFMCB, such support is available for the MOF to develop its organizational capacity for strategic human resource planning in PFM. While it is important to strengthen PFM in the MOF, it is also important to simultaneously strengthen capacity in other line ministries. In some cases, developing strategic capacity building plans was part of project design, but was not followed through. One project, for example, included a covenant that stated that a Ministry-led Capacity Building Steering Group would be appointed within one month of project effectiveness (August 2007) and a strategic plan for capacity building would be developed by the Ministry within six months of project effectiveness. Although a draft CB strategy was apparently developed, this lost relevance with the reorganization of the ministry. Despite the covenant, it was only at the time of the IEG mission in August 2010 that a strategic plan for capacity building was being prepared.

22. **Training components were often unrealistic.** This led to components having to be redesigned midway because the skill level and capacity of public servants was materially different from that originally envisaged. Or again, project design did not adequately understand capacity needs, and the significant efforts and resources, that followed delivered weak results.

23. **Language and numeracy barriers to effective training were not addressed.** Timorese who were interviewed suggested that learning in languages in which they were not proficient was tedious and ineffective, even when there was simultaneous interpretation. Low familiarity of interpreters with technical terms further reduced efficacy. The levels of absorption in these technical areas have also proven to be challenging. The Government's Financial Information and Monitoring System, introduced by the UN, is in English. Ten years after its introduction, national staff are reportedly only somewhat fluent with the basic system and are still unfamiliar with the underlying conceptual framework. All procurement documents are in English and this severely constrains the ability of nationals to acquire satisfactory skills and competency.

24. **Short-term and irregular training programs were highly inadequate to create sustained capacity, especially given that PFM formats and systems were constantly in flux.** The weak levels of skills of government servants meant that significant and concerted long-term efforts were needed to ensure the building of requisite skills. Results of individual training, even when successful, were often not sustained. Well-trained people appear to move away because of inadequate incentives in the government. Poorly trained people needed further training to strengthen acquired learning and skills, but such follow-up was not available. There is also no evidence of the use of Global Development Network (GDLN) facilities to supplement and sustain face-to-face training, although some international training was planned for district participants through the Dili Distance Learning Center.

25. **Individual scholarships have been awarded under a few projects – this is an appropriate approach given the capacity needs in the country, but has been underutilized so far.** Graduating university students have been sent outside for training in different aspects of PFM, and are expected to be returning to TL in the near future. While the numbers are small, they will nevertheless add some much-needed capacity in Timor. However, there is

## APPENDIX 4

### NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

no guarantee that these beneficiaries will come back to Timor-Leste and, if they do, that they will opt to take up government jobs as against higher-paid private sector jobs.<sup>160</sup>

**26. Timorese also speak about the lack of support for local educational institutions<sup>161</sup> to develop relevant courses that would be offered in a manner convenient for them to attend.** Given the limited availability of scholarships for longer-term overseas training, supporting short-term courses to teach government servants numeracy and English skills relevant for PFM could have gone a considerable way in building essential capacity. Timorese, who were interviewed, feel they would have availed of such courses if opportunities had been offered over the weekends or in the evenings.

## Findings

**27. Capacity building is a long-term investment and process, and there are few quick fixes.** This is especially true when technical capacity to understand and manage modern (and imported) PFM systems is low. However, the failure on the part of the donors to support a comprehensive needs assessment, a strategic vision, and a realistic and monitorable strategy as early as possible constrained effective capacity building for PFM.

**28. Without such a strategic approach, efforts were fragmented, ad hoc at the project-level, and supply-driven; results were weak.**<sup>162</sup> A rapid survey of 24 Timorese government staff in a variety of ministries conducted during the IEG mission indicated that more than 85 percent thought that transfer of PFM-related skills to national staff was unsatisfactory. Other development partners have come to similar conclusions. A recent audit by the European Commission<sup>163</sup> of the PFMCB project concluded that the presence of many highly qualified advisors (about 40 long-term consultants in the field at the time of its mission) appears to have led to a situation of “advisor saturation” actually “inhibiting capacity building” more than supporting it. An ADB report on capacity building concluded: “Public sector capacity-building initiatives in Timor-Leste have been a major focus of the international community. However, much of this effort has been limited in coverage, project-based, donor-driven, fragmented, and discontinuous. Results have been uneven, and the overall progress of efforts has been slow.”

**29. The absence of a strategic approach led to the lack of a judicious balance between importing readymade capacity and initiating the building of local capacity to handle PFM tasks.** Donors relied predominantly on international advisors to substitute as well as to

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<sup>160</sup> A new approach is under consideration in which the government would hire international consultants to substitute local staff to perform line ministry functions and simultaneously give scholarships to the substituted local staff to improve their capacity overseas. Once local staff complete their courses, they would be required to take over the functions maintained by the international consultants in their absence.

<sup>161</sup> A university was established in Dili in 1986, under Indonesian rule, largely to train middle-level administrators, agricultural extension workers and secondary school teachers. According to some reports, the study of English was carefully controlled and international contacts discouraged. Computers were made available only to a few, and Indonesian history was taught, but little about other countries in the region. The majority of the educational buildings were razed to the ground during the conflict in 1999. (see [http://en.wikipedia.org/wiki/Universidade\\_Nacional\\_de\\_Timor-Leste](http://en.wikipedia.org/wiki/Universidade_Nacional_de_Timor-Leste))

<sup>162</sup> *Democratic Republic of Timor-Leste: Capacity Building to Strengthen Public Sector Management and Governance Skills, Phase III* (ADB, September 2008), Para 4.

<sup>163</sup> Reference to EC to be deleted before disclosure. Would read “external audit.”

## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

build local capacity, which proved to be over optimistic. At the same time, weakly designed and fragmented project-level training efforts also did not help to strengthen local capacity for PFM.

**Table 24. Ratings by National Government Staff on Capacity/Skills Transfer of Bank Support**

	<i>Government Advisors</i>	<i>Local</i>
# surveyed	4	21
Ratings	%	
HS (6)		
S (5)	50%	5%
MS (4)		10%
MU (3)		24%
U (2)	25%	29%
HU (1)	25%	33%
<b>Average Rating</b>	2.8	2.3

30. **An overall results framework was non-existent for many years, and weak when formulated.** Although the PFMCB project included a results framework for capacity building, its highly ambitious objectives, a complicated design involving 51 long-term consultants in addition to other short-term consultants, and more than 100 indicators needed a total overhaul in 2009 before implementation could begin in earnest.

31. **Over-ambitious objectives and weak project designs based on unrealistic assumptions further constrained results.** For example, the Economic Institutions and Capacity Building project, which preceded the PFMCB project, needed five extensions of its closing date. As the ICR notes, “in hindsight, the original closing date which was established as two years after project approval was ambitious -- given the difficult environment -- for a TA project focusing on jump-starting government capacity.”

32. **Capacity, to the extent it was built, was often not sustained.** First, individual capacity building was not adequately complemented with institutional and organizational strengthening. Second, the lack of refresher training to sustain individual capacity built, coupled with insufficient incentives, made it challenging to retain capacity in the public sector.

33. **Language has been a major constraint to effective capacity enhancement that was recognized, but not addressed, in hiring international consultants or in conducting training.** Except for a handful of advisors who spoke Portuguese (the national language) or Tetum (the language most widely spoken), the majority of the consultants spoke English.<sup>164</sup> This was, and continues to be, a major constraint to capacity building efforts in a country where nationals speak other languages, although a number have picked up English over the last decade.

34. **Monitoring and evaluation of capacity building results was inadequate.** ICRs provide little or no focus on the outcomes of training, with the focus almost entirely on outputs in

<sup>164</sup> This may have been driven by the fact that many government staff were not conversant in Portuguese, although many more have picked it up over the last decade.

## APPENDIX 4

### NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

terms of training sessions held and number of participants trained.<sup>165</sup> PFM outcomes such as timely production of budget reports, percent of budget spent, and so on were monitored. Such indicators, however, were not necessarily relevant in assessing the results of capacity transfer, since international advisors were regularly performing day-to-day functions. It is also important to assess periodically whether the advisors were contributing towards management techniques, analytical tools, incentives, and organizational structures that suit the available capacity and are responsive to the desired outcomes

**35. Efforts focused on Dili, with little attention to building relevant institutions and human resource capacity at the district level.** The Bank focused on community empowerment at the local level during the first many years, by-passing traditional forms of established governance institutions. In 2006, the PFMCB project focused on strengthening 'two' critical PFM functions at the district level. These planned activities have not yet fully materialized. Weak capacity at the local levels will continue to be a significant constraint to effective functioning of PFM systems, especially as the 2009 decentralization strategy is implemented.

**36. Donor coordination in supporting capacity enhancement was weak for several years.** After 2006, support for PFM capacity building provided through the PFMCB project was better coordinated among key development partners, better aligned with government priorities, and more consistent with the spirit of the Paris Agreement.

## Lessons

**37. A needs assessment to understand capacity weaknesses as well as strengths is a necessary beginning point, particularly in fragile states.** Based on such an assessment, a flexible, strategic, and prioritized action plan that builds on the strengths, with a clear results framework, should be developed and supported.

**38. Appropriate consultants need to be appointed to build capacity for each function where enhancement is desired.** Senior and experienced consultants should be appointed for limited periods to provide policy guidance. Consultants from countries with similar PFM systems such as those being introduced in Timor should be hired to perform line functions for as long as it takes to build capacity. At the same time, consultants with requisite pedagogical and language skills should be hired to strengthen local competencies including language and numerical competencies.

**39. Short-term capacity enhancement may have to take the form of international advisors, but this approach should be accompanied by a clear exit strategy for international advisors.** In addition, where a number of consultants are hired for building PFM capacity, there should be a mechanism to coordinate the different efforts by individual consultants and a third-party performance audit of the results, which should involve feedback from beneficiaries of capacity building efforts.

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<sup>165</sup> See ICR for the Economic Institutions Capacity Building Project (2007), Pg. 5: "The Training Component of the project was successfully concluded in 2003. The formal training program, which was concluded in February 2003, included four two-week courses covering nine topics on financial management and procurement. The total number of participants for these courses was 57 officials, (approximately one-third of whom were women)... Participants reported a high degree of satisfaction and indicated a desire for further training and support related to their actual functions."



## NOTE ON PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING EFFORTS IN TIMOR-LESTE

40. **A monitoring and evaluation system is essential to understand progress in capacity strengthening, and also to assess the performance of individual advisers.** The associated indicators must, however, assess both transfer of capacity through various capacity building effort as well as PFM outcomes.

41. **Appropriate incentives are needed to sustain the results of capacity building for PFM.** These include: i) transparent and competitive appointment of civil servants, as well as competitive remuneration; and ii) attractive and relevant courses tailored to staff needs.

42. **Individual training is important, but strengthening institutional capacity to provide PFM training is even more important.** Investment in strengthening training organizations such as the civil service institutes and other such agencies is essential to provide and sustain relevant and much-needed training for civil servants.

# Appendix 5. Money Path – From Budget Preparation to Budget Execution

1. This annex focuses on budget planning and implementation process, outlining the problems in public financial management and how development partners addressed the issues. The note is based on a desk review supplemented by a brief mission to Timor-Leste and interviews with Bank staff, government officials, donors and other stakeholders.

2. **The Ministry of Finance has a strengthened institutional organization that enables a better public financial management process.** Budget preparation and budget execution are improving as was shown last year when, for the first time, the Government of Timor-Leste presented the FY2010 Budget for discussions with Parliament on time and with budget execution rates increasing. Two laws are giving support to it. The 2008 Organic Law of the Ministry of Finance built an organizational structure assigning responsibilities to create an environment that should effectively support a sound public financial management across the government. In October 2009, Parliament enacted the Budget and Financial Management Law, which gave the new legal basis for the budgetary framework. The FY2011 Budget is expected to follow this new framework.

3. **Budget preparation and budget execution are following a clear sequence of steps and a fixed calendar.** At the beginning of the fiscal year, in preparation for the budget's next fiscal year, a timetable is defined for all budgetary activities for line ministries and agencies and, within the Ministry of Finance, for the budget and treasury areas (the fiscal year coincides with the calendar year). By the 15th of October each year the government should submit the draft budget to Parliament. The Budget needs to be approved before the end of the year.

4. Before the Circular that sets budget ceilings for each agency and ministry goes to the government agencies for preparation of the budget, **the Ministry of Finance estimates the resources available for the following fiscal year, taking a medium term perspective.** These resources include domestic taxes and resources from the Petroleum Fund. Domestic taxes represent a small fraction of the overall budget (for 2011, US\$112 m out of a total budget of US\$714 m). In preparation for next year's budget, the Ministry of Finance issued the Circular by early August 2010, with the macroeconomic framework for the fiscal year's 2011 budget. It sets the national priorities for the budget (among others, basic infrastructure, rural development, human development and access to justice).

5. The Circular sets the fiscal envelope for each government agency and for five main budgetary items (wages and salaries, goods and services, minor capital, capital and development expenditures and transfers). The capital budget includes an identification of investment projects. All this information is given under a medium term fiscal framework and is the basis for each line ministry to prepare its budget. The final approval before going to the Parliament includes a discussion in the Budgetary Committee, chaired by the Prime Minister, with approval needing to be confirmed by the Council of Ministers.

6. This said, **the fiscal framework lacks a reconciliation process between development programs and priorities and the budgetary process.** Line ministries do not have the capacity to make a good connection between long-term development projects and the actual capital budget for the FY under discussion. Although the fiscal framework sets an overall target for “capital investment for development” with a 5 years perspective, it is not clear how those numbers are related to the long-term needs of development projects. Even more, when going into the concrete numbers for capital expenditures of the FY under discussion, there is a lack of connection with the overall medium-term perspective. In addition, there is no link between investment projects and the recurrent expenditures that they eventually would imply.
7. An additional source of concern is that **the budget document that goes for discussion to Parliament does not include donor-funded projects.** In addition, this information is not included in the financial government reports. The Ministry of Finance collects information on commitments and execution but it is not easily publicly available, nor is it combined with the nationally funded budget. In other words, public expenditure financed by donors needs more transparency and a more open discussion with Parliament and with stakeholders.
8. On the income side of the budget, **taxes are projected taking into account macroeconomic variables.** Although in previous years collection has been good with respect to targets, the tax administration office lacks human and technical resources to support the need to increase tax collections, and reduce reliance on income coming from non-renewable energy.
9. **The main source of budget resources is the Petroleum Fund.** The Fund needs to balance development financing against public finance sustainability and the need to be generationally equitable. All petroleum revenues flow into the Fund, including returns from investments. The Fund is integrated with the Budget and resources spent domestically are subject to decisions approved by Parliament. The Fund management has a high level of transparency. The Estimated Sustainable Income (ESI) is calculated at the General Directorate of Policy Analysis & Research, Petroleum Fund Directorate in the MoF and is a benchmark for long-term sustainable withdrawals. However, the government may transfer resources above the ESI level provided it submits a justification and Parliament approves.
10. After the approval by Parliament of the budget, and with a forecast of revenues, **the Treasury prepares a cash flow plan at the beginning of the year for line ministries and agencies, allowing the execution of appropriations.** The Treasury Director issues a notice (the “Expenditure Authorization Notice”). This gives line ministries the legal base to begin to execute. It contains the information for quarterly appropriations by budgetary category, except for capital expenditure where the amount authorized covers the full year.
11. **Line Ministries and government agencies begin executing their appropriations and depending on the amount and the type of expenditure, they have to follow different procurement rules.** For goods and services, under the recurrent expenditures item, line ministries just need to submit the request for payments. For total costs of minor capital and capital expenditures of up to US\$1 million, the final responsibility for authorization falls into the hands of the Procurement office of each line Ministry. For expenditures between US\$1 and US\$3 million, the authorization goes to the office of the Vice Prime Minister and for con-

## APPENDIX 5

### MONEY PATH – FROM BUDGET PREPARATION TO BUDGET EXECUTION

tracts above US\$3 million the decision is taken by the Council of Ministers.<sup>165</sup> In every case, the Ministry responsible for the execution is the one signing the contracts. This new decentralized procurement process has helped move budget execution, overcoming the very centralized authority in the MoF that was in place until recently.

**12. Budget execution, measured as payments actually made with respect to its original plan in the Budget Law, has improved.** In 2007, actual expenditure was almost 45 percent lower than the original budget, while in 2009 the gap was only 11 percent. However, this last number hides the fact that capital expenditure was under-executed by 17 percent, while transfers (pensions, public grants and personal benefit payments) deviated from its programmed budget by only 2 percent. **The Ministry of Finance makes a quarterly report of budget execution, within two months of the end of the quarter. For the first quarter of fiscal year 2010, domestic revenues accounted for 25 percent of total domestic revenues expected. On the expenditure side, current expenditures for the quarter accounted for 17 percent of planned expenditures for the whole year, while capital expenditures accounted for only 1 percent of planned expenditures for the whole year.** Although it is not uncommon in other countries that capital expenditure has a lower execution performance, in this particular case it might suggest capacity weaknesses of ministries and agencies.

**13. Finally, payments are authorized when the vendor submit invoices.** Each Ministry is responsible for the delivery of goods and services and has to follow a verification process. The Finance Unit of each Ministry sends payment requests to the Treasury that either issues a check or makes an electronic transfer.

**14. This process has recently benefited from the upgrade of the accounting and reporting system.** Since 2001, the country has been using FreeBalance<sup>166</sup> as the system that supports public financial management. Through all these years the system has gone through step-by-step upgrades, **including payroll and pensions and reconciliation and cash management** in the Treasury. In 2008 the system was further extended to include a reporting software and the implementation of the Performance Budgeting Module. Migration to the system has been slow and it was in operation for the budgetary process for the first time in 2009 for the preparation of the 2010 budget. Since last year, line ministries are able to input data directly into the system, which improved the consistency of the budget, and enabled better budget preparation and presentation.

**15. Payroll has migrated to the Free Balance system.** Salaries are paid to personal accounts in the banking system in Dili, while civil servants in the Districts still get cash. However, there is no reconciliation of the information of civil servants in the Treasury with the information of the Civil Service Commission.

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<sup>165</sup> The institutional set-up is the one in place at the close of this evaluation. IEG understand that institutional changes have taken place, and that line ministries are responsible for procurement above US\$1 million, while the Council of Ministers is still responsible for procurement above US\$3 million.

<sup>166</sup> FreeBalance is an electronic financial management system based on government accounting principles. It should allow a good commitment accounting and budget management following public sector laws and regulations. It should also allow budgetary and commitment controls during budget execution.

16. **Overall, fiscal transparency has increased.** The 2010 budget books have detailed information of the budget by entity and by expenditure item. Moreover, it includes analysis on growth, inflation and exchange rate of the dollar with respect to Timor-Leste's main commercial partners. Information on revenues includes a detailed analysis on each source of income coming from domestic taxes, revenues from autonomous agencies, customs, funding from partners and petroleum revenues. On the expenditure side, the information includes current and capital expenditures, with further sub-items. All information is framed in a historic perspective (from 2002) and with a medium term perspective (until 2013).

17. **Procurement<sup>167</sup> procedures, however, have been a key constraint to development effectiveness and to effective service delivery<sup>168</sup>.** The Bank has focused on its own procurement guidelines and the ring-fencing of its own funds, but has not devoted sufficient attention to helping improve government procurement requirements and practices. It has therefore not contributed much to the development of a strong procurement system or requisite national capacity in the government. Overall, this has weakened the results of the development effort in Timor-Leste.

18. **The 2005 Procurement Law, a condition of the Bank-supported Transition Support Program (TSP II),<sup>169</sup> is complex piece of legislation that severely constrains the government's ability to spend.<sup>170</sup>** A number of decrees set out the procurement framework. They state the detailed steps such as prequalification processes, bid opening and comparison, addressing bidder's complaints etc., which are typically found in regulations or procurement guidelines. This severely constrains flexibility or the ability to revise processes that do not work, since it requires an amendment of the decree.<sup>171</sup> Tender documents are also overly

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<sup>167</sup> The Bank conducted a Country Procurement Assessment Review (CPAR) in 2002, which concluded that procurement risk was high and institutional capacity was weak. It recommended: (i) modification of the Procurement Regulations and Manuals and, as an interim measure, deletion of provision for obtaining telephone quotations and reduction in the threshold for purchases through shopping (quotations) to US\$15,000; institution of procurement planning procedures, including greater coordination between budget, planning and procurement processes; establishment of the Procurement Policy Committee; and installation of the procurement module of FreeBalance, in the Procurement Unit and Treasury. The Transition Support Program PAD notes that the Government of Timor-Leste has endorsed these proposals and is already taking steps to implement the preliminary report's recommendations.

<sup>168</sup> See independent review undertaken for the Government of Timor-Leste by Deloitte and Touch in 2007.

<sup>169</sup> Some key policy actions proposed in the TSP II included: Improvement in timeliness of procurement; development of procurement strategy; training of procurement staff; and submission of revised Procurement Law

<sup>170</sup> "The Ministry has made a concerted effort to improve budget execution capacity, but its ability to meet expenditure targets has been constrained by procurement backlogs due to weak capacity at the ministry and the limited number of central procurement staff." TSP ICR III, Pg. 10.

<sup>171</sup> Typically, the broad principles and authority for procurement should be stated in a law, and detailed steps be provided through administrative orders administered by a procurement authority with responsibility for implementation the rules in an economic and efficient manner. The Timorese law is unique in that it details out the procedures.

## APPENDIX 5

### MONEY PATH – FROM BUDGET PREPARATION TO BUDGET EXECUTION

complex, with centralized ex-ante clearances for most parts of the bid evaluations that lead to delays in procurement. Exacerbating the situation is the fact that most bidding documents are only in English, which make it difficult for government staff or contractors to effectively understand, use, or complete bidding documents.

**19. Procurement institutions are weak.**<sup>172</sup> A Technical Secretariat under the Vice Prime Minister's office was established early in FY10 (replacing the Procurement Unit in MOF) to provide guidance and support to line ministry procurement implementation. A Procurement Commission comprised of civil servants, business representatives and NGOs has also been set up. The central authority for procurement has, thus, been shifted to the Vice-Prime Minister's Office, and this newly created Secretariat is in need of rapid strengthening as it starts functioning. The Directorate of Procurement in MOF continues to be responsible for functions related to policy formulation, regulation, capacity-building and data management. However, this work is still managed by an international advisor, with national capacity for such functions not having been adequately strengthened.

**20. National staff still need to gain capacity to manage day-to-day procurement processes in line ministries.** While there is capacity in ring-fenced PIUs, there has been little indigenous procurement capacity in government agencies, except in the Ministry of Finance, which is the strongest entity within the government in terms of local procurement capacity. However, with the recent organizational changes, the skills built up in MOF have to some extent become less important since the MOF is doing relatively little transactional procurement. With the decentralization of procurement authority to line ministries (para 12), the government's procurement capacity has in effect become somewhat lopsided, since there is little indigenous capacity in line agencies where the procurement authority of up to US\$ 1 million now vests. Both in the Ministry of Health and the Ministry of Education, international advisors manage procurement. In the MOE, at the time of the IEG visit, there appears to be adequate capacity to manage national shopping, and the threshold for this has now also been increased to US\$250,000.

**21. Procurement training provided by the Bank has been weak, and its focus has been on Bank guidelines and PIU staff.** Such training is not particularly relevant for staff wishing to implement the current government procedures, where bidding processes are different. There is still no overall strategy for building the government's procurement capacity, although in 2009, regular procurement courses were being planned and implemented by the MOF. There were some questions regarding the quality of this training, in particular because of the difficulty of training when the language of communication and the bidding documents are in a language unfamiliar to participants.

**22. There is little transparency in procurement processes.** The ROSC (July 2010) confirms that basic state processes such as "procurement suffer from a lack of transparency, integrity, process control and appeal options." Commonly followed steps such as advertisements of

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<sup>172</sup> The institutional set-up described in this paragraph is the one in place at the close of this evaluation. IEG understand that institutional changes have taken place, that the Office of the Vice Prime Minister is no longer involved, and that line ministries are responsible for procurement above US\$1 million, while the Council of Ministers is still responsible for procurement above US\$3 million.

bids, systematic and transparent collection of tenders, documenting minutes of public opening of bids, notifying unsuccessful bidders do not appear to be consistently followed. The mission could collect little or no information on procurement from the MOF, which had coordinated procurement so far. The 2010 draft ROSC reports that in MOF in 2009, “an amount of US\$72 million was exempted from normal procurement procedures” because these resources involved funds for capital projects that faced implementation delays.<sup>173</sup> The procurement module of Free Balance, discussed in the 2003 CPAR, has still not been established. It was expected to be installed and updated to suit Timorese needs by the end of the year. If this happens, subsequent procurement will become more transparent.

**23. Oversight of procurement continues to be poor.** The Technical Secretariat (para 19) has not effectively initiated its oversight functions. The lack of any information on contracts (even if one asks for it, according to civil society representatives) leaves no oversight or monitoring at any level, external to the procuring authorities. Previously, line agencies had not regularly reported to the MOF as required; these processes will have to be initiated so that they provide regular procurement reports once the Technical Secretariat is up and running. The absence of an internal auditing process further heightens procurement risks. The lack of an external audit institution is also not helpful. Although there is a dispute resolution mechanism on paper to settle any procurement-related disputes, there is little or no recording of information on any complaints filed, and the mission understood that the system was not effective. This makes the government very vulnerable to the perception that there is bad governance (irrespective of whether there is or there is not.)

**24. Thus risks to development effectiveness in this quarter remain high.** This is especially true since day-to-day procurement responsibility now lies entirely with the line agencies (see para 11) who do not have the requisite capacity, and coordination and oversight responsibilities are still almost non-existent.

**25. The challenge for the future is enormous.** Support is needed urgently to revise the law to bring in sound legal framework appropriate for Timor-Leste including its civil law system, enhance transparency of the procurement process, establish necessary oversight and regulation, and ensure adequate reporting. The task becomes more daunting because any attempts at narrowing authority will now be seen as cumbersome and unnecessary, given that less competitive and more rapid bidding processes (such as national shopping) have been established. The problem of effective capacity will also remain until the language constraint has been resolved. Intensive training and sustained enhancement of capacity is required as well as institutional strengthening of the recently established procurement entity. These needs should preferably be addressed within an overall procurement strategy and action plan, which is still not available in Timor-Leste. The Bank should support the strengthening of this capacity, while at the same time trying to support sustainable reform for a more competitive procurement system, while firmly keeping in mind Timor-Leste’s urgent need for effective service delivery.

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<sup>173</sup> 2010 International Monetary Fund November 2010, IMF Country Report No. 10/341 Democratic Republic of Timor-Leste: Public Financial Management – Performance Report, p 40

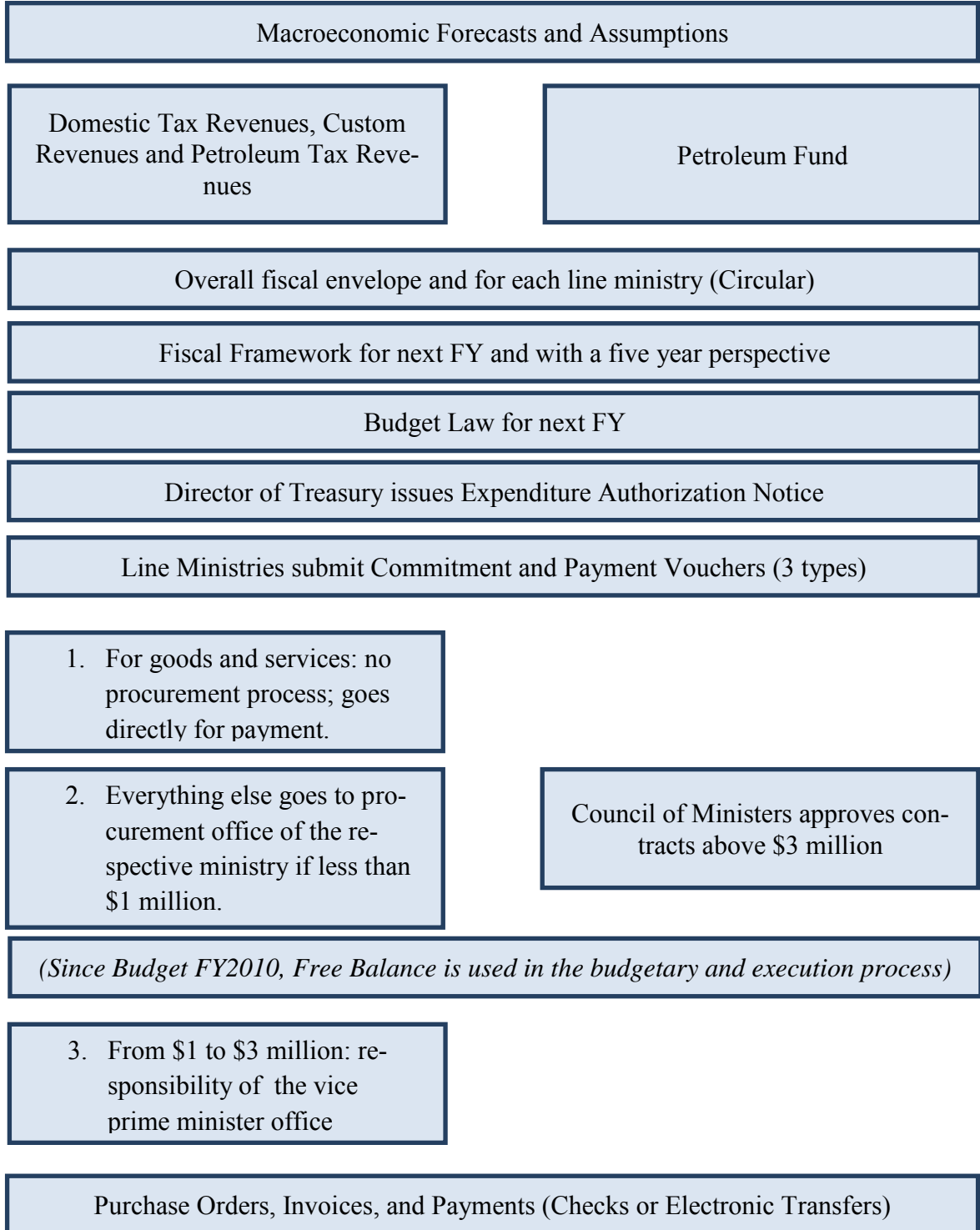
**Appendix 5. Box 1.**

Some Weaknesses Continue:

- The Timorese budgetary process is flexible, perhaps too much. Each agency and ministry can move expenditures within the four major economic expenditure items. In addition, each year the government presents to Parliament a supplementary budget. Such flexibility of the budget process is an improvement with respect to the previous tight control exercised by the Ministry of Finance, but also runs the risk that the budget loses its original sense. This flexibility may not encourage serious efforts at planning from line ministries and reduces the credibility of the budget. In fact, the 2010 budget, by mid-year, was already increased by almost 27 percent from the original plan.
- The process as described above, beginning with the fiscal framework and ending with budget execution and payment of vendors and public servant's salaries sounds good on paper and is an improvement that has taken place slowly during the past five years. However, at every step, the process has much room for improvement. The fiscal framework lacks a macroeconomic consistency analysis to support a sound fiscal policy stance. During the phase of budget preparation, line ministries do not have the capacity to link budget allocation with budget requirements and policy objectives. In addition, an effort should be done to improve multi-year investment programs and to have costing and impact of projected investments. Line ministries now have access to the Free Balance system however big connectivity problems persist. During the execution phase, the Treasury needs to improve the reconciliation and purchase modules of the Free Balance System.
- A big problem with budget preparation is the involvement of the Ministry of Finance as the entity in charge of measurement of the economic performance and at the same time of economic forecast. Actually, it is not wrong to say that its estimates for expected economic growth are not the result of some analysis of future dynamics of different economic activities but are government desires and expectations. It's just that there is no independent validation and evaluation of those numbers.



### Budgetary Process



**APPENDIX 5**  
**MONEY PATH – FROM BUDGET PREPARATION TO BUDGET EXECUTION**

**Appendix 5 – Table 1**

<i>Budget Planning and Execution</i>	<i>Key Issues That Constrained Development Effectiveness</i>	<i>Results of Donor Support</i>
Budget Planning	Coordination between Budget and Statistics Directorates, line ministries and districts	FY2011 budget planning is been built on macroeconomic assumptions. A Circular with budget ceilings for line ministries and the whole government has been issued.  High reliance on external advisors.
Budget Allocation	Implementation of combined sources of budgeting; improved timeliness and efficiency of the budget formulation processes; greater coordination between the Budget Directorate, Planning Directorate, line ministries and districts in budget formulation, implementation and monitoring; improved access to understanding of budget by citizens	A law on Budget underlies the budgetary process (including timetable within MoF and line ministries).  High reliance on advisors.
Treasury Commitments Expenditure Authorization Notices Transaction Commitments	Improve internal systems; reliable financial information; strengthened budget execution	Systems have improved and execution has increased. Financial information is still weak.
Internal Audits	Well-functioning department established and performing internal audits	A one-person unit has been established, but no audits are being conducted as of now.
Procurement	Economic and Efficient Procurement	Significant constraint to development effectiveness until recent decentralization of procurement responsibilities. Current situation poses high fiduciary risks with procurement decentralized to sector ministries but no oversight and audit systems in place and no procurement-related information available.
Budget Execution Reports	Delayed reports and lack of information	The Budget Directorate is issuing a quarterly report on budget execution with the support of a full time advisor. Reports are published in English and Portuguese.
External Audits	None existed	Still continues to be undertaken by an external contractor.
Parliament Scrutiny	No scrutiny by Parliament	No results except in the area of the Petroleum Funds where parliamentarians were trained on the Petroleum law and analysis.

# Appendix 6. Timor-Leste - List of Approved Projects, 2000-2010<sup>1/</sup>

Project Name	Approval FY	Project Cost <sup>2/</sup>	IDA Grant Amt	TFET Amt	Bilateral	Other Grant Amt <sup>3/</sup>	Latest DO	Latest IP	IEG Outcome	Rev Closing
<b>TFET Projects</b>										
Gas Seep Harvesting Project	2007	1.85		0.85			MS	MS		12/31/2011
Power Sector Priority Investments	2005	2.02		1.35					MS	3/31/2008
Third Agriculture Rehabilitation Project <sup>4/</sup>	2004	13		3	8.5				MU	12/31/2008
Petroleum (EASEG)	2003	0.24		0.24			HS	S		12/31/2003
Second Timor-Leste Petroleum Project	2003	1.61		1.61					S	12/31/2006
TFET funded ADB Water & San. II project	2003	4.5		4.5						12/31/2003
Second Agriculture Rehabilitation Project.	2002	8.73		8					MU	6/15/2005
Fundamental School Quality Project <sup>5/</sup>	2002	20.7		20.5					MU	12/31/2006
Small Enterprises Project II	2002	7.42		7.42					MU	12/31/2007
Third Community Empowerment and Local	2002	1.5		1.5					U	1/30/2006
TFET funded ADB EIRP II project	2002	9.0		9.0						2/28/2007
TFET funded ADB Microfinance project	2001	4.0		4.0						7/8/2005
2nd Health Rehabilitation Project <sup>6/</sup>	2001	34.1		12.6	19.5				MS	7/31/2008
Economic Institutions for Capacity Building <sup>7/</sup>	2001	0.92		0.92					MS	6/30/2006
Second Community Empowerment and Local	2001	8.5		8.5					U	1/30/2006
Agriculture Rehabilitation Project	2000	7.5		6.8					MS	3/15/2003
Emergency School Readiness Project	2000	13.9		13.9					MS	6/30/2002
Small Enterprises Project Phase I	2000	4.85		4.85					MU	12/31/2002
Health Sector Rehab. & Dev. Project	2000	12.98		12.67					S	12/30/2004
First Community Empowerment and Local <sup>8/</sup>	2000	8.55		7	1.55				U	6/30/2002
TFET funded ADB Roads (EIRP) project	2000	29.8		29.8						12/31/2004
Dili Community Employment Generation	2000	0.5		0.5					S	12/31/2000
<b>IDA Grant Projects</b>										
Edu sector support Addnl Financing	2010	5	5							
Youth Development Project	2009	2.1	2.1				MU	MU		12/31/2011
Health Sector Strategic Plan Support <sup>9/</sup>	2008	20.3	1		19.3		MS	U		6/30/2013
Education Sector Support <sup>10/</sup>	2007	14.9	6		6		S	S		1/31/2013
Energy Services Delivery Project <sup>11/</sup>	2007	2.8	2.5				MS	MU		12/31/2011
Planning & Fin Mgt Capacity Building <sup>12/</sup>	2006	44.5	7		37		MS	MS		7/10/2011
Consolidation Support Program (CSP) <sup>13/</sup>	2006	12	0.5		11.51				MU	10/31/2006
Third Transition Support Program <sup>14/</sup>	2005	29.16	4.96		24.2				MU	10/31/2005
Transition Support Program II <sup>15/</sup>	2004	4.17	4.17						MU	10/31/2004
Transition Support Program	2003	56.8			51.76	5			MU	6/30/2005
<b>Others</b>										
Timor-Leste-Ext. Ind. Trans. Initiative	2009	0.23			0.23					12/31/2010
Primary Education Support	2009	8.5				8.5				6/30/2009
Health sector support prog	2006	4.4			4.4					10/31/2010
FTI Program 2009	2006	4.9				4.9	S	S		6/30/2010
Enhanced Poverty Monitoring and Analysis	2005	0.3				0.3	HS	HS		9/15/2008
T-L Inst. Bdg. for Veterans Policy Impl.	2005	0.15				0.15	S	S		5/30/2008
Institutional Development of Ombudsman	2004	0.22				0.22	S	S		12/16/2007
Institution Bldg of Inspector General	2004	0.13				0.13	MU	MU		6/13/2008
Public Expenditure Management and Procur	2003	0.31				0.312	MU	MU		1/5/2007
Strengthening Capacity for Pov. Analysis	2002	0.2				0.2				8/28/2005
Strengthening Public Expenditure Mgmt.	2002	0.35				0.35	MU	MU		12/31/2006
Supporting the Trans. to Adm. Independen	2001	0.13				0.13				1/20/2004

Notes: The Bilateral column includes countries co financing and bilateral country contribution for a trust fund granted only for Timor-Leste. The other grant amount column includes IDFs, DGF and multi country and/or multi-donor trust funds, such as Fast Track Initiative (FTI). - The Transition Support Program did not receive an IDA Grant, but received a grant from IBRD (DGF)

<sup>1/</sup> Bank Database does not report the grant amount for IDFs.

## APPENDIX 6

### TIMOR-LESTE LIST OF APPROVED PROJECTS, 2000-2010

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<sup>2/</sup> Project cost includes the government contribution to the project

<sup>3/</sup> Other Grant include IDFs and multi-country or/and multi-donor Trust Funds.

<sup>4/</sup> Bank Database reports the TFET grant of US\$ 3.0 million. This table reports the TFET grant combined with the EC grant for this project of US\$ 8.83million.

<sup>5/</sup> Bank Database reports the planned TFET grant of US\$ 13.9 million. This table reports the actual TFET grant for this project.

<sup>6/</sup> Bank Database reports the TFET grant of US\$ 12.6 million. This table reports the TFET grant combined with the EC grant for this project of US\$19.5 million.

<sup>7/</sup> Bank Database reports the planned grant of US\$ 0.5 million. This table shows the actual grant.

<sup>8/</sup> Bank Database reports the planned grant of US\$ 21 million. This table reports the actual grant for this project.

<sup>9/</sup> Bank Database does not report any grant for the Health Sector Strategic Plan Support. The value reported in this table corresponds to the multidonor cofinancing to this project through Trust Funds administrated by the World Bank.

<sup>10/</sup>Bank Database does not report any grant for ESSP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds

<sup>11/</sup>Bank Database does not report any grant for ESDP. The value reported in this table corresponds to the Japanese support to this project through Trust Funds

<sup>12/</sup> Bank Database does not report any grant for PFMCBP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds administrated by the World Bank.

<sup>13/</sup> Bank Database does not report any grant amount for CSP I. The value reported in this table corresponds to the co-financing provided to this project through Trust Funds administrated by the World Bank.

<sup>14/</sup> Bank Database does not report any grant amount for TSP III. The value reported in this table corresponds to the multilateral support, funded through Trust Funds administrated by the World Bank, to this project.

<sup>15/</sup> Bank Database does not report any grant for TSP II. However, operations portal shows a grant disbursement of US\$15,344.00

Source: World Bank internal database, Tables 2b.1 and 4a.6 as of 9/15/2010. Operations and TF reports

# Appendix 7. Timor-Leste - Analytical and Advisory Work, FY00-FY10

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
<b>AAA</b>				
<i>I. Programmed and Delivered</i>				
Policy Note on Population Growth	FY07	FY09	Policy Note	P097675
Poverty Reduction Note	FY00	FY03	Report	P072483
Post Independence Education System Study	FY00	FY03	Report	P075490
Household Fuel Study	FY06	FY07	Report	P096807
Country Economic Memorandum (CEM)	FY02	FY02	Report	P072463
First Credit and Collateral Registry	FY07	FY08	"How-To" Guidance	P100778
Civil Society Capacity Bldg	FY00		Knowledge-Sharing Forum	P072316
PPIAF Phase II Power Regulatory Framework	FY07		Knowledge-Sharing Forum	P096729
<i>II. Programmed and not delivered</i>				
Service Delivery for the Poor	Dropped			
Budget and Expenditure Analysis	not found			
TA: Governance	no information			P091766
Rural Growth Strategy	not found			
Strengthening Capacity for Poverty Monitoring	not found			
Business Environment	not found			
PMO Planning TA Project	not found			
Capacity Building Review	not found			
<i>III. Non-Programmed and Delivered</i>				
Social Development National Dialogue		FY01	TA/Not assigned	P072389
Village Governance Options		FY01	Report	P072387
Policy Notes		FY01	Policy Note	P072466
Gender Networking & Local Governance		FY02	Institutional Development Plan	P072388
Strategy for Housing		FY02	Policy Note	P071116
Background Paper for Donor's Meeting		FY02	Policy Note	P078340
Poverty Monitoring		FY02	Institutional Development Plan	P072481
FALINTIL Reinsertion Assistance (FRAP)		FY02	"How-To" Guidance	P073852
Public Expenditure Mgmt & Accountability		FY02	Report	P078338
ADB Water Supply & Sanitation Rehabilitation project		FY02	"How-To" Guidance	P072563
East Timor: Policy Challenges for a New Nation		FY02	Report	P072463
East Timor Policy Notes/TA		FY03		P079811
ADB Hera Port Rehabilitation Project		FY03	"How-To" Guidance	P081786
Urban Strategy for Dili		FY03	Client Document Review	P079701
Country Procurement Assessment Report		FY03	Report	P075389
Veterans Policy Preparation		FY04	"How-To" Guidance	P082139
Timor-Leste Youth Development		FY04	Knowledge-Sharing Forum	P089990
Energy Sector Review (EASEG)		FY04	Institutional Development Plan	P088016
GDNL Training Needs Assessment		FY04	"How-To" Guidance	P075432
Public Expenditure Review (PER)		FY04	Report	P079803
Institutional Development of the Provedor de Direitos Humanos e da Justica		FY04		P082580
Governance Issues Paper		FY04	Policy Note	P089096
Feasibility Study for Concessional Borrowing		FY05	Policy Note	P096364
Infrastructure Sector Review		FY05	Report	P067999
Social Protection and Labor Market		FY06		P079630
Timor-Leste - Governance		FY06		P091766
Private and Financial Sector Assessment		FY06		P093700
Administrative Services Capacity Building (PCF Project)		FY06	"How-To" Guidance	P079747
Clandestino Survey		FY06		P091455

**APPENDIX 7**  
**TIMOR-LESTE - ANALYTICAL AND ADVISORY WORK, FY00-FY10**

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
Leadership for Economic Development		FY07	Knowledge-Sharing Forum	P083224
Health Sector Review		FY07		P079725
Supervision of ESMAP RE Planning Study		FY07		P092000
ESMAP Timor-Leste RE Master plan		FY07		P094085
Advice on Budget Execution		FY07		P102149
ASTAE Rural Electrification master plan & manual		FY07		P094390
Telecomms Reform		FY07		P103351
Defining a Policy for Veterans		FY08		P085287
FIRST #397: Strategy for credit registry		FY08		P105485
Commun. & Leadership Capacity -LICUS		FY08		P104081
Briefing the New Government		FY08		P106947
Youth Policy Development		FY08	Report	P101021
Policy Note on Population and Growth		FY09	Policy Note	P097675
Poverty Assessment		FY09	Report	P092261
Doing Business in East Asia		FY09		
Youth sector support		FY09	Client Document Review	P109376
Timor-Leste Country Environmental Analysis		FY09		
Timor-Leste National Priority Program		FY09	Client Document Review	P112298
Timor-Leste Country Environmental Analysis		FY09	Report	P099514
PFM/PEM Diagnostic and Review		FY10		P118860
Raising Agricultural Productivity		FY10		P115539
TFESSD Vulnerability (LSMS Survey)		FY10	Knowledge-Sharing Forum	P108647
EAP Justice for the Poor (WB & AusAID)		FY10	Knowledge-Sharing Forum	P111360
<i>IV. Ongoing and Forecast</i>				
Social Accountability in Participatory Transfer and Grant Programs	FY10			P117303
Using CDD to provide infrastructure	FY10			P112159
HD Policy Notes (Health Financing)	FY10			P120467
Trade Diagnostic Study (DTIS)	FY10			P109417
Telecommunications Sector Reform	FY10			P113353
Poverty Analysis	FY10			P118637
Rural Energy Access and Efficiency	FY10			P116306
Civil Service Review	FY10			P114147
PFM/PER	FY10			P119433
AMI Activities related to PFMCBP	FY10			
Timor-Leste Social Protection	FY10			P116531
East Timor Petroleum Sector Support	FY10			P096348
Timor-Leste - Customary Systems of Land Management and Rural Dev.	FY10			P118554
Timor-Leste Trade Diagnostics (UN003805)	FY10			P109417
HIV/AIDS Behavioral Survey	FY10			P119657
<i>Publication and Research</i>				
East Timor : a survey of the coffee sector				
United Nations transitional administration in East Timor and the World Bank		FY01	Working paper	
Drug donations in post-emergency situations		FY01	Working paper	
The 2001 survey of sucos : initial analysis and implications for poverty reduction		FY02	Working paper	
United Nations transitional administration in East Timor, East Timor transitional government and the World Bank.		FY02	Working paper	
Timor-Leste : poverty in a new nation - analysis for action		FY02	Working paper	
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
Financing and aid management arrangements in post-conflict situations		FY03	Working paper	

**APPENDIX 7**  
**TIMOR-LESTE - ANALYTICAL AND ADVISORY WORK, FY00-FY10**

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
Timor-Leste education : the way forward		FY03	Working paper	
Community-driven reconstruction as an instrument in war-to-peace transitions		FY04	Working paper	
The labor market impact of minimum wage policy : the case of Timor-Leste in comparative perspective		FY04	Working paper	
Timor-Leste Leadership Workshops 2001-2002 : summary note		FY04	Working paper	
Community-driven reconstruction as an instrument in war-to-peace transitions		FY04	Working paper	
Well-being during a time of change : Timor-Leste on the path to independence		FY04	Working paper	
Timor-Leste transport sector outline of priorities and proposed sector investment program		FY05	Policy Research Working paper	
International companies and post-conflict reconstruction - cross-sectoral comparisons		FY05	Working paper	
International companies and post-conflict reconstruction - cross-sectoral comparisons		FY05	Working paper	
Timor-Leste - the business regulatory environment		FY05	Working paper	
Timor-Leste : access to finance for investment and working capital		FY06	Working paper	
Strengthening the institutions of governance in Timor-Leste		FY06	Working paper	
Strengthening accountability and transparency in Timor-Leste : report of the Alkatiri initiative review		FY06	Working paper	
Doing Business in Timor-Leste		FY06	Working paper	
Youth: Challenges and Options	FY07	FY07	Working paper	
Doing business 2008 Timor-Leste	FY07	FY08	Working paper	
Enterprises, workers, and skills in Urban Timor-Leste		FY07	Working paper	
Aid that works : successful development in fragile states		FY07	Policy Research Working paper	
Timor-Leste - Economic and social development brief		FY07	Publication	
Youth development and the labor market		FY08	Working paper	
Timor-Leste's youth in crisis : situational analysis and policy options		FY08	Working paper	
Timor-Leste - Economic and social development brief		FY08	Working paper	
The missing link fostering positive citizen-state relations in post-conflict environments		FY08	Working paper	
Starting from scratch in Timor-Leste : establishing a pharmaceutical and medical supplies system in a post-conflict context		FY08	Working paper	
Program framework document : East Asia and the Pacific justice for the poor initiative 2008-2012		FY09	Working paper	
Doing business 2010 : Timor-Leste - comparing regulation in 183 economies		FY09	Working paper	
		FY09	Working paper	

# Appendix 8. List of People Met

## GOVERNMENT

Abrao de Vasco Conselho	BPA
Allan Marlin	Financial Senior Advisor - Private Sector Policy Development Unit
D. Savio	International Affairs - Office of the Deputy Prime Minister for Social Affairs
H.E. Fernanda Borges	Member of Parliament (Budget Committee), and former Minister of Finance
H.E. Emilia Pires	Minister of Finance
H.E. Joao Cancio Frietas	Minister of Education
H.E. Joao Mendes Goncalves	Minister of Economy & Development
H.E. Jose Ramos Horta	President
H.E. Mario Viegas Carrascalao	Vice Prime Minister for Management and State Administration
Hernani Viterbo C. Soares	Director - Instituto de Apoio ao Desenvolvimento Empresarial
H.E. Jose Luis Gutierrez	Vice-Prime Minister for Social Affairs
Jose Maria de Jesus Luis Guterres	Principal Advisor & IF Focal Point - Ministry of Economy and Development
Maria Domingas Fernandes Alves	Ministry of Social Solidarity
Mariano Assanami Sabino	Ministry of Agriculture and Fisheries
Miguel Manetelo	Secretary of State for Youth and Sports
Rui Hajam	Deputy Vice Minister of Finance
Virgilio F. Guterres	Director General - Ministry of Infrastructure - Electricity of Timor-Leste
Antonio Freitas	Director-General of the Department of Policy, Analysis and Research (DGAP) of the Ministry of Finance

## DEVELOPMENT PARTNERS

Ali Gillies	Minister Counselor, Australian Agency for International Development (AusAID)
Alvaro Ribeiro	Program Officer, Australian Agency for International Development (AusAID)
Chana Opaskornkul	Emergency Programme Officer, Food and Agriculture Organization of the United Nations
Costas Tsilogiannis	Minister-Counselor - Head of Policy Operations, European Commission
Dr. Heinz Loos	International Programme Manager, GTZ
Dr. Mathias Braun	Policy Advisor, GTZ
Enomoto Hiroshi	Chief Representative, JICA
Finn Reske-Nielsen	Assistant Secretary-General, United Nations Integrated Mission in Timor-Leste
Ge Lambiza	Adida para a Cooperacao Multilateral Cooperation Atache, Cooperacao Portuguesa
Hans Peter Christopherson	Head of Mission, Royal Norwegian Embassy
Juan Carlos Rey	Ambassador - Head of Delegation, European Commission
Laurence Pochard	ADB
Mark Anthony White	USAID Representative, USAid
Masaru Todoroki	Aid Coordination Advisor, JICA
Narendra Singru	Senior Evaluation Specialist, ADB
Paul Keogh	PFM & Governance Advisor, Australian Agency for International Development (AusAID)
Robert Wihtol	Director General - Pacific Department, ADB



## PRIVATE SECTOR

Abel Ximenes	Director, Kilbur Mata Dalan
Bill Tan Tjo Tek	Manager, Timor Global (TL) PTE LTD
Bobby Lay Ni Sing	Manager, Timor Global (TL) PTE LTD
Chris Durman	Chief Executive Officer, ANZ
Cosme Fatima Baptsta da Silva	Executive Director - Ministry of Economy and Development, Business Development Support Institute
Fernando Torrao Alves	Director Geral, Caixa Geral de Depositos
Kathleen Gonclaves	President, United Co. Ltd
Vicente Ximenes	Coordinating VP, Chamber of Commerce and Industry

## WORLD BANK AND IFC

Adrian Fozzard	Lead Public Sector Specialist
Allison Berg	Sr. Strategy and Operations Officer
Aniruddha Dasgupta	Advisor
Antonio S. Franco	Country Manager
Anwar B. Ravat	Program Manager
Charles P. McPherson	Consultant
Cyrus P. Talati	Sr. Economist
David John Hook	Governance Specialist
Eduardo Velez Bustillo	Sector Director
Elizabeth Huybens*	2002-2006 (Country Mgr)
Emmanuel Y. Jimenez	Sector Director
Enrique Aldaz-Carroll	Sr. Economist
Ferid Belhaj	Due to take up CD position in Apr 10
Frederic Asseline	Sr. Energy Specialist
Gaurav Datt	Sr. Economist
H. Dean Nielsen	Sr. Manager Education
Habib Nasser Rab	2008-present (Country Economist)
Homa-Zahra Fotouhi	Sr. Operations Officer
Ingo Wiederhofer	Sr. Operations Officer
James A. Stevens	Sr. Operations Officer
Jane Sansbury	2010-present (CPC)
Jeeva A. Perumalpillai-Essex	Sust. Dev't Leader
Jerry G. Strudwick	Sr. Education Specialist
Jerry Lebo	2007-2010 (CPC)
Joao Gomes	Procurement Specialist
Joel Maweni	Lead Energy Specialist
John A. Roome	Sector Director
John Victor Bottini	Sr. Social Development Specialist
Jose Mousaco	Consultant
Juan Pablo Uribe	Sector Manager
Kanthan Shankar (Acting)	2009-present (CD)
Klaus Rohland	2000-2002 (CD)
Leigh H. Mitchell	Country Officer National Priorities Secretariat
Leiping Wang	Sr. Energy Specialist
Lene Ostergaard Jensen	E T Consultant
Luc-Charles Gacougnolle	E T Consultant
Magdolna Lovei	Sector Manager
Milissa Day	Associate Operations Officer, IFC - Better Business Initiative
Narasimham Vijay Jagannathan	Sector Manager
Natasha Beschorner	2000-2004 (CPC)

**APPENDIX 8**  
**LIST OF PEOPLE MET**

Nigel Roberts	2007-2009 (CD)
Oliver Braedt	Sr. Natural Resources Mgt Specialist
Piers E. Merrick	Country Officer
Rainer Venghaus	Country Coordinator, IFC
Rosa Alonso Terme	Sr. Public Sector Specialist
Sarah Cliffe	2000-2002 (Country Mgr)
Sarbani Chakraborty	Sr. Health Specialist
Scott Guggenheim	Lead Social Devt Specialist
Sofia U. Bettencourt	Lead Operations Officer
Stefanie Stallmeister	Sr. Country Officer
Tanya Dawn Wells-Brown	E T Consultant
Timothy A. Johnston	Sr. Health Specialist
Vikram Nehru	Sector Director
Zhu Xian	2002-2007 (CD)

**OTHERS**

Arsenio Bano	Former Min of Labour & Solidarity
Bishop Gunnar J. Stalsett	Special Envoy to Timor-Leste, Ministry of Foreign Affairs, Norway
Dr. Rui Maria de Araujo	Former Min. of Health / Senior Management Advisor, Directorate-General Corporate Services, Ministry of Finance
Fr. Apolinario Gutieres	Auxiliary Bishop of the Catholic Dioceses of Timor-Leste
Jose Assalino	Chief Technical Advisor & Liason Officer, International Labour Organization
Joselito P. Supangco	Monitoring and Evaluation Specialist
Mari Alkatiri	Former Prime Minister
Samuel Mendonca	Acting President, Democratic Party

**NGO**

Charles Scheiner	Representative, Lao Hamutuk
Paul Joyce	Representative, Oxfam

## Appendix 9. Statistical Supplement

Appendix Table 1	Timor-Leste at a Glance
Appendix Table 2	Timor-Leste Economic and Social Indicators, 2000-2008
Appendix Table 3	Timor-Leste and Comparators: Key Economic and Social Indicators, Average 2000-2008
Appendix Table 4	Timor-Leste: Agriculture Production 2000-2008
Appendix Table 5	Timor-Leste: Poverty Trends 2001-2007
Appendix Table 6	Timor-Leste: Social Indicators Summary, 2000-2008
Appendix Table 7	Timor-Leste: Assets and Access to Basic Infrastructure, 2003-2009
Appendix Table 8	Timor-Leste: Selected Gender Indicators Summary, 2000-2009
Appendix Table 9	Total Net Disbursements of Official Development Assistance and Official Aid, 1990-2008
Appendix Table 10	Timor-Leste: TFET by Sector Board, FY00-FY07*
Appendix Table 11	Timor-Leste: World Bank IDA Grant by Sector Board, FY00-FY10*
Appendix Table 12	Timor-Leste: World Bank IDA Grant by Sector Board, FY00-FY10*
Appendix Table 13	Timor-Leste: World Bank Trust Funds by Sector Board, FY00-FY10*
Appendix Table 14	Timor-Leste: World Bank Trust Funds by Sector Board, FY00-FY10*
Appendix Table 15	Timor-Leste: World Bank IDA Grant and Trust Funds by Sector Board, FY00-FY10*
Appendix Table 16	Timor-Leste: World Bank IDA Grants and Trust Funds by Sector Board, FY00-FY10*
Appendix Table 17	Project Ratings for Timor-Leste and Comparators, Exit FY00-FY10
Appendix Table 18	Timor-Leste and Comparators - Portfolio Status Indicators, FY00-10
Appendix Table 19	Bank Budget by Cost Category, FY00-FY10
Appendix Table 20	Bank Budget for Timor-Leste by Cost Category, FY00-FY08
Appendix Table 21	Timor-Leste: Governance Indicators
Appendix Table 22	Millennium Development Goals

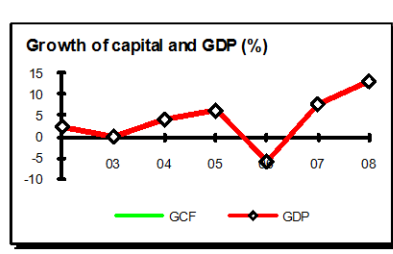
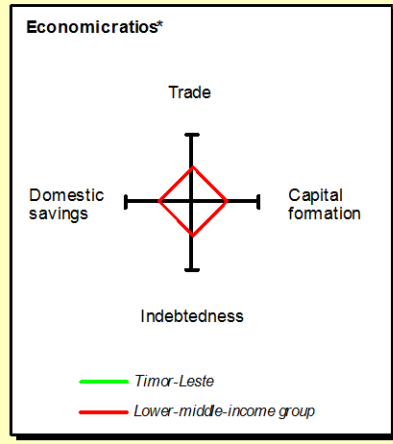
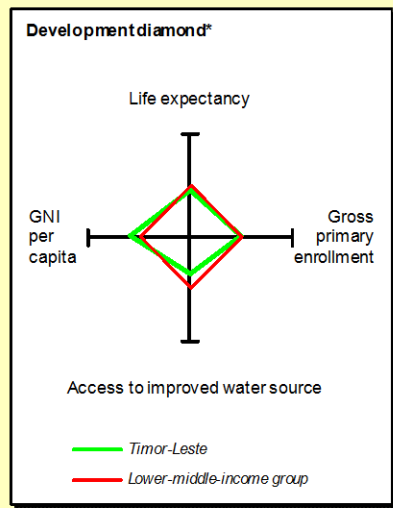


APPENDIX TABLE 1 TIMOR-LESTE AT A GLANCE

POVERTY and SOCIAL	Timor-Leste	East Asia & Pacific	Lower-middle-income		
<b>2008</b>					
Population, mid-year (millions)	11	1,931	3,702		
GNI per capita (Atlas method, US\$)	2,460	2,631	2,078		
GNI (Atlas method, US\$ billions)	2.7	5,081	7,692		
<b>Average annual growth, 2002-08</b>					
Population (%)	3.9	0.8	12		
Labor force (%)	5.6	12	16		
<b>Most recent estimate (latest year available, 2002-08)</b>					
Poverty (% of population below national poverty line)	..	..	..		
Urban population (% of total population)	26	44	41		
Life expectancy at birth (years)	61	72	68		
Infant mortality (per 1,000 live births)	75	22	46		
Child malnutrition (% of children under 5)	41	13	26		
Access to an improved water source (% of population)	62	87	86		
Literacy (% of population age 15+)	..	93	83		
Gross primary enrollment (% of school-age population)	107	111	109		
Male	110	112	112		
Female	103	110	106		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	1988	1998	2007	2008	
GDP (US\$ billions)	..	..	0.40	0.50	
Gross capital formation/GDP	..	..	..	..	
Exports of goods and services/GDP	..	..	..	..	
Gross domestic savings/GDP	..	..	..	..	
Gross national savings/GDP	..	..	..	..	
Current account balance/GDP	..	..	173.1	172.5	
Interest payments/GDP	..	..	..	..	
Total debt/GDP	..	..	..	..	
Total debt service/exports	..	..	..	..	
Present value of debt/GDP	..	..	..	..	
Present value of debt/exports	..	..	..	..	
	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	..	19	7.8	13.2	-2.6
GDP per capita	..	-18	4.2	9.6	-5.7
Exports of goods and services	..	..	..	..	..

STRUCTURE of the ECONOMY	1988	1998	2007	2008
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Imports of goods and services	..	..	..	..
	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Gross capital formation	..	..	..	..
Imports of goods and services	..	..	..	..



Note: 2008 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 2: TIMOR-LESTE ECONOMIC AND SOCIAL INDICATORS, 2000-2008

Series Name	Timor-Leste								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Growth and inflation*</b>									
GNI at current prices (US\$ million) <sup>2</sup>			300.4	318.0	460.0	695.0	972.0	1728.0	2915.0
Non-Oil GDP at current prices (US\$ million) <sup>2</sup>			284.1	297.8	309.0	332.0	327.0	398.0	499.0
Petroleum Revenue <sup>2</sup>			16.3	20.2	151.0	363.0	645.0	1330.0	2416.0
Real Non-Oil GDP growth (annual %) <sup>1</sup>	-8.1	18.9	2.4	0.1	4.2	6.2	-5.8	8.4	12.8
Real Non-Oil GDP per capita growth (annual %) <sup>1</sup>	..	14.4	-1.5	-3.6	0.6	3.0	-8.4	5.7	10.3
Non-Oil GDP per capita at current prices (US\$ million) <sup>1</sup>	282.7	323.8	319.0	322.1	323.2	336.2	321.9	381.9	468.8
GDP per capita, PPP (current international \$) <sup>1</sup>	1608.0	1880.6	1882.0	1853.8	1925.1	2044.2	1934.0	2103.0	2368.4
Inflation (CPI, percentage change, period average) <sup>1</sup>	63.6	3.6	4.7	7.2	3.2	1.8	4.1	8.9	7.6
<b>Composition of GDP (%)</b>									
Agriculture, value added (% of GDP at factor cost) <sup>3</sup>	..	..	32.1	32.7	33.6	33.5	35.7	31.3	..
Industry, value added (% of GDP at factor cost) <sup>3</sup>	..	..	18.5	15.4	14.0	14.5	12.4	14.3	..
Services, etc., value added (% of GDP at factor cost) <sup>3</sup>	..	..	49.4	51.9	52.4	52.0	52.0	54.4	..
Gross fixed capital formation (% GDP) <sup>3</sup>	..	..	33.8	25.8	18.6	18.6	18.7	25.9	..
Gross national savings (% of Non-Oil GDP) <sup>3</sup>	..	..	19.4	21.5	29.1	103.1	183.1	323.3	..
<b>External Accounts</b> <sup>1/2</sup>									
Exports of goods and services (% of GDP) <sup>2</sup>	..	..	11.4	12.0	17.8	13.6	13.1	17.6	15.0
Imports of goods and services (% of GDP) <sup>2</sup>	..	..	106.5	102.5	114.9	84.3	102.1	125.9	164.5
Current account balance (% of non-oil GDP) <sup>1</sup>	-7.1	-12.6	-15.9	-15.4	20.7	78.4	165.2	296.1	404.8
External debt, total (% of GNI) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service (% of GNI) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total reserves in months of imports <sup>2</sup>	0.8	1.0	2.0	3.3	18	56	131	158	150
<b>Fiscal Accounts</b> <sup>2/3</sup>									
Central Government Budget									
Total Revenue (% of non-oil GDP)	17	15	24	31	67	128	205	343	490
of which Oil/Gas Revenue (% of non-oil GDP)	4	3	9	12	46	107	195	330	481
Total Expenditure-cash basis (% of non-oil GDP)	15	15	21	21	20	26	32	59	106
Overall Balance (% of non-oil GDP)	2	0	3	10	46	102	174	284	384
Non-oil fiscal balance (% of non-oil GDP)	-2	-3	-6	-2	1	-5	-21	-46	-97
<b>Social Indicators</b>									
Health									
Life expectancy at birth, total (years)	56.5	..	58.2	..	..	59.8	60.3	60.8	61.3
Immunization, DPT (% of children ages 12-23 months)	..	..	44.0	57.0	57.0	55.0	67.0	70.0	..
Improved sanitation facilities (% of population with access)	40.0	..	..	..	..	..	41.0	..	..
Improved water source (% of population with access)	61.0	..	..	..	..	..	62.0	..	..
Mortality rate, infant (per 1,000 live births)	100.0	..	..	..	..	83.1	80.1	77.3	..

Series Name	Timor-Leste								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Population</b>									
Population, total (in millions)	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.1	1.1
Population growth (annual %)	0.5	2.3	3.8	4.6	4.7	4.2	3.7	3.4	3.2
Urban population (% of total)	24.3	24.7	25.0	25.4	25.7	26.1	26.5	26.9	27.3
<b>Education</b>									
School enrollment, preprimary (% gross)	..	..	6.4	..	9.6	10.2	..	..	..
School enrollment, primary (% gross)	..	125.9	117.2	111.8	106.4	98.9	..	90.9	..
School enrollment, secondary (% gross)	..	34.7	38.5	..	54.8	53.4	..	..	..

Sources: WB DDP Database as of April 5, 2010 and IMF 2005, 2008 and 2009 Article IV Consultation. \* 2008 data are estimated

1/ International Monetary Fund, World Economic Outlook Database, April 2010

2/ Fiscal Accounts for years 2004-2008 are from: IMF Timor-Leste 2009 Article IV Consultation-Staff Report.

3/ Fiscal Accounts for years 2002-2003 are from IMF Timor-Leste Statistical Appendix

4/ Data from 2000-2003 are fiscal year basis (July-June); for example, 2000 refers to FY2000/01.

5/ Derived from IMF, World Economic Outlook; Asian Development Bank

6/ Including International Assistance

Data from 2004-2008 are calendar years.

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 3: TIMOR-LESTE AND COMPARATORS: KEY ECONOMIC AND SOCIAL INDICATORS, AVERAGE 2000-2008

Series Name	Timor-Leste	Cambodia	Indonesia	Lao PDR	Mongolia	Vietnam	Low Income	Lower middle income	East Asia and Pacific
<b>Average 2000-2008</b>									
<b>Growth and inflation</b>									
GDP growth (annual %)	4.4	2.1	5.2	6.7	6.7	7.5	5.6	7.8	8.7
GDP per capita growth (annual %) <sup>1</sup>	6.9	-1.6	3.8	4.9	5.5	6.2	3.3	6.5	7.8
GNI per capita, PPP (current international \$)	...	1781.4	2938.9	1521.1	2461.1	1976.7	1082.8	3217.4	3645.2
GNI per capita, Atlas method (current US\$)	...	978.6	1165.6	440.0	818.9	578.9	366.4	1244.0	1538.9
Inflation, consumer prices (annual %)	11.6	5.8	8.9	11.0	9.3	6.6	..	..	..
<b>Composition of GDP (%)</b>									
Agriculture, value added (% of GDP)	33.1	33.4	14.6	47.1	25.6	22.1	29.2	15.0	13.0
Industry, value added (% of GDP)	14.8	25.8	46.3	27.4	29.5	39.6	25.7	39.9	45.4
Services, etc., value added (% of GDP)	52.0	40.8	39.1	25.6	44.9	38.3	45.1	45.1	41.6
Gross fixed capital formation (% GDP)	23.6	18.5	22.4	30.5	29.2	32.2	22.7	30.8	34.3
Gross domestic savings (% of GDP)	113.3	10.0	30.1	19.0	23.3	28.8	14.5	34.3	41.0
<b>External Accounts</b>									
Exports of goods and services (% of GDP)	14.9	59.5	33.3	31.2	60.6	63.9	28.7	31.9	40.2
Imports of goods and services (% of GDP)	115.7	68.3	27.5	42.7	70.3	70.0	37.3	30.2	35.3
Current account balance (% of GDP)	101.6	-4.7	2.5	-2.3	-1.8	-1.8	..	..	..
External debt, total (% of GNI)	0.0	63.0	61.0	118.9	67.2	38.7	53.9	25.0	23.3
Total debt service (% of GNI)	0.0	0.5	7.8	4.8	4.7	2.6	2.4	3.4	3.4
Total reserves in months of imports	57.8	3.3	5.2	4.4	3.7	2.7	4.9	10.1	10.2
<b>Social Indicators</b>									
<b>Health</b>									
Life expectancy at birth, total (years)	59.5	58.0	69.1	63.6	65.6	73.2	57.2	67.1	71.2
Immunization, DPT (% of children ages 12-23 months)	58.3	71.4	73.6	49.9	97.3	92.9	72.9	72.2	85.2
Improved sanitation facilities (% of population with access)	40.5	22.0	52.0	35.0	49.0	58.0	36.1	50.1	62.6
Improved water source (% of population with access)	61.5	51.5	78.5	53.0	70.0	84.5	64.6	83.4	83.8
Mortality rate, infant (per 1,000 live births)	85.1	73.5	28.8	63.5	39.9	16.8	81.9	50.4	26.5
<b>Population</b>									
Population, total (in millions)	1.0	13.7	217.4	5.8	2.5	82.0	895.0	3532.9	1871.0
Population growth (annual %)	3.4	1.8	1.3	1.8	1.1	1.2	2.2	1.2	0.8
Urban population (% of total)	25.8	19.2	46.8	26.4	56.8	26.0	27.2	38.9	40.6
<b>Education</b>									
School enrollment, preprimary (% gross)	8.7	8.7	30.9	9.3	40.1	39.9	14.4	33.0	39.2
School enrollment, primary (% gross)	108.5	119.6	113.6	112.2	100.3	104.6	90.4	105.2	112.3
School enrollment, secondary (% gross)	45.4	27.7	61.9	41.0	81.7	65.5	39.2	57.9	68.1

Source: WB World Development Indicators (April 5, 2010 Update), International Monetary Fund, World Economic Outlook Database, April 2010 and IMF Timor-Leste 2009 Article IV Consultation-Staff Report.

1/ Timor-Leste Average is from 2001 to 2008.



APPENDIX TABLE 4: TIMOR-LESTE: AGRICULTURE PRODUCTION 2000-2008

Average of Annual Growth Rate			
	2000-2005	2006-2008	2000-2008
<b>PRODUCTION (THOUSAND METRIC TONS)</b>			
Beans, dry	1%	0%	0%
Cassava	-6%	2%	-4%
Coconuts	3%	0%	2%
Coffee, green	0.3%	0.0%	0.2%
Groundnuts, with shell	-2%	0%	-1%
Maize	8%	-6%	4%
Rice, paddy	18%	2%	14%
Roots and Tubers, nes	2%	0%	2%
Sweet potatoes	13%	-2%	9%
Vegetables fresh nes	1%	0%	1%
Indigenous Pigmeat	7%	4%	6%

APPENDIX TABLE 5: TIMOR-LESTE: POVERTY TRENDS 2001-2007

	2001	2007	Change
<b>Poverty</b>			
Poverty headcount ratio (% of population)	39.7		
International poverty line			
Poverty gap at \$1.25 a day (PPP) (%)	19.13	8.73	-10.4
Poverty gap at \$2 a day (PPP) (%)	37.06	27.02	-10.04
<b>Inequality</b>			
GINI index	39.52	31.919	-7.601
Per-capita expenditure distribution			
Income share held by highest 10%	31.32	26.97993	-4.34007
Income share held by lowest 20%	6.7	8.937741	2.237741
Income share held by second 20%	10.44	12.52705	2.087052
Income share held by third 20%	14.78	16.01287	1.232874
Income share held by fourth 20%	21.29	21.23138	-0.05862
Income share held by highest 20%	46.79	41.29095	-5.49905

Source: CBS and the World Bank staff calculations using LSMS and TLSLS

**APPENDIX 9  
STATISTICAL SUPPLEMENT**

**APPENDIX TABLE 6: TIMOR-LESTE: SOCIAL INDICATORS SUMMARY, 2000-2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 2000- 2008
<b>EDUCATION</b>										
School enrollment, primary (% gross)		126.7	118.0	112.7	107.4	100.1		93.2	106.6	109.2
Ratio of female to male primary enrollment (%)					92.9	92.2		94.4	93.9	93.3
Repeaters, primary, total (% of total enrollment)								14.5	12.5	13.5
Public spending on education, total (% of GDP)									7.1	7.1
<b>HEALTH</b>										
Life expectancy at birth, female (years)	57	58	59	59	60	61	61	62	62	60
Life expectancy at birth, total (years)	56	57	58	59	59	60	60	61	61	59
Mortality rate, infant (per 1,000 live births)	100					83	80	77	75	83
Mortality rate, under-5 (per 1,000)	129					105	101	97	93	105
Fertility rate, total (births per woman)	7	7	7	7	7	7	7	7	6	7
Adolescent fertility rate (births per 1,000 women ages 15-19)	89	79	69	63	61	59	57	55	53	65
Births attended by skilled health staff (% of total)			23.6	18.4						21.00
Low-birthweight babies (% of births)			10	12						11.00
Malnutrition prevalence, height for age (% of children under 5)			55.7							55.70
Malnutrition prevalence, weight for age (% of children under 5)			40.6							40.60
Health expenditure, public (% of government expenditure)				33.65	13.79	19.50	20.92	14.95		20.56
<b>POPULATION</b>										
Population, total (in Millions)	0.82	0.83	0.87	0.91	0.95	0.99	1.03	1.06	1.10	0.95
Population growth (annual %)	0.49	2.33	3.78	4.61	4.65	4.21	3.69	3.37	3.17	3.37

Source: WB World Development Indicators

**APPENDIX TABLE 7: TIMOR-LESTE: ASSETS AND ACCESS TO BASIC INFRASTRUCTURE, 2003-2009**

Asset	<i>National</i>		<i>Rural</i>		<i>Urban</i>	
	2003	2009	2003	2009	2003	2009
	Has radio	30.8		24.1		51.9
Has Television	8.6		1.6		32	
Has telephone	1.9		0.3		7.3	
Mobile telephone						
Non-mobile telephone						
Has bicycle	7.1		3.7		15.7	

Access to Basic Infrastructure Services	<i>National</i>		<i>Rural</i>		<i>Urban</i>	
	2003	2009	2003	2009	2003	2009
	Electricity	26.1		11.16		73.3
Source of drinking water						
Piped water	38.4		33.43		49.6	
Time to water sources						
On premises	28.9		20.4		57.7	
Sanitation Facility						
private toilet	29.1		19.7		58.3	

Source: 2003 and 2009 DHS Reports

**APPENDIX TABLE 8: TIMOR-LESTE: SELECTED GENDER INDICATORS SUMMARY, 2000-2009**

(period averages)

Indicators	<i>Timor-Leste</i>		<i>EAP</i>	
	2000-2005	2006-2009	2000-2005	2006-2009
Fertility rate, total (births per woman)	7	7	2	2
Maternal mortality ratio (modeled estimate, per 100,000 live births)	380	...	150	...
Life expectancy at birth, total (years)	58	61	71	72
Female	59	62	73	74
Male	57	60	69	70
School enrollment, primary (% gross)	113.0	99.9	110.9	111.5
Female	99.6	96.8	111.3	112.0
Male	107.6	102.9	110.5	111.0
Ratio of girls to boys in primary and secondary education (%)	94.8	...	98.7	101.6
Proportion of seats held by women in national parliaments (%)	25.8	27.9	17.7	18.1

Source: WB World Development Indicators

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 9: TOTAL NET DISBURSEMENTS OF OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID, 2000- 2009  
(IN US\$ MILLION)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
<b>Bilaterals</b>	<b>229.82</b>	<b>181.77</b>	<b>209.55</b>	<b>163.02</b>	<b>153.44</b>	<b>170.41</b>	<b>199.88</b>	<b>267.17</b>	<b>257.73</b>	<b>193.47</b>	<b>2,026.26</b>
Australia	82.44	37.25	37.52	28.87	35.25	38.02	46.08	83.35	74.48	60.71	523.97
Austria	5.78	5.54	2.66	2.25	..	0.07	0.06	0.05	0.15	0.08	16.64
Belgium	7.22	7.26	2.89	2.18	0.39	0.02	..	..	..	..	19.96
Canada	0.52	2.78	3.09	4.99	2.77	3.49	1.81	3.24	1.75	2.02	26.46
Denmark	..	0.33	0.25	0.09	0.71	0.08	0.27	0.21	..	..	1.94
Finland	2.76	3.61	1.90	1.97	1.87	1.78	2.39	0.56	0.62	0.52	17.98
France	0.53	0.10	..	0.16	0.15	0.19	0.08	0.50	0.52	0.13	2.36
Germany	1.73	1.97	1.34	3.10	3.38	4.79	5.38	6.24	6.66	5.63	40.22
Greece	..	..	..	..	..	..	0.01	0.05	..	..	0.06
Ireland	1.60	2.03	3.25	3.96	5.33	5.62	9.32	8.35	10.81	7.37	57.64
Italy	..	0.01	..	0.56	0.37	..	..	..	1.65	..	2.59
Japan	29.07	8.93	5.74	8.93	9.88	33.41	21.83	13.07	26.45	11.88	169.19
Korea	..	0.30	1.31	0.27	0.10	0.30	0.57	1.36	2.18	1.77	8.16
Luxembourg	0.49	0.98	..	0.21	0.04	..	..	..	..	..	1.72
Netherlands	..	2.62	0.57	0.62	1.40	1.12	0.23	..	..	..	6.56
New Zealand	1.81	1.57	1.14	2.93	3.32	2.52	5.20	3.15	5.10	5.10	31.84
Norway	3.51	4.64	7.78	7.10	8.71	9.08	14.52	13.45	7.67	8.51	84.97
Portugal	52.62	57.95	75.85	42.69	25.55	34.69	38.50	46.64	38.99	34.64	448.12
Spain	0.72	0.86	1.05	1.03	0.69	1.58	0.79	11.41	13.96	10.82	42.91
Sweden	3.33	2.43	3.88	5.44	5.71	2.62	1.61	6.43	6.03	4.59	42.07
Switzerland	0.33	0.05	0.08	0.17	0.09	0.06	0.75	0.44	0.26	0.04	2.27
United Kingdom	16.43	8.74	10.58	7.38	8.45	1.09	4.21	4.00	0.23	0.11	61.22
United States	1.40	4.27	27.45	22.72	27.19	19.90	20.64	25.06	32.74	29.07	210.44
EU Institutions	17.53	27.49	21.17	15.32	12.08	9.97	25.59	39.58	27.37	10.26	206.36
Czech Republic	..	..	..	..	..	..	..	..	0.04	0.03	0.07
Iceland	..	0.06	..	..	..	..	..	..	..	..	0.06
Israel	..	..	..	..	0.01	0.01	..	..	..	..	0.02
Slovak Republic	..	..	0.05	0.08	..	..	..	..	..	..	0.13
Thailand	..	..	..	..	..	..	0.04	0.03	0.07	0.08	0.22
Turkey	..	..	..	..	..	..	..	..	..	0.11	0.11

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
<b>Multilaterals</b>	<b>1.45</b>	<b>12.40</b>	<b>9.50</b>	<b>12.01</b>	<b>7.80</b>	<b>14.35</b>	<b>9.19</b>	<b>11.10</b>	<b>19.81</b>	<b>23.27</b>	<b>120.88</b>
AsDF (Asian Dev. Fund)	..	..	..	..	..	..	..	..	6.35	4.20	10.55
GEF	..	..	..	..	..	0.23	..	..	..	..	0.23
Global Fund	..	..	..	0.38	0.98	0.69	1.34	1.53	0.98	7.60	13.50
IBRD	..	..	..	..	..	..	..	..	..	..	-
IDA	..	..	..	4.17	..	5.22	1.21	1.63	4.78	3.81	20.82
UNAIDS	..	..	..	..	..	0.08	..	0.13	..	0.06	0.27
UNDP	0.27	1.48	2.21	2.15	1.51	2.78	2.51	1.93	2.51	2.59	19.94
UNFPA	0.33	0.28	1.42	1.24	3.15	1.49	1.42	1.73	1.97	2.67	15.70
UNHCR	..	8.44	4.16	1.14	..	0.20	..	0.56	0.11	0.09	14.70
UNICEF	0.68	1.61	0.93	2.03	1.21	1.73	1.60	2.15	1.12	1.12	14.18
UNTA	..	0.57	0.77	0.84	0.90	1.85	0.92	1.37	0.51	0.51	8.24
WFP	0.17	0.02	0.01	0.06	0.05	0.08	0.19	0.07	1.48	0.62	2.75
<b>Total Aid</b>	<b>231.27</b>	<b>194.17</b>	<b>219.05</b>	<b>175.03</b>	<b>161.24</b>	<b>184.76</b>	<b>209.07</b>	<b>278.27</b>	<b>277.54</b>	<b>216.74</b>	<b>2,147.14</b>

Source: OECD-DAC

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 10: TIMOR-LESTE - TFET BY SECTOR BOARD, FY00-FY07\*  
(COMMITMENT AMOUNTS IN US\$ MILLION)

Sector Board	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	Total
Agriculture and Rural Development	6.8	-	8.0	-	3.0	-	-	-	17.78
Education	13.9	-	20.5	-	-	-	-	-	34.36
Energy and Mining	-	-	-	1.8	-	1.3	-	0.1	3.34
Environment	-	-	-	-	1.0	-	-	-	1.00
Financial and Private Sector Development	4.8	4.0	7.4	-	-	-	-	-	16.20
Health, Nutrition and Population	12.5	12.6	-	-	-	-	-	-	25.12
Public Sector Governance	-	0.9	-	-	-	-	-	-	0.89
Social Protection	7.0	8.5	1.5	-	-	-	-	-	16.97
Transport*	29.8	-	9.0	-	-	-	-	-	38.76
Urban Development	0.5	-	-	-	-	-	-	-	0.49
Water*	-	4.5	-	4.5	-	-	-	-	9.00
<b>Total</b>	<b>75.27</b>	<b>30.45</b>	<b>46.35</b>	<b>6.35</b>	<b>3.99</b>	<b>1.35</b>	<b>0.00</b>	<b>0.15</b>	<b>163.91</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

APPENDIX TABLE 11: TIMOR-LESTE - WORLD BANK IDA GRANT BY SECTOR BOARD, FY00-FY10\*  
(COMMITMENT AMOUNTS IN US\$ MILLION)

Sector Board	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	Total
Agriculture and Rural Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00	0.00	0.00	5.00	11.00
Energy and Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.50	0.00	0.00	0.00	2.50
Financial and Private Sector Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Health, Nutrition and Population	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	1.00
Poverty Reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Sector Governance	0.00	0.00	0.00	0.00	4.00	4.96	7.50	0.00	0.00	0.00	0.00	16.46
Social Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.12	0.00	2.12
Social Protection	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transport*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Urban Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4.00</b>	<b>4.96</b>	<b>7.50</b>	<b>8.50</b>	<b>1.00</b>	<b>2.12</b>	<b>5.00</b>	<b>33.08</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

**APPENDIX TABLE 12: TIMOR-LESTE - WORLD BANK IDA GRANT BY SECTOR BOARD, FY00-FY10\***  
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	0	0	0	0	0	0	0	0	0	0	0	0
Education	0	0	0	0	0	0	0	1	0	0	1	2
Energy and Mining	0	0	0	0	0	0	0	1	0	0	0	1
Financial and Private Sector Development	0	0	0	0	0	0	0	0	0	0	0	0
Health, Nutrition and Population	0	0	0	0	0	0	0	0	1	0	0	1
Poverty Reduction	0	0	0	0	0	0	0	0	0	0	0	0
Public Sector Governance	0	0	0	0	1	1	2	0	0	0	0	4
Social Development	0	0	0	0	0	0	0	0	0	1	0	1
Social Protection	0	0	0	0	0	0	0	0	0	0	0	0
Transport*	0	0	0	0	0	0	0	0	0	0	0	0
Urban Development	0	0	0	0	0	0	0	0	0	0	0	0
Water*	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>9</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

**APPENDIX TABLE 13: TIMOR-LESTE - WORLD BANK TRUST FUNDS BY SECTOR BOARD, FY00-FY10\***  
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	6.84	0.00	8.04	0.00	11.82	0.00	0.00	0.00	0.00	0.00	0.00	26.70
Education	13.99	0.00	20.47	0.00	0.00	0.00	4.97	6.15	0.00	8.44	0.00	54.02
Energy and Mining	0.00	0.00	0.00	1.85	0.00	1.35	0.00	1.70	0.00	0.23	0.00	5.12
Financial and Private Sector Development	4.92	4.00	7.41	50.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	66.41
Health, Nutrition and Population	12.58	33.68	0.00	0.00	0.00	0.00	4.50	0.00	15.70	0.00	0.00	66.47
Poverty Reduction	0.00	0.00	0.17	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.00	0.47
Public Sector Governance	0.00	1.02	0.32	0.14	0.31	25.00	21.51	0.00	0.00	0.00	0.00	48.29
Social Protection	8.99	8.48	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.96
Transport*	29.76	0.00	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	38.76
Urban Development	0.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.49
Water*	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
<b>Total</b>	<b>77.57</b>	<b>47.19</b>	<b>46.88</b>	<b>56.57</b>	<b>12.13</b>	<b>26.64</b>	<b>30.98</b>	<b>7.85</b>	<b>15.70</b>	<b>8.67</b>	<b>0.00</b>	<b>330.19</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 14: TIMOR-LESTE - WORLD BANK TRUST FUNDS BY SECTOR BOARD, FY00-FY10\*  
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	1	0	1	0	1	0	0	0	0	0	0	3
Education	1	0	1	0	0	0	1	1	0	1	0	5
Energy and Mining	0	0	0	2	0	1	0	2	0	1	0	6
Financial and Private Sector Development	1	1	1	1	0	0	0	0	0	0	0	4
Health, Nutrition and Population	1	1	0	0	0	0	1	0	1	0	0	4
Poverty Reduction	0	0	1	0	0	1	0	0	0	0	0	2
Public Sector Governance	0	2	1	1	3	2	2	0	0	0	0	11
Social Development	0	0	0	0	0	0	0	0	0	0	0	0
Social Protection	1	1	1	0	0	0	0	0	0	0	0	3
Transport*	1	0	1	0	0	0	0	0	0	0	0	2
Urban Development	1	0	0	0	0	0	0	0	0	0	0	1
Water*	0	0	0	1	0	0	0	0	0	0	0	1
<b>Total</b>	<b>7</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>42</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

APPENDIX TABLE 15: TIMOR-LESTE - WORLD BANK IDA GRANT AND TRUST FUNDS BY SECTOR BOARD, FY00-FY10\*  
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	6.84	0.00	8.04	0.00	11.82	0.00	0.00	0.00	0.00	0.00	0.00	26.70
Education	13.99	0.00	20.47	0.00	0.00	0.00	4.97	12.15	0.00	8.44	5.00	65.02
Energy and Mining	0.00	0.00	0.00	1.85	0.00	1.35	0.00	4.20	0.00	0.23	0.00	7.62
Financial and Private Sector Development	4.92	4.00	7.41	50.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	66.41
Health, Nutrition and Population	12.58	33.68	0.00	0.00	0.00	0.00	4.50	0.00	16.70	0.00	0.00	67.47
Poverty Reduction	0.00	0.00	0.17	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.00	0.47
Public Sector Governance	0.00	1.02	0.32	0.14	4.31	29.96	29.01	0.00	0.00	0.00	0.00	64.75
Social Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.12	0.00	2.12
Social Protection	8.99	8.48	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.96
Transport*	29.76	0.00	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	38.76
Urban Development	0.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.49
Water*	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
<b>Total</b>	<b>77.57</b>	<b>47.19</b>	<b>46.88</b>	<b>56.57</b>	<b>16.13</b>	<b>31.60</b>	<b>38.48</b>	<b>16.35</b>	<b>16.70</b>	<b>10.78</b>	<b>5.00</b>	<b>363.27</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects



**APPENDIX TABLE 16: TIMOR-LESTE - WORLD BANK IDA GRANTS AND TRUST FUNDS BY SECTOR BOARD, FY00-FY10\***

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	1		1		1							3
Education	1		1				1	1		1	1	6
Energy and Mining				2		1		2		1		6
Financial and Private Sector Development	1	1	1	1								4
Health, Nutrition and Population	1	1					1		1			4
Poverty Reduction			1			1						2
Public Sector Governance		2	1	1	3	2	2					11
Social Development										1		1
Social Protection	1	1	1									3
Transport	1		1									2
Urban Development	1											1
Water				1								1
<b>Total</b>	<b>7</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>44</b>

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

\* ADB Projects

1/ Bank Database does not report the grant amount for IDFs.

2/ Bank Database does not report any grant for ESSP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds

3/ Bank Database does not report any grant for ESDP. The value reported in this table corresponds to the Japanese support to this project through Trust Funds

4/ Bank Database does not report any grant for the Health Sector Strategic Plan Support. The value reported in this table corresponds to the multi-donor cofinancing to this project through Trust Funds administrated by the World Bank.

5/ Bank Database does not report any grant for PFMCBP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds administrated by the World Bank.

6/ Bank Database reports the TFET grant of US\$ 3.0 million. This table reports the TFET grant combined with the EC grant for this project of US\$ 8.83million.

7/ Bank Database reports the planned TFET grant of US\$ 13.9 million. This table reports the actual TFET grant for this project.

8/ Bank Database reports the TFET grant of US\$ 12.6 million. This table reports the TFET grant combined with the EC grant for this project of US\$21 million.

9/ Bank Database reports the planned grant of US\$ 0.5 million. This table shows the actual grant.

10/ Bank Database does not report any grant for TSP II. However, operations portal shows a grant disbursement of US\$ 15,344.00

11/ Bank Database does not report any grant amount for TSP III. The value reported in this table corresponds to the multilateral support, funded through Trust Funds administrated by the World Bank, to this project.

12/ Bank Database does not report any grant amount for CSP I. The value reported in this table corresponds to the co-financing provided to this project through Trust Funds administrated by the World Bank.

13/ Bank Database reports the planned grant of US\$ 21 million. This table reports the actual grant for this project.

Source: World Bank internal database, Tables 2b.1 and 4a.6 as of 9/15/2010. Operations and TF reports

**APPENDIX 9  
STATISTICAL SUPPLEMENT**

**APPENDIX TABLE 17: PROJECT RATINGS FOR TIMOR-LESTE AND COMPARATORS, EXIT FY00-FY10**

<i>Country/Region</i>	<i>Total Evaluated</i>		<i>Outcome % Sat</i>		<i>Inst Dev Impact % Subst</i>		<i>Sustainability % Likely</i>	
	<i>\$M</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>
Timor-Leste <sup>1/</sup>	9.89	19	0.00	42.11	0.00	11.11	0.00	37.50
Cambodia	309.57	16	85.63	62.50	58.79	55.56	86.90	66.67
Indonesia	8073.83	86	85.76	64.71	39.59	39.13	55.80	50.85
Lao PDR	294.53	16	92.58	87.50	60.38	40.00	76.99	55.56
Mongolia	205.26	13	100.00	100.00	84.17	62.50	100.00	100.00
Vietnam	2851.65	32	100.00	100.00	47.83	58.33	100.00	100.00
EAP	36,242.0	392	90.2	80.9	67.7	57.4	84.9	75.9
World Bank	177,704.5	2605	82.0	76.5	54.9	50.9	81.2	75.4

1/ The % in \$ Satisfactory project is 0 because all the projects with IDA financing received Unsatisfactory outcome ratings

Source: World Bank internal database Table 4a.5 as of 09/16/10

**APPENDIX TABLE 18. TIMOR-LESTE AND COMPARATORS - PORTFOLIO STATUS INDICATORS, FY00-10  
(US\$ MILLION)**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Timor-Leste</b>											
# Proj	5	8	10	11	8	7	7	8	7	9	8
Net Comm Amt	19	54	75	70	60	48	54	41	24	29	29
# Proj At Risk	0	1	3	6	1	0	0	2	2	4	4
% At Risk	0	13	30	55	13	0	0	25	29	44	50
Comm At Risk	0	14	20	52	8	0	0	15	8	18	13
% Commit at Risk	0	26	26	75	13	0	0	36	32	61	44
<b>Cambodia</b>											
# Proj	11	12	14	16	14	13	12	11	16	21	18
Net Comm Amt	222	270	301	340	317	279	265	235	396	434	409
# Proj At Risk	2	2	3	4	3	2	3	5	3	4	11
% At Risk	18	17	21	25	21	15	25	45	19	19	61
Comm At Risk	52	47	79	80	22	27	63	80	86	122	221
% Commit at Risk	23	18	26	24	7	10	24	34	22	28	54
<b>Indonesia</b>											
# Proj	63	52	47	40	32	31	26	26	45	60	58
Net Comm Amt	5,576	4,345	3,572	3,037	2,654	2,646	2,344	2,786	3,535	7,243	8,137
# Proj At Risk	12	7	14	7	6	4	2	4	13	14	9
% At Risk	19	13	30	18	19	13	8	15	29	23	16
Comm At Risk	803	425	1,392	377	534	261	106	305	558	861	400
% Commit at Risk	14	10	39	12	20	10	5	11	16	12	5
<b>Lao</b>											
# Proj	10	10	12	12	12	11	13	13	17	15	22
Net Comm Amt	225	234	249	216	232	167	178	170	205	182	266
# Proj At Risk	4	3	0	1	0	2	1	1	0	0	3
% At Risk	40	30	0	8	0	18	8	8	0	0	14
Comm At Risk	83	102	0	35	0	18	17	4	0	0	16
% Commit at Risk	37	44	0	16	0	11	9	2	0	0	6

**APPENDIX 9  
STATISTICAL SUPPLEMENT**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Mongolia</b>											
# Proj	8	8	9	10	10	9	12	14	18	17	17
Net Comm Amt	143	195	158	166	167	137	163	203	175	205	207
# Proj At Risk	2	1	0	1	0	0	0	0	1	0	2
% At Risk	25	13	0	10	0	0	0	0	6	0	12
Comm At Risk	40	5	0	5	0	0	0	0	18	0	13
% Commit at Risk	28	3	0	3	0	0	0	0	10	0	6
<b>Vietnam</b>											
# Proj	21	25	27	27	28	35	39	38	47	51	55
Net Comm Amt	1,954	2,557	2,814	2,484	2,993	3,539	3,975	3,957	4,643	5,498	6,392
# Proj At Risk	0	2	3	4	2	0	3	4	4	5	4
% At Risk	0	8	11	15	7	0	8	11	9	10	7
Comm At Risk	0	140	96	306	220	0	285	662	388	611	431
% Commit at Risk	0	5	3	12	7	0	7	17	8	11	7
<b>EAP</b>											
# Proj	292	280	267	252	235	230	229	223	283	308	319
Net Comm Amt	31,786	28,769	25,940	23,413	21,253	20,218	19,453	18,927	20,559	25,727	28,449
# Proj At Risk	30	26	35	25	21	14	14	24	34	46	55
% At Risk	10	9	13	10	9	6	6	11	12	15	17
Comm At Risk	1,934	1,990	2,271	892	1,473	842	804	1,626	1,767	2,386	2,785
% Commit at Risk	6	7	9	4	7	4	4	9	9	9	10
<b>World Bank</b>											
# Proj	1,594	1,562	1,544	1,519	1,469	1,463	1,468	1,485	1,832	1,925	1,990
Net Comm Amt	117,589	108,261	104,617	97,263	95,195	96,084	95,194	100,357	110,836	135,706	162,975
# Proj At Risk	238	192	289	234	238	235	199	243	312	386	410
% At Risk	15	12	19	15	16	16	14	16	17	20	21
Comm At Risk	18,943	12,654	17,542	14,372	14,869	12,758	11,000	15,354	18,968	20,858	28,963
% Commit at Risk	16	12	17	15	16	13	12	15	17	15	18

Source: World Bank internal database Table 3a.4 as of 9/16/10

**APPENDIX TABLE 19: BANK BUDGET BY COST CATEGORY, FY00-FY10  
(IN US\$ THOUSANDS)**

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	Average	Total FY00-10	Budget Distrib. %
<b>Timor-Leste</b>														
Supervision	89	656	734	541	692	524	789	731	1,051	684	501	636	6,993	30.4
Lending	399	496	336	334	376	705	889	592	413	378	119	458	5,039	21.9
AAA	762	686	953	670	573	681	774	764	394	1,196	1,065	774	8,517	37.1
Other	125	29	329	157	295	251	256	302	367	200	125	221	2,436	10.6
Total	1,375	1,866	2,351	1,702	1,937	2,161	2,709	2,390	2,226	2,458	1,810	2,090	22,986	100.0
<b>EAP</b>														
Supervision	24,386	20,736	23,979	22,721	24,262	22,317	25,331	27,504	27,715	30,536	33,005	25,681	282,490	32.7
Lending	16,412	14,533	18,443	17,896	25,051	25,549	26,097	24,658	24,476	23,646	24,977	21,976	241,738	27.9
AAA	18,647	14,500	19,019	20,489	22,124	23,461	26,411	22,791	23,826	27,771	30,161	22,655	249,201	28.8
Other	5,414	6,734	8,601	10,537	14,933	8,514	7,942	7,763	7,633	7,519	5,997	8,326	91,588	10.6
Total	64,859	56,502	70,043	71,643	86,370	79,841	85,780	82,717	83,650	89,472	94,140	78,638	865,017	100.0
<b>WORLD BANK</b>														
Supervision	158,831	136,397	152,338	160,295	167,000	178,459	190,444	199,270	217,739	230,865	252,044	185,789	2,043,682	32.2
Lending	124,422	102,528	123,494	120,910	157,035	151,417	155,675	149,646	147,977	151,646	156,947	140,154	1,541,699	24.3
AAA	107,754	88,308	130,026	150,800	154,879	157,072	169,431	162,827	187,311	198,125	206,714	155,750	1,713,248	27.0
Other	65,114	74,645	85,053	91,238	106,091	100,456	103,789	105,175	105,656	105,691	110,201	95,737	1,053,108	16.6
Total	456,121	401,877	490,912	523,244	585,006	587,404	619,339	616,917	658,683	686,327	725,906	577,431	6,351,737	100.0

Source: Bank Database Resource Management Report 4.1 as of 9/17/10.

APPENDIX 9  
STATISTICAL SUPPLEMENT

APPENDIX TABLE 20: BANK BUDGET FOR TIMOR-LESTE BY COST CATEGORY, FY00-FY08  
(IN US\$ THOUSANDS)

<b>Sector Board</b>	<b>Total</b>	<b>Supervision</b>	<b>Lending</b>	<b>AAA</b>	<b>Other</b>
Agriculture and Rural Development	\$ 1,883	\$ 1,140	\$ 439	\$ 304	\$ 0
Education	\$ 1,622	\$ 646	\$ 767	\$ 210	\$ 0
Energy and Mining	\$ 1,616	\$ 702	\$ 561	\$ 353	\$ 0
Environment	\$ 170	\$ 0	\$ 0	\$ 170	\$ 0
Economic Policy	\$ 746	\$ 0	\$ 0	\$ 746	\$ 0
Financial and Private Sector Development	\$ 1,220	\$ 676	\$ 357	\$ 187	\$ 0
Global Information/Communications Technology	\$ 227	\$ 0	\$ 0	\$ 227	\$ 0
Health, Nutrition and Population	\$ 1,352	\$ 644	\$ 245	\$ 463	\$ 0
Poverty Reduction	\$ 1,222	\$ 0	\$ 0	\$ 1,222	\$ 0
Procurement	\$ 98	\$ 0	\$ 0	\$ 98	\$ 0
Public Sector Governance	\$ 3,135	\$ 1,064	\$ 1,298	\$ 773	\$ 0
Social Development	\$ 1,957	\$ 208	\$ 721	\$ 1,029	\$ 0
Social Protection	\$ 1,764	\$ 725	\$ 366	\$ 673	\$ 0
Transport	\$ 65	\$ 0	\$ 0	\$ 65	\$ 0
Urban Development	\$ 45	\$ 9	\$ 4	\$ 32	\$ 0
Sector Board not Applicable (I)	\$ 773	\$ 0	\$ 0	\$ 773	\$ 0
Not assigned	\$ 5,089	\$ 1,180	\$ 281	\$ 1,193	\$ 2,436
<b>Total</b>	<b>\$ 22,985</b>	<b>\$ 6,993</b>	<b>\$ 5,039</b>	<b>\$ 8,517</b>	<b>\$ 2,436</b>

*Cost Structure by percentage*

<b>Sector Board</b>	<b>Total</b>	<b>Supervision</b>	<b>Lending</b>	<b>AAA</b>	<b>Other</b>
Agriculture and Rural Development	100	61	23	16	0
Education	100	40	47	13	0
Energy and Mining	100	43	35	22	0
Environment	100	0	0	100	0
Economic Policy	100	0	0	100	0
Financial and Private Sector Development	100	55	29	15	0
Global Information/Communications Technology	100	0	0	100	0
Health, Nutrition and Population	100	48	18	34	0
Poverty Reduction	100	0	0	100	0
Procurement	100	0	0	100	0
Public Sector Governance	100	34	41	25	0
Social Development	100	11	37	53	0
Social Protection	100	41	21	38	0
Transport	100	0	0	100	0
Urban Development	100	21	9	70	0
Sector Board not Applicable (I)	100	0	0	100	0
Not assigned	100	23	6	23	48
<b>Total</b>	<b>100</b>	<b>30</b>	<b>22</b>	<b>37</b>	<b>11</b>

Source: Bank Database Resource Management Report 4.1 as of 9/17/10.

APPENDIX TABLE 21: TIMOR-LESTE: GOVERNANCE INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>1. Improving Implementation Capacity</b>											
<b>Integrity indicators Scorecard<sup>1</sup></b>											
Administration and Civil Service								Very Weak (Score: 46)			
Civil Service Regulations								Very Weak (Score: 38)			
Whistle-blowing Measures								Weak (Score: 63)			
Procurement								Strong (Score: 82)			
<b>CPIA<sup>2</sup></b>											
Quality of Budget. & Finan. Mgt.							3	3	3		
Effic.of Revenue Mobil.							3	3	3		
Quality of Public Admin.							2.5	2.5	2.5		
<b>Worldwide Governance Indicators<sup>3</sup></b>											
Government Effectiveness			-0.92	-0.94	-0.65	-1.06	-0.97	-1.12	-1		
<b>2. Tackling corruption</b>											
<b>Integrity indicators Scorecard<sup>1</sup></b>											
Anti-Corruption Law								Very Strong (Score: 100)			
Anti-Corruption Agency								Moderate (Score:71)			
<b>CPIA<sup>2</sup></b>											
Transpar., Account. & Corrup.in Pub. Sec.							3	3	3		
<b>Worldwide Governance Indicators<sup>3</sup></b>											
Control of Corruption			-0.53	-0.52	-0.53	-0.79	-0.88	-0.93	-0.89		
<b>Index of Economic Freedom<sup>4</sup></b>											
Freedom From Corruption										26	22
<b>3. Legal and judicial reform</b>											
<b>Integrity indicators Scorecard<sup>1</sup></b>											
Rule of Law								Moderate (Score:74)			
Law Enforcement								Very Weak (Score: 54)			
National Ombudsman								Very Strong (Score: 91)			
Supreme Audit Institution								Very Weak (Score: 4)			
<b>CPIA<sup>2</sup></b>											
Property Rights & Rule-based Govern.							1.5	1.5	2		
<b>Worldwide Governance Indicators<sup>3</sup></b>											
Rule of Law			-1.17	-0.74	-0.83	-0.58	-1.18	-1.3	-1.15		
<b>4. Voice / Empowerment / Participation</b>											
<b>Integrity indicators Scorecard<sup>1</sup></b>											
Civil Society, Public Information and Media								Strong (Score: 80)			
Civil Society Organizations								Strong (Score: 82)			

**APPENDIX 9  
STATISTICAL SUPPLEMENT**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Media								Strong (Score: 86)			
Public Access to Information								Moderate (Score:73)			
<b>Worldwide Governance Indicators<sup>3</sup></b>											
Voice and Accountability	0.15		0.07	-0.36	-0.19	0.08	0.19	0.28	0.07		
<b>Freedom in the World<sup>5</sup></b>											
Civil Liberties	3	3	3	3	3	3	4	4	4		
<b>Cigranelli and Richards (CIRI) Human Rights<sup>6</sup></b>											
Empowerment index		7		8	8	8	6				
<b>World Press Freedom Index<sup>7</sup></b>											
Ranking				30	57	58	83	94	65	72	
Total Number of Countries Included				166	167	167	168	169	173	175	
Percentile				0.82	0.66	0.65	0.51	0.44	0.62	0.59	
<b>5. Political Governance</b>											
<b>Integrity indicators Scorecard<sup>1</sup></b>											
Elections								Weak (Score: 63)			
Voting & Citizen Participation								Strong (Score: 85)			
Election Integrity								Strong (Score: 81)			
Political Financing								Very Weak (Score: 24)			
<b>Freedom in the World<sup>5</sup></b>											
Political Rights	6	5	3	3	3	3	3	3	3		
<b>Polity IV/ Democracy and Autocratic index<sup>8</sup></b>											
			6	6	6	6	7	7	7		

Notes:

1. Scores are assigned from 0 to 100. The higher the rating the better it ranks on integrity. Countries are classified according to the following scale: Very Strong (90+), Strong (80+), Moderate (70+), Weak (60+), Very Weak (<60). Source: Global Integrity Report.

2. CPIA rates the quality of a country's policies and institutional framework on a scale from 1 (low quality) to 6 (high quality). CPIA ratings before 2005 are confidential. Source: World Bank

3. Governance Score: Measured on a scale from -2.5 to 2.5. Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008: Governance Matters VII: Governance Indicators for 1996-2007

4. Each of the 10 freedoms is graded using a 0 to 100 scale, where 100 represents the maximum freedom. Overall rating results from a simple average of 10 subtracting. Scores for each year refer to the Heritage Foundation report of the following year. The index of Economic Freedom categories are defined as: "free": 80-100%, "mostly free":70-70.9%; "moderately free": 60-69.9%; "mostly unfree":50-59.9%; "repressed":0-49.9%. Source: The Heritage Foundation.

5. Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of Freedom and seven the lowest. Status categories are Free, Party free, Not free. Source: Freedom House

6. Constructed from the Freedom of Movement, Freedom of Speech, Workers' Rights, Political Participation, and Freedom of Religion indicators. It ranges from 0 (no government respect for these five rights) to 10 (full government respect for these five rights). Source: <http://www.humanrightsdata.org>.

7. Ranking based on a questionnaire sent to freedom of expression groups, correspondents, journalists, researchers, jurists and human rights activists. Source: Reporters without Borders (RSF).

8. Scale -10 (hereditary monarchy) to +10 (consolidated democracy). Three-part categorization of "autocracies" (-10 to -6), "anocracies" (-5 to +5 and the three special values: -66, -77, and -88), and "democracies" (+6 to +10). Source: University of Maryland - Center for International Development and Conflict Management. Monty Marshall and Keity Jagers. <http://www.systemicpeace.org/polity/polity4.htm>



**APPENDIX TABLE 22: MILLENNIUM DEVELOPMENT GOALS**

	1990	1995	2000	2005	2007
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Employment to population ratio, 15+, total (%)	64	64	65	65	67
Employment to population ratio, ages 15-24, total (%)	51	51	51	55	58
GDP per person employed (constant 1990 PPP \$)	..	..	..	..	..
Income share held by lowest 20%	..	..	7	9	9
Malnutrition prevalence, weight for age (% of children under 5)	..	..	41	..	..
Poverty gap at \$1.25 a day (PPP) (%)	..	..	19	9	9
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	..	..	53	37	37
Vulnerable employment, total (% of total employment)	..	..	..	..	..
<b>Goal 2: Achieve universal primary education</b>					
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	70	80
Total enrollment, primary (% net)	..	..	..	69	77
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliaments (%)	..	..	..	25	29
Ratio of female to male primary enrollment (%)	..	..	..	92	94
Ratio of female to male secondary enrollment (%)	..	..	..	100	..
Ratio of female to male tertiary enrollment (%)	..	..	127	..	71
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	35	..	..
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12-23 months)	..	..	..	..	..
Mortality rate, infant (per 1,000 live births)	138	116	100	83	75
Mortality rate, under-5 (per 1,000)	184	153	129	105	93
<b>Goal 5: Improve maternal health</b>					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	89	59	53
Births attended by skilled health staff (% of total)	..	26	24	18	..
Contraceptive prevalence (% of women ages 15-49)	..	..	8	20	20
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	380	..
Pregnant women receiving prenatal care (%)	..	..	43	61	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	47	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	498	498	498	498	498
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..
Tuberculosis case detection rate (all forms)	..	..	52	43	33
<b>Goal 7: Ensure environmental sustainability</b>					
CO2 emissions (kg per PPP \$ of GDP)	..	..	0	0	0
CO2 emissions (metric tons per capita)	..	..	0	0	0
Forest area (% of land area)	65	61.2	57.4	53.7	52.2
Improved sanitation facilities (% of population with access)	..	..	40	41	41
Improved water source (% of population with access)	..	..	61	62	62
Marine protected areas (% of total surface area)	..	..	..	..	0
Terrestrial protected areas (% of total surface area)	..	..	..	..	15
<b>Goal 8: Develop a global partnership for development</b>					
Net ODA received per capita (current US\$)	0	0	284	186	253
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	..	..	..	..	..
Internet users (per 100 people)	..	..	..	..	..
Mobile cellular subscriptions (per 100 people)	..	..	..	..	..
Telephone lines (per 100 people)	..	..	..	..	..
<b>Other</b>					
Fertility rate, total (births per woman)	5	6	7	7	6
GNI per capita, Atlas method (current US\$)	..	..	330	740	2460
GNI, Atlas method (current US\$) (billions)	..	..	0.3	0.7	2.7
Gross capital formation (% of GDP)	..	..	25.6	..	..
Life expectancy at birth, total (years)	46	51	56	60	61
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..
Population, total (billions)	0	0	0	0	0
Trade (% of GDP)	..	..	..	..	..

Source: World Development Indicators database as of 5/27/10.

Figures in italics refer to periods other than those specified.



# Attachment 1: Comments from Government



República Democrática de Timor-Leste  
Ministério das Finanças

Gabinete da Ministra



*"Adeus Conflito, Bem-vindo Desenvolvimento"*

No: *177* / GMF / 2011

26 May 2011

**Mr. Jaime Jaramillo-Vallejo**  
Lead Economist, IEGCR  
World Bank Group

Dear Mr. Jaramillo-Vallejo:

The Government of Timor-Leste welcomes the opportunity to respond to the submission of the Timor-Leste Country Program Evaluation, 2000-2010 produced by the Independent Evaluation Group (IEG). It was considered by the Government of Timor-Leste that our most appropriate response would be to comment on the general nature of the report rather than delve into the specific details of what is clearly a comprehensive and substantial document.

The Government of Timor-Leste would like to commend the IEG and its Staff, The World Bank Group and its Staff, the International Finance Corporation and its Staff for participating in an honest, transparent, "frank and fearless" account, review and appraisal of the decade-long Timor-Leste Country Program.

It should be noted that many of the issues and challenges presented in the Report are not specific to the World Bank Group Country Program but symptomatic of all international actors navigating the difficulties and challenges of development in a post-conflict and fragile environment. The content of the Report and its findings should be utilized by all international actors as a thought provoking and insightful document, in retrospect of the Nation's advancements in 2011. With this in mind, the exercise will no doubt lend to better development outcomes within the context of fragile and conflict affected States and regions, with enhanced international engagement and cooperation from all international actors that choose to take note of the formative "lessons learnt" shared by the World Bank Group.

The World Bank Group is the first to take ownership by producing such a seminal document with a comprehensive internal monitoring and evaluation process demonstrating not only prodigious leadership within the international donor community but an uncompromised willingness to reflect and reform for not only the benefit of Timor-Leste's national development in the second decade of engagement; but all country-led programs for better outcome-based solutions.

## Background

1. The IEG is charged with evaluating the activities of the International Bank of Reconstruction and Development (IBRD), the International Development Agencies (IDA) of the World Bank, the work of the International Finance Corporation (IFC) in private sector

development, and the Multilateral Investment Guarantee Agency (MIGA) projects and services. The Director-General of IEG reports directly to the World Bank Group's Board of Directors. The goals of evaluation are to provide an objective assessment of the results of the Bank Group's work and to identify and disseminate lessons learned from experience.<sup>1</sup>

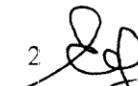
2. In 2009, the Government of Timor-Leste assembled a Reports Review Team (RRT) to work in tandem with members of Government, members of the civil service and national and international advisors to evaluate, monitor and provide analysis on seminal international reports. The RRT was asked to **A}** to review The IEG Timor-Leste Country Program Evaluation, 2000-2010 on the merit of compilation and **B}** to add value where appropriate to contribute to good international engagement in the pursuit of identifying "lessons learnt from experience" and provide brief general comment where applicable to add value. It was clearly mandated in the brief to refrain from intervention on the internal appraisal of World Bank Monitoring and Evaluation conclusions and recommendations which would be considered contravention to best practice.

3. The Timor-Leste Country Program Evaluation, 2000-2010 begins with an Executive Summary and is presented in seven chapters. **1}** Context; **2}** World Bank Group Strategy and Program; **3}** **Pillar I.** Provision of Basic Social Services, Social Protection and Alleviation of Poverty and Unemployment; **4}** **Pillar II.** Governance and Development of State Institutions; **5}** **Pillar III.** Sustainable and Diversified Non-Petroleum Sector for Job Creation and Economic Growth; **6}** Donor Coordination: Alignment and Harmonization and **7}** Conclusion

#### **Merit of Compilation; Findings**

1. The methodology of compilation is thorough and based on best practice international principles of collation with examination using qualitative, quantitative and evidentiary based research where available.
2. In depth research with transparent methodologies are evident, where data and material cannot be sourced, transparency is consistent with best practice, with accurate citing and honest assessments inclusive as to the reasons data cannot be sourced.
3. The examiners have conducted un-biased and relative interviews (total cited:105) with honest feedback from a cross sector of stakeholders; providing fair and unhindered assessment with varying viewpoints from which to draw recommendations and conclusions.
4. World Bank Staff and leadership have, by all accounts within the documents, provided an honest and true assessment without hesitation and in good faith as to the overall objective to contribute to better international engagement and interventions. This was considered a most notable achievement in transparency and accountability; rarely displayed in an international reporting mechanism; particularly within a monitoring and evaluation process. The willingness to contribute was a demonstration of a renewed culture of accountability within World Bank systems
5. Sourcing is consistent with best practice and applicable to the overall review process with detailed footnotes providing transparency and clarity for readers.

<sup>1</sup> <http://ieg.worldbankgroup.org/content/ieg/en/home.html>

2 

**ATTACHMENT 1**  
**COMMENTS FROM GOVERNMENT**

6. Report details are consistent with best practice in detail and research to support conclusions and recommendations.
7. The report as an international document should be used as an example for international actors as best practice in methodology and report mechanisms; to contribute to independent and non-biased conclusions and recommendations while adding value to in-country review of aid effectiveness through genuine partnership for both Government and the World Bank Systems.
8. The report will add value to best practice in international M and E and should be used as an example for international actors to follow suit with equal commitment to “lessons learnt”.

**Adding Value Through Lessons Learnt, the Timorese Experience**

**1. Data**

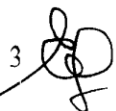
This document, like all documents produced by international actors, does display a lack of detailed data or qualified analysis to contribute to some conclusions. Given the length (ten years) of the coverage of the document, it would be impossible to access accurately the information or the contribution necessary to respond to the entirety of the IEG findings or to fairly provide a Government response to one period of time at the exclusion of the other periods which is why this Government response provided is under the guidance considered ‘general in nature.’

However; a continued theme throughout the report was the lack of data available to international actors from which to devise actions and intervention. Data is a necessity for both international actors and the Government to guide intervention and public policy. Without qualitative and quantitative, timely and evidentiary data; it is near impossible to accurately determine intervention or the necessity and impact of an intervention in the short, medium or long term. Timor-Leste has consistently debated reports which have used outdated data and statistics to represent real time status of the Nation; the World Bank has responded by making a concerted effort to contribute to meaningful and up to date reporting to inform decision makers.

Indeed, the World Bank in 2009 contributed to data enhancement with the following example: the most recent World Bank Poverty Assessment in response to identify the effect on the economy and poverty levels as a result of newly exercised social and expansionary fiscal policies in Timor-Leste demonstrated a 9% reduction in poverty. These findings were instrumental in monitoring and evaluating public policy for the Government and an immediate response to identify social investment returns for the Government. Such data proves invaluable for all international partners. The Government considers the support of accurate data collection one of the single most important contributions that international actors can make at any stage in development in order to determine intervention and budget accordingly.

**2. Cross Sector Analysis**

Whilst immediate intervention with a minimum of constraints is necessary in post conflict scenarios, to date, there has never been a comprehensive cross sector analysis on the mandatory needs of the Nation in order to achieve the key performance indicators necessary to build the

3 


non-oil economy and emerge from fragility and conflict. All sectors are inter-related and with intervention to one without attention to another; fragmentation results in little progress as demonstrated in the 2007 Timor-Leste Standard of Living Survey which showed poverty had increased significantly. In mid 2007, the Government of Timor-Leste began the process of long term Strategic Planning with one of the largest obstacles; the challenges of cross sector analyses planning and prioritization. One of the most astonishing aspects was the lack of research from international partners available in this area of cross sector analysis which could be evaluated. The World Bank has proven to be most successful in this area of high level expert advice and might consider concentrating efforts on such endeavors which would provide short, medium and long term results.

An example: in 2010 at the request of the Minister of Finance, the World Bank responded to a direct request with two high level short term advisors engaged to provide very specific high level advice. The World Bank acted without hesitation. The advice provided within a small, high level forum of delegated Government officials and advisors was instrumental to assisting country-led devised strategies, providing various development options to consider based on the Nation's set key performance indicators and provided examples to contemplate with economic modeling in concert with national experts to lend to internal debate on strategic direction. The conclusion was the World Bank could be most effective at this high level of advice and should consider pursuing this model with a cross sector analysis team to evaluate the needs of post conflict and fragile nations before interventions are created and implemented.

### **3. Infrastructure**

Another theme throughout the report was the lack of infrastructure after the decade long intervention. The interventions and programs by international actors which ultimately aim to ensure, amongst other things, poverty reduction, employment opportunities, food security, private sector growth, good governance; all rely on the provision and upkeep of sound infrastructure and connectivity allowing national integration. Without addressing the core elements that drive the social and fiscal economy of any State, a State cannot evolve to meet essential key performance indicators. Intervention if complimented by a cross sector analyses, can inform country-led strategies; the rate, pace and cost of infrastructure aligned to the Governments country-led strategy would aid in designing both country-led strategy and international intervention. World Bank has the expertise and experts to form a team that can assist post conflict and fragile states in immediate analyses of infrastructure needs cross sectors. Timor-Leste has been the beneficiary of this expertise in sector isolation but not in a formalized cross sector strategy led advisory environment. For a young nation, fragile in institutions the breadth of the process is both a huge cost and a huge process secondary to the immediate mission of governing a country from fragility, establishing institutions and managing day to day operations of service delivery. For international actors to expect a fragile Nation to undergo this process in 2011; when they themselves had not adequately addressed this challenge in a harmonized way before designing intervention over a decade with 26 donors to share the assignment; it is fair to say; international actors did not provide either a fair or reasonable best practice example for strategic planning or implementation for the Government.

### **4. Country Context**

4 

There is no doubt that over the last decade and with the creation of the Paris Declaration of 2005, The Accra Agenda of 2008, the Dili Declaration of 2009 and the creation of the g7+ which Timor-Leste leads, 17 conflict affected and fragile States that have come together to share experiences, influence global policy and help reform international intervention which the World Bank has supported at the highest level; the paradigm has shifted, with international actors striving to understand and adapt to the country context. However; there are still barriers. Organizations continue to expect Nations to operate within their own complex systems adding a significant workload to national staff.

In the experience of Timor-Leste, urgent requests are still met with unreasonable bureaucratic restrictions often considered by the Government and international advisors as unreasonable and insignificant to transparency, accountability or best practice. In effect; the World Bank systems must be adaptable to Government requests; especially when requests are reasonable for all stakeholders but not executed because of World Bank bureaucratic systems which restricts progress on integral aspects of nation building or state building functions. Often direct requests from leadership for simple but integral interventions are ignored or labeled “not within a program brief”; but alternative programs are proposed. This causes frustration and a seemingly considerable lack of communications or understanding of the “country context” with shifting and at time urgent needs.

It is not surprising as the Government has strengthened institutional capacity and systems, country-led agendas with national staff clearly aligned and able to identify in-country needs; the State has engaged other means to provide what traditionally international actors would have provided; avoiding the extended delays and parallel workloads to ensure the National needs are met with country-led strategies and within country led systems that are navigable.

World Bank can re-engage within a rapidly transitioning environment but should do so by responding equally to the transition with better country context and engagement based on Government led strategies. Trust must be rebuilt as the advice has not always provided results; and advice should be driven to enhance and support the Government agenda as mentioned in the example discussed in part 2. Less focus should be on programming and more on the core business of the World Bank which is providing high level advice from international experts relevant to the country agenda and supporting the Government to deliver core services to further reduce poverty and improve the livelihood of citizens.

## **5. Communication**

International actors must focus on communications to advance better in-country engagement and harmonization. Often the communication structures are not conducive to enhanced development outcomes simply because language, tone and intent can be construed as demeaning in advocacy of agendas and condescending in the assessments used to deliver key messages in reporting mechanisms. Combined, this often leaves a lasting impression that the organizational vehicles of international actors are providing oversight rather than insight and overriding their trusted capacity to harmonize with country-led strategies.

In the case of Timor-Leste, country-led agendas have, in many instances, provided successes, averting further crises and reducing poverty. Many of the country-led strategies were both

5



**ATTACHMENT 1**  
**COMMENTS FROM GOVERNMENT**

publicly and privately strongly advised against by many international actors; those same organizations now praise the efforts and successes. Reform at the most basic level of communications, would enhance relations and provide long lasting benefits.

World Bank Staff must be diligent in communications to international advisors, Government and their own staff in-country as the system is inner-related and often compounds misunderstandings and mistrust. In-country teams and headquarters must be closely aligned and systems and departments cannot be designated or presented as independent to one another.

If the organizational chart within World Banks system necessitates this for their own institutional framework it is understandable; however, it is unreasonable to expect a fragile Nation and its People to navigate or understand the complex institutional framework for in-country development and outcome based solutions; especially when they sometimes fail to deliver; or worse cause deep division and political tensions as occurred in 2008.

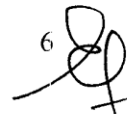
In discussing communication, when international actors advocate transparency, accountability and measures of reporting, auditing and good governance, they should also apply these principles internally, practiced and exercised in good faith. An example is the transparency portal which the Government recently launched to provide all budget execution and information on-line, in real-time. Disbursement and fiscal activity should be equally as transparent for international actors.

**6. Success**

There is no doubt there have been successes to international engagement. The Public Management Capacity Building Program under the Ministry of Finance has been a highly successful program, managed by the Ministry with ownership, accountability and technical support from the World Bank. The program shifts as to the needs of the Ministry and the institutional reforms. Huge institutional gains have been made with capacity building and all the public finance indicators have improved year on year since the program has been adapted in 2007. The success was based on trust, continual evaluation as to the needs of the Ministry and ownership of the program to implement Government reforms.

**Conclusion**

Nation building is, on average, a thirty-year process which needs consistency, commitment, and genuine rules which should be followed to avoid the difficult lessons learned by all countries emerging from conflict and fragility. Expectations should be re-evaluated with time and patience within the country context required for long-term plans, whilst agility is required when short-term interventions need to be activated urgently to avoid the disparaging ravages of poverty and war from affecting the People and leading to a return to conflict. Action should be unhindered but not independent; supporting the Government to enhance service delivery and reinstate trust in the State. Short-term action should not; however, preclude international actors from rebuilding and engaging in interventions that are absolutely necessary; with the provision of quality cross sector analyses and data being two of the most essential statebuilding resources to contribute to better interventions. Infrastructure is a mandatory precursor to any long term

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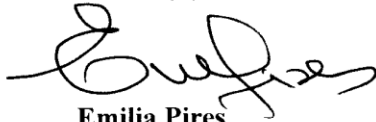
development solutions. Without infrastructure, fragmentation and proliferation of sector interventions and investments becomes redundant in many instances.

Better communications in all aspects of dialogue and reporting mechanisms will add value to improved relationships between international actors and recipient countries and of utmost importance is the harmonization process with international actors aligning to and supporting in country systems and national agendas to execute nationally led strategic planning.

With this Report, and on behalf of the Government of Timor-Leste, we would like to thank the World Bank for this contribution and for providing leadership amongst international actors in Timor-Leste with a good faith effort to enhance aid effectiveness as well as providing a guide to a monitoring and evaluation process that could greatly enhance international accountability and engagement in fragile states.

Thank you.

Sincerely yours.



**Emilia Pires**  
Minister

cc. H.E. Xanana Gusmao, Prime Minister, RDTL  
H.E. Jose Luis Guterres, Vice-Prime Minister, RDTL