



Australian Government

Monitoring the Principles for Good International Engagement in Fragile States and Situations

Country Report 6: Democratic Republic of Timor-Leste



Monitoring the Principles for Good International Engagement in Fragile States and Situations

Country Report 6: Democratic Republic of Timor-Leste



Australian Government

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

© OECD 2010

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

Foreword

It has been three years since the crisis of April 2006, and today we live in a far better environment. Fear and mistrust have been replaced by hope, faith and determination. All camps for the internally displaced (IDPs) have closed down and the problems of the petitioners have been peacefully resolved. There was a considerable economic recovery in 2008, with real growth of 12.8 %. For most people, life has returned to normal.

The government of Timor-Leste is now looking forward to the future and continues to invest in the country and its people. The Timorese leadership remains focused on enhancing stability, security and development. We are continuing with the National Dialogue process, which started in 2006 to help reduce the level of mistrust and tensions in society, and the police and military institutions, and between them and the people. We have come a long way in healing the wounds and building confidence and pride within these institutions, although reform efforts are ongoing and much remains to be done.

There is a consensus in this country: everybody embraces the national cause and that cause is the fight against poverty. But we are all conscious that development and the eradication of poverty is a long-term process. There are no short-cuts; no one can turn an economy around in just a few short years. Such a turnaround requires the mobilisation of the country as well as the partnership of the international community. We continue to count on our development partners, and the accumulated experience of what has worked well in this country and what has to change.

The government is currently drafting a Strategic Development Plan in order to set the priorities and goals necessary for the medium and longer term development of the country. Yet in looking forward, it is also important to reflect on the lessons offered to us from the past. Some USD 3.6 billion was spent in Timor-Leste from 1999 to 2006/07. In addition, since the 4th Constitutional Government came into power in August 2007, an amount of USD 1.4 billion has been spent by this government, combined with the support of development partners, in an effort to reduce poverty levels in Timor-Leste, which were very high (49.9%) in 2007, when this government took office. Together with the World Bank, the government plans to undertake a poverty survey in 2010, which will inform us of current poverty levels to help us devise strategies to eradicate poverty. Let us review and reflect upon all those strategies and actions, so that we are able to improve the quality of life in the years ahead.

Rural development must take priority, for the simple fact that it is where the vast majority of people live and the concentration of poverty is highest. In particular, agricultural production, infrastructure, health and education are areas where an increased focus can make a big difference to people's lives. The leadership and the people of Timor-Leste are grateful for the unwavering support provided by the international community, and the government remains committed to working together with our development partners so that we may win the fight against poverty.



Mr. Kay Rala Xanana Gusmão
Prime Minister,
Democratic Republic of Timor-Leste

Acknowledgments

This Country Report is part of the baseline Fragile States Principles Monitoring Survey 2009, which is supported by the Organisation for Economic Co-operation and Development (OECD).

The report, available in English and Tetum, was prepared by Ms. Amber Davidson, under the responsibility of the National Coordinator, Mr. Helder da Costa (National Coordinator of the Survey, Coordinator of the Aid Effectiveness and National Priorities Secretariat, Ministry of Finance), with inputs from the International Focal Point for the Survey, Ms. Homa-Zahra Fotouhi (Senior Operations Officer, World Bank), Ms. Jemal Sharah (Counsellor, Australian Agency for International Development) and Ms. Juana de Catheu (OECD). Ms. Maria Zandt (OECD) contributed to the data and statistical annex.

It was prepared on the basis of the multi-stakeholder consultation held on 2-3 March 2009 in Dili, which was facilitated by Mr. Florentino Sarmiento (Catholic Relief Services); follow-up interviews conducted by Ms. Amber Davidson (consultant); and comments received on the first draft, both in writing and at a second consultation on 17-18 September 2009. As such, it reflects the views of main stakeholders in Timor-Leste rather than the author's or OECD analysis.

The Government of Timor-Leste and the OECD wish to thank all the national and international stakeholders who have contributed to the consultations. This report could not have been prepared without the valuable inputs and views contributed by those within government, the international community and civil society.

It is hoped that the findings of this report will help strengthen international engagement and aid effectiveness in Timor-Leste. The baseline round of the Fragile States Principles Monitoring Survey (2009) will be followed by a second round in 2011 to measure progress over time, and results will be presented at the 4th High Level Forum on Aid Effectiveness (Seoul, 2011).¹

¹ The baseline round has produced six Country Reports (Afghanistan, Central African Republic, Democratic Republic of Congo, Haiti, Sierra Leone and Timor-Leste) and a Global Report, which are available on the Survey website: www.oecd.org/fsprinciples.

Table of contents

Foreword	3
Executive summary	8
Part I: A common diagnosis, principle by principle	14
Principle 1: Take context as the starting point	14
Principle 2: Do no harm	16
Principle 3: Focus on statebuilding as the central objective	18
Principle 4: Prioritise prevention	22
Principle 5: Recognise the links between political, security and development objectives	26
Principle 6: Promote non-discrimination as a basis for inclusive and stable societies	28
Principle 7: Align with local priorities in different ways in different contexts	30
Principle 8: Agree on practical co-ordination mechanisms	33
Principle 9: Act fast... but stay engaged	26
Principle 10: Avoid pockets of exclusion	38
Part II: Priority actions	40
Annexes	
Annex A. Principles for good international engagement in fragile states and situations	42
Annex B. Methodology for this country report	45
Annex C. Statistical data on Timor-Leste	49
Annex D. Bibliography	51

Boxes

Box 1. The current context	12
Box 2. Security sector reform	23
Box 3. “Moving goal posts”: multiple government frameworks	30
Box 4. Water in rural areas	38

Charts

Chart 1. Timor-Leste’s national planning framework	13
Chart 2. Timeline of significant events since the 1999 Referendum	14
Chart 3. Government revenue and development assistance (2008)	21
Chart 4. Aid to Timor-Leste stabilises as peacekeeping resources decrease (2000-2007)	23
Chart 5. Number of projects by annual disbursements (2008)	35
Chart 6. Development assistance forward commitments (2009-2013)	37
Chart 7. Process for this country report	45

Tables

Table 1. Current and desired approaches to capacity development in Timor-Leste	20
Table 2. Peacekeeping expenditures in Timor-Leste (2000-2007, USD million): equivalent to two thirds of official development aid	24
Table 3. Donor presence and fragmentation (2005-2006)	35
Table 4. ODA to Timor-Leste (2001-2007, current USD million)	37
Table 5. A projected decrease in aid of 18% over 2005-2010	37
Table 6. Key indicators	49
Table 7. World development indicators Timor-Leste	50

Figure

Figure 1. Map of Timor-Leste	49
------------------------------	----

Acronyms and abbreviations

ADB	Asian Development Bank
AMP	Alliance of Parliamentary Majority
CPIA	Country policy and institutional assessment
ETDA	East Timor Development Agency
EU	European Union
F-FDTL	Timor-Leste Defence Forces
GDP	Gross domestic product
GNI	Gross national income
GoTL	Government of Timor-Leste
IDP	Internally displaced persons
IMF	International Monetary Fund
MDG	Millennium Development Goals
MTEF	Medium term expenditure framework
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public financial management
PNTL	Timor-Leste National Police
SDP	Strategic Development Plan
SWAP	Sector-wide approach
TFET	Transitional Fund for East Timor
UNDAF	United Nations Development Assistance Framework
UNMIT	United Nations Integrated Mission in Timor-Leste

Executive summary

The Timor Leste Country Report reflects the findings from dialogue among 90 stakeholders representing both national and international institutions, complemented by interviews and data collection (www.oecd.org/fsprinciples). It aims to review the implementation of the Principles on Good International Engagement in Fragile States and Situations, two years after the Principles were endorsed by ministers of the OECD Development Assistance Committee's 23 member countries, and to identify priority areas to improve the collective impact of international engagement. Implementation of the Principles will be reviewed again in 2011. During the consultations the full range of Principles, and their inter-linkages, were discussed.

1. Main findings

Principle 1: Take context as the starting point.

- A constantly evolving context has been a defining feature of Timor-Leste. The need to shift between crisis and development response, the transition to a medium- to long-term national planning framework and a “donor heavy” operating environment have presented various challenges to developing a shared vision and coherent path towards sustainable development.
- Accordingly, participants identified the need for greater sharing of analysis among international actors,² with the aim of agreeing on a common analysis of context. The adoption of an agreed ongoing consultation process that maps changes in context was identified as another strategy to support improved co-ordination (Principle 8). The government also emphasised the need for development assistance to be appropriately sequenced and phased, taking into account the current context, capacity and pace of reform.

Principle 2: Do no harm. While international actors do not deliberately aim to cause harm, several significant challenges were identified:

- International actors inevitably compete with the government in the small market of skilled and experienced personnel to attract the best and brightest Timorese staff. This has exacerbated capacity constraints, distorted local wages and ultimately undermines broader statebuilding efforts.
- International actors may be encouraging Timor-Leste to develop a system of governance that is beyond its sustainable means.
- The “*Dili-centric*” focus of development efforts may have been justified in early days but may now be widening the rural-urban divide. The need to address disparities between rural and urban areas also emerged as a central and unifying theme across many of the other Principles, including prioritising prevention, promoting non-discrimination and avoiding pockets of exclusion (Principles 4, 6 and 10): Participants identified the need for both government and international actors to increase their investment in rural areas, with a focus on improving service delivery. Developing an agreed division of labour among international actors on a sectoral or geographic basis was identified as a possible strategy to achieve this end.
- Many observers also felt that international actors have focused too heavily on building up the central institutions of government, and that a more inclusive approach to development would see greater support and engagement with civil society. This was viewed as important given the role that civil society plays in terms of both accountability and service delivery.

Principle 3: Focus on statebuilding as the central objective. Statebuilding was identified as the most important of all the Principles. The main challenge for Timor-Leste is to build an effective and accountable state, and capacity development was seen as the main challenge in doing so:

- While there is general agreement that international actors have invested heavily in developing the institutions central to building state and human resource capacity, the effectiveness of capacity development efforts and

² The *Principles* are meant to apply to international actors as a whole and not only to donors. International actors include diplomats, humanitarians, security actors, development agencies, international NGOs and foundations, investors, etc.

the extent to which development assistance is reinforcing state-society relations remain areas of much debate. There is a general view that the way international technical assistance is currently provided sometimes undermines broader capacity development aims.

- The need to strengthen all state institutions – not just the executive, but also oversight and accountability institutions such as the parliament and the judiciary – was seen as fundamental to building an effective and accountable state. Participants also highlighted the importance of nation-building alongside statebuilding, together with measures to reinforce healthy and positive state-society relations (*e.g.* accountability of the state to its citizens, adequate consultation, and engaging Timorese citizens as active partners in development and not just as targets or beneficiaries).
- Participants reiterated the importance of government transparency, accountability and eradication of corruption, which were seen as fundamental to state legitimacy.
- Participants also highlighted the need for mutual commitment, consistent engagement and better sequencing of capacity development efforts. A shared assessment of capacity needs was identified as a necessary first step in this process.

Principle 4: Prioritise prevention

- There was a general view that instability could be triggered by a range of factors rather than just one source. Accordingly, participants viewed peacebuilding as requiring an integrated approach – not just the cessation of violence and security – but also improved service delivery, reform of the security and justice sectors, investment in non-oil growth and employment opportunities, and addressing the needs of women and youth.
- An inclusive peace process, together with appropriate conflict resolution mechanisms (including both formal and informal justice) were identified as key strategies.
- The individual and collective responsibility of the Timorese people, centred on respect for others and human rights, were also seen as integral to long-term peace and stability.

Principle 5: Recognise the links between political, security and development objectives

- Participants generally agreed that international engagement and national priority-setting recognised the links between political, security and development objectives, and that trade-offs were well identified and managed.
- However, there were mixed views on the concept of short-term “buying peace” (*i.e.* government provision of cash transfers to help internally displaced people and petitioners reintegrate into the community following the crisis). It was suggested that “buying peace” was like “buying time”. While there was general agreement that this was a successful short term intervention and a likely long-term investment in peace, participants also highlighted the importance of respect for human rights and justice in order to build lasting peace. There was general agreement that the transition to more equal and sustainable distribution of economic growth and service delivery programs will help support these efforts.
- There were equally mixed views among international and government observers on the effectiveness of co-operation between development, diplomacy and defence (“the 3Ds”). Some felt that it had been effective during times of crisis, but could be further strengthened in the post-conflict period.
- Good progress has been made on security sector reform, although it was also acknowledged that much remains to be done.

Principle 6: Promote non-discrimination as a basis for inclusive and stable societies

- There was a widespread view that insufficient attention is paid to the needs of youths, women, and other vulnerable groups. Youth unemployment was seen as serious, and potential threat to sustainable social peace.

Principle 7: Align with local priorities in different ways according to context. The absence of a medium to longer term planning framework and insufficient development partner flexibility were identified as two of the most significant bottlenecks to improving alignment:

- International actors have found it difficult to fully align their programmes on national priorities and systems in an environment where national plans and priorities have been annually adjusted to meet what have often been rapidly changing contexts.
- They have also found it difficult to shift gears between longer term development and emergency response.

Principle 8: Agree on practical co-ordination mechanisms. While there has been progress towards establishing co-ordination mechanisms (*e.g.* planning frameworks, sector-wide approaches, multi-donor trust funds), the main stumbling block appears to be the lack of a clear division of labour among international actors.

- There was general agreement that international actors must do more to identify areas of comparative advantage, pool resources and reduce the administrative burden on the government.
- Overall, the evidence suggests there is more urgency than ever to reduce the fragmentation of donor-funded activities. There are too many discrete aid-funded activities and these are placing a high burden on a government which has limited capacity to respond. The government has a role to play too, in managing the number of requests for small scale assistance.

Principle 9: Act fast... but stay engaged.

- There was a general view that international actors had acted quickly in response to crisis. Flexibility was a key determining factor in how effectively international actors were able to respond to changing circumstances.
- Although most international actors appear to be committed to long-term engagement in Timor-Leste, this is not always well reflected in forward budget planning and contractual commitments due to the cyclical nature of programming.

Principle 10: Avoid pockets of exclusion.

- There was general agreement that most international engagement is concentrated in the capital. There has been a strong emphasis on investment and service provision in the capital (the “*Dili-centric*” approach), exacerbating the rural-urban divide.

2. Mutual accountability

- While the *Principles for Good International Engagement in Fragile States and Situations* are intended to guide how international actors engage, development partners repeatedly stressed the importance of effective government leadership, transparency and accountability, noting that “engagement is a two-way street”. Thus, a key overall finding is that the *Principles* cannot be assessed without taking into account the broader Paris Declaration principle of mutual accountability.³

³ In keeping with this notion, some development partners highlighted that the OECD indicators to monitor progress against the *Principles* are mutual ones (*i.e.* reflect the responsibilities of the partner government as well as development partners). Others suggested that Timor-Leste consider participating in the Paris Declaration Monitoring Survey.

Summary table

PRINCIPLES	FINDINGS	PRIORITIES
Take context as the starting point	International engagement is based on sound political and social analysis. The ever evolving context creates a lack of a shared vision and a coherent path towards sustainable development due to project fragmentation and “Dili-centric” focus.	<ul style="list-style-type: none"> • Make improvements to sharing the analyses of context through a common diagnostic with national stakeholders • Adopt an agreed ongoing consultation process to map changes in context
Do no harm	There is competition for staff between donors and the government. Risk to develop a governance system beyond sustainable means. The risk of a rural-urban divide in aid and a too narrow focus on central institutions leaving aside a more inclusive approach to development was highlighted.	<ul style="list-style-type: none"> • Increase investment in rural areas, and develop “Timor-appropriate” systems of governance • Reduce salary differentials between international organisations and government • Support credible research on the impact of the international community on the local economy.
Focus on statebuilding as the central objective	There is a risk of undermining broader capacity development through narrow international technical assistance and a need for better sequencing of capacity development and support to not only the executive but also oversight and accountability institutions.	<ul style="list-style-type: none"> • Strengthening the focus of line ministries on improving service delivery • Develop a national capacity-strengthening strategy. Strengthen the roles of the Parliament, civil society and the media as checks and balances • Focus not only on statebuilding but also nation-building.
Prioritise prevention	Prevention is part of most of the programming. However, long-term support for peacebuilding an integrated approach going beyond security is needed.	<ul style="list-style-type: none"> • Promote an integrated approach to peace • Support the Government’s decentralisation process.
Recognise the links between political, security and development objectives	Donors recognise the links, but mixed views about the effectiveness of the linkages between the 3D’s. While “buying peace” in the short run was judged effective, long-term engagement in human rights and justice questions is necessary for sustainable peace.	<ul style="list-style-type: none"> • Sustain efforts to maintain dialogue and improve co-ordination between diplomatic, development and security actors, even in times of relative stability
Promote non-discrimination as a basis for inclusive and stable societies	Low attention to needs of youths, women, and other vulnerable groups. “Dili-centric” approach enhances rural-urban divide.	<ul style="list-style-type: none"> • Agree a greater division of labour by sector and/or region to avoid being overly “Dili-centric”. Systematise and deepen the dialogue with civil society through the National Priorities process.
Align with local priorities in different ways in different contexts	Efforts are hampered by the fluidity of the security situation, the absence of a mid- and long-term planning framework and missing flexibility of international actors. Competing donor interests and supply-driven approaches are a challenge.	<ul style="list-style-type: none"> • Put in place a multi-year, medium-term development framework. Share data on aid programs with development partners and line ministries. Commit to aligning on sector strategies and move over time towards budget support.
Practical co-ordination mechanisms	Despite improvements, there could be more co-ordination. Donors need to define their comparative advantage, pool resources and reduce administrative burdens.	<ul style="list-style-type: none"> • Clarify the pathway for development partner engagement. Identify mechanisms for better high level co-ordination and dialogue. Appoint focal point organisations or countries by sector.
Act fast... but stay engaged long enough to give success a chance	Short-term budget commitments undermine long-term engagement. Donors have reacted rapidly to crisis, but results depend on flexibility.	<ul style="list-style-type: none"> • Improve rapid response capacity. Move towards longer-term development, but caution against moving towards “development as usual” too fast.
Avoid pockets of exclusion	There is a high rural-urban divide in international engagement and low focus on the delivery of critical services outside the capital.	<ul style="list-style-type: none"> • Support further analysis to understand the root causes of pockets of exclusion and develop appropriate actions.

Introduction

Timor-Leste's participation in monitoring the implementation of the *Principles for Good International Engagement in Fragile States* complements Timor-Leste's commitment to the Paris Declaration on Aid Effectiveness. Timor-Leste was **the first among the six countries to conduct its consultative meeting** on 2-3 March 2009. The meeting was well attended, with participation from over 100 delegates including political leaders, key government officials, parliamentarians, international actors (diplomats and development officials from bilateral agencies, representatives from the United Nations Integrated Mission in Timor-Leste, UNMIT, and UN agencies), civil society and the private sector. There was also senior representation from the police and the army.

A **second consultative meeting** was held on 17-18 September 2009. The second consultative meeting was equally well attended with over 150 delegates from across government, the security sector, Parliament, civil society and the international community. The second meeting provided an opportunity to validate findings outlined in the draft Country Report; share lessons and experience on peacebuilding and statebuilding from both a Timor-Leste and international perspective; and to reach consensus on the main challenges and forward actions to strengthen the impact of international engagement in Timor-Leste.

This Country Report draws together the views expressed by participants at the first consultative meeting; follow up interviews for further exploration of the issues which were raised at the first consultative meeting; and feedback from the second consultative meeting. The Report also provides data against indicators common to the six countries participating in the Fragile States Principles Monitoring Survey, together with supplementary data (*see Principles Monitoring Plan at www.oecd.org/fsprinciples and Annex A. Methodology for this Report*).

Box 1. The current context

The government has made substantial progress to define its development vision (Vision 2020 Democratic Republic of Timor-Leste, 2007) and to identify the most pressing priorities through the annual National Priorities process. The National Priorities process, which commenced in 2008, is contributing to better sequencing and prioritisation of the development agenda, and a much sharper focus on accountability and results, *e.g.* through setting and monitoring annual targets and allocating responsibility for their delivery. Seven working groups (chaired by government and assisted by Lead Assistants with representation from relevant line ministries and NGOs) have been developed to lead implementation of the National Priorities in 2009, and there is general consensus that these are providing an effective platform to improve co-ordination between line ministries and development partners.⁴ There is also a move to situate the Annual Priorities within a new Medium Term Strategic Development Plan, currently being developed under the leadership of the Prime Minister.⁵ Taken together, these actions are expected to provide a road map to address the short-medium and long-term development needs of Timor-Leste (*see Chart 1*).

The government has also taken positive steps to strengthen aid co-ordination through the establishment of an Aid Effectiveness Directorate within the Ministry of Finance. The mandate of the Aid Effectiveness Directorate is to ensure the proper use of the external aid provided by development partners, including co-ordination and harmonisation, in accordance with the development priorities set by the government. Efforts have also begun to better capture the financial inputs of development partners, with further refinements planned to help to ensure such information can better inform national planning and budget processes. In order to pro-

⁴ The 2009 National Priorities include: Food Security & Agriculture; Rural Development; Human Resources Development; Social Protection & Social Services; Public Safety & Security; Clean & Effective Government; and Access to Justice.

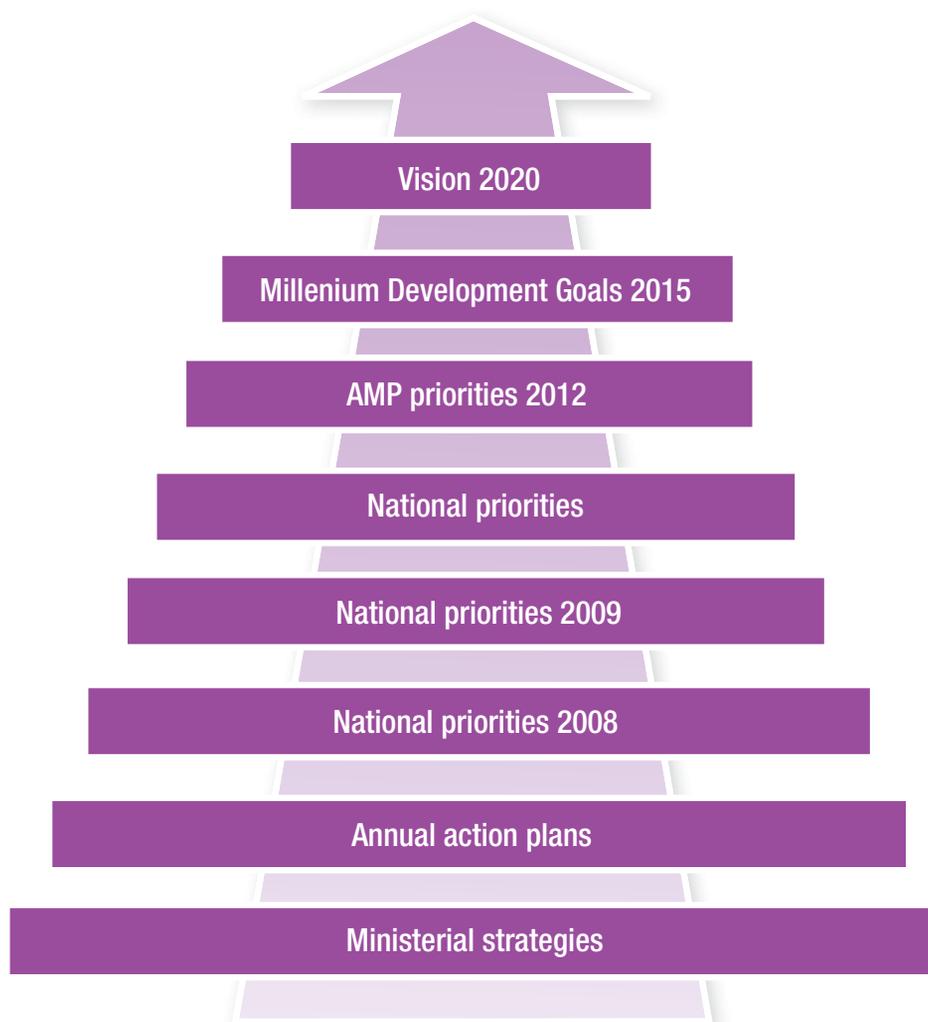
⁵ The Strategic Plan and Investment Unit of the Prime Minister's Office is leading development of the medium and long-term development strategy.

vide an effective framework for generating co-ordinating action and results, any future development projects will need concurrence from the Government of Timor-Leste through Ministry of Finance in co-ordination with Ministry of Foreign Affairs.

The government is also proposing to strengthen rural service delivery through a process of decentralisation, which will include the development of new municipalities (subject to parliamentary approval in 2009). This is seen as a critical step towards improving the allocation of resources to rural populations and addressing the needs of the most vulnerable.

Chart 1.

Timor-Leste's national planning framework⁶



⁶ Aid Effectiveness Directorate, Ministry of Finance (2009). Note: AMP refers to the current coalition government led by the Alliance of Parliamentary Majority (AMP), which comprises four parties: the National Congress of Reconstruction of Timor-Leste, the Social Democratic Party, the Democratic Party and the Social Democratic Association of Timor-Leste.

Part 1: A common diagnosis, principle by principle

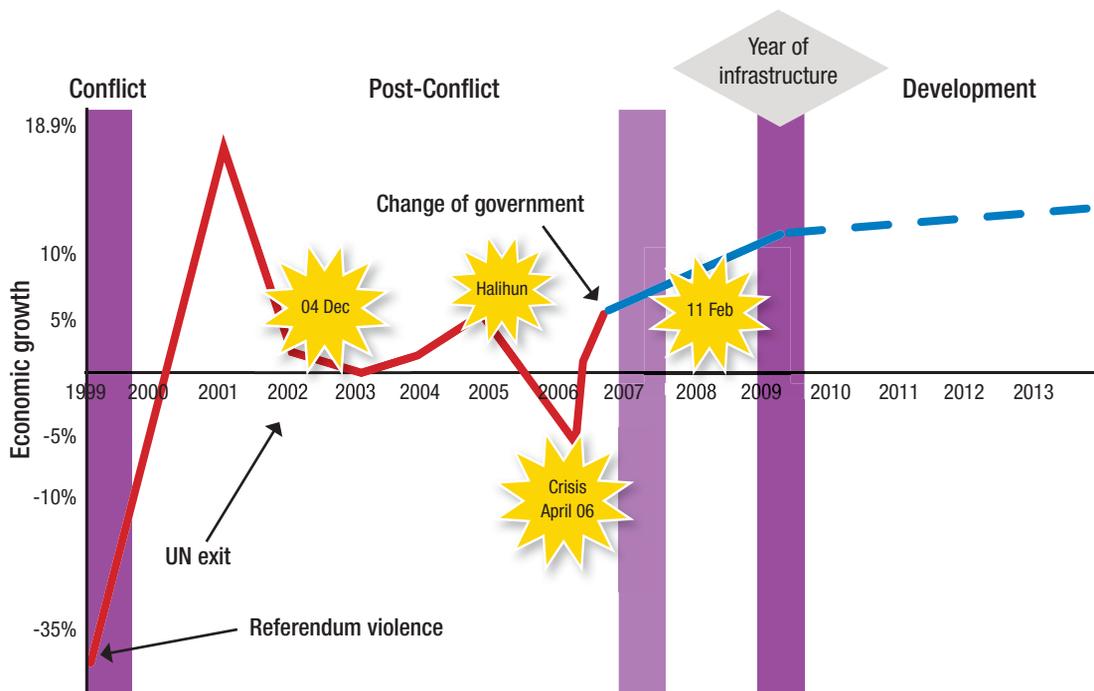
Principle 1: Take context as the starting point

- A constantly evolving context has been a defining feature of Timor-Leste. The need to shift between crisis and development response, the transition to a medium- to long-term national planning framework and a “donor heavy” operating environment have presented various challenges to developing a shared vision and coherent path towards sustainable development.
- Accordingly, participants identified the need for greater sharing of analysis among international actors, with the aim of agreeing on a common analysis of context. The adoption of an agreed ongoing consultation process that maps changes in context was identified as another strategy to support improved co-ordination (*Principle 8*). The government also emphasised the need for development assistance to be appropriately sequenced and phased, taking into account the current context, capacity and pace of reform.

1. Constant change

In Timor-Leste, **the context could best be described as one of constant change**, with periods of progress interrupted by episodes of crisis and instability. This rapidly changing context has presented challenges for both the government and development partners alike. Each crisis has necessitated a rethink of plans and priorities, as well as a shifting of gears between longer-term development and emergency response – a cycle that has been repeated several times over the past decade since Timor-Leste restored its independence⁷ (See Chart 2).

Chart 2. Timeline of significant events since the 1999 Referendum



Source : Aid Effectiveness Directorate, Ministry of Finance.

7 The President and Prime Minister have both referred to this cyclical pattern in official speeches.

The current situation is one of renewed optimism, perhaps best articulated by the government's theme of *"Goodbye conflict, welcome development"*⁸ for the 2009 Timor-Leste and Development Partners' Meeting. Security has been restored, the government is exercising strong leadership and ownership of the development agenda, and development partners remain committed and engaged.

2. A mixed record

For the most part, the engagement of international actors appears to be based on sound political and social analysis, and to take into account the situation in terms of national capacity. Participants agreed that international actors have moved swiftly to support the government's efforts to restore stability and have made substantial investments in strengthening state institutions and human capacity.

However:

- **The effectiveness of capacity development efforts** *vis-à-vis* the absorptive capacity of counterparts and the extent to which international engagement is effectively reinforcing state-society relations remain areas of much debate (*see Principle 3: Statebuilding as a central objective*)
- **The multiplicity and fragmentation of donor-funded projects** do not contribute to shared analysis of context, have led to duplication of efforts, and have made co-ordination even more complex (*see Principle 8: Agree on practical co-ordination mechanisms*)
- Feedback from participants also suggests that the **"Dili-centric" focus of development efforts** may be contributing to societal divisions and widening the rural-urban divide (*see Principle 6: Non-discrimination as a basis for inclusive and stable societies*)
- The government emphasised the need for development assistance to be **appropriately sequenced and phased**, taking into account the current context, particularly in terms of capacity and pace of reform.
 - For example, development partners need to take into account Timor Leste's current absorptive capacity, both in terms of its systems and human resources. There is also a need for development partners to provide consistent and long term engagement in order to meet longer term capacity development aims.

Illustrative Indicators

Indicator 1. Are most international actors' engagement based on sound political and social analysis, taking into account the situation in terms of national capacity, state-society relations and societal divisions?

Yes, overall, although there is a need for further analysis of the root causes of the rural urban divide and appropriate strategies to address it.

⁸ All quotations in italic are verbatim from the consultation meeting.

Principle 2: Do no harm

While international actors do not deliberately aim to cause harm, several significant challenges were identified:

- International actors inevitably compete with the government in the small market of skilled and experienced personnel to attract the best and brightest Timorese staff. This has exacerbated capacity constraints, distorted local wages and ultimately undermines broader statebuilding efforts.
- International actors may be encouraging Timor-Leste to develop a system of governance that is beyond its sustainable means.
- The “*Dili-centric*” focus of development efforts may have been justified in early days but may now be widening the rural-urban divide. The need to address disparities between rural and urban areas also emerged as a central and unifying theme across many of the other Principles, including prioritising prevention, promoting non-discrimination and avoiding pockets of exclusion (Principles 4, 6 and 10): Participants identified the need for both government and international actors to increase their investment in rural areas, with a focus on improving service delivery. Developing an agreed division of labour among international actors on a sectoral or geographic basis was identified as a possible strategy to achieve this end.
- Many observers also felt that international actors have focused too heavily on building up the central institutions of government, and that a more inclusive approach to development would see greater support and engagement with civil society. This was viewed as important given the role that civil society plays in terms of both accountability and service delivery.

1. Distortions

Participants highlighted some of the distortionary impacts that the presence of a large number of international actors has had on both the labour market and the local economy.

1. Participants noted in particular that international agencies compete with the government to attract the best and brightest **Timorese staff** by offering higher wages, and that this further exacerbates the problems of limited capacity.
 - The Minister of Finance specifically identified the **inflationary impact that competition from international agencies has had on local wages**, and suggested that the international community must act more responsibly in setting wages for local staff.
 - Some concerns have also been raised over **salary differentials between international advisers and local staff**. However, even if salary differentials are reduced, the high demand for a relatively limited pool of qualified people remains a significant constraint. Ongoing investment in education and capacity development will be essential to overcome this challenge in the longer term.
2. In addition, historical experience has shown that the **withdrawal of international actors** has been accompanied by a contraction in the local economy, which can in itself contribute to instability.⁹ This suggests that any future withdrawal of international support needs to be carefully phased to avoid the potential for any sudden shocks to the local economy.¹⁰ The government suggested that further research into the impacts of the international

⁹ For example, the Minister of Finance noted that there was a sharp contraction in the local economy following the withdrawal of the UN in 2002. While it cannot be concluded that the scaling down of the international presence and associated economic slowdown were causes of the crisis, they are nonetheless issues which may have indirectly contributed to instability. The UN also noted that the domestic economy has yet to fully develop, and as such is particularly vulnerable to economic shocks.

¹⁰ Feedback from one UN representative suggests that the impact on the broader economy is fairly limited and confined to impacts on the housing market and some services. However, the true economic impact of the presence of international actors (particularly in Dili) is difficult to assess as there is a lack of credible data. Further research in this area is clearly needed. The UN has also suggested that a contingency plan could be developed to help manage and mitigate any potential negative economic impacts of the international community.

community on the local economy would be useful. Such research could provide all actors with a better understanding of the nature and magnitude of economic impacts, as well as effective strategies to help mitigate any adverse impacts, such as wage inflation.

2. “Good enough governance”

Concerns have been raised over **the macro level impacts of development assistance on the civil service.**

1. One development partner observer argued that international actors may be actively encouraging and supporting a system of governance that may be beyond sustainable means of Timor-Leste’s resources. In this context, it was suggested that development partners may be promoting and supporting an **“ideal” rather than “good enough” or “Timor-appropriate” system of governance.**
 - It was suggested that development partners have actively encouraged the establishment of governance structures and systems that copy institutions in their own countries, but that these may not always be appropriate in a country struggling to establish a wide range of institutions, particularly given existing financial resource and human capacity constraints.
 - Participants stressed that *“good enough”* governance is not about compromising respect for the rule of law, human rights or accountability. Rather, it is about supporting systems, structures and approaches that are appropriate for the local context, *i.e.* affordable, sustainable, and taking into account local culture and capacity. *“Good enough”* governance is also about starting with the basic set of conditions needed for a functioning state and progressively building them up over time.
2. Some development partners raised specific concerns about how best to direct capacity development efforts given the **projected growth in the civil service.**¹¹ Others noted that public sector salaries are comparatively high for the region, and suggested that any “topping up” of key government positions needs to be considered carefully against the overall pressure for wage rises and potential flow on effects at a time where the government is focusing on more sustainable use of revenues. Even so, there appears to a lack of consensus on these issues within the international community, with some development partners arguing that they work closely with government counterparts to address financial sustainability and develop locally appropriate solutions.

Societal divisions and the urban-rural divide

Participants raised concerns over **disparities between rural and urban areas**, noting that the *“Dili-centric”* focus of development efforts – a reflection of the need to develop the basic institutions of the new state after the restoration of independence – is increasingly drawing people to Dili over time and contributing to deepening the rural-urban divide.

While most major development partners recognise the need for greater investment in rural areas, according to information provided by development partners to the government, the largest concentration of development activities continues to be in Dili.¹² This suggests that further work is needed by both development partners and government to **improve targeting of support to rural areas** (see *Principle 6: Non-discrimination and Principle 8: Practical co-ordination mechanisms*).

Illustrative Indicators

Indicator 2. Does international engagement benefit one population group over another or contribute to social divisions?

In some significant cases, due to the Dili-centric focus.

¹¹ Civil service numbers are projected to grow substantially in 2009, with much of this increase made up of temporary employees. Development partners have noted that this creates challenges in terms of ensuring that capacity development investments are sufficient to meet growing demand, appropriately targeted and sustainable.

¹² National Directorate of Aid Effectiveness (2009). It is not possible at present to determine the breakdown of donor expenditure by rural and urban areas. However data obtained from donors shows that Dili has the largest concentration of activities (82 activities), followed by Oecussi (58 activities) and Baucau (54 activities). The above do not include a large number of programmes and projects which are intended to have national benefits, many of which are also managed from Dili.

Principle 3: Focus on statebuilding as the central objective

Statebuilding was identified as the most important of all the *Principles*. The main challenge for Timor-Leste is to build an effective and accountable state, and capacity development was seen as the main challenge in doing so:

- While there is general agreement that international actors have invested heavily in developing the institutions central to building state and human resource capacity, the effectiveness of capacity development efforts and the extent to which development assistance is reinforcing state-society relations remain areas of much debate. There is a general view that the way international technical assistance is currently provided sometimes undermines broader capacity development aims.
- The need to strengthen all state institutions – not just the executive, but also oversight and accountability institutions such as the parliament and the judiciary – was seen as fundamental to building an effective and accountable state. Participants also highlighted the importance of nation-building alongside statebuilding, together with measures to reinforce healthy and positive state-society relations (*e.g.* accountability of the state to its citizens, adequate consultation, and engaging Timorese citizens as active partners in development and not just as targets or beneficiaries).
- Participants reiterated the importance of government transparency, accountability and eradication of corruption, which were seen as fundamental to state legitimacy.
- Participants also highlighted the need for mutual commitment, consistent engagement and better sequencing of capacity development efforts. A shared assessment of capacity needs was identified as a necessary first step in this process.

1. Agreement on key terms

Participants agreed with the Principle definition of statebuilding as encompassing both legitimacy issues and capacity issues. In spite of this recognition that legitimacy and accountability are integral to statebuilding, there was a consensus among participants that **capacity is the greater challenge currently**: *“the cause of our fragility is statebuilding, and capacity is the issue at the heart of statebuilding.”*

At the same time, participants recognised the relationship between capacity and legitimacy, with **capacity to deliver services, in particular, highlighted as a source of legitimacy over time**. While the current Timorese leadership has demonstrated a clear ability to manage the 2006 crisis, the crisis itself demonstrated capacity challenges regarding delivering services and responding to social needs.¹³

On the relationship between statebuilding and peacebuilding, participants viewed peacebuilding as requiring an integrated approach but also access to justice, livelihoods and changing behaviour: *“peace is not just the cessation of violence and security”*. They agreed that **statebuilding** (effective and accountable states) is a key element of **peacebuilding**. Participants also highlighted the importance of **nation-building** as an essential corollary to statebuilding efforts, but agreed that it was one to which international actors could make only a limited contribution.

2. Developing state capacity

As a new country, Timor-Leste faces the immense challenge of building state institutions. Capacity constraints were widely acknowledged by participants and appear to be taken into account in most development partner programs. However, the strategic and effective use of technical assistance, together with the identification of effective capacity transfer and phase-out strategies, were identified by participants as areas needing greater attention.

¹³ According to the Internal Displacement Monitoring Centre, “an estimated 150,000 to 178,000 people in Timor-Leste were displaced in 2006 as their homes and property were seized or destroyed during violence between rival groups within the army and police and among the wider population. They sought refuge in the capital Dili, in government buildings, schools or churches and subsequently in makeshift camps, or with families and friends in rural districts.” There has been substantial progress in resolving the IDP crisis, with the last major IDP camp commencing closure in June 2009 and remaining IDPs assisted to reintegrate into the community.

A shared responsibility

Participants overall judged that the way international actors were providing assistance risked undermining local capacity, and that **capacity development requires a shared commitment** between development partners and government to be effective. There is a need for dialogue to ensure that expectations around the transfer of capacity are realistic and appropriately sequenced, and that relevant counterparts are identified and available.

- On the government side, the Commander of the Timorese Armed Forces (F-FDTL) commented that international technical assistance was mostly short-term, project related, donor-driven and often reflecting different cultures and approaches, but recognised that it was Timor-Leste's responsibility to develop a long-term strategy for international actors to align with. Other participants agreed that this was also the case in other domains, where the absence or short-term nature of national planning constrains international support.
- Participants also recognised that the process of "*Timorisation*" (systematic hiring of Timorese staff) might take longer than expected given the varying capacities of most senior level staff.¹⁴

Issues in capacity development

One participant observed that, compared to many other fragile states, Timor-Leste was a "*controlled environment for statebuilding: good level of donor engagement, heavy investment in capacity development; residual legacy of civil conflict; stable region*". Yet, and by contrast to a more positive record overall in terms of legitimacy and accountability,¹⁵ efforts at statebuilding in terms of capacity development have not been very successful: a stock-take is clearly in order.

Issues raised by participants included (*see also Table 1*):

1. The "**brain drain**" and **salary differentials** between Timorese and international staff exacerbating shortages of well qualified Timorese applicants for national government jobs.¹⁶
2. The need to include **the transfer of knowledge** in every technical assistance, including traditional approaches *e.g.* pairing with Timorese counterparts at the appropriate level, or more innovative approaches such as those mentioned below.
3. The need to go **beyond a project approach** and include a capacity development component as a key element of any program to ensure their sustainability.
4. Both the qualifications of international advisors and their incentives **to develop capacity**. Some observers commented that basic skills in areas such as work planning, budgeting, reporting, literacy and numeracy are often what is needed most (as opposed to higher level skills). It was hence noted that some technical advisers that are highly skilled in specific technical matters do not always have the language, training and soft skills to meet basic capacity development needs in Timor-Leste. This needs to be taken into account in the selection and placement of international advisers.
5. It was also suggested that government and development partners need to take on a more active role in **assessing the effectiveness of technical assistance**, including assessments of capacity development and skills transfer.
6. Timorese participants strongly emphasised the need to develop **soft skills** (leadership, managerial, negotiation skills) as well as hard skills. However, one international participant warned against importing non-indigenous values.

14 This remains an ongoing challenge due to the shortage of qualified Timorese and issues such as "brain drain".

15 The first independent presidential and parliamentary elections were held in 2007. Prior to this, elections for an 88-member Constituent Assembly were held on 30 August 2001, and the first presidential elections were held in April 2002. Suco (village) elections were held at the end of 2004/beginning of 2005, with the next round scheduled for October 2009.

16 The UN noted that this is a function of high demand for high-skilled national labour and the comparatively low supply.

Table 1. Current and desired approaches to capacity development in Timor-Leste¹⁷

CURRENT	DESIRED
<ul style="list-style-type: none"> • Short-term approach • Project approach • Donor-driven • A patchwork of approaches influenced by different administrative cultures and ideas • Emphasis on hard (technical) skills, rather than soft skills (leadership) or basic skills (literacy, numeracy) • Large salary differentials and distortions in local wages • Substantial use of in-line technical assistance 	<ul style="list-style-type: none"> • Medium/Long-term approach • Support to program development • Shared agreement and commitment between Timorese and international counterparts, including joint assessment of capacity needs • Both hard (technical) and soft (management, leadership, civic education) skills, as well as basic skills (e.g. literacy, numeracy) • International salaries brought into line with Timor-Leste's status as a stable country. • At least 10% assistance devoted to capacity development

Source: authors, based on Timor-Leste consultations.

In the discussions, all participants agreed that the starting point for all capacity development efforts was a **joint assessment of needs** on the ground between Timorese and international counterparts (for which they welcomed the use of the OECD capacity needs assessment tool).

3. Service delivery as a key to legitimacy over time

On legitimacy and accountability, participants underlined that the state is viewed as legitimate because of the successive elections, but recognised that **service delivery, and in general the performance of the state, are key elements in ensuring legitimacy over time**.¹⁸ At the same time, participants stressed that access to basic services must be seen as a basic human right and not simply about ensuring state legitimacy.

- Participants recognised that government had adopted **an appropriate sequence of measures**. In particular, it had taken the right critical measures to restore stability, for example in addressing the immediate IDP crisis and concerns of petitioners.
- Participants nonetheless highlighted the **need to expand and improve service delivery overall**, noting the government's priorities of infrastructure, food security and electricity.¹⁹

4. Accountability

Accountability was seen as a paramount dimension, and the roles of the Parliament, judiciary, media, private sector and civil society at large were recognised as essential checks and balances on the executive.

- These issues were reiterated at the 2009 Development Partners' meeting, where civil society organisations called on government and development partners to recognise the role of civil society in promoting transparency and accountability, and to consult meaningfully and consistently with NGOs and other members of civil society.
- Some participants also noted that development partners have invested heavily in building the capacity of the executive arm of government, and suggested that more support could be provided to **the judiciary and Parliament**, including support for institutions such as the Auditor General and Parliamentary Accounts Committee. This was viewed as important for strengthening accountability mechanisms within government.

¹⁷ This table captures the views of participants from the first consultative meeting, however one development partner disagreed with this assessment, arguing that most international actors have made great efforts to align with government priorities and to develop longer term programs (typically of 5 years or so). It was also noted that the development of the national development plan will further strengthen these efforts.

¹⁸ Addressing corruption (both perceived and real) was specifically highlighted by several observers as a key element in ensuring state legitimacy. The government has also recognised the importance of this (e.g. in declaring 2008 the "Year of Administrative Reform"; establishing an Anti-Corruption Commission; appointing Inspectorate Generals in key institutions etc).

¹⁹ Infrastructure (roads and water supply and sanitation) and food security are expressed priorities of the 2009 National Priorities program. While electricity is not identified as a priority under the National Priorities, the government has nonetheless committed to substantial investment in this area.

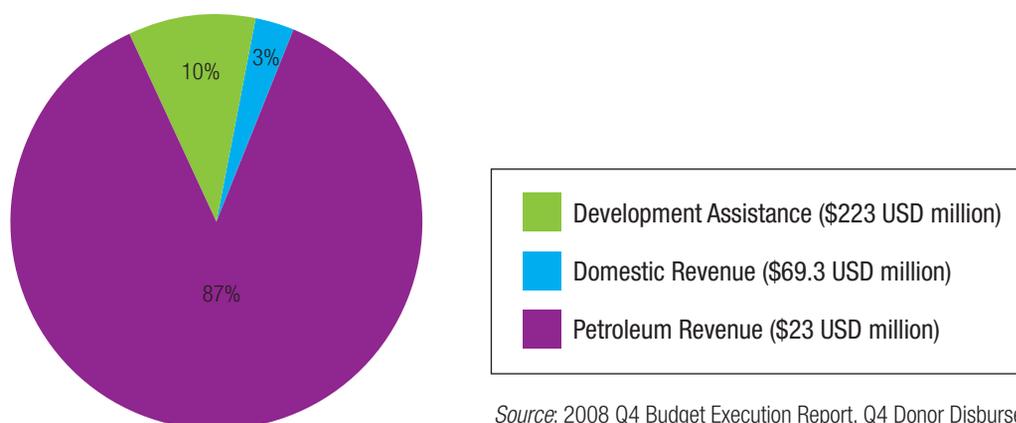
Oil, aid and domestic revenues

In tax terms, the evidence suggests that Timorese citizens have comparatively little clout as far as their direct investment in the “business of government” is concerned. In 2008, the lion’s share (96.6%) of government revenue was derived from oil reserves, with non-oil domestic revenue (*e.g.* from taxation, fees etc.) accounting for only 3.3%.²⁰

Some civil society observers have also voiced concerns over lines of accountability being blurred by the presence of international actors. In 2008, actual development assistance disbursed was approximately three times higher than domestic tax revenue. However, a large portion of these disbursements are in fact spent outside Timor-Leste. Recent research indicates that the proportion of development assistance disbursements actually entering the Timor-Leste economy could be as low as 20%.²¹

This implies a need to ensure that the development compact is developed mainly between the government and its citizens, rather than chiefly between government and international actors.²² It also implies a need for renewed efforts by development partners to re-focus their assistance towards service delivery in the districts, in keeping with government’s evolving priorities, and for the government to provide a medium term planning framework to guide these efforts.

Chart 3. Government revenue and development assistance (2008)²³



Source: 2008 Q4 Budget Execution Report, Q4 Donor Disbursement Report.

Illustrative Indicators

Indicator 3a. Is the army professional, balanced across social groups and does it have civilian oversight?

Yes, overall.

Indicator 3b. Ratio of tax revenue to gross domestic product (2009)

Current government revenue/GDP 109.7% (Heritage Foundation, 2009)

Indicator 3c. Percent of aid disbursed focused on governance and security (average 2002-2007)

8.4%²⁴.

²⁰ Total government revenue (excluding development assistance) in 2008 was estimated at USD 2.073 million. Out of this sum, USD 2 million or around 96.6% comes from oil revenue. Domestic revenue from non-oil related sources (taxes, fees and Government services) accounts for only around USD 69.7 million or approximately 3.3% of total revenue (of which USD 38.6 million is taxation, USD 23.1 million is fees and 7.9 million is government services). By comparison, actual donor assistance disbursement in 2008 was at USD 278 million or approximately 3 times domestic revenue: Government of Timor-Leste (2008), *Fourth Quarter Budget Execution Report*, Dili and OECD (2008), *Aggregate Aid Statistics*, dotstat.oecd.org/wbos/index.aspx.

²¹ General Budget of the State, 2008. In this case, domestic tax revenue would be nearly 50% higher than the actual donor dollars entering the economy of Timor-Leste. The primary reason for this divergence is that one of the main forms of foreign assistance has been technical assistance – of which adviser salaries comprise a substantial proportion.

²² The National Priorities Secretariat identified the National Priorities process as an accountability mechanism for government and development partners. Civil society organisations have recently been added, but only after the priorities were identified. The National Priorities are not currently seen as an accountability mechanism for the people of Timor-Leste, although the National Priorities Secretariat is now reporting quarterly to the Council of Ministers, which provides a link to the elected representatives of the people.

²³ In this chart, development assistance is based on 2008 Q4 Development Partner Disbursement Report, petroleum revenues on Petroleum Fund revenue and interest; and domestic revenues includes taxes, fees and utilities.

²⁴ OECD (2009), Annual OECD report on resource flows to fragile states, www.oecd.org/dataoecd/14/14/43293581.pdf.

Principle 4. Prioritise prevention

- There was a general view that instability could be triggered by a range of factors rather than just one source. Accordingly, participants viewed peacebuilding as requiring an integrated approach – not just the cessation of violence and security – but also improved service delivery, reform of the security and justice sectors, investment in non-oil growth and employment opportunities, and addressing the needs of women and youth.
- An inclusive peace process, together with appropriate conflict resolution mechanisms (including both formal and informal justice) were identified as key strategies.
- The individual and collective responsibility of the Timorese people, centred on respect for others and human rights, were also seen as integral to long-term peace and stability.

1. Peacebuilding is a long-term endeavour

It was suggested that “*buying peace*” (demonstrating visible and tangible improvements in people’s lives) really meant “buying time”. While this was recognised as necessary, it needs to be consolidated by sustainable long term development programs.

- One participant commented “*you can’t buy people’s hearts*”.
- Civil society observers highlighted the need for longer term planning which takes into account the principle of “*inter-generational equity*”²⁶, and provides an appropriate framework and level of resources to support consistent and co-ordinated engagement.²⁷

While there is general agreement that international actors played an important role in helping government restore security (for example following the security crisis of May 2006 and the attacks on the President and Prime Minister in February 2008) most observers also indicated that peacebuilding is a long-term endeavour, that further support is needed to ensure sustainability, and that the withdrawal of international security forces needs to be appropriately timed and sequenced.

2. “Don’t forget about security”

Participants were generally confident that the upcoming elections in 2012 will not be a major flashpoint, but that the International Stabilisation Force, if its mandate were extended, would minimise the risk. It is noted that the UN Security Council recently extended the mandate of the United Nations Integrated Mission in Timor-Leste (UNMIT) for another year (to February 2010), in recognition of the need for ongoing support.²⁸

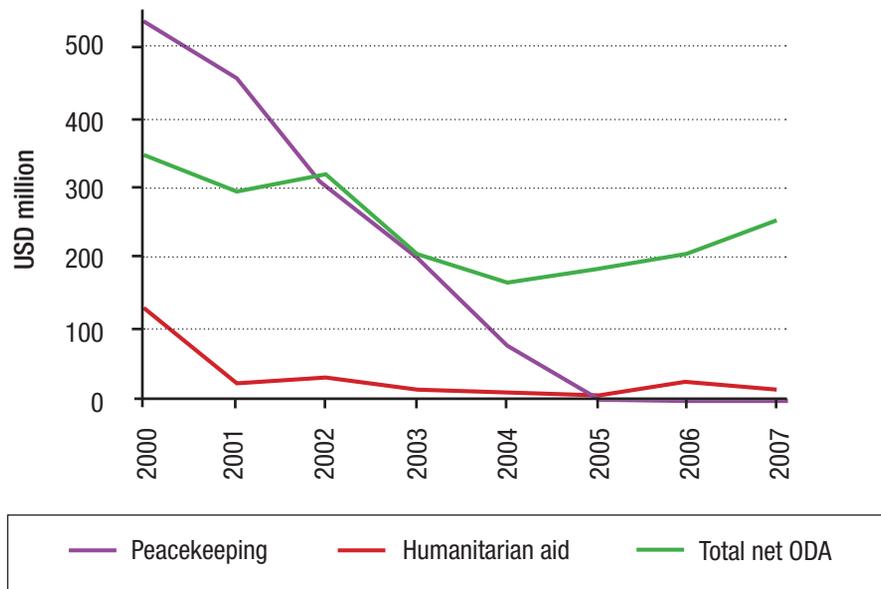
25 On youth, see Principle 6.

26 “*Inter-generational equity*” was explained as the need to ensure that the longer term needs of Timor-Leste’s citizens are not compromised by the need to address more immediate short-term needs. This was raised with specific reference to the use of cash transfer payments and sustainable use of the petroleum fund.

27 This issue was raised in a joint NGO statement at the 2009 Timor-Leste Development Partners Meeting.

28 UN Security Council (2009b).

Chart 4. Aid to Timor-Leste stabilises as peacekeeping resources decrease (2000-2007)



Source: OECD (2009), Resource flows to fragile and conflict-affected states.

Box. 2. Security sector reform²⁹

Whilst an analysis of the underlying causes of the 2006 crisis should take into account the broad political and social context, a key trigger of the breakdown in law and order was tensions between and within the National Police (PNTL) and the army (F-FDTL). These rivalries spilled over into the community and resulted in widespread violence, displacement and mistrust. As Timor-Leste emerged from the crisis, approximately 40% of the army had deserted or been dismissed and key elements of the police had collapsed (International Crisis Group, 2006). As a result, the new government identified security sector reform as one of its highest priorities.

Under the leadership of the prime minister (who is also the minister for defence and security), there has been some promising progress on security sector reform:

- The government is continuing the National Dialogue process (started in 2006) between the National Police and Army institutions, and the broader community.
- Joint operations between the PNTL and F-FDTL were successful in responding to the attacks on the President and Prime Minister in February 2008, and in maintaining broader stability following these events.
- The international community has made substantial investments in building up the capacity of the national police. The PNTL has recently resumed responsibilities in several districts, and there has been progress towards strengthening areas such as discipline, command, promotions and organisational hierarchy.

However, most observers agree there is need for continued support. Participants also recognised that security sector reform must be accompanied by political stability and development progress in order to build long term peace. Many observers have also identified the need for reform of the legal system and justice sector as an essential corollary to security sector reform:

- At the 2009 Timor-Leste Development Partners meeting, the president of Timor-Leste noted that the country has come a long way *“in healing the wounds within the police, within the army, between the two*

²⁹ Material for this box didn't come out of the consultative meetings but was raised in follow-up interviews and is a reflection of broader issues.

institutions, and between them and society at large”, although acknowledged that much remains to be done. The President has also noted government is asking some hard questions, such as: “*what kind of forces do we need? What is their mission, what are the resources the country can afford?*” From the UN perspective, there also continues to be “a need for a clearer delineation of responsibilities between the F-FDTL and the PNTL) and strengthening of civilian oversight of police and military forces.”³⁰

In recognition of these challenges, security, defence and justice remain key priorities in the Government’s 2009 National Priorities, and continue to attract substantial international support.

3. Prevention at the community level

The individual responsibility of Timorese citizens was emphasised, with respect for others, human rights and justice seen as fundamental to long term peace. The Prime Minister stressed that peacebuilding is not just the role of government – it is a community process and needs to be inclusive.

The government highlighted the importance of dealing with the IDP crisis quickly, noting that this had reduced the potential for marginalisation and further conflict within the community. Even so, civil society observers have indicated a need for **sustained ongoing dialogue and investment in peacebuilding at the community level**, particularly around sustainable reintegration of IDPs and the effective, fair and equitable resolution of issues surrounding land rights, which helps mitigate potential causes of conflict and consolidate stability in communities. In addition, there continues to be a need for short-medium-and-long-term interventions to build trust and social cohesion, and to address discontent and social resentment stemming from the perception that IDPs are the sole beneficiaries of government support. As noted by the Representative of the Secretary General on the Human Rights of Displaced Persons in his report of late 2008, “a balanced approach, which continues to address the specific needs and vulnerabilities of IDPs related to their displacement, but which does so without ignoring the broader needs of communities into which they are integrating, is essential” (Kalin, 2009).

Participants also highlighted the continued need for an inclusive peace process, which is supported by appropriate conflict resolution mechanisms, and for ongoing attention to **justice** (including both formal and informal mechanisms) to address grievances and past injustices. As one participant remarked, “*In a fair and just society, there is no need for violence*”.

Table 2. Peacekeeping expenditures in Timor-Leste (2000-2007, USD million): equivalent to two thirds of official development aid

	2000	2001	2002	2003	2004	2005	2006	2007	Peacekeeping 2000 – 2007	Peacekeeping as % of ODA 2000 – 2007
Côte d'Ivoire	.	.	.	83	337	382	450	471	1723	53%
Congo, Dem. Rep.	246	389	480	636	901	1055	1085	1116	5908	39%
Haiti	.	.	.	35	377	480	484	535	1910	65%
Liberia	.	.	.	548	741	707	676	688	3360	196%
Sierra Leone	521	618	603	449	265	86	.	.	2541	79%
Sudan	.	.	.	.	219	801	990	846	2856	33%
Timor-Leste	528	454	288	196	82	2	0	.	1549	78%
Total	1505	1695	1581	2171	3461	3908	3929	3770	22019	49%

Source: OECD (2009), Resource flows to fragile and conflict-affected states.

30 UN Security Council, SC/9598, Press Release, 19 February 2009, www.un.org/News/Press/docs/2009/sc9598.doc.htm.

4. Leadership skills and process vs. results

Timorese participants reiterated the need to develop soft skills (*i.e.* leadership, managerial, negotiation skills) on top of hard skills (*i.e.* technical skills), to strengthen the resilience to crisis of state and society. They also stressed the need of international actors to focus on **process and not just results**: an over-emphasis on short-term results could blind them to issues relating to peacebuilding – in particular inclusion and reconciliation (*see Principle 3*).

Illustrative Indicators

Indicator 4. Over the past 5 years, has the international community invested in preventing future conflict and fragility?

Most participants agreed that prevention was integral to most of programming, including in the 2008 and 2009 National Priorities, even if prevention activities were not labelled as such. Examples included the emphasis on improving basic community infrastructure and services, job creation, rural development (80% of the population depend on subsistence agriculture)³¹, projects for youth (high rates of population growth and youth unemployment), decentralization, justice, and food security.

One participant however judged that the answer was “insufficiently or not effectively”, citing as anecdotal evidence the lack of international support for the Community Policing Project. It was also noted that most international actors do not have early warning or rapid response mechanisms in place.

31 World Bank (2009).

Principle 5. Recognise the links between political, security and development objectives

- Participants generally agreed that international engagement and national priority-setting recognised the links between political, security and development objectives, and that trade-offs were well identified and managed.
- However, there were mixed views on the concept of short-term “buying peace” (*i.e.* government provision of cash transfers to help internally displaced people and petitioners reintegrate into the community following the crisis). It was suggested that “buying peace” was like “buying time”. While there was general agreement that this was a successful short term intervention and a likely long-term investment in peace, participants also highlighted the importance of respect for human rights and justice in order to build lasting peace. There was general agreement that the transition to more equal and sustainable distribution of economic growth and service delivery programs will help support these efforts.
- There were equally mixed views among international and government observers on the effectiveness of co-operation between development, diplomacy and defence (“the 3Ds”). Some felt that it had been effective during times of crisis, but could be further strengthened in the post-conflict period.
- Good progress has been made on security sector reform, although it was also acknowledged that much remains to be done.

1. Development for security

Participants recognised that sustainable solutions to peace necessarily entail a renewed focus on employment, youth and service delivery:

- There is a need to meet the high aspirations of a **growing youth population** to ensure they can become active participants in the development of the nation (*see Principle 6*). In this context, it was noted that there are currently only around 400 jobs created in the formal economy each year³² – insufficient to meet the growing demand of the thousands of young people entering the job market, not to mention those coming to Dili from the districts. Youth gangs were also identified as an issue of broader community concern.
- Many observers pointed to **poor infrastructure, service delivery and a lack of formal employment opportunities in rural areas** as key contributing factors to rural-urban rift and broader social inequality.

2. Security for development

Most observers agree that security is fundamental to longer-term development and that the presence of external security forces had made a significant contribution to stability. Even so, **many questions remain over how to ensure long-term security in Timor-Leste**. Questions such as “*How long should international security forces remain in Timor-Leste*”, “*What are the appropriate roles of the national army and police*”, and “*What level of support is needed to ensure wider community reconciliation is achieved*” remain a focus of discussion within both the government and the international community (*also see Box 2: Security sector reform*).

3. Co-operation between the 3Ds

One observer noted that co-operation between diplomats, security actors and development actors (the “3Ds”) has been galvanised during periods of crisis, but that **co-operation could be further enhanced during the post-conflict period**. The Minister of Finance also felt that co-operation between the 3Ds could be improved, citing as an example the fact that travel warnings did not adequately reflect the improved security situation, and that this may be undermining broader development efforts and private investment because people are afraid to come to Timor-Leste.

³² World Bank (2009), Timor-Leste Country Brief.

- According to a recent review “one of the greatest shortcomings of security sector reform [...] to date has been the **lack of co-ordination within and between the various international donors and programs**. In general, the various donors and programs have had very little knowledge about what each other is doing [...] and] what little co-ordination there has been, has been informal, and might be better characterised as information-sharing. Even within the UN, co-ordination of the various Security Sector Reform-related units, both in UNMIT and the UN Country Team, has been a struggle. The UN has attempted to increase communication and co-ordination between... [the mission, agencies, funds and programs] through the creation of a Security Sector Reform Working Group, although meetings have generally been informal and relatively ad hoc.” (International Centre for Transitional Justice, 2009).
- A 2008 report by the International Crisis Group concluded that “the international community must do a better job of co-ordinating its support to the security sector and responding to a Timorese-owned reform process. However, the success of security sector reform in Timor-Leste will ultimately depend on the ability of the Timorese leadership to foster non-partisan political will.” Inter alia, the report recommended that development partners “establish a mechanism to improve co-ordination of assistance to the security sector and require all requests for such aid to come through the Ministry of Defence and Security.”(International Crisis Group, 2008).
- Similarly, in the justice sector, the top United Nations envoy to Timor-Leste (Mr. Atul Khare, Special Representative of the UN Secretary General) recently called for “a common strategic vision to overcome challenges to the fledgling nation’s justice sector... [noting that] national ownership and leadership as well as co-ordination between the different institutions remain pivotal to improving access to justice in a sustainable manner.”³³

The Government has sought to increase co-operation and co-ordination within these various sectors through National Priority Working Group forums. For example, under National Priority Working Group 5, Public Safety and Security, representatives of both national and international security institutions, as well as various development partners with programs or interest in the security sector meet on a regular basis to discuss challenges and seek solutions. Success has been demonstrated in this regard as public safety and security has been replaced by other priority areas as Timor-Leste becomes increasingly stable.

Security and economic development

Timor-Leste staged an economic recovery in 2008, with an estimated growth of 12.8% in domestic non-oil GDP (2008). However, inflation was also high (estimated at up to 10%), primarily due to rising costs of food and building materials (Asian Development Bank, 2009). In response to rising food prices, the government introduced a program of rice subsidisation, which succeeded in preventing food shortages.³⁴ This was viewed as a necessary response to avoid the potential for further instability.³⁵ In the short to medium term, the domestic economy of Timor-Leste will continue to be driven by the public sector, with expenditure primarily financed by transfers from the Petroleum Fund. In the longer term, continued stability will be crucial to encourage growth in domestic, private and foreign investment.

Illustrative Indicators

Indicator 5. Percentage of assistance that aligns to an integrated multi-sector framework:

Not currently available.

³³ UN Press Release, 16 April 2009, “Justice sector key to democracy in Timor-Leste – UN envoy”, www.un.org/apps/news/story.asp?NewsID=30485&Cr=leste&Cr1=.

³⁴ The government viewed this as a highly successful program which helped to ensure stability. The government also made a special effort to use Timor-Leste’s private sector for rice provision in response to some earlier challenges around displacement of local rice producers and the private sector.

³⁵ Ministry of Finance of Timor-Leste (2009).

Principle 6. Promote non-discrimination as a basis for inclusive and stable societies

There was a widespread view that insufficient attention is paid to the needs of youths, women, and other vulnerable groups. Youth unemployment was seen as serious, and potential threat to sustainable social peace.

1. Civil society engagement

In order to promote non-discrimination, participants identified the need to strengthen dialogue and engagement among all levels of government, civil society and the private sector (*see also Principle 3: Statebuilding*). In particular, it was suggested that formalising the interaction between government and civil society could offer a useful way forward.

One observer remarked that, in an effort to help build the institutions of state, development partners had “*rushed to the government side of the boat*”, and that a more inclusive approach would see more attention and support for civil society. Civil society organisations also argued that their increased engagement is critical in terms of improving accountability, service delivery and ensuring the needs of the most vulnerable are being addressed, particularly in rural areas. Accordingly, they called on development partners to “*review their development models and policies and pursue collaborative planning.*” They also identified practical measures that development partners could take to increase the level of civil society engagement.

- In particular, they identified a need for international actors to commit to multi-year funding for NGOs and civil society organisations rather than the short-term “*drip-feed*” approach to funding that has been widely used in the past. This was identified as an important step to reduce administrative overheads and enable civil society organisations to focus on longer term planning, program delivery and more sustainable results.
- Civil society observers also suggested that development partners should do more to support local institutions and not just use civil society organisations as delivery agents.
- Government and development partners have also identified a need to engage civil society in the **National Priorities** process. Some observers (including both government and development partners) have lamented that the National Priorities process has been more about the government reporting to development partners, than a free and fair exchange of ideas and information. Civil society was not engaged in the 2008 National Priorities process. They were not consulted while priorities were being put together, or while targets were being formulated. In 2009, government sought to address this by actively engaging with NGOs and encouraging working groups (chaired by government representatives) to bring civil society into working group meetings, however because this did not occur until after priority and target setting, some civil society actors feel like they / have very little influence over the overall process. Nonetheless, there is the beginning of a constructive relationship shared between government, civil society, and development partners, setting the stage for better priority setting for 2010.

Enhancing the level of **engagement with women and youth** was specifically highlighted.

- Young people comprise the largest and growing proportion of the population and represent the future of Timor-Leste, but currently face daunting prospects, particularly in terms of high unemployment. According to the World Bank, “unemployment in Dili was estimated at 23 percent and youth unemployment at 40 percent, rising to 58 percent for the 15-19 age group. With half the population under 18, urban youth unemployment and its associated problems will increase unless vigorous growth in the non-oil sectors can be created.”³⁶ Youth groups have also expressed a need to feel valued and to have opportunities to actively contribute to society.

36 World Bank (2009), Timor-Leste Country Brief.

In the area of youth, current government and international support is still largely focused on primary education and could do more in addressing unemployment, where efforts are yet to gain significant traction).³⁷

- While women are relatively well represented in the National Parliament,³⁸ they continue to be disadvantaged in most other aspects of society, such as educational attainment and employment opportunities. Violence against women is also high (AusAID Office of Development Effectiveness, 2008a). Even though many development programs identify gender issues and the need for better targeting of women, success stories in this area are few.

2. Rural-urban divisions

See Principle 10: Avoid pockets of exclusion.

Illustrative Indicators

Indicator 6. All things being equal, how does international engagement impact on social divides?

While participants judged that international engagement impact on social divides was overall neutral, they cautioned against it becoming negative in future, if more attention is not paid to a potentially increasing rural-urban divide.

³⁷ “Preparing youth for the labour market” is identified as a specific target area under National Priority 3 in the 2009 Annual Priorities Matrix.

³⁸ Timor-Leste’s national parliament is made up of 29.2% women – the highest in the South-east Asia region. *Source: www.allbusiness.com/government/elections-politics-political-parties/12593216-1.html*, accessed July 2009.

Principle 7. Align with local priorities in different ways in different contexts

The absence of a medium to longer term planning framework and insufficient development partner flexibility were identified as two of the most significant bottlenecks to improving alignment:

- International actors have found it difficult to fully align their programmes on national priorities and systems in an environment where national plans and priorities have been annually adjusted to meet what have often been rapidly changing contexts.
- They have also found it difficult to shift gears between longer term development and emergency response.

1. Program and policy alignment

One participant likened the current situation to a football game: *“there are a number of players and while each player may have a different role, they all need to work together as one team... but it is difficult to score goals when the goal posts keep moving”* (see Box 3). National Priorities are currently determined on an annual basis, whereas most development activities extend over a three- to five-year time frame. Development partners generally enter into multi-year commitments which can leave them out of step with government priorities if sufficient flexibility is not built into their programs.

Box 3. “Moving goal posts”: multiple government frameworks

The Paris Declaration indicator to measure national ownership is whether a given developing country has a “national development strategy with clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets” (Paris Declaration on Aid Effectiveness, 2005).

A key challenge for donor alignment in Timor-Leste is that the changing political and security landscape has seen many planning instruments developed and subsequently superseded over the past ten years. For example, under the previous Alkatiri government (May 2002-June 2006) there was a National Development Plan (May 2002-2007), a multi-donor Consolidated Support Program (2005-2008)³⁹, Sector Investment Programs (typically for 3-to-5 years), and Ministry-level Annual Action Plans. Following the crisis and change in government, the UN facilitated the development of an International Compact (endorsed in 2007), which was subsequently superseded by the new AMP Government’s Program 2012 (2007-2012) and National Priorities process (from 2008). The AMP Government is also currently developing a medium- to long-term Strategic Development Plan (2009-2020).

This proliferation of planning instruments resulted from a range of events including the government and development partners’ response to the 2006 security crisis; and the new Government restructuring several ministries and establishing new policies, priorities and national plans.

The government response

Given that the emergency situation has stabilised, the government plans to release the Strategic Development Plan, which is medium to long-term. There was general consensus among development partners that it would be much easier to align with government priorities once a **multi-year development framework** is in place (see *Principle 1: Take context as the starting point*).

³⁹ While not strictly a government planning document, the Consolidated Support Program process and associated monitoring matrix was used by the Government to report to development partners on the use of the multi-donor trust fund. The Consolidated Support Program was effectively stalled following the security crisis.

The government is also considering introducing multi-year targets into the 2010 National Priorities program. This indicates a shift toward a more strategic, longer term focus on behalf of the government which development partners should be better able to align with.

The ball is also in the hands of development partners

Nonetheless, many within government identified several areas where donor behaviour could improve:

1. Several felt that development partners could have shown **greater flexibility and commitment in responding to the National Priorities**, which were an attempt to better focus and prioritise efforts in response to the crisis. One observer suggested that alignment could be greatly improved if development partners were to present funding proposals to National Priority working groups for discussion prior to making commitments in a particular area. This was seen as a potential mechanism to avoid supply driven or inappropriately targeted responses by international actors and to improve co-ordination.
2. The challenge of **supply-driven donor approaches** was also identified, citing an example where a development partner had developed a program and was shopping around Ministries to find a suitable home.
3. Government observers also noted that the **multitude of discrete activities** is creating overlap and undermining broader co-ordination and alignment efforts (*see also Principle 8: Practical co-ordination mechanisms*).
4. Several implementing partners (NGOs and contractors) also suggested that development partners' desire to see **short-term results** is contributing to supply-driven responses and undermining broader capacity development efforts. Participants identified strong government leadership and ownership as critical in overcoming these challenges.
5. Development partners also sometimes **compete with each other for influence**, which creates both harmonisation and alignment challenges. (AusAID Office of Development Effectiveness, 2008b).

The Minister of Finance noted that the establishment of a multi-donor framework (the Planning and Financial Management Capacity Building Program) had greatly improved alignment by reducing the number of discrete aid funded activities within her Ministry, but felt that there was still a long way to go in other ministries. With the exception of the health, education and agriculture ministries, most other ministries have complained that they have little idea of what donor funded projects are actually doing in their sectors, which suggests that **basic communication between ministries and international actors has to improve** if progress is to be made.

Notwithstanding the current challenges, there is some evidence to suggest **broader alignment is occurring**. For example, the main thrust of development assistance in 2008 was on public sector management (15%), health (15%), agriculture (15%), education (14%) and justice (10%), which is generally in keeping with the government's national priorities.⁴⁰

2. Budget and systems alignment

The government undertook to improve co-ordination on budget processes, to ensure that government and donor activity would complement each other. In support of this, the government plans to bring forward the timing of the **National Priorities process in order to better align with the national budget process**.⁴¹ The Government held a Development Partners meeting in June 2009 to discuss mechanisms of funding capital development in the process of budget preparation for 2010.

⁴⁰ National Directorate of Aid Effectiveness (2009), *Donors Disbursement in 2008 and Donors Spending Programs from 2009-2012 in Timor-Leste*, Ministry of Finance, Dili. However, comparatively less support is being directed to some of the government's new priority areas, such as youth employment, and it is currently not possible to determine to what extent donor assistance is aligned with the specific benchmarks and targets identified in the National Priorities process as donors only report financial flows, rather than contributions to specific government targets.

⁴¹ The National Priorities Secretariat noted that the 2009 National Priorities were put together after the budget was announced, which meant that alignment with budget allocations was sometimes difficult.

Another key challenge, identified by the Ministry of Finance Aid Effectiveness Directorate, is that donor systems and budget cycles are not always aligned with those of the government. This has created some difficulties for development partners in terms of providing timely and accurate information to the government on donor expenditure and forward commitments. This in turn creates challenges for the government in terms of assessing the predictability of aid funding and informing the budget process.

Following the conclusion of the Consolidated Support Program, there is currently no budget support provided to Timor-Leste. In the early years of independence, Timor-Leste's national budget was supported by the Consolidated Support Program, funded by external donors in the absence of oil and gas revenues. Since Timor-Leste's oil and gas revenue began to flow in the mid-2000s, budgetary support provided to Timor-Leste was reduced, and to date, the state budget relies heavily on Petroleum Fund revenues, while development partners' assistance is directly assisting sectorial areas from each bilateral country.]. The use of country systems (*e.g.* public financial management and procurement) has also been relatively limited, primarily a function of capacity constraints in these systems and associated limited capacity to absorb substantial aid funds.

Illustrative Indicators

Indicator 7. Percentage of aid flows to the government sector that is reported on partners' national budgets (Paris Declaration Monitoring Survey indicator 3).

Data not available.

Note: No budget support currently provided. All development partners are requested to report aid flows to Government, but it is not possible to determine what percentage of aid is not reported. Timor-Leste did not take part in the Paris Declaration Monitoring Surveys 2005 or 2008.

Principle 8. Agree on practical co-ordination mechanisms

While there has been progress towards establishing co-ordination mechanisms (*e.g.* planning frameworks, sector-wide approaches, multi-donor trust funds), the main stumbling block appears to be the lack of a clear division of labour among international actors.

- There was general agreement that international actors must do more to identify areas of comparative advantage, pool resources and reduce the administrative burden on the government.
- Overall, the evidence suggests there is more urgency than ever to reduce the fragmentation of donor-funded activities. There are too many discrete aid-funded activities and these are placing a high burden on a government which has limited capacity to respond. The government has a role to play too, in managing the number of requests for small scale assistance.

1. Practical co-ordination mechanisms already being used

Some observers noted that development partners have a responsibility to improve co-ordination and harmonisation among themselves, particularly given government capacity constraints. In this regard, participants agreed that, while the scenario was better in some sectors than in others, there were practical co-ordination mechanisms in place and being used:

- Multi-donor trust funds existed, and there were examples of delegated co-operation, shared offices (*e.g.* World Bank and ADB – and, until June 2009, IMF) and sector-wide approaches are also being pursued in several sectors.
- The UN has also made good progress to improve co-ordination of its various development programs and agencies through the UNDAF (United Nations Development Assistance Framework).

Multi-donor trust funds

According to the latest government estimates, around USD 27.1 million is expected to be provided through multi-donor trust funds in 2009 (equivalent to 10.3% of total development assistance).⁴² This represents a three-fold increase over the 2008 figure of around USD 9 million (or 4.3% of total development assistance).⁴³

While this is an encouraging sign, the government has previously raised concerns over the use of *ex ante* forms of conditionality under multi-donor trust funds (*i.e.* development partners requiring the government to “*jump through hoops*” before releasing funds). The government’s preferred approach is one based on partnership, where **shared aims and mutual obligations** define the relationship, and where donor funding acts as an incentive to support the government’s reform efforts, rather than “a carrot and stick” approach (AusAID Office of Development Effectiveness, 2008b). This suggests that approaches to partnership could be further strengthened.

Sector-wide approaches (SWAPs)

Some observers noted that SWAPs have been slow to establish and challenging to implement given the need to strengthen underlying systems and capacity constraints. It is also noted that the existence of SWAPs in the health and education sectors appears to have had **little impact on the number of discrete aid funded activities** in these sectors, which currently stand at 43 projects in health and 39 projects in education (interviews, May 2009). The figures suggest that there is still a long way to go to determine an appropriate and manageable division of labour among development partners.

⁴² Aid Effectiveness Directorate, Ministry of Finance, Timor-Leste.

⁴³ General Budget of the State, 2009. The actual commitment for Multi-donor trust funds in 2008 was around USD 13.085m, however only USD 9.56m was actually disbursed (representing a disbursement rate of 73%).

Development partner meetings

One observer suggested that the twice monthly informal donor co-ordination meetings (facilitated by the World Bank) should be upgraded to formal monthly meetings. These meetings could go beyond the current exchange of information to include in-depth discussions on pertinent topics so that **common positions** can be adopted. It was also suggested that an aid mapping exercise be undertaken to help facilitate a better division of labour among development partners, in collaboration with the government.⁴⁴

Other identified barriers to effective co-ordination included:

- Short-term and ad hoc approaches to international technical assistance (*discussed under Principle 3*);
- Fragmentation within government ministries (*i.e.* Line ministries tend to approach development partners by-passing central agencies);
- Competition for limited resources (including staffing and funding).

2. Still much room for progress

Participants highlighted the need to develop agreed donor co-ordination mechanisms at both **policy and implementation** levels: some co-ordination mechanisms, such as the National Priorities Working Groups already exist, however these are focused on short term annual priorities. Broader mechanisms for sectoral and geographical co-ordination among development partners require further development.

They also highlighted the need for **greater sharing of analysis** among international actors, with the aim of agreeing on a common analysis of context. Joint reviews, joint project visits and joint evaluations were also identified as instruments to improve co-ordination and co-operation.

The government indicated that line ministries were increasingly co-ordinating their activities with the Ministry of Finance and that the creation of the Aid Effectiveness Directorate would further enhance these efforts. However, government participants raised **concerns over development partners continuing to go to individual line-ministries without adequate consultation with central ministries**. For example, the Ministry of Foreign Affairs noted they are being left out of the loop, raising concerns over poor co-ordination and “donor shopping”. The Ministry of Finance raised similar concerns, noting that donor funded activities often have implications for the government’s budget.

It was agreed that government should establish appropriate processes for donor engagement, including greater clarity around the respective roles of the various government bodies responsible for aid co-ordination and engagement, (*i.e.* Ministry of Foreign Affairs, Ministry of Finance, Aid Effectiveness Directorate, National Priorities Secretariat and line ministries). Some participants felt that identifying one focal point to liaise with Government on each main sectoral issue would simplify co-ordination.

Participants expressed concerns that there are still too many demands on government from development actors and evidence suggests there is room for progress:

- There are currently around 421 aid funded projects from across 24 bilateral donors, five multilateral organisations and 13 UN agencies (42 development partners in total), as well as an array of international and local NGOs and civil society organisations working in Timor-Leste.⁴⁵ Currently, 18 out of 23 Ministries must contend with more than five donor-funded projects, while **at least three government Ministries are burdened with over 40 donor-funded projects**.⁴⁶
- A stock-take undertaken as part of the State of the Nation report in 2007 underscores the need to improve donor co-ordination: “since 2002 over 300 donor reports had been produced in the infrastructure sector alone – a sobering statistic for such a small country” (AusAID Office of Development Effectiveness, 2008b).

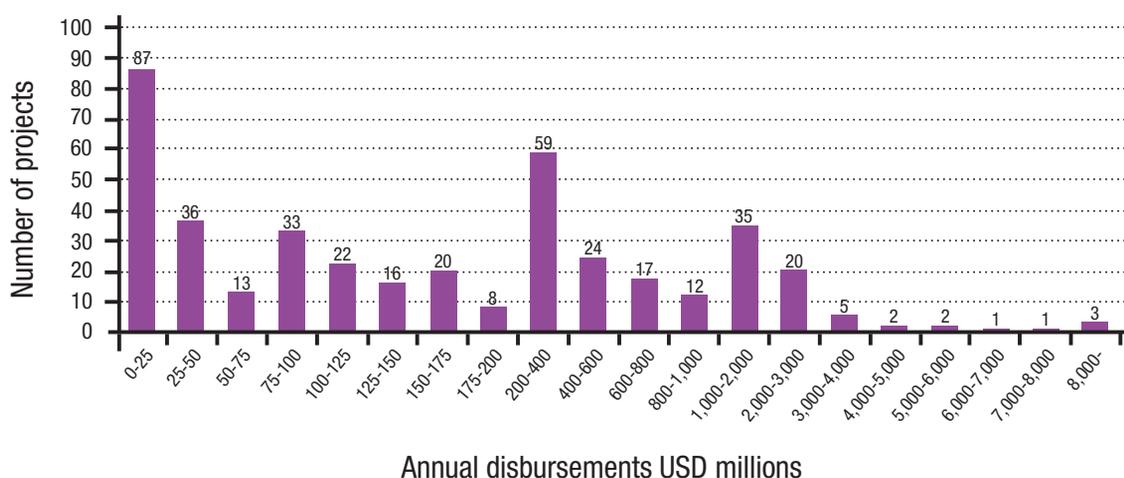
44 These suggestions were put forward in an informal issues paper presented by the EU to the informal donors meeting.

45 Aid Effectiveness Directorate, Ministry of Finance, based on total aid funded projects registered with the government.

46 Aid Effectiveness Directorate, Ministry of Finance.

- Out of the 416 projects for which disbursement information is available, only three have annual expenditure which exceeds USD 8 million *per annum*, while 169 projects have annual expenditure of less than USD 100,000. On average, the annual disbursement is only around USD 500,000 per project. This indicates that development partners could do **much more to pool their resources and work together on shared priorities**, which should in turn improve co-ordination and reduce the administration burden on government, not to mention the administrative inefficiencies for development partners in delivering a large number of relatively small value projects (*see Chart 5*). Caution is needed, however, when considering project size as an indicator of aid fragmentation. Even so, the data suggest that fragmentation of the largely Dili-based development programs undertaken to date has created significant challenges for the government.
- With regards to the number of donors present in Timor-Leste, Timor-Leste has a relatively high number of donors (*see Table 3*) but aid is not as fragmented as in some other post-conflict countries such as DR Congo.⁴⁷

Chart 5. Number of projects by annual disbursement (2008)



Source: Aid Effectiveness Directorate (Ministry of Finance).

Table 3. Donor presence and fragmentation (average 2005-2006)

	No. of donors	No. of donors over 90% of CPA	% of CPA by top donor	% of CPA by top 2 donors	% of CPA by top 3 donors	total % of CPA by top 3 donors
Timor-Leste	21	10	Australia (22%)	Portugal (20%)	Japan (15%)	57%

Source: OECD (2009), Resource flows to fragile and conflict-affected states and OECD (2008), Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans.

Illustrative Indicators

Indicator 8a. Is there an agreed division of labour?

No. While some progress on SWAPs in a few sectors e.g. Finance & health, there are still too many discrete activities, and the overall delineation of responsibility along sectoral and geographic lines requires further improvement).

Indicator 8b. Percent of assistance channelled through multi-donor trust funds.

4.3% in 2008, 10.3% in 2009.⁴⁸

47 See Democratic Republic of Congo Report, Fragile States Monitoring Survey (2010), www.oecd.org/fsprinciples.

48 Ministry of Finance, Aid Effectiveness Directorate (2009), www.mof.gov.tl/en/ae/one-stop-shop/

Principle 9. Act fast... but stay engaged

- There was a general view that international actors had acted quickly in response to crisis. Flexibility was a key determining factor in how effectively international actors were able to respond to changing circumstances.
- Although most international actors appear to be committed to long-term engagement in Timor-Leste, this is not always well reflected in forward budget planning and contractual commitments due to the cyclical nature of programming.

1. “Acting fast”

There was a level of agreement (short of complete consensus) that **government has the capacity to respond rapidly** to a range of priorities leaving development partners to focus on longer-term development, except in cases of humanitarian emergency. A good example of this was the government’s ability to deal with the immediate IDP crisis following the outbreak of violence in May 2006.

As for international actors, some participants considered that they did not act fast enough, although speed was vital in a fragile state context. Even where international actors had acted quickly, some participants felt that development partners often did not have sufficient flexibility within their budgets to respond effectively to crisis. For example, it has been suggested that without government funding it would not have been possible to rapidly respond to the IDP situation. However:

- Several development partners identified occasions where processes had been fast-tracked (*e.g.* fast tracking of World Bank agreements from 15 months down to 3 months).
- Several development partners also pointed to the absence hitherto of donor country strategies as evidence of their willingness to respond flexibly to changing circumstances in Timor-Leste.
- One observer noted an apparent “*lack of readiness*” of international actors prior to the 2006 crisis, but suggested that the subsequent analysis of the causes of the crisis had meant that international actors and the government were now better prepared to respond. The effective containment of the most recent security crisis (*i.e.* attacks on the President and Prime Minister in February 2008) was highlighted as a good example of this.

The Government reiterated the point that international actors should retain a degree of flexibility, as it was by no means clear that Timor-Leste was ready to move to a full development (as opposed to post-conflict) approach. It was also noted that humanitarian emergencies require a longer transition period, with some associated problems persisting after the initial crisis is resolved (*e.g.* nutrition). There is a danger of losing focus on such ‘silent emergencies’ if donors make too great a distinction between emergency and development programs. This suggests a **need for international actors to increase their funding flexibility and to remain committed over time** in order to support Timor-Leste’s transition from post-conflict to development.

2. “Staying engaged”

There was a general sense that government and development partners expected too much too soon, and that a more phased approach was needed. It was suggested that development partners need to look beyond a five year time frame to see results.

According to latest estimates from the Ministry of Finance (February 2009), the amount of development assistance committed beyond a three year timeframe (*i.e.* 2012 and beyond) is approximately USD 34m (*see Chart 5*) and aid is decreasing by 18% over 2005-2010 (*see Table 5*). While this is not very encouraging, most development partners argue that this figure does not adequately reflect their level of ongoing commitment to Timor-Leste. Rather, it is a reflection of the cyclical nature of programs, contractual arrangements and budget processes. By way of example,

Australia, the largest bilateral donor to Timor-Leste, is bound by legal limits for forward budget commitments, although has committed to increasing its total level of ODA to 0.5% of GNI by 2015, and increased the level of bilateral funding to Timor-Leste in the 2009-10 budget.

Table 4. ODA to Timor Leste 2001-2007 (current USD million)

Year	2001	2002	2003	2004	2005	2006	2007
ODA Total, Net disbursements	194.17	219.05	175.03	161.24	184.53	209.07	278.27
ODA Total, Commitments	236.98	220.40	198.55	161.20	182.37	236.19	297.44

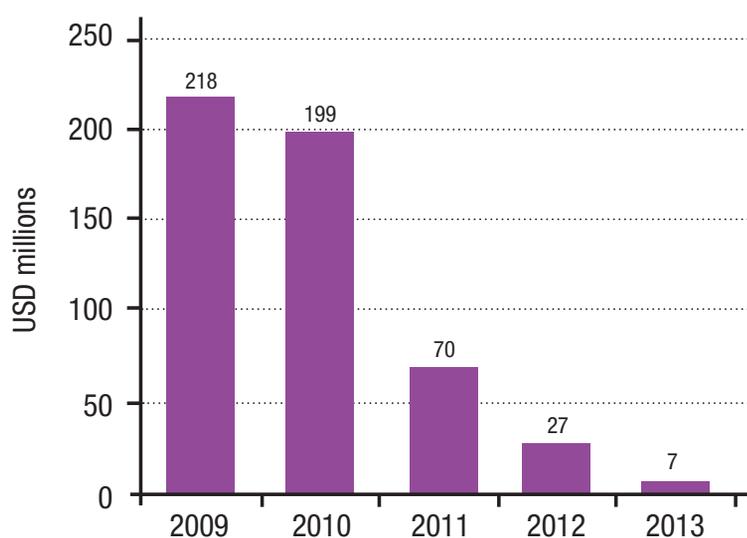
Source: OECD statistical database.

Table 5. A projected decrease in aid of 18% over 2005-2010

	CPA base-line	CPA planned			Change		CPA/GNI	
	2005	2008	2009	2010	2005-2010		2005	2010
	Constant 2005 USD million				%	USD million	%	
Timor-Leste	176	144	143	145	-18%	-31	25.3	17.3

Source: Resource flows to fragile and conflict-affected states and OECD (2008), Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans.

Chart 6. Development assistance forward commitments (2009-2013)



Source: Aid Effectiveness Directorate (Ministry of Finance).

Illustrative Indicators

Indicator 9a. Are there rapid response mechanisms?

Relatively limited (e.g. emergency funding). Development partners have nonetheless generally been able to respond quickly to past crises.

Indicator 9b. Amount of aid committed at a given time beyond a three-year timeframe:

approximately USD 34 million (source: Aid Effectiveness Directorate).

Indicator 9c. Aid fluctuations to GDP (2002-2007)

2.9% (Deviation between cross annual ODA disbursements and commitments 2002-2007 as percentage of GDP).

Principle 10. Avoid pockets of exclusion

There was general agreement that most international engagement is concentrated in the capital. There has been a strong emphasis on investment and service provision in the capital (the “*Dili-centric*” approach), exacerbating the rural-urban divide.

On the issue of whether particular geographic areas of Timor-Leste were favoured, most participants agreed that current programming was not deliberately discriminatory. Even so, there was a general perception that the west had benefited from better infrastructure, a legacy of Indonesian rule, and that the north had benefited due to the focus on Dili. The need to address the rural-urban divide was identified by participants as the most significant issue. While participants agreed that, from 2002 to present, the assertion that “*when Dili is fine, Timor-Leste is fine*” might in part be true, they felt that this assertion has to be revisited at the current stage.

There was agreement that while there was varying evidence of development in rural areas, considerably more focus was required on delivery of critical services and infrastructure outside the capital. Participants identified several possible strategies to address this challenge including:

- A better division of labour among international actors;
- Clearer monitoring and targeting of assistance to rural areas;
- Increased support for civil society organisations, particularly those engaged in service delivery. It was also agreed that strong government leadership in this area is critical.

It was noted that an increasing focus on rural areas should not diminish the importance of continuing to assist the central government and the heavily populated urban capital (*see Principle 3*). It was also suggested there is a need for further analysis to understand the causes of exclusion, *e.g.* the rural-urban divide, and district equities (*i.e.* regional local development leading to municipalities) in order for government and development partners to overcome these challenges.

1. Division of labour

Participants agreed that improving the geographic allocation was the **role of government** and should not be too rigid. It was noted the government was collecting data on aid distribution by both region and sector which could be used to inform further discussions on the comparative advantage of development partners, as well as improving the future targeting of development assistance.

Box 4. Water in rural areas

Rural water was identified as a good example of how co-ordination could help to address pockets of exclusion, although progress in this area to date has been mixed. Water in rural areas is currently provided by a wide range of actors (government, NGOs, development partners) using different standards and approaches. To help improve both co-ordination and targeting, the government is considering developing agreed standards and a registration process for rural water activities. This should help reduce duplication and ensure a more consistent approach.

One observer noted that the response of international actors will in any case need to be guided by the government's move to **decentralise** service delivery, and to be framed around the proposed new local government structures (*i.e.* municipalities).⁴⁹ It was acknowledged that this may create some future challenges for development partners, particularly in terms of realigning and expanding the focus of their assistance away from the centre.

⁴⁹ “In 2010, the Government is planning for districts to become municipalities. This process of decentralization, or moving some work from the central level to the local level, will begin after the National Parliament approves laws that will regulate how to establish a local government system. The government has been working since 2003, however to prepare the nation for the decentralization process, and will continue to work to ensure that the municipalities are a strong mechanism for development in Timor-Leste in the future.” Source: Ministry of State Administration and Territorial Management, www.estatal.gov.tl/English/English_home.html.

2. Better monitoring and targeting of assistance to rural areas

It was suggested that there is a need for **improved monitoring** to ensure that programs in rural areas are meeting their objectives and appropriately targeted. Some observers noted that past assistance to rural areas has tended to be rather *ad hoc*, with insufficient follow up and a lack of attention to sustainability issues. Some observers suggested that it would be beneficial to identify clearer targets for service delivery in rural areas.

Feedback from civil society representatives suggests that **rural populations** have also tended to have less input into the development process and are sometimes left feeling powerless. For example, even though many donor-funded programs conduct upfront consultations to identify needs, insufficient follow up and monitoring (due to geographic isolation) has meant that emerging problems are often not corrected in time. This has in turn diminished the overall effectiveness of programs in rural areas.

Some observers have also commented that the majority of international agencies (and their staff) are based in Dili, and **rarely venture outside the capital**. It was noted in this regard that the various security crises – and associated curfews and travel restrictions – have further diminished the focus on rural areas.

3. Support for civil society organisations and NGOs

Civil society actors felt that institutional capacity development among civil society institutions could be improved. There is also a general view among civil society that development partners could do more to support **civil organisations, including those engaged in service delivery in rural areas**, as well as other organisations that work with vulnerable groups, such as women and youth (*see Principle 6*).

Illustrative Indicators

Indicator 10a. Aid, revenue (GNI) and CPIA.

- Official development assistance (2007): USD 278 million of which USD 226 million from OECD member countries.⁵⁰
- GNI: USD 1.6 billion.⁵¹
- CPIA: 2.8.⁵²

Indicator 10b. Proportion of population living with less than USD 1 a day:

52.9% (2000-2007); 77.5% (2000-2007) live with less than USD 2 a day. The proportion of people living under the national poverty line has increased from 36% in 2001 to 50% in 2007.^{53 54}

50 OECD (2009), International Development Statistics, stats.oecd.org/qwids/.

51 World Bank (2008), Timor-Leste at a glance, devdata.worldbank.org/AAG/tmp_aag.pdf.

52 World Bank (2008), IDA Resource Allocation Index, siteresources.worldbank.org/IDA/Resources/73153-1181752621336/IRAI2008table1.pdf.

53 UNDP. Human Development Report 2009. http://hdrstats.undp.org/en/countries/data_sheets/cty_ds_TMP.html.

54 Timor-Leste Directorate of National Statistics (2007), Timor-Leste Survey of Living Standards, <http://dne.mof.gov.tl/TLSLS/AboutTLSLS/index.htm>.

Part II: Priority actions

<p>Principle 1: <i>Take context as the starting point</i></p>	<ol style="list-style-type: none"> 1. International actors to share their respective analyses of context and agree on a common diagnostic with national stakeholders as a basis to inform the draft Strategic Development Framework. 2. International actors to adopt an agreed ongoing consultation process that maps changes in context as part of an improved co-ordination mechanism.
<p>Principle 2: <i>Do no harm</i></p>	<ol style="list-style-type: none"> 3. Government of Timor-Leste and international actors to increase investment in rural areas and broaden the reach beyond the most accessible, visible places (<i>i.e.</i> address the rural-urban divide). 4. International actors to support the government to develop “Timor-appropriate” systems of governance rather than impose imported systems. 5. International actors to reduce salary differentials between international organisations and government (<i>e.g.</i> by topping up some key government positions; bringing international salaries in line with Timor-Leste’s status as a stable country). 6. International actors to support credible research into the impacts of the international community on the local economy (considering issues such as wage inflation, housing pressures, aid flows and multiplier effects), and take appropriate actions to minimise any adverse economic impacts.
<p>Principle 3: <i>Focus on statebuilding as the central objective</i></p>	<ol style="list-style-type: none"> 7. International actors to continue to support Government efforts to build an effective and accountable state, with emphasis on responsiveness to the needs of citizens, and strengthening the focus of line ministries on improving service delivery. 8. Government to develop a capacity-strengthening strategy with guiding principles for technical assistance. For example, <ul style="list-style-type: none"> • Start with a government request (with clear terms of reference) and a shared assessment of capacity needs; • Systematise phase-out strategies <i>e.g.</i> what Government has to do; transfer of knowledge from advisers; hiring of Timorese counterparts; peer training; advisory versus executive positions; striking the right balance between technical and managerial skills, and building resilient institutions. 9. Development partners to outline capacity development objectives and approach in their planned programs and strategies (<i>e.g.</i> long term and consistent engagement, capacity transfer and phase-out strategies, etc.). 10. Government and development partners to further strengthen the roles of Parliament, civil society and the media as checks and balances. 11. Ministry of Defence to conduct security review and development-defence strategy, to which international actors will then align.
<p>Principle 4: <i>Prioritise prevention</i></p>	<ol style="list-style-type: none"> 12. Government and international actors to promote an integrated approach to peace: not just centred on security, but also on prevention through food security, strengthening justice, reconciliation and behavioural change. 13. Government and development partners to invest in rural development (including infrastructure) and private sector development (employment and livelihoods, especially in rural areas and especially for youth). 14. Development partners to support the Government’s decentralization process.
<p>Principle 5: <i>Recognise the links between political, security and development objectives</i></p>	<ol style="list-style-type: none"> 15. Government and international partners to sustain efforts to maintain dialogue and improve co-ordination between diplomatic, development and security actors, even in times of relative stability.
<p>Principle 6: <i>Promote non-discrimination as a basis for inclusive and stable societies</i></p>	<ol style="list-style-type: none"> 16. Government and development partners to agree a greater division of labour by sector and/or region to avoid being overly Dili-centric. 17. Government and international actors to systematise and deepen the dialogue with civil society (including representatives from youth groups and the private sector) through the National Priorities process, and promote the role of women and youth as agents of change.

<p>Principle 7: <i>Align with local priorities in different ways in different contexts</i></p>	<p>18. Government to put in place a multi-year, medium term development framework (and related medium term expenditure framework) with clear and prioritised sector objectives. Development partners to move to full alignment with the government's development framework, while maintaining a degree of flexibility to respond to emerging priorities.</p> <p>19. Aid Effectiveness Directorate (Ministry of Finance) to share data on aid programs with development partners and line ministries to support improved alignment.</p> <p>20. Government and development partners to commit to aligning on sector strategies whenever possible and moving over time towards budget support (including strengthening underlying systems <i>e.g.</i> budgeting, procurement, audit so that they can support increasing use of aid funds, in keeping with the Paris Declaration).</p>
<p>Principle 8: <i>Practical co-ordination mechanisms</i></p>	<p>21. Government to clarify the pathway for development partner engagement (<i>i.e.</i> clarify the respective roles of Ministry of Foreign Affairs; Ministry of Finance, Aid Effectiveness Directorate, National Priorities Secretariat and line ministries in terms of donor engagement and co-ordination) for example: what path should program approvals take?</p> <p>22. International actors to work with national stakeholders to identify mechanisms for better high level co-ordination and dialogue between international actors and national stakeholders.</p> <p>23. Development partners to redouble efforts to extend existing co-ordination mechanisms (<i>e.g.</i> Multi-donor trust funds, delegated arrangements, shared offices, and joint missions on same subjects).</p> <p>24. International actors to agree on greater division of labour by sector and possibly appoint focal point organisations or countries by sector.</p>
<p>Principle 9: <i>Act fast... but stay engaged long enough to give success a chance</i></p>	<p>25. International actors to improve their rapid response capacity, including sufficient flexibility to respond to short term priorities identified in the National Priorities process.</p> <p>26. Government and international actors to move towards longer-term development, but caution against moving towards "development as usual" too fast, given persistent elements of fragility.</p>
<p>Principle 10: <i>Avoid pockets of exclusion</i></p>	<p>26. Ministry of Finance and development partners to provide breakdown of aid by district.</p> <p>27. Development partners to support further analysis to understand the root causes of pockets of exclusion, (particularly the rural-urban divide and district inequities), and to work with the government to develop appropriate measures and approaches to overcome these challenges.</p> <p>28. <i>See Priority Action 16.</i></p>

Annex A: Principles for good international engagement in fragile states and situations

Preamble

A durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, but the adoption of the following shared Principles can help maximise the positive impact of engagement and minimise unintentional harm. The Principles are intended to help international actors foster constructive engagement between national and international stakeholders in countries with problems of weak governance and conflict, and during episodes of temporary fragility in the stronger performing countries. They are designed to support existing dialogue and co-ordination processes, not to generate new ones. In particular, they aim to complement the partnership commitments set out in the Paris Declaration on Aid Effectiveness. As experience deepens, the Principles will be reviewed periodically and adjusted as necessary.

The long-term vision for international engagement in fragile states is to help national reformers to build effective, legitimate, and resilient state institutions, capable of engaging productively with their people to promote sustained development. Realisation of this objective requires taking account of, and acting according to, the following Principles:

1. Take context as the starting point. It is essential for international actors to understand the specific context in each country, and develop a shared view of the strategic response that is required. It is particularly important to recognise the different constraints of capacity, political will and legitimacy, and the differences between: (i) post-conflict/crisis or political transition situations; (ii) deteriorating governance environments, (iii) gradual improvement, and; (iv) prolonged crisis or impasse. Sound political analysis is needed to adapt international responses to country and regional context, beyond quantitative indicators of conflict, governance or institutional strength. International actors should mix and sequence their aid instruments according to context, and avoid blue-print approaches.

2. Do no harm. International interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards. In each case, international decisions to suspend or continue aid-financed activities following serious cases of corruption or human rights violations must be carefully judged for their impact on domestic reform, conflict, poverty and insecurity. Harmonised and graduated responses should be agreed, taking into account overall governance trends and the potential to adjust aid modalities as well as levels of aid. Aid budget cuts in-year should only be considered as a last resort for the most serious situations. Donor countries also have specific responsibilities at home in addressing corruption, in areas such as asset recovery, anti-money laundering measures and banking transparency. Increased transparency concerning transactions between partner governments and companies, often based in OECD countries, in the extractive industries sector is a priority.

3. Focus on statebuilding as the central objective. States are fragile when state⁵⁵ structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations. International engagement will need to be concerted, sustained, and focused on building the relationship between state and society, through engagement in two main areas. Firstly, supporting the legitimacy and accountability of states by addressing issues of democratic governance, human rights, civil society engagement and peacebuilding. Secondly, strengthening the capability of states to fulfil their core functions is essential in order to reduce poverty. Priority functions include: ensuring security and justice; mobilizing revenue; establishing an enabling environment for basic service delivery, strong economic performance and employment

⁵⁵ The term "state" here refers to a broad definition of the concept which includes the executive branch of the central and local governments within a state but also the legislative and the judiciary arms of government.

generation. Support to these areas will in turn strengthen citizens' confidence, trust and engagement with state institutions. Civil society has a key role both in demanding good governance and in service delivery.

4. Prioritise prevention. Action today can reduce fragility, lower the risk of future conflict and other types of crises, and contribute to long-term global development and security. International actors must be prepared to take rapid action where the risk of conflict and instability is highest. A greater emphasis on prevention will also include sharing risk analyses; looking beyond quick-fix solutions to address the root causes of state fragility; strengthening indigenous capacities, especially those of women, to prevent and resolve conflicts; supporting the peacebuilding capabilities of regional organisations, and undertaking joint missions to consider measures to help avert crises.

5. Recognise the links between political, security and development objectives. The challenges faced by fragile states are multi-dimensional. The political, security, economic and social spheres are inter-dependent. Importantly, there may be tensions and trade-offs between objectives, particularly in the short-term, which must be addressed when reaching consensus on strategy and priorities. For example, international objectives in some fragile states may need to focus on peacebuilding in the short-term, to lay the foundations for progress against the MDGs in the longer-term. This underlines the need for international actors to set clear measures of progress in fragile states. Within donor governments, a "whole of government" approach is needed, involving those responsible for security, political and economic affairs, as well as those responsible for development aid and humanitarian assistance. This should aim for policy coherence and joined-up strategies where possible, while preserving the independence, neutrality and impartiality of humanitarian aid. Partner governments also need to ensure coherence between ministries in the priorities they convey to the international community.

6. Promote non-discrimination as a basis for inclusive and stable societies. Real or perceived discrimination is associated with fragility and conflict, and can lead to service delivery failures. International interventions in fragile states should consistently promote gender equity, social inclusion and human rights. These are important elements that underpin the relationship between state and citizen, and form part of long-term strategies to prevent fragility. Measures to promote the voice and participation of women, youth, minorities and other excluded groups should be included in statebuilding and service delivery strategies from the outset.

7. Align with local priorities in different ways in different contexts. Where governments demonstrate political will to foster development, but lack capacity, international actors should seek to align assistance behind government strategies. Where capacity is limited, the use of alternative aid instruments – such as international compacts or multi-donor trust funds – can facilitate shared priorities and responsibility for execution between national and international institutions. Where alignment behind government-led strategies is not possible due to particularly weak governance or violent conflict, international actors should consult with a range of national stakeholders in the partner country, and seek opportunities for partial alignment at the sectoral or regional level. Where possible, international actors should seek to avoid activities which undermine national institution-building, such as developing parallel systems without thought to transition mechanisms and long term capacity development. It is important to identify functioning systems within existing local institutions, and work to strengthen these.

8. Agree on practical co-ordination mechanisms between international actors. This can happen even in the absence of strong government leadership. Where possible, it is important to work together on: upstream analysis; joint assessments; shared strategies; and co-ordination of political engagement. Practical initiatives can take the form of joint donor offices, an agreed division of labour among donors, delegated co-operation arrangements, multi-donor trust funds and common reporting and financial requirements. Wherever possible, international actors should work jointly with national reformers in government and civil society to develop a shared analysis of challenges and priorities. In the case of countries in transition from conflict or international disengagement, the use of simple integrated planning tools, such as the transitional results matrix, can help set and monitor realistic priorities.

9. Act fast... but stay engaged long enough to give success a chance. Assistance to fragile states must be flexible enough to take advantage of windows of opportunity and respond to changing conditions on the ground. At the same

time, given low capacity and the extent of the challenges facing fragile states, international engagement may need to be of longer-duration than in other low-income countries. Capacity development in core institutions will normally require an engagement of at least ten years. Since volatility of engagement (not only aid volumes, but also diplomatic engagement and field presence) is potentially destabilising for fragile states, international actors must improve aid predictability in these countries, and ensure mutual consultation and co-ordination prior to any significant changes to aid programming.

10. Avoid pockets of exclusion. International actors need to address the problem of “aid orphans” – states where there are no significant political barriers to engagement, but few international actors are engaged and aid volumes are low. This also applies to neglected geographical regions within a country, as well as neglected sectors and groups within societies. When international actors make resource allocation decisions about the partner countries and focus areas for their aid programs, they should seek to avoid unintentional exclusionary effects. In this respect, co-ordination of field presence, determination of aid flows in relation to absorptive capacity and mechanisms to respond to positive developments in these countries, are therefore essential. In some instances, delegated assistance strategies and leadership arrangements among donors may help to address the problem of aid orphans.

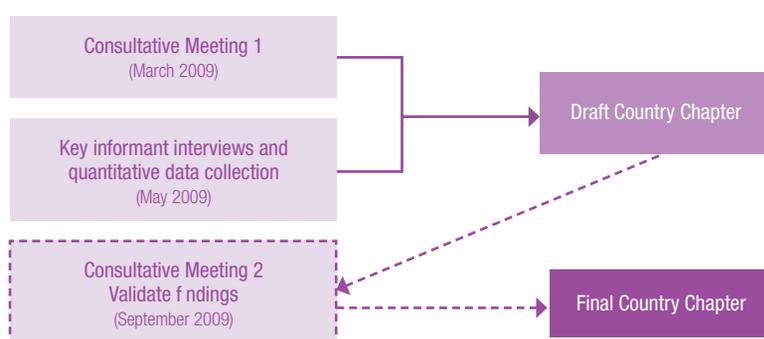
Annex B: Methodology for this country report

This Country Report was drafted under the responsibility of the National Coordinator, with the support of an independent consultant. It is also available in Tetum.⁵⁶

The methodology for the Country Report is based on the methodology agreed among the six countries participating in the 2009 Survey of the Principles.⁵⁷ Findings in this Report are based primarily on the outcomes of the initial consultative meeting, and supplemented by follow up discussions with several key informants. Data for the Report is primarily qualitative, and complemented by relevant quantitative data, where available. The findings of the report were further strengthened and validated during the second consultative meeting held in September 2009.

The following diagram illustrates the overall process:

Chart 7. Process for this Country Report



The initial consultative meeting was held over 2-3rd March 2009 in Dili. The meeting was well attended and brought together a diverse range of participants including the country's leaders, Ministers, key government officials, development partners and representatives from civil society and the private sector and selected district representatives.

List of participants in the two consultations and interviewees

1. National stakeholders

Government of Timor-Leste

- President
- Prime Minister
- Minister of Education
- Ministry for Foreign Affairs
- Ministry of Economy and Development
- Ministry of Finance
- Ministry of Justice
- Ministry of Social Solidarity
- National Police of Timor-Leste (PNTL)
- National Priorities Secretariat
- Rural Water Supply and Sanitation Program
- Secretary of State for Natural Resources

⁵⁶ Some of the concepts used in this Report are difficult to translate into Tetum.

⁵⁷ See full methodology at www.oecd.org/fsprinciples.

- Secretary of State for Security/SOSS
- Timor-Leste Capacity Development Program
- Commander of armed forces of Timor-Leste
- Defence Force Timor-Leste (F-FDTL)
- East Timor Development Agency (ETDA)

Members of parliament

- Parliamentary Committee A

2. Civil society organisations

- About 15 different civil society representatives
- Catholic Church
- Catholic Relief Services
- Hamutuk
- NGO Forum
- Plan International

3. International stakeholders

Bilaterals

- Australia
- Brazil
- DFID
- France
- Japan
- New Zealand
- Norway
- Portugal

Multilaterals

- Asian Development Bank (AsDB)
- African Development Bank (AfDB)
- European Union
- International Monetary Fund (IMF)
- International Organisation for Migration (IOM)
- Organisation for Economic Co-operation and Development (OECD)
- United Nations Development Program (UNDP)
- UN Children's Fund (UNICEF)
- UN Integrated Mission Timor Leste (UNMIT)
- UN Population Fund (UNFPA)
- World Food Program (WFP)
- World Bank

Observers

- Autonomous Government of Southern Sudan
- DRC

Discussions at the meeting were framed around two key questions, for each Principle:⁵⁸

1. To what extent does the international community accord with the Principle?
2. With what impact?

A series of open ended questions were also provided to help generate discussion around each of the Principles, with discussions moderated by a facilitator.

In addition, a specific session on peacebuilding and statebuilding addressed the following three questions:

1. What should be the medium term key peace building and statebuilding priorities?
2. What are the key bottlenecks for external actors to support our peace building and statebuilding goals?
3. What are the success stories of peace and statebuilding processes?

For discussions of the ten Principles, participants were divided into three focus groups, with each group assigned either two or four Principles for discussion.⁵⁹ A plenary session was held following the focus group sessions in order to gauge the level of consensus on the issues raised and to identify priority actions against each of the Principles.

Follow-up interviews

While the first consultative meeting identified a range of key issues, many participants felt the need for more in-depth analysis of progress and bottlenecks against each of the Principles. In recognition of this, and as planned in the Principles Monitoring Plan, follow up interviews were conducted with several key informants in May 2009. These included discussions with the Minister of Finance, staff of the National Priorities Secretariat and Aid Effectiveness Directorate, facilitators from the first consultative meeting, and several development partners and civil society representatives.

The follow-up discussions added to the richness of the data and allowed for further exploration of some of the issues raised at the first consultative meeting. However, in the course of these interviews, several new issues were identified. These new issues were included in the draft report, and were considered by participants at the second consultative meeting prior to validation of the report's findings. To provide a clear distinction between the different data sources, issues raised during the consultative meeting are referred to as issues raised by "participants", while those raised outside the formal consultative meeting are referred to as issues raised by "observers".

Second consultation

A second consultative meeting was held in Dili (17-18 September 2009) and brought together over 150 participants from across government, civil society and the international community. The second meeting provided an opportunity to:

- Further discuss and validate the initial findings in the draft country monitoring report;
- Share lessons and experience on peacebuilding and statebuilding from both a Timor-Leste and an international perspective (Note: these issues will be discussed further at the International Dialogue on Peace building and Statebuilding to be held in Dili in March 2010); and
- Reach consensus on major challenges and forward actions to further strengthen international engagement in Timor-Leste.

There was general consensus that the draft country report reflected the major challenges and forward actions needed to strengthen international engagement. In particular, participants endorsed the report's main findings, including increasing the focus of development in rural areas, improving communication and co-ordination among all

⁵⁸ See the methodology at www.oecd.org/fsprinciples.

⁵⁹ Focus Group 1 was allocated Principles 1 and 2; Focus Group 2 was allocated Principles 3, 4, 5 and 6; Focus Group 3 was allocated Principles 7, 8, 9 and 10.

actors, and strengthening engagement with civil society and the citizens of Timor-Leste. Even so, several development partners felt there was a need for more balance, with specific reference to the broader Paris Declaration principle of mutual accountability. For example, several development partners specifically highlighted the importance of government accountability, transparency and leadership in terms of aid effectiveness. Participants also identified the need for both qualitative and quantitative indicators to track future progress. These issues have been reflected in the final report.

Lessons learned

Timor-Leste was the first country to take part in the Principles Monitoring Survey, launched in 2009. Lessons were drawn from both this consultation and the five consultations that followed, and are summarised in “Lessons learned from round I of the Fragile States Principles Monitoring Survey” (to be published on www.oecd.org/fsprinciples).

Annex C: Statistical data on Timor-Leste

Figure 1. Map of Timor-Leste



Source: United Nations. http://www.un.org/special-rep/ohrls/sid/SIDS-states/timor_lete.gif.

Table 6. Key indicators

	Timor-Leste	East Asia & Pacific	Lower-middle-income		
POVERTY and SOCIAL					
2007					
Population, mid-year (millions)	1.1	1,914	3,437		
GNI per capita (Atlas method, US\$)	1,510	2,180	1,887		
GNI (Atlas method, US\$ billions)	1.6	4,174	6,485		
Average annual growth, 2001-07					
Population (%)	5.0	0.8	1.1		
Labor force (%)	8.2	1.2	1.5		
Most recent estimate (latest year available, 2001-07)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	27	43	42		
Life expectancy at birth (years)	57	71	69		
Infant mortality (per 1,000 live births)	47	24	41		
Child malnutrition (% of children under 5)	41	13	25		
Access to an improved water source (% of population)	62	87	88		
Literacy (% of population age 15+)	..	91	89		
Gross primary enrollment (% of school-age population)	99	110	111		
Male	103	111	112		
Female	95	109	109		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1987	1997	2006	2007	
GDP (US\$ billions)	0.33	0.40	
Gross capital formation/GDP	
Exports of goods and services/GDP	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	125.8	174.0	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1987-97	1997-07	2006	2007	2007-11
<i>(average annual growth)</i>					
GDP	..	1.1	-5.8	7.8	2.3
GDP per capita	..	-3.2	-10.7	4.1	-0.8
Exports of goods and services

Development diamond*

Legend: — Timor-Leste, — Lower-middle-income group

Economic ratios*

Legend: — Timor-Leste, — Lower-middle-income group

Source: World Bank (2008).

Table 7. World development indicators Timor-Leste

	2000	2005	2007	2008
Population, total (millions)	0.82	0.99	1.06	1.10
Population growth (annual %)	0.5	4.2	3.4	3.2
Surface area (sq. km) (thousands)	14.9	14.9	14.9	14.9
GNI, PPP (current international \$) (billions)	0.64	1.48	3.31	5.15
GNI per capita, PPP (current international \$)	790	1,490	3,110	4,690
Life expectancy at birth, total (years)	56	60	61	61
Fertility rate, total (births per woman)	7.0	6.7	6.5	..
Adolescent fertility rate (births per 1,000 women ages 15-19)	84	58	54	..
Contraceptive prevalence (% of women ages 15-49)	..	..	20	..
Mortality rate, under-5 (per 1,000)	129	105	97	..
Immunization, measles (% of children ages 12-23 months)	..	48	63	..
Primary completion rate, total (% of relevant age group)	..	..	69	..
Ratio of girls to boys in primary and secondary education (%)	..	95	..	..
Forest area (sq. km) (thousands)	8.5	8.0	..	..
Agricultural land (% of land area)	22.7	22.9	..	..
Improved sanitation facilities, urban (% of urban population with access)	64	..	..	..
GDP (current USD) (billions)	0.32	0.33	0.40	0.50
GDP growth (annual %)	13.7	6.2	7.8	13.2
Inflation, GDP deflator (annual %)	3.0	1.0	12.9	10.7
Gross capital formation (% of GDP)	26	..	..	..
Time required to start a business (days)	..	92	82	83
Net migration (thousands)	-170	41	..	..
Official development assistance and official aid (current USD) (millions)	231	185	278	..

Source: World Development Indicators database, April 2009.⁶⁰

60 http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED.

Annex D: Bibliography

Asian Development Bank (2009), *Asian Development Outlook*, Manila.

AusAID (Australian Government Overseas Aid Program) (2008), *Violence against Women in Melanesia and East Timor: Building on Global and Regional Promising Approaches*, Office of Development Effectiveness, Canberra.

AusAID (2008), "Background Paper for the Third High Level Forum on Aid Effectiveness: Roundtable 7: Aid Effectiveness in Situations of Fragility and Conflict", *A Balancing Act: Implementation of the Paris Declaration in Timor-Leste*, September 2008, Office of Development Effectiveness, Dili/Canberra.

Chinn, L. and S. Everett (2009), *A Survey of Community-Police Perceptions: Timor-Leste in 2008*, The Asia Foundation, San Francisco.

EU (European Union) (2008), *Enhancing Aid Effectiveness in Timor-Leste*, unpublished informal issues paper prepared by EU, Dili.

Gusmão, X. (2009), "Keynote address by H.E. Xanana Gusmão, Prime Minister of Timor-Leste", *First Consultative Meeting on Monitoring Implementation of the Principles for Good International Engagement in Fragile States*, 2 March 2009, Dili.

Gusmão, X. (2009), *Statement to the Press by Prime Minister Xanana Gusmão: on recent allegations of corruption against the Ministry of Finance*, 12 May 2009, Dili.

Heritage Foundation (2009). 2009 Index of Economic Freedom. www.heritage.org/index/Ranking.aspx.

ICTJ (International Centre for Transitional Justice) (2009), *Security Sector Reform in Timor-Leste*, Security Cluster, Initiative for Peacebuilding, ICTJ, Brussels.

International Crisis Group (2008), "Timor-Leste: Security Sector Reform", Asia Report, January 2008, No. 143, International Crisis Group, Dili/Brussels.

Kälin, W., Representative of the Secretary-General on the Human Rights of Internally Displaced Persons (2009), *Key Findings and Recommendations, Visit to Timor-Leste 6-13 December 2008*.

Ministry of Finance (2009), "Budget Paper 1, 1 January to 31 December 2009", *General Budget of the State and State Plan for 2009*, Ministry of Finance, Dili. www.mof.gov.tl/en/sf/DB/download/2009/ENG%20BP1%2018%20February%202009.%20No%20Link.pdf.

Ministry of Finance (2002), *Vision 2020, National Development Plan*, Republica Democratica de Timor-Leste, Government of Timor-Leste, Dili.

National Directorate of Aid Effectiveness (2009), *Donors Disbursement in 2008 and Donors Spending Programs from 2009-2012 in Timor-Leste*, Ministry of Finance, National Directorate of Aid Effectiveness, Dili.

National Priorities Secretariat (2009a), *National Priorities Matrix*, National Priorities Secretariat, Dili.

National Priorities Secretariat (2009b), "Working together to build foundations for Peace and Stability and Improving Livelihoods of Timorese Citizens", *National Priorities Program Concept Note*, National Priorities Secretariat, Dili.

OECD (Organisation for Economic Co-operation and Development) (2008a), *Principles Monitoring Plan*, OECD, Paris.

OECD (Organisation for Economic Co-operation and Development) (2008b), "Initial Findings", *Statebuilding in Situations of Fragility*, August 2008, OECD, Paris.

OECD (Organisation for Economic Co-operation and Development) (2008c), Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans, www.oecd.org/dataoecd/37/20/40636926.pdf, OECD, Paris.

OECD (Organisation for Economic Co-operation and Development) (2009), Resource flows to fragile and conflict-affected states, www.oecd.org/dataoecd/14/14/43293581.pdf, OECD, Paris.

Paris Declaration on Aid Effectiveness (2005): www.oecd.org/dataoecd/11/41/34428351.pdf.

Pires, E. (2009), "Presentation by H.E. Emilia Pires, Minister of Finance: Monitoring the Principles of Good International Engagement in Fragile State and Situations", *First Consultative Meeting in Timor-Leste*, 2 March 2009, Dili.

Ramos-Horta, J., *Keynote address by H.E. Dr J. Ramos-Horta, President of Timor-Leste to the 2009 Timor-Leste Development Partners Meeting*, Dili.

Republica democratica de Timor-Leste (2007), *Vision 2020*, Dili.

The Timor-Leste Institute for Development Monitoring and Analysis (La'õ Hamutuk) (2009), *Statement by NGOs to the Timor-Leste and Development Partners' Meeting*, 3 April 2009, Dili.

UN (United Nations) (2009), *Justice Sector Key to Democracy in Timor-Leste – UN Envoy*, UN Press Release, 16 April 2009, UN, New York.

UN Representative of the Secretary-General on the Human Rights of Internally Displaced Persons (2008), "Key Findings and Recommendations, Visit to Timor-Leste 6-13 December 2008", *Report of Walter Kalin*, UN, New York.

UN Security Council (2009a), "Timor-Leste at Peace, President tells Security Council a year after Surviving Attempts on his Prime-Minister's Lives: Secretary-General Highlights Post-Crisis Elections, Smooth Transfer of Power", *SC/9598, Press Release*, 19 February 2009, UNSC, New York.

UN Security Council (2009b), "Security Council Extends Timor-Leste Mission until 26 February 2010: At Current Strength, Noting Calm but Fragile Security Situation", *SC/9601 Press Release*, 26 February 2009, UNSC, New York.

World Bank (2007), *World Bank Country Brief: Timor-Leste*, World Bank, Dili/Washington, D.C.

World Bank (2009), *Timor-Leste Agriculture Brief*, <http://go.worldbank.org/49TX2RCZE0>.

